Value-Added Services in Third-Party Logistics
A study from the TPL providers’ perspective about value-added service development, driving forces and barriers

Master’s thesis within International Logistics and Supply Chain Management
Authors: Ilze Atkacuna
         Karolina Furlan
Tutor: Professor Susanne Hertz
Jönköping June 2009
Acknowledgement

In the process of writing this thesis many people have helped us in different ways.

We would like to thank our supervisor professor Susanne Hertz and Ph.D. candidate Benedikte Borgström for their support, valuable feedback and useful comments throughout the process of writing this thesis. Special thanks to our seminar group that gave us useful feedback for improvement of the thesis.

We also wish to thank Ph.D. candidate Lianguang Cui for introducing us to the topic and his support and guidance during the writing process.

This thesis would not have been possible without the contribution from the respondents at the three interviewed TPL companies. All of them made this master thesis possible and we would like to express our gratitude to all of them for taking their time and effort.

Jönköping, June 2009

Ilze Atkacuna Karolina Furlan
Master's Thesis in International Logistics and Supply Chain Management

Title: Value-Added Services in Third-Party Logistics: A study from the TPL providers’ perspective about value-added service development, driving forces and barriers

Authors: Ilze Atkacuna, Karolina Furlan

Tutor: Professor Susanne Hertz

Date: 2009-06-02

Subject terms: Third-Party Logistics, Value-Added Services, Service Development, Innovation

Abstract

Competition in the logistics service industry has constantly increased over the last decades which has lead to the traditional services offered by third-party logistics (TPL) providers becoming commodities and no longer offering attractive profit margins. When the company’s core product becomes a commodity, the company’s performance of supplementary services becomes vital for competitive advantage. The term “value-added service” is defined as a service adding extra feature, form or functions to the basic service and stands for all types of activities which are not directly based on services traditionally offered by TPL providers, i.e., transportation and warehousing. The term value-added service is mainly used in the logistics literature while supplementary service is used in the service management literature. Although value-added services can offer obvious advantages in form of customer lock-in and improved competitive advantage, such services are still offered at a low level and there is much space for development.

The purpose of this thesis is to analyse how TPL firms develop value-added services and to investigate what the driving forces and barriers for developing and providing such services are. In the frame of reference, literature within service management, outsourcing, third-party logistics, value-added services, innovation and learning have been used.

In the thesis, an inductive research approach is used and qualitative study has been carried out by applying multiple case studies as a research strategy. The empirical material is gathered from three TPL providers: Bring Logistics Solutions, Aditro Logistics and Schenker Logistics. Data was collected through several interviews conducted at the three target companies and the findings have been analysed using the existing theory stated in the frame of reference.

The main conclusions from analysing the development process of value-added services are that this process in most cases is initiated by customer request and that development of value-added service can occur both in the beginning or during an ongoing relationship, though a lack of information about a customer’s business in the beginning of the relationship can hinder the TPL provider to develop value-added services. Apart from the TPL provider and the customer, firms such as IT companies, transport suppliers and other companies can be involved in the development process. No formal innovation process is applied for developing value-added services. The main driving force behind value-added services is meeting customer demands. Lack of proactiveness from the TPL provider’s side can be a barrier for developing value-added services, as well as problems with achieving successful organizational learning. The difficulty for the TPL firm to coordinate offering so many different services can be also seen as a barrier.
# Table of Contents

1 **Introduction** ................................................. 1  
1.1 Background .................................................. 1  
1.2 Problem Formulation ......................................... 3  
1.3 Purpose ..................................................... 4  
1.4 Research Questions .......................................... 4  
1.5 Delimitations ................................................ 4  
1.6 Outline of the Thesis ........................................ 4  

2 **Frame of Reference** ......................................... 6  
2.1 Service Management ......................................... 6  
2.1.1 Service Definition ........................................ 6  
2.1.2 Service Classification .................................... 6  
2.1.3 Managing Service Offering ............................... 7  
2.1.4 Service Quality .......................................... 9  
2.1.5 Outsourcing – Make or Buy Decision .................... 9  
2.2 Third-Party Logistics Providers ............................ 11  
2.2.1 Logistics and Logistics Service Providers ............... 11  
2.2.2 Definition and Classification of TPL Providers ........ 14  
2.2.3 Services of TPL ........................................... 17  
2.3 Service Development ......................................... 25  
2.3.1 Innovation ................................................ 25  
2.3.2 Learning .................................................. 30  
2.4 Summary of the Frame of Reference ....................... 31  

3 **Methodology** .................................................. 34  
3.1 Research Process .............................................. 34  
3.2 Research Approach .......................................... 34  
3.3 Exploratory, Descriptive and Explanatory Studies ........ 34  
3.4 Qualitative or Quantitative Research ...................... 35  
3.5 Research Strategy ........................................... 36  
3.6 Collection of Data - the Interview .......................... 37  
3.7 Secondary Data .............................................. 39  
3.8 Literature Study ............................................. 40  
3.9 Sampling ..................................................... 41  
3.10 Data Analysis ................................................ 42  
3.11 Reliability and Validity .................................... 43  

4 **Empirical Study** .............................................. 45  
4.1 Overview of Empirical Material ............................. 45  
4.2 Bring Logistics Solutions .................................... 45  
4.2.1 General Company Information ........................... 45  
4.2.2 Company Operations ..................................... 46  
4.2.3 Development of Value-Added Services .................. 47  
4.2.4 Driving Forces and Barriers for Value-Added Services .................................................. 48  
4.3 Schenker Logistics ............................................ 48  
4.3.1 General Company Information ........................... 48  
4.3.2 Company Operations ..................................... 49
4.3.3 Development of Value-Added Services ........................................ 51
4.3.4 Driving Forces and Barriers for Value-Added Services ................................. 53

4.4 Aditro Logistics ........................................................................ 53
4.4.1 General Company Information ................................................ 53
4.4.2 Company Operations ............................................................. 54
4.4.3 Development of Value-Added Services ...................................... 57
4.4.4 Driving Forces and Barriers for Value-Added Services ...................... 60

5 Analysis ...................................................................................... 63
5.1 Positioning of TPL Providers ...................................................... 63
5.2 Value-Added Services in TPL ..................................................... 63
5.3 Development of Value-Added Services ......................................... 65
5.4 Driving Forces and Barriers for Value-Added Services ...................... 68

6 Conclusions .................................................................................. 73

7 Ideas for Future Research .............................................................. 75
List of References ............................................................................ 76
Figures
Figure 2.1 Service customization and differentiation (Piercy, 1997, p.146, cited in Kasper et al., 2006, p.68) ................................................................. 7
Figure 2.2 Four types of service providers and their value to the customer (Kasper et al., 2006, p.110) ............................................................. 11
Figure 2.3 LSP clusters (Delfmann et al., 2002, p. 207) ......................... 13
Figure 2.4 Different types of service providers (Persson & Virum, 2001, p. 60) ................................................................................................. 14
Figure 2.5 TPL providers (Hertz & Alfredsson, 2003, p. 141) ................. 16
Figure 2.6 Development of Logistic Requirements (Lundberg & Schönström, 2001). ......................................................................................... 17
Figure 2.7 Supply context of supplementary third-party logistics service transactions (van Hoek, 2000b, p.18) ................................................. 21
Figure 2.8 Classification for Innovation by LSPs (Wallenburg, 2009, p. 77). 27
Figure 2.9 A logistics innovation process (Flint et al., 2005, p. 127). ....... 29

Tables
Table 2.1 A classification of functions of LSPs (adapted from Delfmann et al., 2002) .............................................................................................. 19
Table 2.2 The framework of TPL services .................................................. 24

Appendixes
Appendix 1 Interview Questions .............................................................. 81
Appendix 2 List of Respondents ............................................................... 82
1 Introduction

This chapter presents the background and the problem formulation of the thesis. After the problem formulation the purpose of this thesis is stated, followed by research questions, delimitation and outline of the thesis.

1.1 Background

The radical change the business world has been undergoing from the 1990s has greatly impacted (among other things) logistics and supply chain management. Coyle, Bardi and Langley (2003) state that supply chain management has progressed in its development as a response to the macro-level change drivers in the economy. They discuss five main driving forces behind the changes in the business landscape. The first one is higher customer demands which originate from better information accessibility. Further on, power shift has occurred in the supply chain putting the economical power in the hands of exceedingly consolidating retailers. Deregulation in many business sectors but particularly deregulation in transportation is quite a popular reason to explain development in the area of logistics and supply chain management (apart from Coyle at al., also, for example, Berglund; van Laarhoven, Sharman & Wandel, 1999; Person & Virum, 2001). Increasing globalization is another such popular explanation and as argued by Coyle et al. (2003) maybe even the most important one. Liberalisation of international trade has been exploited by many countries which has opened new markets and provided companies with the new supply sources. Andersson (1997) claims that global competition is leading to the increased administration and network complexity from a logistical point of view due to the larger markets and more dispersed customers and suppliers. The last driving force mentioned by Coyle et al. (2003) is technology. Revolutionary development of technology has not only enabled companies to pursue new strategies, it has also completely changed the way of doing business for many companies.

With changing business environment as a background, Hesse and Rodrigue (2004) claim that evolution of supply chain management is characterized by four main features. Goods merchandizing has been fundamentally restructured by integrating supply chains and thus integrating freight transport demand. Logistics, as opposed to the traditional transportation function, which was oriented on overcoming space, is critical in the terms of time. Supply chains are increasingly managed by the demand and demand-side oriented activities are developing a major roll. Lastly, as all this has lead to the increasing complexity and time-sensitivity of the logistics, many companies are forced to outsource logistics functions to the third party logistics providers (TPL) which can benefit from economies of scope and scale in their solution offerings of freight distribution problems.

In its broader meaning the term “third-party logistics” refers to the situation where a logistics service provider serves two parties in the supply chain (Bask, 2001). Berglund (2000) considers TPL companies to be a relatively young phenomenon. Most of the companies have entered the TPL industry from traditional logistics areas such as, freight forwarding, warehousing, logistical departments of manufacturing companies, express delivery, postal services and more (Berglund, 2000). As stated by Hertz and Alfredsson (2003) some of the traditional logistics companies over time separate their TPL activities from their traditional business. This is explained by the fact that the customers demand receiving the most effective logistics solutions and therefore neutrality of the TPL can been seen as an asset.
Introduction

Zhao, Ding and Liu (2005) state that the ongoing changes in the environment in the sphere of logistic services in recent years require radical rethinking of operations involved in logistic service provision. The authors illustrate it as an interaction of three specific areas: logistic service, marketplace and customer expectations. According to Zhao et al. (2005) volumes of logistic service provision have experienced considerable growth while shorter service delivery lead-times are demanded and logistic service life cycle length and service development time has decreased. The marketplace is growing in size and complexity; there are more countries involved and more different types of customers. Each new country can bring up unique requirements and standards consequently contributing to an increased complexity in the marketplace. As further argued by Zhao et al. (2005) customer’s expectations are also growing. Customers want greater responsiveness for their needs, at the same time requiring quality, reliability and flexibility, and all for a competitive price. TPL firms who want to stay in front of the competition face real challenges in meeting those requirements.

Hertz and Alfredsson (2003) argue that the main challenge for TPL firms today is to find the right balance between high adaptation ability to an individual customer and the coordination of several customers. Further on, the authors argue that customer coordination is closely connected with problem solving ability because of the requirement for higher general problem solving ability then coordinating several customers. According to Hertz and Alfredsson (2003) the development of TPL firms is taking them from operating as a standard TPL provider to a more customer adapted approach with higher problem solving ability. This is supported by Van Hoek (2000a), stating that traditional services offered by TPL providers are becoming commodities and therefore cannot offer attractive profit margins for TPL firms anymore. Foulds and Luo (2006) and Lovelock and Wirtz (2007) further argue that as the company’s core product becomes a commodity, the performance of the company on supplementary services becomes vital for competitive advantage. Ahl and Johansson (2002) add that creativity and customer understanding are necessary to develop new value-added services, which are based on already available resources and thus can increase profitability. Van Hoek (2000a) and Wagner and Franklin (2008) claim that by expanding the scope of services offered, TPL can not only improve its profit margin but also deepen its relations with customers. This is connected with the fact that supplementary services can be very customized or even dedicated to the particular customer while traditional services are generic or industry adapted (Van Hoek, 2000a).

Competition in the logistics service industry has constantly increased over the last decades (Wallenburg, 2009). Within the literature (Flint, Larsson, Gammelgaard & Mentzer, 2005; Wagner, 2008; Wallenburg, 2009) innovativeness is emphasised as helping logistics service providers (LSP) to differentiate themselves from their competitors. Innovation may have an objective to develop or create new services, or expand, adjust, or improve the existing service offerings (Debackere, van Looy and Papastathopoulou, 1998). According to Flint et al. (2005) a logistics service that provides high value today may not be sufficient for the customer in the near future. Changes in the external market may lead to changes in regarding to what a customer values. Successful offering of innovative service is therefore much relayed on knowledge of what the customers are likely to value (Wallenburg, 2009). Furthermore, Wallenburg (2009) states that LSPs deal with innovation to firstly improve service quality, secondly to reduce cost and thirdly to enhance the relationship with their customers. Focusing on the existing customers by sustaining or expanding business with them is seen as an effective strategy since it is cheaper than to acquire new customers (Wallenburg, 2009). In a relationship, proactive improvement by LSPs is beneficial for the customer and enhance customer loyalty. LSPs strive for loyal customers since it raises the
likelihood that the customer will continue purchasing from the provider and in that way expand the relationship with the LSP (Wallenburg, 2009). By being innovative, the LSP can increase its trustworthiness as a LSP.

1.2 Problem Formulation

While TPL in recent years has received certain attention from researchers, some research directions have been more preferred than others have. As stated by Maloni and Carter (2006) and Selviaridis and Spring (2007) in their respective literature reviews, research in third party logistics area is necessary from the perspectives of both buyers and providers. Most of the previous research has focused on the buyer perspective. This is supported also by Berglund (2000). Further on it is pointed out that the main part of the studies previously conducted are surveys providing a macro view of the TPL field (Maloni & Carter, 2006; Selviaridis & Spring, 2007). This makes deeper qualitative study with provider focus of a particular interest in providing more detailed view of the TPL phenomenon.

Although value-added services can offer obvious advantages in the form of customer lock-in and improved competitive advantage, according to Van Hoek (2000a), such services are still offered at a rather low level and there is much space for development in this area. This is supported by Joel Hoiland, CEO of the Association for Logistics Outsourcing (cited in Malloy, 2004) who states that value-added services can make TPL companies substantially more profitable and thus it is a critical part of TPL operations to add on value-added services. On the other hand however Mick Barr, distribution director in Proctor & Gamble (cited in Malloy, 2004) states that TPL companies are not very innovative. According to him, Proctor & Gamble tends to bring ideas to the TPL and they just execute it. All this indicates that development of value-added services can be crucial for the profitability and growth of TPL service providers. However, there is little research available about how development of value-added services is done in TPL companies.

Furthermore, Berglund (2000) states that group of value-added services are not homogenous but such services can come in different shapes. Relations between value-added services and traditional TPL firm’s activities can also seem unclear in some situations. The concept “value-added service” itself is mainly used in logistics literature (for example, Andersson, 1997; Berlund et al., 1999; Foulds & Luo, 2006) while similar name “supplementary service” is popular in service management literature (for example, Lovelock & Wirtz, 2007; Kasper, van Helsdingen & Gabbott, 2006). TPL providers however are clearly service companies which could therefore be viewed not only from a logistics perspective but also from a service management perspective which in turn makes existence of two terms with slightly unclear connection confusing. All this makes it necessity to review literature previously written within the TPL service offering to create some approximate model of value-added service classification and their relations with other TPL services which could give better general overview and eliminate possible misunderstandings deriving from the different views on the subject. Nevertheless, the reader can perceive terms supplementary and value-added services as having similar meaning until we explain the difference between them in our frame of reference chapter and thereafter use them with somewhat different meaning. To be able to analyse the development process of value-added services it is also necessary to investigate how value-added services are perceived by TPL providers themselves to avoid possible misinterpretation of gathered data.
1.3 Purpose
The purpose of this research is to analyse how TPL firms develop value-added services and to investigate driving forces and barriers for developing and providing value-added services.

1.4 Research Questions
In order to better fulfil our purpose we have formulated five research questions. They are as follow:

RQ1: How are value-added services perceived by TPL providers?
RQ2: Who takes initiative for developing value-added services?
RQ3: How is development of the value-added service done?
RQ4: What are the driving forces in the development and providing of value-added services?
RQ5: What are the barriers in the development and providing of value-added services?

1.5 Delimitations
Due to the restricted timeframe limit set for this thesis and the potential wide scope of the above presented research subject, there is a need of delimitation. The empirical findings are delimitated to three TPL providers. Further, the thesis only focuses on development of value-added services and driving forces and barriers for developing and providing such services from the TPL providers’ point of view. None of the TPL providers’ customers have been interviewed. The concept of development is broad but we have approached it mainly from the innovation and the learning perspective.

1.6 Outline of the Thesis
The thesis is divided into seven chapters according to the following structure:

Chapter 1 - Introduction. The first chapter introduces the reader to the subject by stating the background of the thesis. Further, the problem formulation of the thesis is presented, followed by the purpose. The chapter ends with research questions, delimitation and outline of the thesis.

Chapter 2 - Frame of Reference. This chapter includes the theories related to the research subject. The frame of reference focuses on the theories that are seen as important to better understand value-added service and the development of such services. Figures and tables are included in order to help the reader to better understand the theory used in the frame of reference.

Chapter 3 - Methodology. In this chapter the research method is presented. Among other things the research approach and strategy, the collection of data and sampling are discussed in this chapter. The chapter ends with discussion of the reliability and the validity of the thesis.

Chapter 4 - Empirical Study. The chapter presents the collected empirical material from the conducted interviews at the three target companies. For each company the empirical findings are presented under the sub headers; general company information, company
operations, development of value-added services and driving forces and barriers for value-added services.

**Chapter 5 - Analysis.** In this chapter the intention is to give the readers our interpretation of the findings derived from the empirical study in association with the theory presented in the frame of reference.

**Chapter 6 - Conclusions.** In this chapter the conclusion is presented. The main findings from the analysis are put forward to answer the research questions and the purpose of the thesis.

**Chapter 7 - Ideas for Future Research.** In the final chapter the ideas for future research are suggested.
2 Frame of Reference

In this chapter the theoretical basis for the thesis is presented. We start up with general service management theory followed by theory of outsourcing. After that, theory about logistics service providers is presented followed by definition and classification of TPL providers and services provided by TPL with special emphasis on value-added services. As a result, a framework of TPL services is created. Theory about learning and innovation as a part of a service development is presented at the end of the chapter.

2.1 Service Management

2.1.1 Service Definition

As TPL providers are first and foremost service companies, the theory concerning services and their management is presented in this section to give the reader a better insight in this field. Lovelock and Wirtz (2007) explain the word service as originally connected with the work that servants did for their masters. The authors continue by stating that early service definitions in marketing context were based on emphasizing differences between services and goods. Grönroos (2000) points out that defining a service is a complicated matter and no common definition has been agreed upon. Nevertheless, he proposes his own service definition (p.46): “A service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems”. Kotler (1991, cited in Kasper et al., 2006, p.85-86) defines service as “any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”. Wisner, Leong and Tan (2006) explain it further by saying that services can exist in a form of so called pure services that offer few or no tangible products to customers (consultants, lawyers, entertainers) but there are also services which include larger tangible components, like restaurants, transportation providers, and public warehouses. Manufacturing companies, according to Wisner et al. (2006), on the opposite, have only small service components connected with their end products (maintenance, warranty repair, delivery etc.).

Grönroos (2000) states that for most services three basic characteristics can be identified. According to him (p.47) “services are processes consisting of activities or a series of activities rather than things”. Services are also at least partly produced and consumed simultaneously which means that they cannot be inventoried. Apart from that, there is also high customer–server interaction. The customer, at least to some extent, is involved in service production (Grönroos, 2000, Wisner et al., 2006).

2.1.2 Service Classification

Lovelock and Wirtz (2007) claim that services, as opposed to products which can be owned, involve some form of rental. Further on, the authors define five different types of services based on the object offered for rent. Rented goods services provides customers with the opportunity to temporary use physical goods that they need but do not want to own, for example, renting of cars or professional tools. Defined space and place rentals involve renting of space in a building, vehicle or other area, sharing its use with other customers. Some examples include renting of warehouse space or renting of passenger seating in an airplane. In labor and expertise, rentals customers hire other people or a team of people to perform needed tasks, either because they do not have the expertise necessary to perform the work or they choose not to do so for other reasons. Access to shared physical environments includes such examples as trade shows, toll roads, gyms, zoos, golf
courses and others. Access and usage of systems and networks involve the right to participate in specified networks such as specialized information services, telecommunications, banking, insurance and others.

Kasper et al. (2006) argue that from a value creating perspective it is important to focus on the degree of service customization required by the customer. From the supplier’s point of view it is also important to distinguish between core services and augmented services (core service with supplementary services added to it). See Figure 2.1.

<table>
<thead>
<tr>
<th>High</th>
<th>Customized core service</th>
<th>Customized augmented service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standard core service</td>
<td>Standard augmented service</td>
</tr>
<tr>
<td>Degree of customization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low/Only core service</td>
<td>← Degree of differentiation</td>
<td>Highly augmented service</td>
</tr>
</tbody>
</table>

Figure 2.1 Service customization and differentiation (Piercy, 1997, p.146, cited in Kasper et al., 2006, p.68).

Kasper et al. (2006) provides examples of standard core services as dry cleaning and McDonald’s, standard augmented services as Singapore Airlines economy class and Pizza Hut, customized core service as doctors and accountants, and customized augmented services as specialized lawyers and five star resorts.

2.1.3 Managing Service Offering

Authors writing about service management and marketing tend to agree that service package consists of core and supplementary services (for example, Lovelock & Wirtz, 2007, Kasper et al., 2006, Grönroos, 2000). Grönroos (2000, p.164) defines service offering as a bundle of features which are related to the service process and outcome of that process. According to Grönroos, the managing of service offering requires four steps: developing the service concept, developing a basic service package, developing an augmented service offering and managing image and communication. These first three steps are further analyzed in this chapter.

2.1.3.1 The service concept

According to Grönroos (2000, p. 192-193) the service concept expresses intentions of the organization to solve certain types of problems in a certain manner. Grönroos (2000) claims that the service concept has to answer the questions: what the firm intends to do for a certain customer segment, how this is to be achieved and with what resources? Kasper et al. (2006) propose that the service concept can be viewed as consisting of three levels: strategic, tactical and operational, although admitting that it sometimes can be difficult to draw a clear line between strategic and tactical level decisions. According to the authors, the positioning strategy of the company will help it to create the strategic service concept which will distinguish the company’s offering from its competitors. The strategic service concept deals with the issue on what position the service provider intends to create and maintain in the market and what decisions on the core services provided by company will be made at a strategic level. Furthermore, important make or buy decisions (e.g., is the company going to produce the service itself or is it to be bought from external suppliers?) are dealt with. Kasper et al. (2006) further on explain that user benefits and the potential to
transform desired/expected user benefits into profitable services also need to be investigated as a part of the service concept. At the tactical/operational service concept level, according to Kasper et al. (2006), a closer look is made at the service package offered to the customer and its relative value to the user. As further pointed out by the authors, other aspects of the service concept are brand management, assortment policy (the depth of assortment), actual service offer and delivery processes. The actual service offer, according to Kasper et al. (2006), is an operational level result from many questions managers have to answer, such as what services and in what form will we offer? When, where and by whom will they be offered and how much will it cost?

As pointed out by Grönroos (2000), depending on the differentiation of operations and amount of different customer segments there can be one or several service concepts. He continues that careful market research needs to be done before appropriate service concept(s) can be chosen.

### 2.1.3.2 The Basic Service Package

As mentioned previously, service package can be divided into two parts: core (main) service and supplementary services, which are referred to by different names in the management literature. Grönroos (2000) mentions such names for supplementary services as auxiliary services, extras, peripheral services and facilitator services. In this paper we refer to such type of services as supplementary services which seems to be the most popular name for this type of service in the service literature. Grönroos (2000) emphasizes the necessity for management reasons to divide supplementary services into two parts: facilitating services and supporting services (which are called enhancing services by Lovelock & Wirtz, 2007).

Core service is defined by Grönroos (2000, p.166) as the reason for the company being on the market and Grönroos (2000) adds that firm can have many core services. Lovelock and Wirtz (2007, p.70) define core service from the customer’s perspective as “the central component that supplies the principal, problem solving benefits customer seek”. Facilitating services, as it can be clear from the name, facilitate delivery of core services. According to Lovelock and Wirtz (2007) such services are either required for service delivery or assist the usage of the core service. Third group of services do not facilitate use of the core service but are used for adding value to the core service and to distinguish it from the ones provided by competitors (Grönroos, 2000, Lovelock & Wirtz, 2007). Grönroos (2000) points out that distinction between facilitating and supporting services is not always clear; facilitating service can become supporting service in another context.

Lovelock and Wirtz (2007) compares service package with a flower where the core service is the flower’s core and supplementary services is the flower’s petals. Meaning that even if the core of the flower is perfect, without attractive petals it will not be interesting to the customer.

### 2.1.3.3 The Augmented Service Offering

Grönroos (2000) defines augmented service offering as a combination of basic service package and three basic elements which constitute service process: accessibility of the service, interaction with the service organization and customer participation. According to Grönroos (2000), accessibility of service includes among other things the number of service personnel, the service provider’s office hours, location of premises, equipment, information technology and the number of other customers involved in the process. Interaction with the service organization, as explained by Grönroos (2000), involves interactive communication between employees and customers, interaction with physical
and technical resources and systems and interaction with other customers. By customer participation, Grönroos (2000) refers to the customer’s impact on the service provided. According to Grönroos (2000) depending on the preparation and willingness of the customer to participate in the service delivery, service can be either improved or the opposite.

### 2.1.4 Service Quality

Service quality is closely connected to customer satisfaction and loyalty. According to Caruana (2002) service quality is seen as an antecedent construct where service loyalty is the outcome of customer satisfaction. Wallenburg (2009) sees service quality as a strong driver for loyalty. Service quality is therefore seen as important for the TPL providers when providing value-added services.

Kasper et al. (2006) mention five dimensions which are dominant in service quality research; from them reliability is being evaluated as the most important dimension across different service sectors, followed by responsiveness, assurance, empathy and tangibles.

Reliability is the ability to perform service accurately and without failure. This involves meeting made promises.

Assurance includes competence, trustworthiness and security in service provision. Staff should be well trained and competent in performing assigned tasks. Customers should perceive service as safe and provided by skilled professionals.

Tangibles include perceptions of the customer about the service environment: physical facilities, equipment and personal. Physical facilities should be clean and well maintained, equipment used should be appropriate, appearance of the personnel should match customer’s expectations.

Empathy is about a communication style of the service organization, including also dimensions of access and understanding. This involves printed information materials, instructions and people management.

Responsiveness refers to the willingness to help customers, which contains the ability of the firm to meet specific requirements of the individual customer and ensuring continuous customer involvement (Kasper et al., 2006).

### 2.1.5 Outsourcing – Make or Buy Decision

As TPL firms are professional service providers in a business-to-business context, outsourcing decision is important for TPL business as a decision of TPL providers’ customers to employ TPL providers for providing of necessary services. Outsourcing is defined by Sanders, Locke, Moore and Autry (2007) as choosing a third party or an outside supplier to perform a task, function or process, in order to gain business-level benefits. Kasper et al. (2006) states that reasons for organizations to buy services can be divided into three main groups: the buying organization lacks the capability to effectively perform service in required quality, the buying organization does not have the scale or ability to perform the service efficiently and there is lack of capacity in the buying organization to perform the service. Sanders et al. (2007) however, divide outsourcing reasons in financial, resource based and strategic reasons where financial reasons focus on minimizing the costs. Resource based reasons include the lack of expertise and the lack of assets to perform the task in-house while strategic reasons concentrate on gaining strategic advantage through outsourcing.
Sanders et al. (2007) argue that outsourcing is an umbrella term that includes a range of sourcing options that are external to the firm. They divide all external sourcing options into four groups depending on the scope of the outsourcing arrangement. The first is outsourcing, when only one specific task is outsourced. For example, supplier can be assigned to take care of customer's return items, arranging them for disposal or restocking. Co-managed services involve assigning to the supplier the task or function of larger scope, however, under direct client control. Client and supplier share the task managing responsibility. Managed services often involve design, implementation and management of end-to-end solution for a complete solution done by supplier, like for example, complete management of client's goods transportation. A supplier is responsible for all aspects in performing assigned function. Full outsourcing is the situation when the supplier has a total responsibility for the outsourced function, which often involves also making strategic decisions. The services provided by supplier are typically highly customized. An example could be the complete outsourcing of the whole logistics function to the third-party logistics provider.

Apart from the scope, criticality of the outsourced task also needs to be taken into consideration. Criticality refers to the extent to which the task potentially outsourced impacts the organization's performance on its core competencies (Sanders et al., 2007). Taking into consideration scope and criticality Sanders et al. (2007) come up with four groups of possible client-supplier relationships. Nonstrategic transactions involve outsourcing arrangements of purely transaction character where tasks of low criticality and small scope are outsourced. Products in question are typically standardized and available from many suppliers. Contractual relationships comprise certain dependency between supplier and client and often mean moderate levels of communication between partners. The scope of outsourced tasks is higher than in nonstrategic transactions but of low criticality. Partnerships are characterized by the outsourcing of critical tasks or functions, but in limited scope. Partnership means strong trust and commitment between parties but interaction can be infrequent. An example for such a relationship arrangement could be outsourcing of just-in-time replenishment of a critical manufacturing component. Alliances comprise both strong trust and commitment and frequent communication. Tasks outsourced are critical and of wide scope.

Kasper et al. (2006) use the typology of business-to-business service providers developed by Alexander and Hordes (2003) which is similar to service typology depicted in Figure 2.1 in this chapter. The dimension customization in Figure 2.1 resembles the dimension of importance to the customer in Figure 2.2, while dimension of differentiation resembles dimension “uniqueness of offerings”.

Frame of Reference
Vendors, according to Kasper et al. (2006) offer the service product which are rather standard and have low value to the customer; therefore customers assign low value to the relationship with vendors. Game changers, on the other hand, offer highly unique service products with high importance to the customer which result in relationships with extremely high value to the customer.

As potential risks for outsourcing, Sanders et al. (2007) mention risk of hidden costs, possible loss of control over outsourced tasks, and potential damaging impact to the critical capability when, for example, outsourced service is not a core competence in itself but is inseparably connected with it. There is also risk of dependency and pooling risk, which include leakage of sensitive information to an external party and the danger that in situations when all clients want to have service at the same time and the supplier will not have enough capacity (Sanders et al., 2007).

### 2.2 Third-Party Logistics Providers

#### 2.2.1 Logistics and Logistics Service Providers

In this section we take a closer look on logistics as a sphere in which TPL providers operate. Coyle et al. (2003) claim that the term logistics gained general public recognition in the 1980s. Logistics has four subdivisions: business, military, event and service logistics. The main focus in this paper is on business logistics, which is defined by Coyle et al. (2003, p. 39) as: “the part of the supply chain that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from point of origin to point of use or consumption in order to meet customer demands.”

Coyle et al. (2003) state that there are four principal types of economic utilities which add value to the product or service: form, place, time and possession utilities. Place and time utilities are generally associated with logistics, while form utility is associated with manufacturing and possession utility is associated with marketing. Form utility involves, for example, transforming raw materials into finished products. Place utility can mean moving products from the place of production to the point of products’ demand. Time utility involves ensuring that products reach the point of the product demand at the right time. Possession utility means creating the demand for the products through different direct or indirect promotion activities. All four utilities are closely related to each other and thus logistics through place and time utility can have an important value-adding role (Coyle et al., 2003).
Delfmann, Albers and Gehring (2002) define logistics service providers (LSP) as companies which perform logistics activities on behalf of others. The authors claim that in the literature, LSPs are described very generally and that the functional scope of logistics service providers is left unanswered. The term LSP is broad and used also to describe third-party logistics providers which is the target firm type in this thesis. For this reason a short theoretical review about classification of LSP is provided before defining and classifying TPL providers in the next section of this thesis.

LSP are classified in different ways in the literature. Lai (2004) classifies LSP in terms of their service capabilities and performance result. According to Lai’s (2004) research study there are four different types of LSPs, classified according to their variation in service capability. Traditional freight forwarders offer freight forwarding service such as combining small shipments into single larger shipment. Transformers have an expanded service capability including freight forwarding service in addition with value added service and technology enabled logistics service. By sharing resources between several customers they add value to their customers. A third category of LSPs are nichers that target a special niche market and offer specialized service in value added and technology enabled sphere. The last categories of LSPs are full service providers which offer a wide range of service and are seen as creating superior service performance. Lai (2004) furthermore state that full logistic service providers have the highest possibility to perform different logistic services comparing to the other three types of LSP.

Delfmann et al. (2002) describe clustering of LSP made by Niebuer (1996) where LSP are classified in regard to the services they provide and degree of their service customization, as depicted in Figure 2.3. Providers of standardized and isolated services like transportation and warehousing can be found in the first group, standardizing LSP. These companies are highly specialized and have optimized their whole logistics system in regard to the objects of their specialization. Standardized LSP plan and coordinate their logistics systems according to their own considerations and are not interested in taking over coordination or administrative functions of their customers’ business. Examples for standardizing LSP are traditional carriers and express parcel service providers. The second group involves LSP who combine different standardized logistic services in bundles according to their customer wishes. Such companies can consequently be called bundling LSP. Often such service bundles consist of one core logistics activity, like transportation which is combined with some value-added services like simple assembly and quality control. Standardized financial services and insurance or payment services can be provided as well. Such bundled services are performed, for example, by freight forwarders in automotive industry. Bundled services are provided in similar way to all customers, which is the reason why bundling LSP do not provide management support services as such services need to be customized considering the needs of each particular customer (Delfmann et al., 2002).
The third group, according to Delfmann et al. (2002), is customizing LSP who provide individual, complete logistics solutions designed bearing in mind preferences of their customers and who take over responsibility for important customer logistics functions. Customizing LSP combine and modify components of logistics services to match their customer needs and can also offer services originally being outside the scope of logistics function, like financing and producing activities. Conceptual side and coordination can therefore be viewed as the core competence of customizing LSP while standardized logistics activities can be outsourced to the specialists, standardized LSP (Delfmann et al., 2002).

Persson and Virum (2001) categorize the different types of LSP in form of their degree of asset specificity and in terms of service complexity. According to the authors, some LSPs can offer high assets specificity with complex systems and other LSP might be simpler and with lower asset specificity, having assets of general nature. Persson and Virum (2001) categorize four different types of LSP where specialized logistics operators have high degrees of asset specificity and low degrees of complexity but are considered to offer specialized service in opposite to basic logistics operator. Logistics integrator offer value-added service at a high degree of complexity and a high degree of assets specificity.
2.2.2 Definition and Classification of TPL Providers

The term “third party logistics” actively began to appear in academic literature year 1989 (Maloni & Carter, 2006). The expression is associated with the practice of contracting-out (outsourcing) some of the company’s logistics activities to a third-party and there are numerous other terms referring to the same phenomenon, such as logistics alliances, operation alliances in logistics, contract logistics, contract distribution and logistics outsourcing (Berglund et al., 1999, Selviaridis & Spring, 2007).

One of the earlier TPL definitions of functional character is provided by Andersson and Sjöholm (1992, cited in Skjott-Larsen, Halldorsson, Andersson, Dreyer, Virum & Ojala, 2003, p.8). The authors state that TPL is a situation “where a third party takes responsibility for primary transport and warehousing activities, but also related services such as consolidation, order administration and simple assembly.” Researchers however generally tend to agree that there is a lack of one single widely accepted definition of the phenomena of third-party logistics (Marasco, 2008, Skjott-Larsen et al., 2003, van Laarhoven, Berglund & Peters, 2000). Based on their conducted literature review, Maloni and Carter (2006) argue that some consider that the TPL concept involves external logistics service provider supplying any logistics services, typically those that have previously been performed in-house. Maloni and Carter (2006) continue by saying that according to such simple definitions any transaction-based carrier or warehouse provider could be viewed as a TPL firm. Leahy, Murphy and Poist (1995) however claim that the TPL is generally perceived as a logistic service provider offering several bundled services instead of just isolated services of warehousing or transportation.

One comparatively simple TPL provider’s definition is supplied by Coyle et al. (2003, p.690): “An external supplier that performs all or part of a company’s logistics functions”. Wisner, Leong and Tan (2005, p.486) also provide relatively simple TPL firms’ definition: “companies that are providing outsourced supply chain management activities”. Skjott-Larsen et al. (2003) however point out that in difference with most of the USA TPL researchers that define TPL from a functional point of view (as in those two definitions mentioned before), Nordic TPL researchers tend to characterize TPL by assigning to phenomenon certain inter-organizational attributes as:

- Outsourcing of transportation and/or warehousing and some value-added services
Frame of Reference

- Long term contract, at least 2-3 years
- Mutual cooperation in solution development
- Tailor-made solutions
- Win-win relationships.

For the purpose of this paper generally the definition of TPL developed in the EU-project Protrans (2001, cited in Skjott-Larsen et al., 2003, p.10) will be used:

“Third-party logistics are activities carried out by an external company on behalf of a shipper and consisting of at least the provision of management of multiple logistics services. These activities are offered in an integrated way, not on stand-alone basis. The co-operation between the shipper and the external company is an intended continuous relationship”.  

However, definition of more functional character provided by van Laarhoven et al. (2000, p.426) can be considered in some cases. TPL according to the authors are:

“activities carried out by a logistics service provider on behalf of a shipper and consisting of at least management and execution of transportation and warehousing. In additional, other activities can be included, for example inventory management, information related activities, such as tracking and tracing, value-added activities, such as secondary assembly and installation of products, or even supply chain management. Also, we require the contract to contain some management, analytical or design activities, and the length of the cooperation between shipper and provider to be at least one year, to distinguish third-party logistics from traditional “arm’s length” sourcing of transportation and/ or warehousing.” 

Similar for the two definitions are that they assume long-term/ continuous relationship thus excluding from TPL definition companies providing logistic services on “arm’s length” / short-term basis. Protrans (2001) definition emphasizes integrated character of TPL service provision; similarly van Laarhoven et al. (2000) by their definition distinguish between outsourcing of one single activity and outsourcing of the more complex character. The definition of van Laarhoven et al. (2000) however is narrower because management and execution of both transportation and warehousing is required. As we concentrate in our paper on services provided by TPL firms, TPL definition of van Laarhoven et al. (2000) which is partly made from TPL firm’s provided services perspective is of obvious interest. However our aim is not to exclude from our research companies not providing “the right” services, and for this reason Protrans (2001) definition is used as a main reference point while definition of van Laarhoven et al. (2000) is taken into consideration to better handle understanding of the TPL concept in theory and practice.

There are different types of TPL firms possible. Sheffi (1990) classifies TPL service providers into the category of assets based and non-asset based. Asset based providers own the physical assets while non-assets based TPL providers focus on human expertise, information systems and offering management-oriented services. A similar classification has been done by Razzaque and Sheng (1998) when it comes to assets and non assets based LSP. Meier and Andersson (2003) however argue that the relevance of such division could be questioned. According to them there is no significant difference in terms of liabilities and opportunities between owning the assets and renting them on the long term basis.

Hertz and Alfredsson (2003) classify TPL providers in their ability to adapt to individual customers and their general ability for problem solving. According to the authors there are four categories of TPL firms: standard TPL providers, service developer, customer adapter
and customer developer. Standard TPL providers supply standardize TPL service like warehousing and distribution while service developer offers advanced value-added services involving differentiated services for different customers. The advanced value-added services are often included in packages of several sets of standardize activities combined into modules that could be adjusted to specific customers demands, creating economies of scope and scale. Customer adapter is a type of TPL firm that is seen as part of the customer’s organization and involves totally dedicated solutions of basic services for each customers like taking over a customer’s total warehouse. This type of adapter often has very few but close customers. The most advanced type of TPL firm is a customer developer which develops advanced customer solutions for each customer. The number of customers is low but an extensive amount of work and service is included such as designing of supply chain and knowledge development. Hertz and Alfredsson (2003) point out that international customers and partners, as well as references from existing customers play an important role in the TPL business development. Furthermore understanding customer’s situation and developing knowledge about customer’s business is a necessity when it comes to developing the existing customers and getting new customers.

![Figure 2.5 TPL providers (Hertz & Alfredsson, 2003, p. 141).](image)

Berglund et al. (1999) distinguish two dimensions in TPL segmentation. Firstly, the authors divide TPL firms between those who provide only some specific service (like distribution of spare parts) and those who provide to their customers total logistic solutions. The first group use economies of scale to achieve profits because offered services are few and quite standardized with only some extra features added to attract customers. The second group, solutions providers, concentrate on few industries offering complete customize solutions. Other dimension concerns division between companies providing only traditional activities, like transportation and warehousing, and companies providing additional services, like value-added services. Four segments are created by combining these two dimensions. Berglund et al. (1999) claim that their research shows that most of the companies have activities in all four segments however one of the segments is usually dominating for each company. Berglund et al. (1999) further note that specific service providers have lower
Frame of Reference

average revenues than solution providers and that value-added logistic service providers expect larger increases in their revenues than basic logistic service providers. According to Berglund et al. (1999) the biggest difference and thus choice to be made is between specific service and solution, not so much between value-added and basic logistics because basic services, as stated by their respondents, are needed to sell value-added services.

2.2.3 Services of TPL

2.2.3.1 Logistical Requirements

Lundberg and Schönström (2001) propose a model of logistical requirements (Figure 2.6) which is related to the segmentation of TPL made by Berglund et al. (1999). Logistical requirements of TPL customers are discussed here because the requirements of TPL customers are closely connected with services TPL companies provide.

![Figure 2.6 Development of Logistic Requirements (Lundberg & Schönström, 2001).](image)

As explained by Lundberg and Schönström (2001), external demands are outer requests which possibly are not explicitly stated but still of great importance; such requests can be laws, regulations, infrastructure etc. Basic cargo handling refers to the requirements for the basic TPL services set by the product characteristics. By basic TPL services Lundberg and Schönström (2001) are referring to warehousing and terminal handling, including transportation. TPL firms must have the right equipment and knowledge that match a product’s given characteristics. Product related requirements are customer requirements that concern the performance of specific services in relation to the product. For example, a product can be repacked or refined by request of the customer. Lundberg and Schönström (2001) argue that such services are more often used in cases of complex products with high value. Service related requirements include customer requirements which are not directly related to the physical treatment of the product. Such services can be highly specialized and require a high level of adaption to the each customer. Examples of such services are, according to Lundberg and Schönström (2001), controlling of information and process flows and insurance handling.

Outer requirements and product requirements are referred to by Lundberg and Schönström (2001) as basic logistics while customer requirements are referred to as value-added logistics. Both basic and value-added logistics are equally important because, according to the authors, fulfilment of the requirements of basic logistics is the prerequisite to fulfil requirements of value-added logistics, which is supported by Berglund et al.’s research (1999).
2.2.3.2 Classification of TPL services

Meier and Andersson (2003) claim that TPL service offerings can either cover a wide range of services or be more limited in scope. Unfortunately, providers have different ways of presenting their services which can create some confusion when trying to describe and classify them. Meier and Andersson (2003) have categorized TPL service offerings into seven groups. Two of the three most popular groups are transport planning and management and warehousing and inventory management, which can be considered as traditional activities of TPL companies. Information technology services are also popular and mostly involve tracking and tracing. TPL companies’ clients can also perform different operations electronically, such as booking, arranging of pick-ups and analyzing in detail all available data. Forwarding and customs activities, which too can be considered as a traditional activity of TPL are also popular and are provided by more than 80% of the TPL companies (Meier & Andersson, 2003). Meier and Andersson (2003) state that 80% of companies studied have knowledge in product related services, from which most frequently provided are labelling, product assembly and configuration, and product return. However, they do not go deeper in how important role such services play for the TPL firms’ business. The final two categories of TPL services are consulting and financial services which are provided by only few companies. Consulting involves project management, training of employees and other advisory services while financial services can be cargo insurance and factoring (Meier & Andersson, 2003).

Bask (2001) argues that TPL services can be segmented into three categories: routine TPL services, standard TPL services and customized TPL services. Routine services are simple and without any specific arrangements. They are volume-based and include all types of basic transportation and warehousing services. Services are based on loose relationships between the customer and the TPL firm and where the most important decision making focuses on competitive price, ease of service procurement, reliability and requested transport time. Standardized TPL services involve easy customized types of operations, such as standard service in transportation with a terminal service and sorting of products. Other examples could be special transportation where products need to be cooled or heated. Such services involve a moderate level of co-operation between the customer and the TPL firm and can take advantage of economies of scale and scope. Customized TPL services require closer relationships, just a few service providers and in many cases open information exchange. There is a possibility for customers to influence the flexibility of service and the way a service is performed. This type of service can mean high transaction costs because of necessary investments in IT systems, information flows, coordination of work, joint planning and more. Examples of customized TPL services include postponement services such as final assembly of the product, packing of products by country-specific customer requirements, repair services and after sales services. Customized TPL services can also include consultation services. However, most parts of the service can be standardized (Bask, 2001). It should though be noted that the definition of TPL service providers used by Bask (2001) allows supplying of TPL services both on temporary and long term relationship basis, which is contradictory with the TPL definition used in this thesis.

Logistics practitioners Ahl and Johansson (2002) divide TPL services into four parts: basic services which are used by almost all customers and can be used to achieve economies of scale, value-added services connected with physical handling of the goods, administrative services (inventory management, customer service, different kinds of rapports etc.) and IT services (for example, electronic data interchange (EDI)). Value-added services are further divided into value-added services which are included in the contract (i.e. labelling, adding advertising material in the package, assembly, etc.) and value-added services such as
exception handling (i.e. dealing with problems related to damage to goods during transportation, incorrect quantities sent by supplier etc.).

Delfmann et al. (2002) refer to the classification of functions of logistics service providers made by Engelsleben (1999) which can be interesting also in the TPL context. As can be seen in Table 2.1 services are classified in two broad groups: services directly related with physical flow of goods and those that are not directly related.

Table 2.1 A classification of functions of LSPs (adapted from Delfmann et al., 2002)

<table>
<thead>
<tr>
<th>Activities which are directly related to the physical goods flow</th>
<th>Activities which are not directly related to the physical goods flow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Logistical core processes</strong></td>
<td><strong>Associated “added value” activities</strong></td>
</tr>
<tr>
<td>Transportation: shipping, forwarding, (de)consolidation, etc.</td>
<td>Assembly, quality control, merchandizing, receiving/order entry fulfilment, return goods, kitting, labelling, project related consulting/forecasting, tracking and tracing, scheduling, etc.</td>
</tr>
<tr>
<td>Warehousing: Storage, handling, packaging, paletting, etc.</td>
<td></td>
</tr>
</tbody>
</table>

Numerous surveys have been conducted in different countries concerning services provided by TPL firms. One example of service classification used in such surveys is division by Andersson (1997) of TPL services into four bigger groups: transportation services, warehousing services, value-added services (assembly, customization, repacking, product returns, recycling etc.) and information services. Andersson’s (1997) information services can be viewed as a joint group of IT and administrative services. This group includes both, IT services as tracking and tracing and EDI, as well as services of more of an administrative nature, such as customs clearance and telemarketing. Van Laarhoven et al. (2000) use a similar classification in their survey, though with the exception of administrative services.

2.2.3.3 Main services of TPL

Berglund (2000), when discussing core competencies of TPL firms, proposes that companies could have different core competencies depending on how they are positioned in the market. Berglund (2000) finds interesting factum that companies which provide integrated services mention functionally oriented specific services as their main services which can mean that activities which are part of the logistics offerings are managed separately. Therefore these processes can be viewed as core competencies in this discussion. From his study Berglund (2000, p.78) summarize different core competencies into following groups:
Frame of Reference

- “Different kinds of full logistics offering
- Services referring to the functional activity warehousing
- Services referring to the functional activity transportation
- Services referring to the logistics information systems
- Different kinds of value-adding service
- Consultative or design/engineering types of service.”

According to Berglund (2000) services related to warehousing/ material handling or inventory management are the most mentioned by respondents as a major service. Transport or transportation management is the second most frequently mentioned. Information systems related, value-adding, and consultative services are less common as major service. Respondents often mention also distribution as their major service but distribution in itself cannot be considered as a logistic service as it is more complex than, for example, transportation services. Berglund (2000) concludes that although all of the respondents provide logistics offerings that include transportation, warehousing, information management and management, traditional logistic activities, like transportation and warehousing, still tend to dominate.

2.2.3.4 Value-added services

Foulds and Luo (2006, p.196) state that the term “value-added” refers to “the collection of activities within a company or a supply chain resulting in the creation of a product or service valued by the consumer”. Berglund (2000) claims that value-adding services stand for all types of activity that traditionally are not part of the transportation and warehousing based service offering of TPL firms. He therefore defines (p.83) value-adding services as “services that adds extra features, form or function to the basic service”. This definition is used as a guiding definition for our thesis while other views on value-added services are still taken into consideration. Bowersox and Closs (1996) argue that value-added services are something extra, something more than the firm’s high-level basic service. However it must be pointed out that the authors are talking about value-added services in logistics in general and not particularly about value-added services in third-party logistics. Bowersox and Closs (1996) argue that value added services by definition are unique to the specific customers and extends over firm’s basic service program. They further point out that value-added services are easy to illustrate but difficult to generalize because of their customer specificity. They define basic service as a customer service program upon which firm’s fundamental business relationships are build. The firm provides equally high service level to all the customers to ensure overall customer loyalty. Zero defects performance means that all aspects of the service are provided error-free, which involves perfect execution of the service and all the supporting activities exactly as promised to the customer. Zero defects commitment is expensive and thus usually provided only to a few selected, valued customers. By agreeing on zero defect performance firms try to ensure customer loyalty and to secure its place among preferred service suppliers (Bowersox & Closs, 1996). Bowersox and Closs (1996) also claim that value-added services represent alternatives to zero defects commitment to build customer loyalty.

As continued by Bowersox and Closs (1996), when the firm develops unique value-added solutions to their most valued customers it becomes involved in customized or tailored
logistics. This means that the firm is doing unique things to help particular customers to achieve their expectations (Bowersox & Closs, 1996). Van Hoek (2000b) claims that with the expansion of third party logistics in the supply chain dependency on transactions increases. Development of critical service operations, such as training employees, enlarges transaction specificity. This will lead to lower transaction frequency because of the higher level of customization and dedication required for each product and service provided to the particular customer. This differs from traditional transportation and warehousing services which are more standard and consequently repetitive in nature (van Hoek, 2000b).

Bowersox and Closs (1996) explain that in the value-added context firms can do different things to stimulate business: provide unique product packages, create customized labels, offer information services, place price labels on products, build point-of-sale displays and so on. In entirely logistics context value-added services can involve, for example, direct delivery to the stores or cross-docking. The great number of value-added services that are agreed upon by the buyer and the seller are performed by third-party companies that specialize in such operations. Bowersox and Closs (1996, p.80) emphasize that “the ability to specialize in unique solutions is a fundamental reason for a growing trend toward using specialized service providers to perform value-added operations.” However, van Hoek (2000b) points out that most of the supplementary services are outside the traditional area of the expertise of third-party logistics companies; supplementary services are more related with manufacturing and marketing instead of transportation and warehousing. This, according to van Hoek (2000b), can jeopardize a TPL firm’s customer’s quality of service received.

Van Hoek (2000b) presents a diagram (Figure 2.7) where it is showed that value added by supplementary services in the supply chain context is lower than in manufacturing but higher than in distribution.

![Figure 2.7 Supply context of supplementary third-party logistics service transactions (van Hoek, 2000b, p.18).](image-url)
Further on Berglund (1997, cited in Berglund, 2000) claims that value-added activities constitute noticeable part of TPL firms’ service offering, on average 15% of sales according to Berglund’s measurement. However, van Hoek (2000a) based on his research argue that value-added services are offered at relatively low level consistently throughout the years, coming to the conclusion that offering value-added services are not yet common practice for TPL firms. Van Laarhoven et al. (2000) in their study have found out that information based and value-added activities occurred to much larger extent in year 2000 than some years before.

Value-added services are divided by Bowersox and Closs (1996) into five primary performance areas: customer-focused service, promotion-focused service, manufacturing-focused service, time-focused service and basic service. Customer-focused value-added service involves alternative ways to distribute products using third-party specialists. This can include delivering directly to the stores or home delivery. It is also common to provide picking, packing and repacking services to facilitate distribution of standard product in unique configurations required by receiver.

Promotion-focused value added services involve making of point-of-sale displays and variety of other services aimed at stimulating sales. Point-of-sale displays can also contain products from different suppliers in one display unit designed for the particular store. In many cases gifts and promotion materials connected with the promotion activities are handled and shipped by service specialists.

Manufacturing focused value-added services mainly involves postponement activities which allow delaying product finalization until the exact order from the customer is received. Although the costs of hiring outside specialists for performing postponement operations can be higher than if such operations are already incorporated in basic manufacturing process, the reduction in risks related to producing products lacking demand, which are difficult to sell afterwards, can provide significant benefits.

Time-focused value-added service is about using third-party actors to sort, mix and sequence inventory before the delivery to the manufacturing facilities. Just-in-time and sequenced just-in-time deliveries to the assembly plants are popular application form of the service. The aim is to reduce handlings and inspection performed at manufacturer’s site to the minimum. This type of service eliminates unnecessary work and increases handling speed.

Basic service involves outsourcing to third-party specialists all or part of a firm’s basic customer service. Wide range of services is available for such purpose, for example, inventory management, order processing, invoicing and reverse logistics. Many firms provide also comprehensive logistics service packages (Bowersox & Closs, 1996). Selviaridis and Spring (2007) state that buyers combine activities that share common information flows and transaction elements and outsource services in bundles (as, for example, warehousing and inventory control).

Selviaridis and Spring (2007) claim that their literature review shows mismatch between services that TPL companies want to offer and services which are required by their customers. According to them buyers generally want to outsource transportation and warehousing activities while LSP are willing to expand their service offerings with information systems, contract manufacturing, consulting, purchasing and more services which are seldom purchased by buyers. As explanation to this Selviaridis and Spring (2007) state that most of the TPL customers perceive such activities as too important to outsource.
and have doubts regarding a TPL provider’s ability to provide high quality service. They refer to Wilding and Juriado (2004) which are arguing that such services are supply-driven and do not match TPL customer’s needs. From that Selviaridis and Spring (2007) conclude that the biggest part of purchased logistic services still are in the areas of warehousing and transportation. Van Laarhoven et al. (2000) even argue that transportation and warehousing by definition constitute a dominant part of TPL partnerships.

2.2.3.5 TPL Service Framework

Based on information included in our literature study we have created the framework of TPL services (Table 2.2). It should be noted from the beginning that it is not the only one possible way to structure services provided by TPL companies. Bases of such structure, however, lay in TPL research literature and the choices made by us between different structuring possibilities find in literature will be further discussed in-depth in this section.

In service management literature (for example, Grönroos, 2000) division between core and supplementary services are made. Here one important problem can be observed when trying to tie service management literature together with literature within TPL. In TPL literature (for example, Berglund, 2000) the division is made between basic logistics services (i.e., transportation and warehousing) and value-added services. Basic logistics service can, of course, be core service for TPL providers but according to Berglund (2000) this is not always the case although these are the most mentioned core competencies among TPL companies. Therefore the part of the supplementary services which is called supporting (or enhancing) services in service management literature can be regarded as value-added services in their wider meaning, i.e., all services within value-added logistics, but only in cases where basic logistics services are core services of TPL companies.

Division of all TPL services in basic and value-added logistics showed in Table 2.2 is based on Berglund et al. (1999) and logistics requirements’ model by Lundberg and Schönström (2001). A further question could be: is basic logistics the same as basic [logistic] service? When looking from the logistics literature perspective, the basic [logistics] service closely matches the perception of basic logistics. Basic services in such a context refer to basic transportation and warehousing services. Nevertheless some facilitating services (as they are called in service management literature by, for instance, Grönroos, 2000) can also be part of basic logistics if we take into consideration requirements for basic logistics by Lundberg and Schönström (2001). However, the basic service package as meant by Grönroos (2000) in service management literature is not the same concept as basic service in logistics literature.
Table 2.2 The framework of TPL services

<table>
<thead>
<tr>
<th>Basic logistics</th>
<th>Transportation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Network-based transport</td>
</tr>
<tr>
<td></td>
<td>• Emergency transport</td>
</tr>
<tr>
<td></td>
<td>• Transportation management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Warehousing</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Storage</td>
</tr>
<tr>
<td>• Order picking</td>
</tr>
<tr>
<td>• Inventory management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IT-services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• EDI</td>
</tr>
<tr>
<td>• Tracking and tracing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value-added logistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• customer-focused service</td>
</tr>
<tr>
<td>o direct delivery</td>
</tr>
<tr>
<td>o cross-docking</td>
</tr>
<tr>
<td>o labelling</td>
</tr>
<tr>
<td>o repacking</td>
</tr>
<tr>
<td>o adding usage instructions</td>
</tr>
<tr>
<td>• promotion-focused service</td>
</tr>
<tr>
<td>o making point-of-sale displays</td>
</tr>
<tr>
<td>o adding advertising material to the product package</td>
</tr>
<tr>
<td>o shipping of promotion materials</td>
</tr>
<tr>
<td>• manufacturing-focused service</td>
</tr>
<tr>
<td>o postponement</td>
</tr>
<tr>
<td>o assembly</td>
</tr>
<tr>
<td>• time-focused service</td>
</tr>
<tr>
<td>o just-in-time</td>
</tr>
<tr>
<td>o sequenced just-in-time</td>
</tr>
<tr>
<td>• basic service</td>
</tr>
<tr>
<td>o reverse logistics</td>
</tr>
<tr>
<td>o aftersales service</td>
</tr>
<tr>
<td>o spare parts</td>
</tr>
<tr>
<td>o quality control</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Administrative services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Purchasing of material</td>
</tr>
<tr>
<td>• Order processing</td>
</tr>
<tr>
<td>• Invoicing</td>
</tr>
<tr>
<td>• Export/import operations</td>
</tr>
<tr>
<td>• Consulting</td>
</tr>
<tr>
<td>• Customer support</td>
</tr>
<tr>
<td>• Telemarketing</td>
</tr>
</tbody>
</table>
The case of IT services seems special because such services in some cases can be used purely to facilitate warehousing and transportation services since it can require reliable information flow for basic logistics services to function properly. Such IT services consequently fall into the group of facilitating services according to service management literature. In other cases, on the opposite, IT services can have solely enhancing function. Therefore, IT services can be both facilitating and enhancing, thus being part either of basic or value-added logistics.

It could, of course, be discussed, if all services, which are provided by TPL firms, go under categories of basic or value-added logistics. As previously stated by Coyle et al. (2003) logistics are generally viewed as adding value through place and time utility. Some of the services provided by TPL firms, however, are connected with form utility as postponement activities and possession utility like building point-of-sales displays or sending out promotion material. Some other services of TPL firms are quite obviously out of the range of the logistics services, like telemarketing and financial services. We have though chosen NOT to divide separately services which are not related with logistics, mainly because it is in many cases difficult to decide can the particular service be considered the logistics service or no.

The value-added services in our framework (Table 2.2) are classified based on five primary value-added service performance areas identified by Bowersox and Closs (1996). It should, however, be noted that Bowersox and Closs (1996) originally did not view value-added services as related solely to handling physical goods. Still, dividing services not involving physical handling separately under the heading of “administrative services” (as in, for example, Ahl & Johansson, 2002) seems not to change anything important in classification of Bowersox and Closs (1996). The list of service examples under different headings in our TPL service framework is not exhaustive and should thus be viewed as only illustrative.

2.3 Service Development

2.3.1 Innovation

2.3.1.1 Types of Innovation

Innovation is defined by Rogers (2003, p. 12 cited in Wallenburg, 2009) as “an idea, practice or object that is perceived as new by an individual or other unit of adoption. According to Schumpeter (1934; cited in Flint, Larsson, Gammelgaard and Mentzer, 2005) innovation has a broad definition and can occur within any service, process or social system. An innovation does not necessary have to be new for the whole world to be defined as an innovation. If it is new in the eyes of the beholder it is enough to be referred as an innovation. Chapman, Soosay and Kandampully (2003) state that the term innovation can be used to describe various ideas. According to de Jong and Vermeulen (2003) all definitions of innovation include development and implementation of something new although innovation may also aim at producing some kind of benefit such as profits. Apart from financial benefits the service firm benefits in creating customer value and increasing strategic success. Hurley and Hult (1998) define innovation from a collective perspective looking at the aspects of a firm´s culture and its openness to new ideas. In this thesis innovation is limited to service development and of special interest is the development of value-added services. Since there is a lack of previous research of how value-added services in TPL firms are developed we have taken a broad theoretical perspective of how service in general are developed within logistics. In general services are intangible, heterogeneous, simultaneously produced and consumed and perishable. Innovation in service mostly involves small changes and
incremental changes in process and procedures. As a consequence to it, innovations in service are easier to imitate and does not require much investment in research and development departments (de Jong & Vermeulen, 2003). Service innovation is a result of a firm’s ability to focus its entire energy to think on a behalf of a customer and produce an outcome that exceeds the customers’ present expectations of a superior value. The value of the innovation as perceived by the customer provides the advantage in a service (Chapman, 2003). According to Flint et al. (2005) customer data is a meaningful asset for innovation. Gaining customer value by analyzing sales data, observing customers, listening to their view, their market environment interpretations etc. is a way to get insight information and to gain a holistic view of the customer’s requirements. To gather this information there is a need of a desire and a process to collect, integrate and interpret the information which requires a learning orientation (Flint et al., 2005).

Flint et al., (2005) state that logistics innovation is any form of logistics related service, from basic to complex that is new and helpful to the audience or to the customer. Furthermore, Flint et al., (2005) and Wallenburg (2009) classify innovation into either internal or external (customer-related) where the object is to improve customer service. The first class of innovation refers to such innovations that do not affect the customers directly and are not noticeable from the outside of the LSP, instead the focus is to increase the efficiency of LSP and efficiency of LSP operations. In turn the LSP may either lower the prices or enhance the profit margins. Customer-related innovations are in opposite to internal innovations, noticeable by the customers and may have a direct affect on them in regard to cost reduction and performance improvements. Wallenburg (2009) continue in sub classing customer-related innovations into multi-customer-related innovations and single-customer-related innovations (see Figure 2.8). Innovations directed to multiple set of customers or a base of potential customers improve the competitiveness and may be utilized for services rendered in form of market exchange were autonomous market exchange occurs. The innovation may also be utilized for service provided in existing and coming outsourcing relationships in a form of cooperative adoption. Tracking and tracing is example of service system offered to multiple customers. A single-customer-related innovation is innovations focusing on a specific customer and irrelevant for standardize services since they are exchanges in spot markets. The single-customer-related innovation is sub-classified into two groups. The first group consists of innovations that are generated when a new service solution is implemented and can be specified in a contractual agreement. The second group consists of innovation implemented in an ongoing relationship. There is a difference in the character between the two groups. Wallenburg (2009) argues that a LSP is forced in an outsourcing relationship to innovate in advance and design a superior solution to survive the selection process made by the customer and exceed service offered by the competitors. After being chosen by the customer the competition is limited since it is costly for the customer to switch LSP. Innovation within a relationship between the customer and the LSP is to a certain degree voluntary since it cannot be specified which innovation is going to be beneficial for the customer in the future and which technological advancements are going to be available.
Innovations may further be divided into two subgroups, reactive innovation and proactive innovation. In an ongoing relationship innovations can be referred to as improvements since they are made in an existing service solution. Reactive innovation is seen as a result, generated by a LSP on a customer’s request. Proactive innovation happens when an individual LSP proactively enhances the service to the customer due to the potential benefit of the innovation for the customer. Lastly, proactive innovation may be divided into two subgroups, proactive cost improvement and proactive performance improvement. The first relates to cost reduction of the customer’s logistics systems in which the service is embedded. The later relates to improved performance of customers logistics systems through enhancement of the provided service. According to the research made by Wallenburg (2009) proactive performance improvements become more important while cost improvements decrease in significance in situations of greater complexity and with the use of longer contracts. Wallenburg (2009) observed in his research a clear difference between the various types of LSP when it comes to the degree of a proactive improvement. Full-service providers with a broad service portfolio showed a higher degree of proactive improvement than specialized service providers with a narrow portfolio. Specialized service providers seemed to have more in-depth knowledge but full-service providers were better in utilizing their superior competence regarding interdependency and connections with the particular customer. Wallenburg (2009) also found a difference between national LSPs and global LSPs. National LSP exhibited higher levels of proactive improvement than local and global LSPs. The differences were significant for proactive cost improvement but not for proactive performance improvements. According to Wallenburg (2009) a possible reason was that small local LSPs lack the professional resources to manage innovation while global LSPs lack the motivation since a normal-sized single customer is of lower importance for
the LSP. Wallenburg (2009) pointed out the importance of the customer’s selection process before choosing a specific LSP. A more proactive LSP is highly more likely to generate improvements than a less proactive one.

2.3.1.2 Driving Forces and Barriers for innovation

Flint et al., (2005) emphasise innovation as critical to the success of logistics service providers. By continuously driving innovation with customers the LSP can maintain its focus on increasing the value creation for their customers and compete effectively with their competitors (Flint et al., 2005). In the literature (Flint et al., 2005; Wagner, 2008; Wallenburg, 2009) it is stated that innovation may help the logistics service providers to differentiate themselves from their competitors. Advances in technology, according to Chapman et al. (2003) have directly encouraged the creation of innovative services. At the same time it is emphasized in the literature that the level of innovation by LSP is low (Peters, Lieb and Randell, 1998; Wagner, 2008; Wanger & Franklin, 2008; Wallenberg, 2009). The reasons why the innovation level is low vary. A corporate culture that does not foster innovation, inefficient management of innovation processes, limited market scope and high cost are a few examples mentioned (Shen, Wang, Xu, Li and Liu, 2009). Another reason is that customer has a strong focus on cost and is reluctant to remunerate a LSP for an outstanding service performance (van Laarhoven et al., 2000; Wallenburg, 2009). Except money, time is also required to develop service. According to de Jong and Vermuelen (2003) time is not usually provided for development since employees are assigned to work on different development projects as additional activities to their daily work. The authors furthermore state lack of qualified skilled staff as a major barrier for development. According to Wagner and Franklin (2008) LSPs seem to develop service that are neither enough scalable or generic to be utilized in a wider scale. The authors continue by saying that LSPs often struggle when they try to expand customized solutions that were created for one customer and broaden in to a wide range of customers. Wagner and Franklin (2008) state that LSPs are not able to capture the full value of an innovation and they also point out that significant reengineering is required before it is possible to offer a service that original was developed for a specific customer to other customers. Flint et al., (2005) and Wallenburg (2009) suggest that logistics service providers should take into consideration the current customer’s needs and how they may develop in the future. In that way potential proactive improvement arise in a customer-oriented relationship, beneficial to the customer. At the same time most service solutions implemented by an LSP need some degree of adaption to remain optimal over a longer period of time. In the beginning of the outsourcing process an uncertainty exist about the needs and requirements of the customer’s customer as well as about the strategies and products of the customer. Over time the service deteriorates into efficiency and effectiveness (Wallenburg, 2009). Over time customers expect the LSP to consciously drive the innovation in service (Flint et al., 2005).

2.3.1.3 Innovation process

A typical innovation process in LSPs service arises as a response to a customer’s request. Usually a new logistics service starts out as unique solutions that have been developed for a single customer in a specific geographical region (Wagner and Franklin, 2008). Wagner and Franklin (2008) continue by stating that the innovation process of the logistics service solution depends on the knowledge and background of the personnel involved as well as on what kind of service the customer request. Wallenburg (2009) assumes that resources and competencies of the personnel involved in an individual outsourcing relationship are too low to generate and implement suitable ideas for improvement, resulting in innovation
coming as a request or suggestion from customers. Several authors (de Jong and Vermeulen, 2003; Flint et al., 2005; Chapman et al., 2003) seem to agree upon that people or the organization’s co-workers are the heart of the innovation process.

Flint et al., (2005) uncovered a process for being innovative consisting of four different stages where participants are involved in when logistics innovation is emerging. The logistics service context process is applicable to innovation in general without referring to any specific innovation. According to Flint et al., (2005) and Wallenburg (2009) managers of LSPs should be more proactive in driving innovation instead of being driven by the customers. Most LSPs tend to have a reactive approach where innovation is the result of a customer’s request and suggestion (Wallenburg, 2009).

Figure 2.9 A logistics innovation process (Flint et al., 2005, p. 127).

The logistics service context by Flint et al. (2005) starts with setting the stages. Within the first stage are all activities designed to create an environment conducive for interaction and listening to customer and being an innovative organization. Included are the planning and training activities that precede clue gathering, data analysis, acquisition of resources for analyzing customer data and leasing of facilities for the purpose of interacting with customers. The activities included are described as managing an innovative organizational culture. The next stage consist of customer clue gathering activities which are all activities aiming at getting closer to and deeper insight about the customer. This stage consists of looking for clues and opportunities for logistics innovation. By interacting with customer in form of managing customer groups, engaging single customer depth interview, holding strategic planning meetings or contracting third parties to conduct customer research the aim is to approach and interact with the customer. Both direct and indirect means are used such as formal depth interview, joint strategy meetings, reading trade journals, attending industry conferences, monitoring competitor changes, analyzing customer data files and analyzing performance metrics. The following stage is negotiating, clarifying and reflecting activities. Flint et al (2005) found this stage to involve not only creating an environment to listen to customer but also discussing willingness or unwillingness of the employees and managers to listen to the customer. Moreover the stage includes exchanging ideas, clarifying what was heard from whom and reflecting on what the insight meant for the logistics service provider. Something usually brought up at this stage was the clarifying understanding of what the customer desire which was usually difficult to know since the customer did not always ask for a specific service but instead explained the changing goals and desires. The last stage is inter-organizational learning, referring to new insights and
understandings, emerged jointly for managers from the LSP and the customer organization. It is pointed out by Flint et al., (2005) that learning occurs across firms since each party involved brings different interpretations of data and complementary data into the process of innovation. He therefore suggests innovation as an outcome of inter-organizational learning.

Development of a logistic solution is imposed under time pressure which may be one reason why the developed services are not generic to be offered to more than the specific customer for which it was original developed (Wagner and Franklin, 2008). Both time and money are required to develop new services, particularly in the implementation stage (de Jong and Vermeulen, 2003). Further, Wagner and Franklin (2008) argue that innovations which are co-produced together with customer can involve external components, such as the tools, processes and human factors, coming either from customer or third-parties which may not conform the standards used by other companies and thus innovation can require re-engineering to be applicable to the wider customer base. Usually innovation also occurs when LSPs field personnel react on certain customer problem (Wagner and Franklin, 2008). The management and control of these activities have not been the first priority resulting in that logistics service providers have not captured the innovations that have occurred. The authors therefore suggest a model to provide the field personal with a structure and guidelines creating innovative solutions that can be customized on a wider scale for more customers. The successfulness of logistics service providers is not on the innovation itself but on the process that these firms use to be innovative (Wagner and Franklin, 2008). Literature within new service development discuss formal systems and tools to trigger and channel creativity techniques such as brainstorming but also to screen and gather ideas of co-workers. Besides that also providing of procedures and rules to guide the development process is discussed (de Jong and Vermeulen, 2003). Moreover, the internal organisation is seen by de Jong and Vermeulen (2003) as important in creating a more innovative organisational. Some organisations have specialized innovation departments, such as research and developments departments while other organisations use task rotation where exchanging tasks and jobs among the employees is used as a method to broaden the employees work experience. This is seen as a way to enhance creative potential which enables the employees to more often come up with ideas for improvement in service development and increases the problem-solving ability (de Jong and Vermeulen, 2003).

### 2.3.2 Learning

Innovation is considered to be closely related to organizational learning (Calantone, Cavusgil and Zhao, 2002). Organisational learning has been discussed in the literature as a predecessor to innovation (Damanpour, 1991; Panayides & So, 2004). A successful innovative customer solution, delivered through an innovative service is relied on knowledge of what a customer is likely to value (Wallenburg, 2009). To get the full return, the knowledge within the organisation is needed to be acquired to be able to identify emerging solutions and trends (Wagner and Franklin, 2008). In this thesis both organisational and inter-organisational learning is taken into consideration when discussing the creation of value-added services.

Organisational learning is defined as an entity that learns through processing of information by changing its behaviour and acquires knowledge that is recognised as potentially useful for the organisation (Huber, 1991). Organizational learning refers to organizational wide activity of creating and using knowledge to enhance competitive advantage (Panayides & So, 2005). In some organisations learning is considered as a strategic resource that creates a degree of difference in form of competitive advantages. To
align with the competitive environment organisations must learn better and faster than their competitors (Flint et al., 2005). An organisation that is committed to learn is likely to have a greater innovation capability than its competitors (Damanpour, 1991). In the literature (Panayides & So, 2005; Calantone et al., 2001; Sinkula, Baker & Noordewier, 1997) it is stated that organizational learning includes obtaining and sharing information about the customer’s needs, market changes, actions of competitors, development of new technologies with the purpose to create new products superior to competitor’s products. Organisational learning influence what kind of information is gathered, how it is evaluated and interpreted and lastly how it is shared (Panayides & So, 2005; Calantone et al., 2001; Sinkula et al., 1997). The relationship between organisational learning and innovation has been theoretically conceptualised in the literature but not empirical supported in the context of the supply chain (Panayides & So, 2004). According to Calantone et al. (2002) and Panayides and So (2004) organisational learning is found to influence a firm’s innovativeness in particularly when adopting innovative technologies and processes. The adoption of new technologies and processes are vital in a supply chain environment and therefore it is concluded that organisational learning is positively related to innovativeness (Calantone et al., 2002; Panayides and So, 2004). According to Flint et al. (2005) organizational learning is connected with logistics innovation by four themes. Firstly, Flint et al. (2005) distinguish between low level learning and high level learning and therefore logistics innovation will likely to vary depending on which level the logistics service providers will learn about the customer’s desired value. According to him low level learning involves the LSPs response to a customer’s request while high level learning involves seeking for information insight to customers and their changing desire of logistics value. Secondly, Flint et al. (2005) state that organisational learning is of vital importance for innovation since knowledge is usually embedded in experience but it is difficult to articulate exchange and pass it on. Thirdly, knowledge can be acquired through process by hiring the right people with the knowledge or tap the knowledge from insight the organisation. Fourthly, organisational learning is unique to each organisation meaning that organisational culture, structure is highly depended on the ability to innovate and capture the knowledge. According to Chapman et al. (2003) knowledge sharing within and among organizations, as well as an establishment of effective knowledge management process are vital. For achieving an effective knowledge management system the involvement of individual people acting as individual actors is crucial. Chapman et al. (2003) present so called knowledge networks where logistics firms create, share and use strategic knowledge to innovate. He argues that the logistics firm have to seek knowledge and expertise outside their traditional operations to be able to serve their customers logistical needs and rapid innovation capabilities. Both relationship and networking are of considerable importance in the innovation process, as well as organizational structure. Within an adequate and supportive organisational structure firms can develop their innovative capabilities to meet the challenges for organisational learning. Inter-organizational structures are facilitating factors in logistics innovation (Chapman et al., 2003). Flint et al. (2005) have a similar view by arguing that innovation can be inspired by different actors responding and interpreting the dynamic environment and continuously reflecting on their and others interpretation and responses from the surrounding on their actions.

2.4 Summary of the Frame of Reference

To be able to understand what value-added service is and how it is developed, first general theory from service management has been presented such as a general definition of service and the different service classification. Mainly theory within service management by
Lovelock and Wirtz (2007), Grönroos (2000) and Kasper et al. (2006) have been applied. The authors within service management and marketing agree upon that basic service package consists of core and supplementary services. Grönroos (2000) define the managing of service offerings into four different steps, where three steps: developing of the service concept, developing of basic service package and developing of an augmented service offering are presented by us in this thesis. Kasper et al. (2006) mention five service quality dimensions: reliability, assurance, tangibles, empathy and responsiveness.

Further, the concept of outsourcing has been discussed in the frame of reference. The decision to outsource a service can depend upon several reasons. Kasper et al. (2006) define three reasons such as the lack of capability, scale and ability and lack of capacity to perform it within the organisation. While Saunders et al. (2007) define it upon financial, resource based and strategic reasons.

The frame of reference continues with definition and classification of different types of logistics service providers with particular emphasis on third party logistics service providers and their service offerings. Several authors (Marasco, 2008; Skjott-Larsen et al., 2003; van Laarhoven, et al., 2000) generally agree upon a lack of a single accepted definition of third party logistics. In the master thesis we apply the definition of TPL developed by the EU-project Protans, referred to in Skjott-Larsen et al. (2003). The definition define TPL as activities carried out by an external company on behalf of a shipper and consisting of multiple services, offered in an integrated way in an intended continuous relationship between the shipper and the external companies.

Value-added services are one group of services that TPL firms offer their customers. Bowersox and Closs (1996) state that value-added services are something extra and unique to the specific customer and extend over the firm’s basic service program. Berglund (2000) defines the term value-added services as services adding extra feature, form or function to the basic services. Berglund’s definition of value-added service is used as guiding definition by us in this thesis. The theory shows that the concept of value-added services is viewed differently by different authors and also that the term value-added service is not uniformly applied. From the theoretical discussion a framework was constructed where a division was done between basic and value-added logistics. Transportation and warehousing is considered to be part of basic logistics while IT-services can be both part of basic and value-added logistics depending on if the IT service is facilitating or supporting. Value added services (physical handling) and administrative services are included in value-added logistics.

To understand how value-added services are developed by the third party logistics providers, theories about innovation and learning are discussed. De Jong and Vermeulen (2003) define innovation as development and implementation of something new while it may also aim at producing a benefit such as profit. Wallenburg (2009) classifies innovation by LSPs into either internal innovation which is focused on increasing the efficiency of the LSP or customer related innovations which are directly notable by the customers in form of cost reduction and performance improvements. The concept of innovation is further divided by Wallenburg (2009) into reactive innovation and proactive innovation. Reactive innovation is seen as a result of a customer’s request and generated by the LSP, in opposite to proactive innovation which is the result of the individual LSP proactive enhancing the service to the customer. Flint et al. (2005) state innovation as critical to the success of logistics service providers since it increases the value for the customers and making the various LSP to effectively compete. At the same time innovation in form of development of service by LSPs is rather low. Wagner and Franklin (2008) state that LSPs develop
service that are neither enough scalable or generic to be utilized in a wider scale. There are several barriers for development mentioned in the literature (Shen et al., 2009; de Jong and Vermuelen, 2003) such as time, money, culture and organisational structure. From Flint et al. (2005) a logistic context process is presented consisting of four stages in creating logistics innovation.

Several authors (Damanpour, 1991; Panayides & So, 2004) consider organisational learning as predecessor to innovation. In this thesis both organisational and inter-organisational learning are highlighted in the theory as related to development of value-added service by TPL firms. With organisational learning the TPL firms can create and use knowledge to enhance competitive advantage (Panayides & So, 2004). With inter-organisational learning the organisations can seek knowledge and expertise outside their own organisation (Chapman et al., 2003).
3 Methodology

The following chapter focuses on the research methods and discusses the methodological choices that have been made in order to achieve the purpose of the thesis. The chosen data collection method, interview, is discussed in detail and the reliability and the validity of the thesis is analysed.

3.1 Research Process

When discussing the research process, several different layers can be distinguished, such as research approaches, research strategies, time horizons and data collection methods (Saunders et al., 2003). The time horizon for our study is more cross sectional than longitudinal (according to division by Saunders et al., 2003). We are therefore concentrating on studying a particular phenomenon at a particular time, instead of undertaking longitudinal study to investigate ongoing changes and development. However, the impact of the changes is not overlooked in our research in cases where change could have significant importance in understanding the subject of our study.

The reader of this thesis should also take into consideration the influence of possible future changes on our gathered material. Both third-party logistics in general and our target companies in particular have been undergoing changes and apparently will do that in the future. Therefore, our analysis and the conclusions made are greatly dependent on data gathered about current situations concerning companies involved in our study. Similar studies made in the future can thus show different results depending on the changes that the companies will possibly undergo.

3.2 Research Approach

In the research methodology literature the deductive and the inductive approach is commonly used as two different alternatives to construct theories. The deductive approach process begins with development of a theory and a hypothesis, followed by information collection and a research strategy to test the hypothesis. The conclusion is drawn out of logical reasoning (Saunders et al., 2003). Within the deductive approach, facts are gathered to confirm or disprove the hypothesis that has been deducted from earlier theories or propositions. The inductive approach is opposite, as it is based on empirical evidence and is considered to be one of the first steps in scientific methods where the researchers observe facts to generate a theory which is consistent with the facts (Ghauri & Gronhaug, 2005). By applying this approach the researcher collects data and develops theory as a result of the data analysis (Saunders et al., 2003). In this thesis an inductive approach is used since the authors start the research process with ideas and facts that leads to theories and predictions. Use of the deductive approach was dismissed mainly because there was not enough previous research in the area of our study which made it difficult to formulate a hypothesis at the beginning of our research.

3.3 Exploratory, Descriptive and Explanatory Studies

Saunders et al. (2003) divide enquiries into three groups: exploratory, descriptive and explanatory studies. Ghauri and Gronhaug (2005) describe exploratory research as most appropriate for situations when a research problem is insufficiently understood and of an unstructured nature. Saunders et al. (2003) add that this type of study helps to get new insights and is flexible enough to allow changes of direction when new data appears. In short, it is used to explore previously unexplored areas. In descriptive research, as stated by Ghauri and Gronhaug (2005), the problem is structured and well understood. According to
them, the key characteristics of descriptive research are structure, precise rules and procedures. To sum up, the descriptive study is an accurate description of situations or objects investigated. Explanatory study (or as called by Ghauri and Grønhaug (2005): causal research) involves explaining causal relationships between variables (Saunders et al., 2003). The problems under explanatory research are also structured but instead of merely describing a situation, the researcher needs to deal with “cause-and-effect” problems as well (Ghauri & Grønhaug, 2005). Brannick (1997) state that the research questions determine whether the study is classified as exploratory, descriptive or explanatory. Exploratory research is used to answer questions that are seeking insight into the general nature of a problem. Research questions of “what” type are answered in an exploratory study with little previous knowledge about the research hypotheses. In descriptive research, questions of “where”, “when” and “who” are answered and a hypotheses often exists but is of tentative nature. An explanatory research answers on “how” and “why” questions. In the thesis we apply research of explanatory type with some features of exploratory research. The reasons for this is certain confusion and gaps in a theory about the term “value-added service” which was necessary to clarify to be able to undertake a study of more explanatory type regarding development of value-added services in third party logistics business.

### 3.4 Qualitative or Quantitative Research

According to Kumar (1999) research can be classified as quantitative or qualitative depending on the purpose of the study, how the variables are measured and lastly how the information is analysed. Most often the research problem determines which approach to use. The main differences between quantitative and qualitative research is the research process, the emphasis and the objectives of the study (Saunders et al., 2003). If the purpose of a study is to describe a situation or phenomenon and the information is gathered by using variables measured on a qualitative measurement scale and are further analysed in the situation by establishing the variation in it without quantifying it, then the study is classified as qualitative. If on the other hand the information is gathered about variation in a situation or in a phenomenon by using quantitative variables, then the study is classified as quantitative (Kumar, 1999).

The key concept in the quantitative approach is the quantity, expressed as information about the world in form of numerical data (Punch, 2000). A survey is an example of research design providing a quantitative or a numeric description of trends or opinions of a population by studying a specific sample of the population and as a conclusion generalise the sample result to the whole population. The possibility to generalize results is the strength of the quantitative method. Usually questionnaires or structured interviews are applied to collect data. Experiments are another example of strategy to gather data (Holme & Solvang, 1997, Creswell, 2002).

Qualitative research has its strength in showing the total situation. Such an overall picture makes it possible to explore and increase the understanding of social processes (Holme & Solvang, 1997). According to Merriam (1998) the key concept is to understand the phenomenon of interest from the participants’ perspective, not the researcher's. By definition, qualitative data is empirical information about the world, mostly expressed in words (Punch, 2000). In the broadest sense, qualitative refers to research that produces descriptive data such as observable behaviour or people’s written or spoken words. The focus is inductive since the researcher develops concepts and understanding from patterns in data instead of collecting them to assess hypotheses or theories. Qualitative studies are
characterized by a flexible research design in opposite to the quantitative studies which follow a structured research design (Taylor & Bogdan, 1984; Holme & Solvang, 1997).

Qualitative research is considered to be an umbrella concept covering several forms of inquiry such as a description of an observed situation or historical enumeration of events, and it explains the social phenomena with as little disruption of the natural settings as possible (Kumar, 1999; Merriam 1998). Patton (1985, p.1) explains qualitative research “as an effort to understand situations in their uniqueness as part of a particular context and the interactions there. This understanding is an end itself, so that is not attempting to predict what may happen in the future necessarily, but to understand the nature of the setting” (Patton, 1985, cited in Merriam, 1998). For our thesis, the qualitative research approach is more suitable considering our research problem’s focus on complex TPL firms’ value-added service development process. As our study is primarily explanatory with some features of exploratory, it created a necessity to gather rich data which would facilitate deeper understanding of the phenomena and help to reveal connections between different variables.

3.5 Research Strategy

According to Saunders et al. (2003) there are several possible research strategies, such as experiment, survey, case study, grounded theory, ethnography and action research. In this thesis, a qualitative study is applied, using multiple case studies as a research strategy. From our point of view, multiple case studies best suit in line with answering the purpose of this thesis due to complex issue of our purpose which requires not only rich data to get deeper insight into the problem but also possibility to compare the data to get overview of our research subject. Understanding a phenomenon of value-added service requires wider view involving several companies while studying of development process asks for deeper insight into target companies’ operations. Robson (2002, p. 178) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”. Case study strategy is used to gain a richer understanding of the research context and the enacted process. Furthermore, by applying a case study strategy it is possible to generate answers to the “what”, “how” and “why” questions (Saunders et al, 2003). Several authors (Yin, 1984; Stake, 1995; Remenyi, Williams, Money and Swartz, 1998) point out that a case study is a relevant approach to describe and understand a phenomenon in a complex research area where there is little previous research done. This is agreed by Eisenhardt (1989), who states that case study as a method is favoured and particularly well-suited when approaching new research areas. The main focus is seeking insight through the features and characteristic of the object being studied rather than testing an existing hypotheses (Ghauri & Gronhaug, 2005). Research within the subject of value-added services and their development was rather limited at the beginning of our study, thus case studies seemed appropriate when seeking understanding about value-added services in third-party logistics. Saunders et al. (2003) state that case study method is used when the researcher wants to study a single organization with regard to a set of variables already identified and assumed. However, case studies are equally possible to carry out with a number of organizations. In this type of study, the researchers study the same phenomenon in a number of organizations and compare them with each other before drawing the conclusion (Saunders et al., 2003). The multiple case studies involves collecting and analysing data from several cases. In other words, instead of studying one situation or object, several are studied constituting a greater ability to compare and enhance generalization (Merriam, 1998).
Three different TPL firms were studied: Bring Logistics Solutions AB, Schenker Logistics AB and Aditro Logistics AB. Certain problems to get sufficiently deep insight into our case study companies were faced. There is a limited number of persons within a reasonable travelling distance from our residing place working in positions that make them appropriate as interviewees for our case studies. Nor were all of them willing to participate in our study. This occurred despite the fact that companies chosen by us were located in the area and were generally willing to cooperate. To cope with this problem it was decided to study all three cases to get the necessary wider insight in the phenomenon but concentrate more on one of the three cases for a deeper insight. The case of Aditro Logistics was selected for deeper study because of the easier access to the broader base of interviewees.

3.6 Collection of Data - the Interview

Merriam (1998) states that interviewing is a common mean of collecting qualitative data. According to Yin (2009), interviews are important sources of information in case studies. This is agreed by Thiart et al. (2001), emphasising data collection as an essential and critical point in the research process. Interviews are a way of collecting primary data and therefore a source of primary data (Ghauri & Gronhaug, 2005). Kvale (1996, p. 2) states that the qualitative research interview is “a construction site of knowledge”. He further on defines the interview (p. 2) as “an inter view, an inter change of views between two persons conversing about a theme of mutual interest”. There are different types of interviews used for different purposes. By characteristics and aims of the interview process, interviews can be classified as “formative”, for example, informal interviews and life histories, and “mass” which includes most of the large-scale surveys (Madge, 1965, cited in Holstein & Gubrium (1997). However, as argued by Saunders et al. (2003), one of the most popular ways to distinguish between interview types is to look at the degree of their formality and structure and by doing so dividing them into structured, semi-structured and unstructured interviews. A similar way to classify interviews, according to the same authors, is to divide them into standardized and non-standardized interviews where structured interviews can be seen as standardized while semi-structured and unstructured interviews are seen as non-standardized.

Structured interviews involve using questionnaires with standardized questions, usually with previously defined answer possibilities. According to Merriam (1998) the most structured interview is actually written survey conducted in an oral form. Although the interviewer can interact with respondents by, for example, providing explanations for questions, he or she needs to strive to minimize his or her influence on the interviewee’s answers (Saunders et al., 2003). As further explained by Saunders et al. (2003) in a semi-structured interview there will be a list of themes and questions to be asked but they can change for different interviews; some questions may be omitted, if they are not appropriate in a particular case, some may be added if needed, as well as the order of the questions can vary. Unstructured interviews can be referred to also as in-depth interviews as they are generally used to explore in depth some particular area of interest. The interviewer does not have any pre-prepared questions but must have clear idea about the aim of the interview. The interviewee can freely express his or her opinion about a given topic (Saunders et al., 2003).

As mentioned before different types of interviews have different purpose. According to Saunders et al. (2003), structured interviews are used to gather data for quantitative analysis while semi-structured and in-depth interviews are used in qualitative research to answer not only questions “what” and “how” but to also explore “why”. The best interview type for
Methodology

explanatory study, which was undertaken by us, as stated by Saunders et al. (2003), is semi-structured interviews, which can be used to explain relationships between variables. As further mentioned by Saunders et al. (2003) several types of interviews can be used in one study if the purpose of the study requires it.

As stated by Saunders et al. (2003) in a case of exploratory studies, it is important to ask supplementary questions on interviewee’s answers to go deeper and to understand what the respondents really mean by the concepts and phenomena they are describing. Such follow up can uncover research questions previously not considered by the researcher, as well as make the interviewee think about things previously not touched upon but that are potentially significant (Saunders et al., 2003). For this reason it is important for us to combine our semi-structured interviews with some possibly spontaneous questions to ensure that some central aspects are not being overlooked in our study which at least partly has exploratory character.

As pointed out by Ghauri and Grønhaug (2005), it is important to first test a draft of interview questions in a pilot study (or in our case, a pilot interview). Although a researcher can put great efforts in ensuring his or her understanding of the research problem and interview questions, a pilot-interview can help test the interviewees understanding of the research problem and the questions (Ghauri & Grønhaug, 2005). As there was limited access to suitable interview respondents, data from our pilot-interview was used as our empirical material by completing it with follow up telephone interviews.

Ghauri and Grønhaug (2005) distinguish between three different ways how to conduct interview: through mail, phone or personal face-to-face interview. As non-standardized interviews require more flexibility and interaction between the interviewer and the interviewee, we do not consider mail interviews appropriate for our study. As emphasized by Saunders et al. (2003), personal face-to-face interviews are important to establish honest relationships with interviewee. This is especially important in the highly competitive environment of the business world where representatives of a company may want to ensure that sensitive and confidential information does not end up in the hands of their competitors. The issue of trust is of great significance also when dealing with telephone interviews. It may be tempting to use telephone interviews instead of face-to-face interviews due to better access to respondents, faster speed and lower cost (Saunders et al., 2003). The issue of access can be especially important when trying to arrange interviews with higher level managers and sales representatives who may be travelling around a considerable amount of their working time. However, as mentioned before, the issue of trust should not be overlooked, so telephone interviews are more suitable for follow-up contacts with companies when trust and confidence are already established, especially for short interviews clarifying the meaning of previously collected data (Saunders et al., 2003).

In order to collect information to the empirical study in this thesis a total of 7 interviews were conducted during the period from March to May 2009. The interviews involved three third party logistics service providers: Bring Logistics Solutions, Aditro Logistics and Schenker Logistics. Personal face-to-face interviews were the primary type of interview used. The reason was that we wanted to establish trust and openness with the interviewees and let them develop their ideas and thoughts during the interviews. In two cases we interviewed two people at the same time which was the preference of the interviewed persons and not by us. However, as our case was each particular company, not each particular person, such arrangements gave a base for better data reliability as it minimized the possibility that incorrect information was provided by the interviewees. One telephone interview was used as a second interview within Schenker Logistics AB, as a face-to-face
Methodology

interview with the respondent holding position with significant interest in a context of our study, was hindered by distance due to the respondent’s placement in Gothenburg. Several follow up telephone interviews were conducted. All the interviews carried out were tape-recorded and transcribed, as suggested by Bryman and Bell (2007). One reason is to simplify the exactness of the interview and what is said by whom. Important information may be lost and forgotten if a tape-recorder is not used during an interview. The use of a tape-recorder may also disconcert the respondents’ answers since they become aware of the fact that their words are preserved. A request for the interview to be tape-recorded should be done by interviewers before the interview begins (Bryman & Bell, 2007). None of the respondents being interviewed in this master thesis refused to be tape-recorded.

Interview guides are commonly used in semi-structured interviews (Welman, Kruger and Mitchell, 2005). Such a guide involves a list of topics and aspects to be raised during the interview. This means that some particular question may be used in the interview depending on who the respondent is and on his/her knowledge in the researched area. Depending on the way in which the interview evolves, the order of the questions might vary at the same time as additional questions may be required to explore the research questions (Welman et al., 2005). In this thesis, the authors have formulated an interview guide with specific questions to ask to the respondents during the interview. The questions in the interview guide are included in Appendix 1. A semi-structured interview allows the interviewer to use probes to clarify vague responses and to ask for elaboration of incomplete answers (Welman et al., 2005). This was used in interviews made by us. Additional questions were also asked because of certain exploratory features in our study. The list of questions, presented in Appendix 1, is therefore not exhaustive but provides overview of the structure of the interviews made in connection with this study.

Welman et al. (2005) points out the importance of the language used during the interview. The language should be simple and understandable, particularly when certain terminology and concepts are used. When conducting the interview, we noticed some difference in the respondents’ interpretation of the term “value-added service” and those differences were taken into consideration when analysing the gathered data. Swedish language was used in interviews conducted by us with the exception of one case when the interview was conducted in English. The reason for that was that although it seemed appropriate to conduct interviews in the same language in which the thesis is written (i.e., English), the richness and depth of the data gathered in the interview conducted in English was not satisfactory and consequently it was decided to carry out the following interviews in the interviewees native language, i.e., Swedish and to afterwards translate the interview answers.

Welman et al. (2005) furthermore highlight the questioning technique of the interviewer by pointing out that leading or directed manner questions should not be asked since it pressures the respondents to answer in one particular way or even to provide the answers that the respondents thinks the interviewer wants him/her to answer. Interviews are conducted under a time limit and reasonable time should be given for each question without going off the topic.

3.7 Secondary Data

Secondary data is data that already exist, may easily be obtained and has historical value. The data is considered overall to be useful when establishing comparisons and evaluating data (Thietart, 2001). Secondary data is divided into internal and external secondary data. Internal secondary data is data that has already been produced by organisations and private
individuals and gathered to constitute a veritable data source. External secondary data are studies that have been published or are in the process of being published within the studied research area and is indispensable to the spread of the specific knowledge and evolution of the research (Thietart, 2001). Moreover, secondary data has been developed to help to solve the problem in hand and should therefore be relevant, accurate and available (Fay, 2001). Looking at secondary data is useful not only to find information but also to better understand and explain the research problem. Examples of information being viewed include books, journal articles, online data sources and webpage’s of firms (Ghauri & Gronhaug, 2005). In this thesis, internal secondary data has been collected through Aditro Logistics, Bring Logistics Solutions and Schenker Logistics AB webpages’ and other received internal documents from the companies. Moreover, the authors have been able to listen to two interviews that have been carried out as part of a bigger research conducted by Mr. Lianguang Cui, Ph.D. candidate at the Centre of Logistics and Supply Chain Management at Jönköping International Business School. The two interviews are viewed as secondary data in this thesis and used as part of the empirical research. Secondary data can be helpful although Ghauri and Gronhaug (2005) emphasise the importance of being critical and questioning the reliability of the information. One of the main disadvantages is that such data is collected for another study and may therefore be non-objective (Ghauri and Gronhaug, 2005). One problem with the interviews used as secondary data in our case was that one of the interviews was already one year old and as situations in the business world change fairly quickly, we needed to critically evaluate the data before using it in our study. There are several advantages to using secondary data. Fay (2001) argues that such data can provide the researcher with a broader view of the study context and vital background information. The first and foremost advantage of utilizing secondary data is saving in time and money (Ghauri and Gronhaug, 2005).

### 3.8 Literature Study

In order to gain knowledge of the research area we have reviewed the existing literature within the field of the relevant topic of the thesis. According to Bryman and Bell (2007) the literature review is a crucial part of a postgraduate thesis since it provides the basis on justifying the research questions and building the research design. Bryman and Bell (2007) furthermore state that the purpose is to explore the existing literature in order to identify what is already known in the area, what theories are relevant, what research methods and research strategies have been employed, identify if there are any controversies and lastly if there are any unanswered research questions in the area (Bryman & Bell, 2007). We have reviewed literature published in several different journals and books within the supply chain management, third party logistics providers and logistics and service management in general.

The literature study for this master thesis has been conducted by personally visiting the supply chain management/logistics and service management book shelves at Jönköping University library and manually looking through the indexes and contents of books in a search for relevant material. Moreover, in order to find relevant books, a search was conducted at the Jönköping University library catalogue, Julia and at Libris, the Swedish national union catalogue containing books of all Swedish university and special libraries. Furthermore, the literature study was done with the help of e-journals and other electronic search engines available at the library. This included access to multiple journals published in various electronic databases such as Business Source Premier, Web of Science, JSTOR, Scopus, ABI/Inform, Emerald and Elsevier Science Direct. Further, an overall literature search was conducted on Google Scholar and Google in order to gather information.
available on different Internet sources. While conducting the literature review, a series of relevant keywords were used. The keywords highlighted in the literature study are “third party logistics provider”, “logistics service provider”, “value-added service”, “supplementary service”, “innovation” and “service development”. The search provided an interesting broadening of the topic. The result from the different electronic databases identified between 40-480 articles, depending on which keywords where highlighted together. From this search several articles were identified as relevant for the thesis while others were eliminated since they were not related to the area of research. The several different articles and books from academic researchers were found in an early stage of the literature review. To be able to expand the literature review, the reference list of the articles that were found in the first stage of the literature review was used to conduct a deepened and more narrow search of the relevant authors and publications written within the research topic.

Theory about value-added services in the TPL context appeared to be rather fragmented and the lack of one single accepted definition was noticed. This in turn necessitated clarification of the term “value-added service” and its place in TPL service offering as a part of our study. One serious problem related to the literature study arose from the fact that there have been quite a few previous studies about innovation in logistics. This fact has apparently been noticed by a number of researchers, which has led to the new studies in the area. Unfortunately, some of the studies have been published after the beginning of our research project, from which one study of crucial importance (Wallenburg, 2009) was published only in April, 2009 when we had already almost finished the empirical part of our study. As it did not seem appropriate to ignore a study of significant importance to our research area, it was included in our theoretical framework and used in data analysis. However, it must be noted that this study for obvious reasons has not influenced gathering of our empirical data.

3.9 Sampling

Kumar (1999, p.148) defines sampling as “the process of selecting a few (a sample) from a bigger group (the sampling population) to become the basis for estimating or predicting a fact, situation or outcome regarding the bigger group.” According to Merriam (1998) in a qualitative research the sample selection is usually non-random, small and purposeful as opposed to a larger, more random sampling in a quantitative research. Kumar (1999) distinguishes between two sampling types. One is random/probability sampling where probability for each sample element to be chosen is the same (i.e., equal) and independent (the choice of one element is not dependent on the choice of the other element). The second sampling type is non-random/non-probability sampling which is used when it is not possible to specify probability that any case will be included in the selected sample (Saunders et al., 2003). Non-random sampling is characterized by the fact that a sample is not chosen at random, i.e., it can be chosen deliberately based on a certain set of desirable characteristics. In this thesis we use two non-random sampling methods, judgemental or purposive sampling and snowball sampling. Judgemental sampling involves selecting cases which by the judgement of researcher can be the best to provide information necessary to meet the research objectives (Saunders et al., 2003, Kumar, 1999). Snowball sampling is used when contacts with the members of the sampling population are not easy to obtain. For this method only a few initial contacts are necessary. Initial contacts are asked to identify other possible persons to contact. New contact persons are then asked to identify other possible sample members and so on (Saunders et al., 2003, Kumar, 1999).
In our study we are using judgemental sampling to choose the best possible organizations for our study. The main criteria when selecting TPL firms was the eagerness to expand for one of them (Bring Logistics Solutions) and the well known position on the market for the other two (Aditro Logistics and Schenker Logistics). The three companies chosen have different characteristics to facilitate wider industry overview but at the same time they are not specialized in any specific area, which is the case with companies like Posten AB (with its main business in postal service) or Green Cargo (specializing in railway transportation). This is to make comparing of the data easier and to avoid that some of the data are related to the area of the companies’ specialization and therefore not applicable to the TPL business in general. The willingness of the company to participate in the study was also vital as that is one of the most important prerequisites to obtain rich and relevant data for the analysis. When choosing suitable interviewees for our study, judgemental sampling was used to choose initial contact in the company by contacting persons with the most appropriate positions in the company. Further on the snowball method was used and the interviewed persons were asked to suggest other suitable interviewees for our study.

One obstacle that we faced during the research process was the difficulty to find an appropriate initial contact person. Several telephone calls had to be made in order to find the person suitable with the knowledge and information in the area of our research context. A second obstacle was to make the identified persons willing to participate and take the time to be interviewed by us. Many potential candidates declined to be interviewed due to their high workload and taking into consideration the situation on the market for TPL firms due to the economical crisis.

3.10 Data Analysis

In the thesis, a qualitative data analysis is made consisting of both primary and secondary data analysing. Interpretation of the gathered qualitative data is considered to be part of the analysis and one of the last steps of the research process. According to Lundahl and Skäravad (1999) analysis consists of compiling data in form of empirical findings and analysing the findings together with the existing theory. The data used in the empirical study was gathered through several interviews and also by using secondary data. The findings are presented in Chapter 4 in this thesis. In the analysis, presented in Chapter 5, we have connected the theory in the frame of reference with the findings stated in the empirical study.

According to Saunders et al. (2000) there is no standardised approach to analyse qualitative data. There are a variety of different research approaches and a variety of different strategies to deal with the collected data. One way to analyse data is to use the transcript notes from the conducted interviews. However, there is a need to transform the data making it easier to manage it and to be able to draw conclusions. Categorisation is one way to re-arrange the data into labels. This activity involves classifying data into meaningful categories. These categories are identified with the help of the purpose and the research questions (Saunders et al., 2000). Strauss and Corbin (1998, cited in Saunders et al., 2000) state that there are three main sources of names for these categories: terms emerging from data, terms used by interview respondents or terms used in the theory. The created categories need to form a consistent group to make a well-structured framework which can be used in an analysis. After that gathered data (or more precisely “bits” of data called “units”) is placed in created categories (Saunders et al., 2000). In this thesis the main categories for data analysis were created from the research questions. After that data was divided into sub-categories using terms emerging from the data as category names. This
division in categories was used also when writing down the results of our analysis in our analysis chapter. However, only the names of the main categories (somewhat merged) were preserved as headings in the analysis chapter since using also sub-category names as sub-headings would have made the text more fragmented and difficult to read.

While analysing the collected data, we attempted to find similarities and differences between the theory and the empirical material with reference to the purpose and the stated research questions. Throughout the whole analysis we have gone back to the empirical material and the theory to be able to analyse the parts relevant for our research questions.

3.11 Reliability and Validity

The issue of reliability and validity is important for the objectivity and credibility of the research (Peräkylä, 2006). Kirk and Miller (1986, p. 20, cited in Peräkylä, 2006) define reliability as “the degree to which the finding is dependent of accidental circumstances of research”. The reliability describes whether the researcher would expect to obtain the same finding if he or she tried again in the same way (Peräkylä, 2006). Kumar (1999) describe reliability as the ability of an instrument to produce consistent measurement. The instrument is considered to be reliable if the same set of information is collected more than once by using the same instrument under the same or similar conditions getting the same and similar result. According to Silverman (2001, p. 227-8, cited in Peräkylä, 2006) reliability is closely related to assuring the quality of recordings and transcriptions and the reliability of the analytic research. The reliability issue when dealing with data gathered through interviews are closely connected with bias. Saunders et al. (2003) mention several forms of bias which can influence the quality of the data. Interviewer bias means certain behaviour from the side of the interviewer which can influence received answers. Interviewee or response bias involves unwillingness of the interviewee to disclose some information which in turn can result in incomplete picture about the research topic. Bias can occur also from improperly done sampling (Saunders et al., 2003). In this thesis we tried to minimize interviewee bias by choosing for our study companies which were willing to participate in it and therefore comparatively willing to disclose information. Interviewer bias was minimized by trying to behave as neutral as possible by us and to give the time for interviewees to answer the question uninterrupted.

Several factors affect the reliability of a qualitative research; the wording of questions, the physical settings, the respondent mood, the nature of interaction and the regression of the instrument. The wording of questions and statements can affect the reliability since the respondents may interpret the questions differently at different times which may result in different responses. The physical setting refers to the change in the settings at the time of the repeat interview which may affect the responses and the overall reliability. The mood of the respondents when responding to the questions may also affect the reliability. Furthermore, the interaction between the interviewer and the interviewee can affect the responses and the respondent’s attitude towards an issue may affect the reliability (Kumar, 1999). For each company included in our study more than one person was interviewed and therefore the possibility that a respondent’s personality, mood or specific interpretation of the questions had a significant influence on the gathered data was reduced. However, it should be still noted that answers of each individual respondent cited in this thesis possibly is not always in full accordance to the official opinion of the company they represent. It may be difficult to ensure full reliability since both questions and answers can be interpreted differently depending on which positions the respondents have in the company, level of experience and background. To lower the risk of misunderstanding the
respondents’ answers on the questions given to them, each interview was electronically recorded. The interviews were later transcribed and compiled into the empirical study. The compiled material was sent back to the respondents in order to give each the opportunity to correct the information if something was misunderstood or misinterpreted by us.

The validity concerns the interpretation of observation. According to Peräkylä (2006) it is whether the researcher is calling what is measured by the right name or not. Cooper & Schindler (2000, p. 210) define validity as “the extent to which a test measure what we actually wish to measure” which is in contrast to reliability which has more to do with the accuracy and precision of the measurement procedure. Many forms of validity are mentioned in the literature. Two major forms are internal and external validity. The meaning of external validity is the ability to generalize data across persons, settings and time (Cooper & Schindler, 2000). Internal validity instead deals with how research findings fit with the reality. Reality, in a qualitative research is assumed to be holistic, multidimensional and changing which is not the case in quantitative research where the objective phenomenon is fixed and waiting to be discovered, observed and measured (Merriam, 1998). Cooper and Schindler (2000) mention a third type of validity, construct validity. This validity attempts to establish the right operational measuring instrument for the studied concept (Cooper & Schindler, 2000; Yin, 1984). In other words the construct validity attempts to identify the underlying measured construct to determine how well the experiment corresponds to it.

We have tried to ensure internal validity of the data by carefully studying the literature and gathering extensive information about the logistics service providers and their business to be able to construct our study in the correct way to capture the meaning and substance of our research subject. However, external validity of the data in the wider meaning, i.e., the possibility to generalize our conclusions to other places in the world in other periods of time is very much dependent on the differences between TPL in different countries and the changes in the TPL business over the time.
4 Empirical Study

The following chapter presents the findings from the empirical study. The empirical findings are a result of the conducted interview with the companies and a summary of the respondents' answers. The findings from the three target companies are each presented in separate sections. We start with general information about each company and continue with discussing the company's operations and the company's development of value-added services. We end up each section by presenting driving forces and barriers for development and for providing value-added services.

4.1 Overview of Empirical Material

For our empirical study, mainly interviews and unpublished presentation material provided by our target companies were used. A list of our interview respondents can be found in Appendix 2.

The structure for empirical data presentation is the same for all three companies. It should be noted, however, that Aditro Logistics was studied deeper than the other two target companies in order to give more detailed background about TPL firm’s business characteristics which is necessary to facilitate proper understanding of value-added service phenomenon in TPL context. The result of the deeper study made in the case of Aditro Logistics is still presented in the same way as results for other two case studies, as the difference was mainly in the depth of the study, not in its scope.

4.2 Bring Logistics Solutions

4.2.1 General Company Information

Bring group is rather new, founded in year 2008 and owned by the Norwegian Post. The Bring group was formed mainly through acquiring of companies which were good at doing things they were specialized in and then placing them all under the name Bring. Bring group has a relatively complex structure consisting of six units each focusing on their own competence area: Bring Citymail, Bring Dialogue, Bring Express, Bring Frigoscandia, Bring Logistics and Bring Mail. Every unit in Bring is quite independent. Only some things like work clothes and environment goals are managed centrally otherwise the management of the different units are done locally by actors at the different units.

Bring Logistics is a part of the Bring group specialising in logistics and provides services in transportation and warehousing. Bring Logistics consist of such companies as Nor-Cargo, Transflex, Scanex, Box Solutions, Nettlast and a part of Norwegian Post responsible for distribution of parcels. Bring Logistics is represented in Sweden, Norway, Denmark and the Netherlands with around 2000 employees (Bring Logistics, 2009). The part in Bring Logistics responsible for third-party logistics activities is called Bring Logistics Solutions. Bring Logistics Solutions (further on in this paper referred to as Bring) has two warehouses in Sweden, located in Jönköping and Bjuv in Southern part of Sweden. The warehouse in Jönköping has a capacity of 10 000 square meters with 25 people working there while the warehouse in Bjuv has around 15 000 square meters of capacity. Since the Bring group is undergoing reorganization, there are three more warehouses located in Gothenburg, Stockholm and Örebro which are owned by Bring Express, as well as some people are employed by Bring Express although they are working for Bring Logistics Solutions. This situation is going to change after reorganization when all TPL activities are going to be managed by Bring Logistics Solutions. In this thesis, Bring's business in the whole of Sweden is taken into consideration, but the emphasis is put on Jönköping where the
interview of Bring’s personnel took place. Bring Logistics wants to grow to become one of the biggest logistics companies in Sweden. By now, however, Bring faces marketing problem of still being a relatively unknown player in the third-party logistics market. Customers tend to contact bigger market players such as Schenker Logistics, DHL and Aditro Logistics because they have not heard about Bring. Bring is however eager to change the situation in the future. The company provides the same TPL services as their competitors, but they consider themselves more flexible and more willing to adapt their services to their customer’s needs. The fact that Bring’s customers are not forced to adapt to Bring but can get exactly that they want, is considered as a competitive advantage for Bring. The company often works with smaller customers and thus has to be more innovative in saving costs because small customers are sensitive even to the minor sums of money. Bring hopes that their customers will grow in the future. Bring, however, does not always put forward its cheapest offering but the concept presented by them can be better than competitors and can offer savings in the long term, and because of that it can be that customers still choose Bring.

4.2.2 Company Operations

Bring has customers in the food and drink sector in their warehouse in Bjuv. In Jönköping they are planning to attract customers who need fast transport and short lead time, for example, for spare parts or electronics. The reason behind this is that Bring shares premises and as a result cooperates with another company in Bring group, PNL, which Bring considers one of the best transportation solutions providers in the North Europe concerning smaller transportation solutions/parcels. Bring already has one spare part customer for whom an innovative solution is offered; necessary spare parts are delivered directly into customer’s technicians cars, so that customer’s employees can just start a car in the morning and drive away to do a job with all needed spare parts already in place in the car.

Short term warehousing is a core of Bring’s business. Transport can be contracted on behalf of their clients. Bring considers smart picking as the thing that they do the best. Value-added service is explained by Bring in a following way:

“Our basic services are something that everybody does. Value-added service is to increase value of the goods; it is a service that is increasing value for the customer.” (Peter Thulin, personal communication, 2009-05-11)

The company is keen to provide different kinds of value-added services. Bring sees value-added services as a source of income and they are very positive towards value-added services.

“...value-added services are great for us, it is a growing segment, more and more companies wants us to do finishing things like putting together the scrubbing brush with the right bucket, put them in a pallet, put plastic around it, make it nice and deliver it directly to the customer.” (Peter Thulin, personal communication 2009-03-24).

Bring provides, for example, value-added services for a customer who has products like glasses, sunglasses, frames for glasses etc. For that specific customer, Bring sets price tags and etiquettes on glasses, varying according to different customers’ customers. For other customers, Bring unpacks goods and sets barcodes on them. For customers within the clothing branch, clothe sets consisting of different pieces are put together. One interesting service is provided by Bring’s Norwegian subsidiary where the company employs a
Empirical Study

seamstress who repairs work clothes for one of Bring’s customers. Bring, however, does not have any value-added services that they are advertising as their speciality.

Bring sees quality expectations in value-added services even higher than in basic services. In a case of basic service when Bring picks 1000 different articles, they have to pick 997 right and only 3 articles can be wrongly picked by staff. This is the guarantee that Bring leaves their customers in the agreement. In a case of value-added services, the number of the articles in question can be lower which consequently can lead to lower tolerance from the customers. Nevertheless it is seldom that Bring writes an agreement only on quality guarantee when temporary value-added services are concerned. Bring is not interested to lower quality to be able to lower the price, as this can result in spoiling their image as the company offering high quality service. The main victim of lower service quality can be the customers’ customer who can possibly not be informed that customer has paid less to Bring and thus will perceive a low quality as a fault of Bring. Good word-of-mouth is very important for Bring.

Contracts with clients are approximately between 3 to 5 years long and the relationships with clients can be regarded almost as partnerships. Bring work closely together with their clients all the time, helps them to develop and be better and the clients help Bring to achieve a good performance level by providing Bring with as many beneficial conditions as possible. There is a very close dialog. Bring helps their customers with suggestions on how to do things better and for example, remind them, if there are certain pallets that are stored for too long a time. This is to make sure that the storage costs do not exceed the value of the goods. Bring sees it as their job to minimize customer’s logistics costs. They have close communication with their customers through meetings that are held every week or every second week. Follow-up meetings are held as a minimum once per month to analyze what has happened and which mistakes have occurred. If, for example, a mistake originates from the fact that two products look almost the same Bring can ask the customer to change the color of the packaging to avoid mixing-up. By doing so the customer helps both Bring and itself. If the customer helps Bring to develop, so that Bring can spend less time on the operations required by the customer, Bring can profit from savings instead of increasing the price to ensure sufficient profit margin.

4.2.3 Development of Value-Added Services

Bring consider themselves to be an innovative company. The company’s official motto is “Finding new ways”. Bring try to provide all services that their customers want to have; offerings of the company are boundless in such extent. Innovation in a form of an idea for a new value-added service or improvement of such a service can come from both Bring and their customers. Many customers know in advance what job they want Bring to perform but it is also possible to observe the things that a customer possibly could need under meetings between the companies and then provide appropriate solutions. It happens pretty often that customers have not even thought about the existence of such solutions.

“When we have a meeting with the customer the supervisor who is responsible for the assignment is participating and he knows the products well, he knows how to work with the products and therefore he is a valuable resource.” (Peter Thulin & Mattias Danielsson, personal communication, 2009-03-24).

Bring does not have any research and development department. Ideas on how to improve a value-added service and do things better often comes from Bring’s own personnel, “their experience, their fantasy to find new solutions” (Peter Thulin & Mattias Danielsson, personal communication, 2009-03-24). In particular people who directly work with the customer’s
products can come up with ideas. According to Peter Thulin (personal communication, 2009-03-24) “it can be considered strange because employees receive the same payment for all kinds of job but they can find things which make things easier and faster.”

As Bring wants their solutions to perfectly match the customer’s needs, they consider it as difficult to find a solution which fits all of the customers. Customers and their needs tend to be quite different. Involvement of the customer in the development and improvement process often solely depends on the desire of the particular customer. The more a customer can participate in the development phase, the better it is. There are many possible variants. According to Bring, they can do all from the beginning to the end and then inform the customer about what they have come up with, but it can also be a joint project with the customer.

Bring argues that they develop their customers. They help their customers to find new successful solutions and eliminate mistakes and that makes their relationships with their customers and especially customers’ logistics managers better and closer, which can even compensate higher price, particularly if improvements lead to monetary savings. Value-added services can be one kind of such improvements.

4.2.4 Driving Forces and Barriers for Value-Added Services

There are several driving forces behind Bring’s willingness to provide value-added services. Bring is especially eager to provide such value-added services that help them to plan their workforce usage better. One example could be preparing 300 display stands in one month time. In such a case Bring can assign workforce to it when workers are not busy with other more urgent tasks. From an economical perspective, for many of the services Bring receives payment for hours – they receive payment for the time it takes to provide service, which makes it very safe economically. Furthermore Bring believes that their flexibility and value-added services make the company more attractive to customers. The more services Bring provides to their customers, the closer the relationship between Bring and the customer is, which is seen as a positive factum. Another driving force could be the customers’ unwillingness to do too much themselves and that can be the reason why customer chooses to pay TPL for value-added services.

Looking at Bring from a TPL company perspective, it is not possible to see many barriers for providing value-added services. Bring has never said “no” to the customer because of too specific requirements from customer’s side. However, it has happened that the company has said “no” to one customer which was too large. The reason was that too big investments were necessary and there is always the risk of losing the customer after the end of 3-5 years long contract. Bring can also imagine saying “no” if they cannot get all the necessary information from the customer, which leads to too big uncertainty.

4.3 Schenker Logistics

4.3.1 General Company Information

The Schenker Group has global operations in 150 countries around the world and totally more than 50 000 employees. Schenker Group was founded more than 100 years ago in Austria and is today owned by Deutsche Bahn and is one of the world’s leading integrated logistics service providers and part of a worldwide logistic network. The Schenker Group AB in Sweden consists of more than 3 000 employees divided into different management units such as Consulting, Dedicated Services, Logistics and Privpak. Schenker Logistics AB is a part of the Schenker Group AB in Sweden, specializing in services within third-party
Empirical Study

logistics. Schenker Logistics in each country is operating independently on a daily basis, although being part of the global Schenker Group gives Schenker Logistics access to a global network within transportation and logistics. The company has more than 400 employees and logistics activities in three locations in Sweden: Stockholm, Gothenburg and Jönköping (Schenker Logistics, 2009a). The total warehousing space in Sweden is 130 000 square meters.

In this thesis Schenker Logistics AB (further on referred to as Schenker) activities in Sweden are studied with an emphasis on the Logistics centre in Nässjö in Jönköping’s region at whose operations we have had the possibility to take a closer look at. Schenker has a warehouse in Nässjö with a capacity of 40 000 square meters with around 70 employees. Schenker offers advanced, integrated and complete logistics solutions for customers on the Scandinavian market with the purpose to create value for their customers. The main aim is to ensure lowest total cost for the customers by reducing the number of links in the logistics chain while ensuring the right service level for the customers and continuous development. To be able to provide the right service level and lowest total cost, Schenker focuses on close relationships with their customers and continuous development of the customers’ logistics processes and structure. Schenker offers integrated logistics solutions in consumer, retail, fashion, automotive and technology industry and health care specific area. The reason why Schenker has chosen to offer logistics solution in this specific area is that they have worked many years with industry leaders in the specific area and therefore gained experience in these concepts. Logistics solutions require detailed knowledge of customers’ needs and logistics processes (Schenker Logistics, 2009b). The company’s competitors are firstly the customers themselves, especially those customers that have in-sourced the handling of goods and have the capacity to store the goods themselves. Secondly, the competitors are other big market players such as DHL, Kühne & Nagel and Posten Logistic. Schenker considers themselves to have competitive advantage in form of competence to design logistics solutions, logistics development and by having an IT system that is adapted to third party logistics service providers. Lastly, they consider their strategic location at three places in Sweden to be a competitive advantage.

4.3.2 Company Operations

Schenker in Nässjö handles around 20 different customers for whom they perform a variety of logistics services including both basic logistic services and value-added services. The company is focusing its activities on offering logistics services within retail, consumer and electronic logistics. The Schenker Group have historically focused on these three concepts and Schenker in Nässjö has customers, located in nearby geographical area operating within this business. Some examples of service offered at Schenker in Nässjö are warehousing, distribution, custom clearance, recycling, recondition, purchasing, inventory management, quality control, repair and return administration. Schenker sees those services as the speciality of the company. Storage, picking and packaging are considered to be the core activities for Schenker. Distribution can be in some extent also viewed as a core activity of the company. These types of services are perceived by them to be the basic services that give rise to other services such as value-added services. Schenker consider the term value-added service to be an additional service to the logistic solution. They interpret it as something which is added into the ordinary service and can include many different services.
“...a value-added service does not normally go under the ordinary service; it can be a repackaging that was not included in the beginning but was additional added or a montage of a product or test of a program...” (Arnold Svensson, personal communication, 2009-04-29).

“...a value-added service is not included in the normal task; value-added service gives value to the customers after what they consider to be value for them...” (David Hoffmann, personal communication, 2009-05-11).

In Nässjö, Schenker performs a wide range of services which by them is perceived as value-added services. For one customer Schenker handles electricity meters which includes both helping the specific customer with sales, return of the products and quality ensuring. For another customer Schenker handles modems, phones and digital boxes. For this customer they perform value-added services, including repackaging, repair, quality ensuring and reconditioning which in turn can include recycling of returned used equipment and databases where the customer can do follow up. Schenker has one customer within the oil sector for whom they store the oil in cans before distributing it in smaller cans to petrol stations and smaller workshops. If Schenker is transporting goods for a customer and the customer asks Schenker to carry the goods inside into the customer’s building, then this extra service is interpreted as a value-added service from Schenker’s point of view. At the same time the customer can interpret this value-added service as a basic service from their point of view. Hence, Schenker consider the concept value-added service to be interpreted differently depending on who is asked, the customers or Schenker.

Type of service, their volume and structure that Schenker has provided over the years has changed due to the development of the company and the changing demand from customers and customers’ customers. To remain competitive on the market Schenker has to adapt their value-added service to meet customers’ demands and needs. Therefore, the term value-added service is interpreted by Schenker as changing over time.

“...it is possible to question if cross-docking, labelling and repair is a value-added service or if it is a basic service. It changes over the years. Cross-docking was not popular some years ago but is that now. One service can be classified as value-added service but later on changed to be classified as basic service...” (Arnold Svensson, personal communication, 2009-04-29).

One example of value-added service that Schenker previously offered but has since cancelled is charging of batteries with acid. Schenker stopped providing this service due to economical reasons. The customer was not willing to pay more for the provided service and the earning capacity was not positive enough for Schenker to continue providing it. Quality ensuring and control is a type of value-added service that Schenker has noticed a decrease in. According to Schenker in Nässjö more customers buy items according to a specific standard and use them according to it. Nowadays, more responsibility is also given to the manufacturer regarding the quality ensuring.

Schenker in Nässjö has 1-5 year contracts with their customers. They have a close dialogue, which they assume is a basic condition for an outsourcing agreement to work out. Schenker has regular meetings with their customers. With their bigger customers they have daily contacts. Operations meetings are held from once a month up to once each three months. The company tries to meet the customers physically twice a year at the follow up meetings where they discuss performance statistics. If it is a totally new customer, Schenker’s solution design team in Gothenburg will be responsible for the customer. If it involves a customer that already has service provided by Schenker then the regional location will be responsible for the customer. Before establishing a new customer there is a lot of activities that go on and a lot of people involved, from IT department to transport
Empirical Study

and operational department regarding how day-to-day activities are going to be handled. When Schenker start up business with a customer they work in so called implementation project that after a while, when the customer is established in the terminal, is turned into so called development and improvement project or forum. It takes around 3-6 months from the actual offer to having the customer at the terminal depending on how complex the performed service will be, how much time is available and in which speed the customer wants to proceed in. Some types of inquiries from customers are very well worked through, including both quotations and details stating what service the customer wants Schenker to perform. Some customers know in advance what type of value-added services that Schenker offers while others know less. In some cases a logistics consultant has been involved before the customer contacts Schenker. If Schenker notices that some kind of value-added service is considered necessary but is not included in customer’s inquiry they will mention it to the customer.

4.3.3 Development of Value-Added Services

The tasks that Schenker perform for their customers are not static. Often when a task is started with a customer the parties agree that re-packaging should be done in a certain way. After a while the parties discover that the service can be done in another way, in a smarter way. Therefore, Schenker considers improvement and development of value-added service to be a constant process. Sometimes the customer needs a value-added service already at the beginning of the relationship and therefore the service will already be added at the first stage of the relationship. Sometimes the service is included after a while when the customer’s products have been established at the terminal and the parties can look back and evaluate which changes are needed. At the first stage there may be a lack of knowledge of customer’s products and lack of time to add a value-added service already at the beginning. It can be said that Schenker offers some kind of packages with included services. In the agreement the parties agree upon the overall service included and an hour tariff is included for value-added services. Schenker wants to know the prerequisite for the kind of value-added service the customer wants them to perform, since it can be a wide range of different services, consisting of both big and small orders. Schenker’s warehouse in Nässjö has a big capacity and a certain size of the services included in the tasks is therefore presumed. Certain economic profitability has to exist to be able to have the customer in Nässjö and for that reason it has happened that they have said “no” to small customers. Although, Schenker looks at the overall picture and takes into consideration the potential of the customer to grow in the future and expanding the services. Schenker also takes into consideration whether or not other parts of the Schenker group are working with the particular customer. In light of the economical crisis and the situation on the market today, they are more open to small customers and their requests.

Schenker estimates that approximately 60% of all value-added service starts as a request out of a specific need that the customer has. The customer has a need and communicates with Schenker about it. Development and improvement of a value-added service may be seen as emerging out of a problem solving.

“Sometimes the customer doesn’t ask for a value-added service but for us to solve a problem…” (Arnold Svensson, personal communication, 2009-04-29).

The customer may ask for a service that Schenker does not offer, eventually evolving into a value-added service customized for the particular customer. By having a close cooperation with the customers, the value-added services seem to evolve. Much of the improvement and the development of a value added service happen through a constant dialogue with
their customers and the ability to understand their needs. Our interviewed person had the following answer on how value-added services are developed:

“It’s hard to say in general how a value-added service is developed, but a lot has to do to understand the customers, what we can do to minimize the work for the customer’s customer. I think it has a lot to do about understanding our end customer’s needs…” (David Hoffmann, personal communication, 2009-05-11).

Schenker does not say “no” to a customer that wants to change the outlay of how a service is performed, although they inform the customers about potential negative consequences that can follow as a result of the change. Schenker admits that they themselves are not so innovative:

“…we are not so active in developing value-added services. We want to meet the customer’s demands and wishes [...] we are pretty customer driven. If a customer asks for a service we will take a closer look at it but if they do not ask we do not take that much initiative of our own to do it. It depends on how complex it is. Sometimes we look at the packaging and how it could be improved.” (Arnold Svensson, personal communication, 2009-04-29).

Schenker sees a lot of potential improvement in the development of value-added services. The company has a central research and development department in Gothenburg that is focused on solution design and involved in development of both existing and new service offerings. There is an ongoing dialogue between the departments regarding what services are done for the different customer and how it works. If Schenker in Nässjö has a problem they will ask the solution team in Gothenburg for help and advice. There are several people involved in the process of improving and developing a value-added service. Apart from the central department in Gothenburg, the operation department is involved, and the supervisors of the warehouse. The people working in the warehouses, close to the products are extremely involved in the process and often come up with the ideas of improvement. The personnel can raise questions if something should be changed or done in a different way.

“…Often the people who physically handle the work catch the ideas at operational level. Or either it comes through the development forums that we have both together with our customers and so called internal development forums…” (David Hoffmann, personal communication, 2009-05-11).

The personnel that work closely with the customer’s products have the knowledge about the existing processes, the products, how the products should be handled and what kind of additional value-added service is possible to provide.

Schenker sees the potential of providing more value-added services but they also see the trend toward less customized and more standardize value-added services.

“…sometimes it is questionable if the customer really needs so advanced specific service. Is it really necessary to do it in this way? What value does it create for you…” (Arnold Svensson, personal communication, 2009-04-29).

Too unique value-added services are more complicated to provide and increase the cost for both Schenker and its customers. In the end someone has to pay for it. “Why do it if there is not a customer that in the end is willing to pay for it! If the extra value isn’t created then it’s no idea to do it.” (Arnold Svensson, personal communication, 2009-04-29). Schenker are not willing to say “no” to a customer because it is too customized for them, instead they will try to find solutions to solve the problem. Due to the financial crisis, Schenker has had to cut down
Empirical Study

staff and are now hiring part of their personnel from staffing agencies. At some level Schenker consider that there is a loss of competence. The hired personnel do not always have the competence to do the advanced tasks. That is one reason why Schenker considers some level of standardization in the provided services are a better solution.

4.3.4 Driving Forces and Barriers for Value-Added Services

The driving force for developing value-added services is to meet the customers’ demands but also to make customers feel pleased with the service that Schenker provides. Two other driving forces are growth in profitability and willingness to constantly stay competitive on the market.

A barrier for providing value-added services is the additional need to buy in external services. Schenker thinks twice before providing a service if other subcontractors are involved. There has to be a certain demand for the value-added service in order for Schenker to provide it. When offering a value added service there is a need for personnel who are trained to perform the service and certain equipment is needed. Both people and equipment have to be maintained in order for Schenker to provide the value-added service. Schenker sees it as an advantage to be part of the Schenker group but sometimes they have to adjust to Schenker group and that could possibly be regarded as a barrier for innovation.

4.4 Aditro Logistics

4.4.1 General Company Information

Aditro Logistics is a part of the Aditro Group responsible for third party logistics solutions. Aditro Group is comparatively new, founded in year 2007, and owned by an investment company. The group has about 4,500 employees. The whole group is focused on business processes and outsourcing of business processes. The group is divided into four divisions: Logistics, Human resources, Customer service and Finances. Aditro Group was built as a concept which has proved itself to be very successful in the Southern parts of Europe. Concept was made, taking into consideration the fact that many companies want to concentrate on their core business and buy everything else as a service. In other parts of Europe there was an interest in buying all outsourced services from the same supplier who would be responsible for human resources, finances, logistics and customer service. As it seemed to function well in other places in Europe, a similar concept was supposed to be implemented in Northern Europe in a form of Aditro. This is the reason for Aditro Group having its four divisions which were supposed to work together. The concept, however, did not prove to be successful in Sweden. Customers wanted to outsource one type of service, maybe two but rarely all together. For this reason Customer service has become almost independent now and is owned only by 30% by the Aditro Group. Aditro Logistics is also planning to gain greater independence from Aditro Group and finance and manage their business themselves.

Aditro Logistics (further on referred to in the text as Aditro) is one of the leading third-party logistics providers in Sweden and is aiming to be a major carrier-independent contract business provider in the Nordics. Most of Aditro’s competitors have transportation as their background but Aditro which is carrier-independent sees their independency as their competitive advantage. Aditro’s opinion is that no company can offer all kinds of transportation in all areas at the best price and quality and because of that Aditro is choosing the best transportation solution for every individual case. Aditro Logistics has around 450 employees and a turnover of 85 million Euros. The company’s
warehousing capacity is around 160,000 square meters at 8 terminals in Sweden and 15,000 square meters at 1 terminal in Norway. Aditro in Jönköping has warehousing capacity of 85,000 square meters at two terminals. The first terminal has a capacity of 40,000 square meters and the second terminal has a capacity of 45,000 square meters. Aditro in Borås also has two terminals with a total capacity of 38,000 square meters. Aditro in Falkenberg has one terminal with a capacity of 19,000 square meters and is managed closely together with Aditro in Borås. Other locations where Aditro has warehouses are Umeå in Northern Sweden and Tønsberg in Norway.

Each of Aditro’s sites is a separate company being part of Aditro Logistics. Every site is therefore operating independently concerning daily operations while there is cooperation regarding sales and regular meetings of management group where managing directors from all of the sites participate. Such a structure has been created historically because initially Aditro Logistics was four different family businesses. For instance, Aditro in Jönköping was from the beginning started as a distribution centre for IKEA around 30 years ago. At the end of 1990s it was decided to start an independent company, which was acquired by Aditro Group in 2007. Each unit is rather small and thus to some extent can be regarded as a small or medium size company. However, Aditro as a company still has its common rules and central management unit, therefore in this thesis it is generally regarded as one company. As the members of Aditro’s staff both in Jönköping and Borås were interviewed emphasis in our research is put on these two sites. Where it is necessary the location of the site is mentioned to highlight that provided details are characteristic to that particular Aditro site.

Aditro considers their openness towards their customers as a key strength; information about, which other customers Aditro has, is not concealed from the customers. Customers can visit Aditro warehouses whenever they want and Aditro deems it important to keep their warehouses constantly clean. Since each of the Aditro sites is rather small, it is possible to have closer and more familiar relationships with customers. The decision making time in the company is rather short because of the flat organisation structure. As a weakness, it can be mentioned that Aditro has a very lean organisation and therefore employees sometimes do not have enough time to concentrate on strategic development issues since they are too busy with operational matters.

According to the presentation material from the company, Aditro creates value for their customers through economies of scale, operational excellence, improved and integrated business processes, carrier independence, use of advanced technology and industry knowledge.

4.4.2 Company Operations

Aditro’s core business is storage. Contracting outbound transportation on behalf of clients is also an important part of Aditro’s business. Aditro is not so interested in storing the goods for long periods of time; instead they want customers with a lot of movement of the goods. For outbound flow of goods, Aditro offers their shipping tariffs for their clients and if the clients think that offered tariffs are competitive, they can choose Aditro to ship their goods, otherwise they can distribute their goods themselves. A large percentage of Aditro’s customers, however, choose to accept Aditro’s offer for outbound transport. Aditro can get competitive prices from transportation companies because they have quite a big volume. Besides that it is also easier for Aditro to coordinate their own operations if they are responsible for outbound flow of their clients’ goods than to coordinate activities in cases where clients choose to distribute their goods themselves.
Aditro is focusing their activities on three areas: consumer, retail and industrial logistics. Consumer logistics services are used by e-commerce companies and others who send their goods directly to the consumer. Aditro in Borås historically specializes in this area but Aditro in Jönköping is now also entering the consumer logistics. Retail logistics involves chain stores who have their central distribution from Aditro and companies who supply products to the retailing chains. This is an area of expertise for Aditro in Jönköping who has more of full pallets handling in one of its two terminals while there is more of a small pick for consumer logistics in their second terminal. Aditro in Borås is also active in retail logistics. Industrial logistics has traditionally been performed by Aditro in Umeå for their industrial clients in automotive industry; however, the economic crisis has negatively affected their business. Aditro in Jönköping also has activities in the area of industrial logistics. Industrial logistics involve, for example, sequenced and just-in-time deliveries. These three activity areas of Aditro are very different from each other. In consumer logistics it is a lot of packaging and handling of goods. In retailing, there’s an emphasis on dealing more with full pallets. In industrial logistics it is pre-assembly and delivery directly into the clients’ production system.

Aditro offers a wide range of services which is perceived as value-added services by them. Sales and marketing manager Fredrik Nygren (personal communication, 2009-05-18) expresses his thoughts about value-added services:

“I from my sales person’s perspective see value-added service as a service which increase the value for the customers depending upon what the customers considers to be the value for them. Examples of value added services are custom clearance, repacking and IT services. I think that in the nearest future the services that today are offered as value-added will be more part of a basic offering. I also think that TPL firms will have more of a management role and will help customers to optimize their flow of goods in the future; therefore the competence of the TPL provider in supply chain management will be important. Supply chain management will be a service increasing value for the customer.”

The biggest value-added service for Aditro in Jönköping is building of point-of-sales displays which are used in grocery stores. This value-added service is also performed by Aditro in Falkenberg. Some customer specific services performed by Aditro in Jönköping are mixing paints for one customer according to the provided recipe and filling the end result in the barrels, as well as cleaning and checking baby seats for cars for damages for another customer and putting the label on them indicating that they are checked. Cross-docking is not very popular as a value-added service in Aditro despite its increasing popularity in general. Problems are different lead-times from factories and IT-support necessary to smoothly coordinate the process.

Aditro in Borås offers a service of providing delivery instructions for customer’s suppliers. Such service is necessary because Aditro demands goods to be delivered in a certain way to be able to take care of them in the best possible way. They also offer quality control, as well as adding of price tags to the products and scanning them to see that all functions in the right way. Aditro can send out samples of delivered goods to the shops and headquarters of the customer’s company. They also offer repackaging of different types. For one customer they receive bags packed as Russian dolls (matryoshkas), with the smaller one placed inside the bigger one, to save shipping costs. However, these bags are very rarely sold in that way, therefore Aditro unpacks them for their customer and after that bags are sold mostly each separately or as a set of, for example, two. Building of such sets is also a value-added service for Aditro. Building of series of products is provided as a service to Aditro’s e-commerce customers as well. Aditro sets together, for example, five different films in one package. Such services originate from the fact that to have good logistics,
Empirical Study

goods are usually stored and sold separately and different sets and series are built when there is an actual demand for them. Aditro can also send out different additional materials, like flyers and advertisements together with products. Another service, provided by Aditro in Borås, is to come up with proposals for packaging of their customers’ products, so that packaging is as cheap and as easy to handle as possible. This they are doing together with their packaging supplier which is also located in Borås. For two of their customers Aditro tests modems. If a customer’s customer for some reason or another returns a modem, Aditro tests it so that everything functions and fixes its appearance. The item can be stored in the warehouse and later shipped to another customer.

The company has also quite a lot of IT services, which can be viewed as value-added services or improvements to the existing solution. Customers have wishes to get different reports, new functions or more information. Another service that Aditro in Borås is providing is follow-up information about suppliers and how customers’ suppliers deliver goods. If the goods are not delivered in the right way to Aditro, it costs money for Aditro’s customers. To help their customers Aditro can provide such information as, do the suppliers deliver in the agreed upon time? Are goods damaged? Is something missing from the delivery?

The company can imagine providing customer service as a value-added service, if there is a demand for it. Although customer service is specialisation of another company in Aditro Group, the minimum volumes that Aditro Group’s Customer service division require are in many cases too high for TPL customers’.

Aditro in Jönköping has 1-5 year contracts with their customers while Aditro in Borås has only 1-3 year contracts. As it is noted by Aditro in Borås it is very difficult to get five year contracts since customers often want to be able to negotiate for the best price in the market and from that perspective five years are seen as too long for them. Five or three year contracts are typically made with new customers who require large initial investments but after this contract period runs out contract is usually prolonged by only one year thus three to five year contract becomes one year contract.

Aditro sees that they have very close dialogue with the customer; with some customers they have contacts on a daily basis at least at the beginning of the collaboration. The company tries to physically meet the customer at least four times per year for follow up meetings to discuss the operational work and performance statistics. Aditro would like to have the partnership as a form of relationship between them and their customers but as noted by Aditro in Jönköping it is easier to work closer with the Swedish companies. Aditro in Jönköping had mainly business relationships with Swedish companies before but the situation has changed in the last three years and now they have to deal more with the companies’ headquarters outside Sweden, in, for example, Switzerland, Germany and France. The ways how Swedish and, for example, Swiss company operate are different which is perceived as a barrier for closer relationships.

Aditro in Borås describes their present relationships with their clients as being good at doing their everyday job. However, they are willing to work more proactively with their customers in giving tips to the customer on how to work in a better way. They want to participate in customers’ development and are willing to receive information from them to know which direction customers are moving and what they want Aditro to develop, so that Aditro is well prepared for the customer’s future requirements.
Empirical Study

The work with the client in Aditro is organised through a client manager who “owns” one to five clients depending on their size and is responsible for everyday activities together with the production staff. Aditro tries to have personal contacts with their customers so that the customers always feel that there will be one manager for them if they have any questions. Client managers have everything from weekly to more strategic meetings. Weekly meetings are managed together with production staff and have more operational character, monthly meetings are more strategic, a key account manager or managing director can also be present there. At such monthly meetings it is discussed, in which direction the company is moving, there is more of a proactive component.

Aditro in Borås has recently done restructuring and therefore now has a flat structure. There are 11 persons who report directly to the managing director. Every client manager has a much bigger responsibility for his customer compared to the traditional client manager’s role. Traditionally client responsible works with daily operations while other more significant questions, like, for example, about contract, price and future plans go to the boss. Aditro in Borås wants everybody to be involved and be responsible for the whole process and to be able to discuss strategic matters together with the managing director and economic director while still being responsible for everyday operations.

Aditro has a number of transportation providers with whom they meet with at certain intervals and discuss their activities and customers, to get transport companies’ opinion about things which in Aditro’s opinion do not work properly or about some customer who has come up with some specific demands and then Aditro can also get follow up on transport suppliers’ delivery accuracy. Sometimes Aditro’s customers also participate in such meetings. With other suppliers Aditro has the same form of follow up that they meet periodically.

Aditro has a management group which meets once a month. There are all managing directors from Aditro Logistics units in Umeå, Jönköping, Borås and Norway, together with their chief, Head of logistics, and IT-chief and a couple of more persons with important positions. They look at how things are going at the moment but they also work on matters concerning new customers, development and new services.

4.4.3 Development of Value-Added Services

Operational development at Aditro is to a large extent done at each site. They are responsible for managing the operations, local sales and local business development since they know the business, demand, their customers and they can also meet their customers much faster compared to the persons at the central level.

Adding of a value-added service to the offered service package is often initiated by a customer need, especially at the beginning of the relationship. Customers state that this is their business and these are the needs which derive from their business. They expect TPL firm to provide solutions to their needs. If Aditro refuses, the customer searches for another TPL firm. It can also be Aditro that makes a proposal to the new customer stating that “this is what we are offering”. Part of the services offered by Aditro is on their home page, which they are now reconstructing. Aditro is going to better describe their service offering in the home page in the future. They see a need to think through what they are doing today and what they want to be able to offer tomorrow.

The overall opinion in Aditro is that they can be better in coming up with the new value-added services. They think that they need to communicate with customers in a more active way. Not only about everyday issues but also “What can we do more for you?”. They see
the need to work more proactively with customers and to work more in their management group to come up with value-added services. Difficulty with being proactive is explained by Aditro as partly depending on the fact that to come up with some solution the TPL firm needs to deal with many different people in the customer’s organisation, not only logistics people, and there is not one specific person in the customer’s organisation which is responsible for the whole process in full. As the current situation of being proactive is explained by Sales and marketing manager Fredrik Nygren (personal communication, 2008-10-20):

“We can see the historical data. We can act based on that but we are not looking into the market or into the future. [...] The logistics people normally have a background of “doing” more than “thinking”. [...] The clients normally know their business the best and it is not very easy for us to be proactive from a logistics point of view since logistics managers are not normally represented in top management. They are not the ones with most of the power.”

Leif Dahlstrand (personal communication, 2009-05-04) adds:

“Customers are very market oriented and have their marketing departments working hard with development but they tend to forget that there is also important logistics part which must as well be present in the picture.”

Value-added services can also be designed by Aditro as a response for customer inquiries. Aditro does not develop any service if there is no customer demanding it, directly or by simply showing their interest. One value-added service Aditro has begun to look at is customs services, and in particular bonded warehouse, about which some of their customers have shown interest. The advantage with bonded warehouse is that you do not have to pay custom duties until you have sold the goods. Aditro already has a concept for this service now. Aditro learns also from their customers. If there is a service which is working well for some particular customer, it can be offered for other customers. Sometimes Aditro can share service development costs with the customers, for example, 70% vs. 30%, depending on how much value there is for Aditro in providing the service also to other customers. One service that Aditro has developed is called “Add your shop”. It is a service for e-commerce companies which makes it possible for such companies to buy fully integrated services including a home page, the handling of the goods, the distribution, the invoicing etc. Although there was a customer wishing to buy the service before its development was started, it is Aditro who tries to market and sell the concept to other customers of theirs. This service was developed by Aditro’s business developer in Stockholm. It is a cooperation between an Internet site company and Aditro.

The reason why some value-added services are provided just by Aditro as a TPL company is in a simple way explained by Sales and marketing manager Fredrik Nygren (personal communication, 2008-10-20) on the example of making point-of-sales displays:

“[..] Then someone had a look at the supply chain. Where is the better place to have this operation in the supply chain? It is at the warehouse. So we started doing it! Then of course we started to sell that to all other clients when we started with one.”

If there is a new demand, customers are involved in making specific demands on how the service should work. Then it is up to Aditro to find a solution. If it is Aditro who tries to develop a new concept, then the business developer outlines the service idea and it is discussed in Aditro’s management group, where managing directors from all of Aditro’s sites discuss it briefly. If they think it is reasonable, the developer creates the concept. Marketing managers can be consulted regarding the needs of the customers.
Empirical Study

Value-added services can be added to a solution provided to a client already from the beginning but sometimes it takes the whole year to be able to look back and understand how customer’s business looks like. Aditro considers it to be their duty to analyse customer’s business and to see what they have for possibilities to offer value-added services for this customer and at this point Aditro thinks that they can be better. For some clients improvements/new services especially in a form of new IT functions are added all the time. Aditro, for example, has three such ongoing IT projects with one of their clients.

In an ongoing business relationship it can be both the client who comes up with certain wishes or it is Aditro who comes up with the proposal if they see some area of improvement. For example, in a case of packaging, it can be those persons, who work directly with it, who can make proposal to the client manager: “Can we look at a packaging which is better and takes shorter time to pack?” In one case the packaging was to narrow, then Aditro looked for a broader packaging. People working in the warehouse want their job to go easier and faster. It can also be customer’s customer, who has their opinion about packaging. A package can, for example, be damaged when it reaches customer’s customer.

Within an ongoing business relationship customer and client manager are the basic people involved in the service development. There is quite a big involvement from the customer’s side in the development process. Aditro can have a concept but it must be adjusted to customer’s wishes, therefore it is a constant teamwork with the customer.

The biggest part of the services which are not IT related are developed by only two parts: Aditro and their customers. Examples are such smaller services as adding price tags and building point-of-sales displays. IT services, however are different, it can be even four parties involved in development of an IT solution: Aditro’s own IT-people, supplier of their IT system, customers’ IT department and supplier of customer’s IT system. Aditro together with their customers describe their needs to Aditro’s IT system’s supplier and they program it. The customers do the same with their IT system’s supplier. Aditro’s IT department does a lot of job to help gather all business data necessary for this programming.

Some of Aditro’s other suppliers are good at tempting them with new services and want to participate in further development while others are happy to deliver ordinary services and, as long as Aditro does not say anything to them but only buys and pays, everything is fine. From Aditro’s point of view, however, it is clear that in the long run you get extra value from a supplier which is active, it uses to pay off. In the same way Aditro’s customers sometimes ask for different forms of value-added services and inputs from TPL company, Aditro also asks for such things from their suppliers.

One example of cooperation with transport suppliers in service development is when one of Aditro’s customers acquired a shop chain where they had a very high service level to some of the shops, like delivery at certain times in the morning, taking back packaging as they themselves could not handle it. Aditro needed to find either somebody from existing transport suppliers or somebody new who could provide such a service to them. In such cases, when there is a direct demand from Aditro’s customers, Aditro needs to work together with the transport suppliers to be able to fulfil the demands. After Aditro has started such activity they have a very tight follow up to ensure that everything goes as it should. Their client managers have everyday contact with transportation companies to ensure that daily operations flow smoothly.
There is not always a project group started in connection with development of value-added service but in a case of bigger change Aditro tries to have a group which meets, especially those persons in production which will directly work with that later. Sales manager, operations manager, client manager and IT department can be involved. It can also be a project person appointed from the customer’s side. A realistic time to implement the project is decided together with the customer. For smaller assignments implementation takes only some weeks but in general it is difficult to estimate the length of such development. If the value-added service is as simple as building the displays then only production order is created saying that this display contains, for example, 50 trays of washing powder. Such implementation requires no project.

Aditro admits that they are not as innovative as they would like to be but they have willingness to change this situation in the future. Logistics innovation for them is to find new solutions, to look outside the safe and known solutions, think in a new way, to challenge. Innovation for them is also when all the knowledge and ideas that exist inside the company is used, when all employees are involved in the process. Aditro believes that there are definitely people in the warehouse who are having good ideas but maybe nobody has given opportunity to them to express these ideas.

Aditro as a company does not have a well functioning system for making use of the ideas of their employees. They have tried to work with it some years ago but it has not worked out so well and is considered to be an area for future improvements. As it was expressed by Key account manager Maria Andersson (personal communication, 2009-05-04):

“[..] then you really need to catch those ideas and to do something with them because if you do not do anything then you are not going to get so many ideas at the end.”

To renew themselves Aditro visits trade fairs and looks at Internet sites to see what is happening on the market in the logistics sphere. They also look at the German market because there it is possible to see new things earlier than in Nordic market.

### 4.4.4 Driving Forces and Barriers for Value-Added Services

One of the driving forces in a wider meaning behind developing value-added services is the constant changes of Aditro’s customer companies. Companies do not stay as solid entities anymore. Aditro needs to adjust to the changes to bring in the new business. This is the reason why the local sales persons work a lot with the existing clients, adding more services and re-negotiating contracts. Being in contact with the existing customers is very important. The sales person is not leaving after the sales have happened; it is a constantly ongoing work. Not only companies but also technologies and business environment is changing. One example mentioned by Aditro concerns their client in mobile telephone business. Traditionally, mobile phones have had batch number but now they also have series number. This results in mobile phone having several numbers. Therefore, Aditro needs to develop IT system in order to handle all these different numbers and take actions based on it. It can be said that it is the normal way for Aditro to develop their services. In IT sphere there is an ongoing movement towards more complex means of assistance. Customers will only press one button and receive ready result.

It is stated by Aditro that in some cases you cannot get a new customer if you do not offer some particular value-added services. In other cases you can lose an existing customer by refusing to provide a new value-added service. Aditro is willing to focus more on increasing value of their efforts towards the customer. They see it as important to have more focus on the value that they are creating together with their customers in a form of better service,
better quality, wider scope of service and so on. This is because Aditro wants to create a business with their customer which focuses not only on pricing but which instead has focus on other factors which are important for the customer. Aditro wants to deliver more solution as a whole not only, for example, separate warehousing service, for which they get paid. A wider scope of provided services can help to achieve this goal.

Other driving forces behind developing value-added services are demand for them in the market, willingness to be competitive, ability to earn more money and to satisfy the customer. With value-added services it is possible to make customer’s daily operations easier, as in a case of setting price tags on the products. Customer’s customers can play an important role in development of value-added service by setting their delivery rules which other companies have to obey if they want to be suppliers. Aditro’s customers often come to Aditro and are expecting Aditro to solve the problem, when they receive such demands from their customers. Aditro is willing to help their customers in such situations. From Aditro’s point of view, when the warehouse is full, there are two ways of further business development: to build a new warehouse or to develop more services, where developing of new services is in many cases a preferred option.

In the future Aditro wants to more actively provide information about what they can offer to the customer. They want to in a greater extent use the experience from one customer to offer the same thing to another customer and they want to use more of their experience as a TPL firm to develop customer’s business.

Time and money are two of the most obvious barriers for providing value-added services. If one service takes Aditro’s IT department two months to implement, it costs quite a lot of money. To be able to provide different value-added services, the TPL company needs to acquire necessary knowledge. This can also be costly. Being proactive in coming up with improvements can to some extent be seen as a problem in itself because often proactiveness means lowering costs for customer and leading to lowering of the TPL firm’s income.

Value-added services can sometimes be complicated to implement. Aditro has one customer that asks for extreme security and because of that they need to build security arrangements around their business as a value-added service and this can make it more difficult for Aditro to manage their customers in an integrated way. It makes it difficult for Aditro when one customer is in an isolated area with a fence around it; it is something like a warehouse in a warehouse.

Sometimes required handling of goods can be so advanced that there is a need to invest in equipment or take risks when entering such business relationships. Handling of heavy weights can be one such example. It can be that Aditro feels that they are not fully matured for it. In such cases it can be decided by Aditro to say “no”.

Today Aditro has no documentation about how value-added services need to be performed; they are performed in the way people have been instructed to perform them. In some particular cases Aditro is measuring the process to ensure the quality of value-added service but not in all cases. As value-added services are so different and require different knowledge and equipment, it can be complicated to coordinate persons with different skills. In Borås, Aditro’s objective is to build an internal solution to have overview over their workforce and to allocate them among different tasks.

As value-added services tend to be very customer adapted Aditro sees risk to degenerate a bit if they accept all special solutions that their customers want. It can become too difficult
Empirical Study

to manage customers in an integrated way. They each exist separately, each are so special that Aditro cannot achieve economies of scale. Because of that Aditro preferably want to have their different customers as similar as possible, so that Aditro can use their resources in a good way. Sometimes Aditro needs to hold back their customers and explain that customers cannot get it in exactly the way they want to have it.
5 Analysis

In this chapter our analysis is presented. The findings from the empirical study will be connected to the frame of reference.

5.1 Positioning of TPL Providers

Although the aim of this paper is not to classify our target companies, it can still be beneficial to map their positions in regard to each other. If the three target companies are viewed in connection with classification of TPL providers by Hertz and Alfredsson (2003, see Figure 2.5) our gathered data shows that Bring has more customer adapted services than the other two of our target companies, Schenker and Aditro. However, not even Bring can be considered being part of the customer’s organization or having more of a consultant role. Therefore none of the companies can be placed in the higher customer adaptation end of the matrix by Hertz and Alfredsson (2003). All three of the companies demonstrate quite high problem solving ability and no significant difference was observed between them in such extent. When looking at the segmentation of TPL providers made by Berglund et al. (1999) all three companies fall into segment providing total logistics solutions in value-added logistics. However, as it is pointed out also by Berglund et al. (1999), companies tend to have activities also in other segments even if they are concentrating their activities in the one of them. Overall it can be said that the main difference observed between companies by using classifications by Hertz and Alfredsson (2003) and Berglund et al. (1999) is their degree of customer adaptation.

5.2 Value-Added Services in TPL

Value-added service is a widely used term among practitioners in the TPL industry. The ways how to look at the value-added service, however, are different. When the respondents were directly asked about their perception about what is value-added service, respondents mainly emphasized “value-adding” character of such services. Which kind of “value” is meant, however, slightly differs. Value-added services can add value to the goods or increase value for the customers depending on what customers themselves consider being value for them. Nevertheless, defining value-added services from a value-adding perspective seems not to be popular in the theory which could depend on the fact that such kind of definition could have quite limited application possibilities. There exists, however, comparison between supplementary services and other activities in the supply chain in respect to the value added by them made by van Hoek (2000b, see Figure 2.7).

From some direct answers and also indirectly through examples provided by companies it is possible to observe that value-added service is perceived as something that does not go under the basic services (ordinary services, normal tasks) and are something extra. This is consistent with the literature (Berglund, 2000; Bowersox & Closs, 1996). One respondent perceived value-added services from the “added” perspective, as something which was not included in the offering from the beginning but was added later. This is not confirmed by the theory and is contradictory with our other findings that value-added services can be included in the offering both already from the beginning and after some time in ongoing relationship.

Although our aim was not to study core services of TPL providers, some attention to them was necessary to fully understand the phenomenon of value-added services. Warehousing (especially short term) was admitted to be core service of all three companies. Transportation services in the form of contracting external transport suppliers on behalf of
the client was seen as important and widely performed by all three companies but it was not directly perceived as a core service by Aditro and Bring. This can mean that transportation services for these companies can at least to some extent be viewed as supplementary services from a service management literature perspective while they still are part of the basic logistics service (and therefore are not value-added services) from a logistics literature perspective (Berglund, 2000, Lundberg & Schönström, 2001).

The respondents generally perceived value-added services as something more than basic service but not closely connected with it. The view found in service management literature (Grönroos, 2000; Lovelock & Wirtz, 2007) about supplementary services having supporting (enhancing) role for core service was not directly emphasized by the respondents, i.e., it can be said that respondents did not view value-added services as very closely related to the core service (for instance, warehousing) but more as independent services which are normally sold together with the core service. This happened despite the fact that there can still be certain positive impacts on a TPL provider’s core service from providing value-added services. This can result from the fact that all of our target companies in smaller or greater extent are aiming on selling the complete offering or “solution to customer’s problem” and thus view each of the pieces in the solution as almost equally important from a successful solution perspective: if the TPL firm does not offer the value-added service customer needs to successfully solve its problem, the excellent core service can have quite an unimportant role for customers who can choose to find another TPL provider who agrees to offer solutions with required value-added service. This perspective seems not to be so extensively discussed in the theory. Another explanation could be that, as mentioned by Bring, sometimes the reason to undertake the provision of some value-added services is to better plan usage of their workforce and in such cases those can be only temporary tasks, not so closely related with selling the core service of the company.

One interesting aspect concerning value-added services is an aspect of customization. Can, for example, value-added service be standardized? Both empirical data and theory (Bowersox & Closs, 1996) show high importance of customization in value-added services. However, empirical data shows that some services can have rather low level of customization and thus be perceived almost as standardized if comparing with their highly customized counterparts. One example of such service is building point-of-sales displays, which is performed by the TPL provider in a comparatively standardized way. It is not directly contradictory with theory although aspect of standardization has not been so widely discussed in connection with value-added services. Bowersox and Closs (1996) argue that value-added services are unique for each customer (in this case meaning TPL provider’s customer’s customer), but the authors do not discuss the aspect of how unique such services are for those who perform them, i.e., for TPL providers. Using third-party specialists can, however, involve willingness to benefit from economies of scale, which requires some form of standardization from the TPL side. Lundberg and Schönström (2001) in their logistical requirements model (see Figure 2.6) divide requirements for value-added logistics into two parts where one part is products related requirements. As products of TPL provider’s customers can be similar in nature, it can be anticipated that also product related requirements will be similar and thus will result in similar value-added services provided to several customers requiring a low level of customization.

Another specific question could be raised: can a customized basic [logistics] service be perceived as value-added service? General conclusion from gathered empirical material shows that respondents tend to view customized basic service as being value-added service.
An example of this would be building security arrangements around the storage place for customers requiring higher security done by Aditro. In the theory Bowersox and Closs (1996) identify, for example, just-in-time delivery to be a value-added service although it can be also viewed as customized basic service, i.e., customized transportation/delivery.

Another question could be: is division in basic and value-added services static or can value-added service become basic service in another context/over time? Our respondents are convinced that value-added services can become part of the basic services and this transformation process is constantly ongoing. It was emphasised by one of our respondents from Schenker that one and the same service can be perceived as basic or value-added depending on whom you ask, the customer or the TPL provider. It is also possible to see from the answers of the respondents that it is difficult to draw the line between basic and value-added logistics. Some respondents consider packaging to be a part of basic logistics while others can view it as a value-added service. This, of course, can also depend on the purpose of packaging. From service management literature such moving of one service from value-added to basic logistics can be explained with that such service have changed its meaning from being supporting (enhancing) to being facilitating for core service, which can happen according to Grönroos (2000).

Overall it can be said that the framework of TPL services (Table 2.2) corresponds our empirical findings although specific service examples mentioned under basic and value-added logistics can change their affiliation to basic or value-added logistics depending on the context.

5.3 Development of Value-Added Services

Innovation is an important aspect in developing value-added services, as in the difference from basic logistics services, value-added services are not so standardized and in some cases are even unique thus requiring a higher degree of innovation from the company trying to expand their service offering by value-added services. Flint et al. (2005) define logistics innovation as any logistics related service, from basic to complex that is new or helpful to the organisation or the customer. Moreover the literature (Chapman et al., 2003; de Jong and Vermuelen, 2003) define the concept as consisting of various ideas including both development and implementation of something new that may aim at producing some benefit. Aditro interpret innovation as finding new solutions, thinking in a new way, to challenge and use the knowledge and ideas that exist in the company. Schenker interpret innovation as initiative from their side to develop service while Bring sees innovation as finding new ways for their customers in form of ideas as development of a new service or as an improvement of such a service. Schenker and Aditro admit that they are not as innovative as they would like to be. The literature (Peters et al., 1998; Wagner, 2008; Wanger & Franklin, 2008; Wallenberg, 2009) mentioned that the level of innovation by LSPs is low, which seems also to be agreed upon by the TPL providers. Both Schenker and Aditro seem to be innovative when it comes to looking at the packaging and how they can improve it so the packaging takes shorter time for the personnel working in the warehouse. Moreover, this seems to be an initiative taken due to opinion from the staff working with the packaging and the customer’s customer.

Franklin and Wagner (2008) claim that innovation can occur as LSPs personnel react to a certain problem or as a response to a customer’s request. The findings from the interviews indicate that the most common way for a value-added service to emerge is as a response to a customer’s demand. Schenker estimated 60% of all value-added services started as a request from the customer. It can be said that TPL providers are pretty customer driven
when it comes to development of value-added service. This is highlighted by following statement “…we are not so active in developing value-added services. We want to meet the customer’s demands and wishes […] we are pretty customer driven. If a customer asks for a service we will take a closer look at it but if they do not ask we do not take that much initiative of our own to do it. It depends on how complex it is. Sometimes we look at the packaging and how it could be improved.” (Arnold Svensson, personal communication, 2009-04-29).

In literature though Wilding and Juriado (2004, cited in Selviaridis and Spring, 2007) argue that value-added services are supply-driven and do not match TPL customer’s needs. This can seem contradictory at the first glance. Difference however should be made among two types of innovations according to Wallenburg (2009): relationship-specific innovation for single customer and market innovation for multiple customers. Franklin and Wagner (2008) argue that TPL firms often face problems when trying to expand the service which has been originally developed for one customer to a wider customer base, as it can require significant reengineering of the service. Our empirical material show that two of our studied companies Aditro and Schenker nevertheless have services which although initially developed for one customer are offered to several customers. Grönroos (2000) and Kasper et al. (2006) point out that careful market research is necessary before choosing appropriate service concept, which, however, is not done by our target companies. This can lead to the fact that the service demanded by one customer is developed by the TPL firm to offer it also to other customers but there is low demand for such service in the market. The situation on the market can also change over time, as it was mentioned by Schenker in the case of demand for quality control. All this points towards that findings of Wilding and Juriado (2004) are not contradictory with ours since direct customer demand drives only development of relationship-specific service while market innovation is still mainly based on the TPL firms’ assumptions. We, however, cannot make any more specific conclusions about the actual demand for value-added services as we do not have such market data.

Even though the customer requests are significant for value-added service development, the TPL provider still plays an important role in the development process. The statement “…sometimes the customer doesn’t ask for a value-added service but for us to solve a problem…” (Arnold Svensson, personal communication, 2009-04-29) imply that certain innovative thinking is necessary from TPL provider’s side even if it is the customer who initiates the process. The process of developing a logistic service depends, according to Wagner and Franklin (2008), on the knowledge and background of the personnel involved as well as what kind of service is requested from the customer. According to Bring the ideas and improvements come from the personnel and “…their experience, their fantasy to find new solutions.” (Peter Thulin & Mattias Danielsson, personal communication, 2009-03-24). This indicates that organizations’ co-workers are the heart of the innovation process, as stated by de Jong and Vermeulen (2003), Flint et al. (2005) and Chapman et al. (2003). The interviews with our target companies revealed that the personnel working in the warehouses, handling customers’ products on an everyday basis, are the ones having the knowledge about the existing processes and the products. As it was pointed out by the companies in our study, their warehouse personnel, working close to the customer’s products, have an essential role for the developing and improving of the services.

Understanding customer’s needs is important for the development process; however, also understanding the needs of the customers’ customer can be vital. One interview answer had the following statement “…It’s hard to say in general how a value-added service is developed, but a lot has to do to understand the customers, what we can do to minimize the work for the customer’s customer. I think it has a lot to do about understanding our end customer’s needs…” (David
Further, all three TPL firms stated that many value-added services are rather customized and unique since customers' needs tend to be quite different. The fact that value-added services are customized and that there might be a lack of resources to get to understand the customer's and the end customer's needs can be reasons why requests often comes from the customers and not from the TPL firm. From another respondent the following statement was captured “... The clients normally know their business the best and it is not very easy for us to be proactive from a logistics point of view since logistics managers are not normally represented in top management. They are not the ones with most of the power.” (Fredrik Nygren, personal communication, 2008-10-20). The statement highlighted the difficulty for the TPL firm to be proactive and come up with the new value-added services. The difficulty may be seen as another explanation why the requests most often arises as a response from the customers and not from the TPL providers.

Wallenburg (2009) divides innovation into either internal or customer-related. Internal development and improvement is done without affecting the customers directly. Instead the focus is on increasing the efficiency of LSP operations while customer-related innovations directly affect the customers with regard to reducing their costs and improving their performance. The interview with Bring revealed that an innovation can start up as an internal development as the warehouse personnel can find things to lighten their jobs, eventually leading to increased efficiency of the operations in form of less working hours spent on the customer’s products. This in turn may affect the TPL’s relationship with its customer positive, since less working hours are spent on customer’s products and therefore the customers pay less. As a result, internal development may therefore affect the customers indirectly in form of monetary savings. This aspect is not discussed by Wallenburg (2009) in his theory. Customer-related innovations are further divided into multi customer-related (market innovation) and single customer-related (relationship-specific). The interview with Aditro indicates that an e-commerce service was initially developed by Aditro as a request from a customer but the concept is wider spread by Aditro to their other customers. Such development is, according to Wallenburg (2009) an example of multi customer-related innovation. Single customer-related innovations are further divided by Wallenburg (2009) into development in the beginning of the relationship or in an ongoing relationship. Aditro states that it is often the customer that takes initiative for a value-added service in the beginning of the specific relationship but as the time passes Aditro is able to gather data and look back to understand how customer's business looks like. Schenker sees development and improvements of value-added services to be a constant process in the relationship where it can occur either in the beginning or in ongoing relationship. Service that is developed in the beginning of the relationship can according to Wallenburg (2009) be specified in the contractual agreement as it is done by Schenker.

In a similar way as Aditro, Schenker sees the potential lack of knowledge of customers business in the beginning of the relationship to be a hindrance for development at the first stage. Bring sees customer involvement and participation in the development phase as an advantage for both involved parties. Aditro has the same view since a value-added service can be developed by the TPL firm alone but the concept must be adjusted to the customer’s wishes to be able to fit the particular customer. One interesting aspect that is not discussed by Wallenburg (2009) is the involvement of a third party or even a fourth party during the innovation process of a LSP. Empirical data shows that value-added service can be developed through cooperation with other companies such as IT companies, packaging suppliers and transportation companies.
In the development and improvement process several people are involved. Schenker has an ongoing dialogue with the different departments at the regional location such as the operational department, the supervisor at the warehouse, staff working in the warehouse but also the central research and development department in Gothenburg can be asked to assist. Bring has meetings where the customers, sales personnel and the supervisor at the warehouse participate. Aditro has in an ongoing service development relationship contact with their customer through a client manager. Internally they have meetings where the IT department, sales managers, operational managers and client managers are participating. Except that, both Schenker and Aditro have an organisational structure where they work with development and improvement of value-added service through so called internal and external project groups including several of the above mentioned personnel and also the customers are involved in the external project group. The logistics innovation process (by Flint et al., 2005) is more or less not applicable by the TPL providers. The activities within the logistics service context are not as formal in the reality as described by Flint et al. (2005). The TPL providers do not lease facilities or create an environment favourable for interaction or conducting formal in depth interviews although they gather customer data and analyse it to be able to do statistics and to understand customers business. Furthermore, the ideas are exchanged through the project groups but also between the different departments and the staff on a day-to-day basis. Moreover, TPL providers participate at different trade fairs and look at the market abroad to catch new happenings. According to Chapman et al. (2003) so called knowledge networks are vital for logistics firms to be able to serve the customers logistical needs. An adequate and supportive organisational structure is further highlighted by Chapman et al. (2003) as vital in the development and inter-organisational learning process.

Bring and Aditro are considered to be national LSPs although they are also represented in minor scales in some other countries in Europe. Schenker, on the other hand is represented in 150 countries around the world and considered to be a global LSP. According to Wallenburg (2009) national LSPs like Bring and Aditro have a higher level of proactive performance, especially when it comes to reducing the cost of customers’ logistics systems, than Schenker. The reason for it was stated by Wallenburg (2009) as lack of motivation for global LSP to manage innovation since a normal-size customer is of lower importance. Schenker has a global network and a research and development department which can be seen as an advantage when it comes to development of value-added services compared to Bring and Aditro. At the same time the empirical findings show that Schenker has to adjust to the Schenker group which can be seen as a barrier for innovation.

5.4 Driving Forces and Barriers for Value-Added Services

The main driving force behind value-added services for all three of our target companies is to meet customers’ demands. This is mentioned as a driving force for innovation also in the theory by Wagner and Franklin (2008). To what extent direct customer demand drives development of value-added services, however, differs. For Schenker there are quite many value-added services which are seen as the company’s speciality and advertised as such. Therefore customers who come to Schenker in some cases already know what Schenker is offering and their requirements match Schenker’s existing offering. Bring, on the other hand does not have any particular value-added service advertised as their speciality and therefore the possibility that Bring will need to develop a new service(s) as an answer to the customer demand is higher. Aditro falls in-between these two possibilities.
Analysis

The respondents mentioned willingness to be competitive as reason for developing value-added services. This is mentioned as driving force also in the innovation literature (Flint et al., 2005, Wallenburg, 2009). Being more attractive for the customers by providing value-added services was also mentioned both by the respondents and stated in the theoretical study (Lovelock & Wirtz, 2007). Willingness to differentiate themselves from their competitors is widely discussed in the innovation literature (Flint et al., 2005; Wagner, 2008, Wallenburg, 2009) and emphasised mainly by Bring and partly by Aditro. This is possible to explain by the fact that two of our target companies Aditro and Schenker are among the biggest players on the market and can compete with lower prices due to higher volumes which lowers the importance of differentiation for them. Nevertheless, Aditro, as a company which can compete with the price, is willing to change focus in their relationships with customers from price to creating value together with the customer. As value-added services as such have higher added value comparing with, for example, storage (see Figure 2.7 by van Hoek, 2000b) and innovation in providing services can also be a base for increasing value (as stated by Flint et al., 2005), developing value-added services seems to be an appealing opportunity for Aditro to look at. Closer relationships with the customer by increasing scope of the services are recognized both in theory by van Hoek (2000a) and by our target companies as a driving force behind value-added services.

One interesting driving force for why value-added services are performed just by TPL providers and not by the customer itself or some other external specialist is that the warehouse seems to be the most appropriate place for performing such services in the supply chain, as it was pointed out by Fredrik Nygren (personal communication, 2008-10-20). This is a bit contradictory with Bowersox and Closs (1996) stating that the fundamental reason to choose third-party companies for performing value-added services is their ability to specialize in such services. It can be true for some services like labelling and repacking but not, for example, in the case when Aditro agreed to mix paints for one of their clients which is far from Aditro’s specialization and done for only one client. Here, the aspect of suitable place in the supply chain seems to have played the most important role. This is closely connected with other driving forces mentioned by respondents, like customers’ unwillingness to do too much themselves and also with customers’ customers unwillingness to do things themselves, i.e., it can in some extent be said that at the end TPL provider is doing things that nobody else wants to do. This is confirmed also by the willingness of Aditro to provide customer service as a value-added service. Although in Aditro Group there is a company purely specializing in such service, this company is not willing to provide such services to the firms having too small volumes, which is often the case with Aditro’s customers.

Other driving forces for developing value-added services stated by respondents are changes in customer’s business or external environment, requiring new service or improvement of old services. New technologies can play an important role as a driving force for new service development as stated by Chapman et al. (2003). Economical reasons like higher profitability of value-added services (mentioned also in literature by Lovelock & Wirtz, 2007; van Hoek, 2000a) and receiving payment for such services for time spent on them instead of having fixed fee are affirmed as a driving force by our target companies as well. Other driving forces are the possibility for the TPL firm to plan the use of their work-force better by taking on value-added tasks which are not urgent and can be done when there is some idle periods for TPL provider’s employees, as well as shifting the costs of their business in greater extent from fixed to variable costs. This is connected with the fact that TPL basic services are related to large investments in assets (for example, warehouses) while value-added services can in many cases be done by smaller investments, for example,
in training workforce or buying some equipment. As TPL providers can in certain market situations be reluctant to make large investments related, for instance, to building a new warehouse, they can choose to take on more value-added services as a way to expand their business. This perspective is not extensively discussed in literature.

High cost for service development is a common barrier, mentioned both by respondents and in literature (Shen et al., 2009; Wallenburg, 2009). In the literature importance of successful organizational learning is widely emphasised as having a close connection with the ability of the company to come up with innovative solutions (Calantone et al., 2002; Panayides & So, 2004). Problems concerning organizational learning can be seen as a barrier for TPL firms when developing new and improving existing value-added services. Aditro admitted that they did not have a well-functioning system to capture the ideas that were provided by the employees. Lack of the time to develop further innovative ideas for service development and improvement was another problem mentioned by Aditro. This problem is brought up in literature by de Jong and Vermuelen (2003). As a consequence of the financial crisis, Schenker has started to hire part of their staff from staffing companies which can lead to lack of competence to do advanced tasks and eventually lead to too low competence to generate and implement ideas for improvement. The importance of knowledge and background of the personnel in the innovation process is emphasised by Wagner and Franklin (2008). Lack of skilled staff is stated as a major barrier for development by de Jong and Vermuelen (2003).

Issue of relationship’s character between TPL provider and customer is of importance when discussing barriers of providing TPL services. Sanders et al. (2007) mention different kinds of relationships possible depending on the criticality and scope of outsourced tasks. Among our target companies value-added services offered are in many cases customized and provided as a part of a solution. Contracts with customers are as a minimum one year long. Such relationships fall into contractual relationships category or potentially in partnerships category according to division of Sanders et al. (2007). As mentioned by Bring they see it possible to refuse to provide service if they cannot get all the necessary information from the customer. This can indicate that the lack of trust and unwillingness to communicate important information from customer’s side can be a barrier when providing value-added services, as such services can demand adjusting to the particular customer which requires closer collaboration between partners. Grönroos (2000) mentions that service can be improved or made worse by willingness or unwillingness of the customer to participate in service delivery, which according to our study seems to be true also about service development process.

 Certain difficulty for TPL providers in moving from contractual relationships to partnerships was observed in our study. None of the three companies called their current relationships with clients as partnerships although relationships was characterised as close and willingness from TPL side to engage in partnerships was emphasised. Necessity of being proactive to develop relationships towards a wider scope of services was extensively mentioned during our interviews. However, companies (especially Schenker and Aditro) expressed the opinion that they could benefit from being more proactive, therefore certain lack of proactiveness from TPL providers’ side can be considered as a barrier in providing more value-added services for the customer. The reasons behind lack of proactiveness however differ. Several reasons mentioned by Aditro were the logistics people being more oriented towards “doing” instead of “thinking” (i.e., thinking about future needs of customer) but also difficulties to communicate with customer’s organization as there are many different persons involved in logistical development from customer’s side and
logistical development (as well as logistics as such) in many companies seems to be viewed as quite an unimportant area. The fact that TPL providers in some cases have to work with customers' companies' headquarters which are located outside Sweden can also make closer collaboration more difficult.

It was mentioned by Aditro’s Sales and marketing manager Fredrik Nygren (personal communication, 2009-05-18) that supply chain management will gain importance in the future as value-added service offered by TPL provider. Such development, however, requires also development in the outsourcing relationships between the TPL firm and the customer since it involves performing tasks of higher criticality for the customer. Strong trust and commitment must be present, according to Sanders et al. (2007). However, as observed in our study, current contacts between TPL firm and customers are close but more at the operational level. This together with barriers for proactiveness mentioned previously indicate that there is still much work to be done to develop closer relationships and trust between TPL company and customer, for the customer to be willing to outsource such significant task as supply chain management.

Van Hoek (2000b) claims that in the cases of TPL services, which surpass traditional transportation and warehousing, transaction specificity increases by necessity to invest in, for example, specific training of employees; transaction frequency decreases, as services are more dedicated to particular customer, and dependency on transactions increases. According to our empirical data necessity to invest in specific equipment and training of employees can be the reason for TPL company to say “no” to specific service if the investments needed are too big and will not pay off during the contract period with the customer, usually 3-5 years. Also high level of customization of value-added services was seen as a problem by our target companies Schenker and Aditro. Schenker, for example, claimed that too customized services can be too costly and at the end there may be no one willing to pay for it. Aditro stated that too customized services can make coordination of different customers more difficult and thus do not allow achieving economies of scale. Therefore companies can be reluctant to provide too customized value-added services but instead try to make customers to accept more standardised solution.

An interesting barrier was mentioned by two of the bigger TPL providers in our study, Schenker and Aditro. When a TPL company undertakes too many value-added services which are very different from each other, the increased complexity can make it difficult for TPL providers to coordinate their business. It was even mentioned by Schenker that the company is thinking twice before offering services which involve external suppliers due to the problems connected with coordination. Delfmann et al. (2002), however, when talking about customizing LSP, which in many aspects match the definition of a TPL provider used in this paper, mention conceptual side and coordination as core competences of such companies while standardized logistics activities are outsourced to specialists. As Schenker, however, offers too customized and complex services to be seen as bundling LSP, which is another category in Delfmanns et al. (2002) classification, it can be said that the company falls in-between these two categories. The coordination as core competence was not, on the other hand, emphasised also by the other two of our target companies. All this can indicate that Schenker and Aditro are standing in front of a strategic decision concerning their future strategy: either minimise the complexity by decreasing the scope of services and/or the degree of their customization or to invest in better coordination skills to make coordination to be their core competence. Aditro in Borås has already made a decision to implement new internal solutions to increase their coordination ability.
Van Hoek (2000b) points out the risk of TPL provider’s customers to receive service of lower quality because of possible lack of expertise from TPL provider’s side in the area of the particular value-added service. Our empirical findings do not directly confirm this. Although TPL providers tend to have not as well worked out routines and documentation for value-added services as for their basic service and service quality is not always measured and discussed in the contract to the same extent as in a case of basic service but this seems to only increase pressure on the TPL providers to provide the service of good quality. It should be noted that value-added services tend to be performed in smaller volumes compared with a basic service and as a result the customer can be more sensitive for mistakes done by the TPL providers (if 1 of the 10 items is wrong, it is perceived as a bigger mistake as if 1 of 100 items is wrong). It should also be noted that some of the driving forces for providing value-added services is to be more competitive and to develop closer relationships with the customers. This can definitely not be done through providing service of low quality. However, from the TPL firm’s perspective it can be more difficult to ensure reliability and assurance (quality dimensions according to Kasper et al., 2006) for value-added services than for basic service, since, for example, staff training and acquiring necessary competence for performing particular service can be quite specific and costly. Nevertheless, our findings show that TPL firms are not willing to take on tasks, if they cannot ensure satisfactory quality, as low quality service can spoil their relationships with the customer and ultimately their image. As it was especially emphasized by Bring, in a business-to-business service environment, word-of-mouth is very important. Therefore it can be concluded that it can be more question of costs (who will pay for activities (training etc.) necessary to ensure service quality?) than question of customer receiving service of low quality.
6 Conclusions

The following chapter includes the conclusions from our study. Conclusions are our main findings from analysing our gathered empirical material by using frame of reference. The aim of this chapter is to answer our purpose and research questions.

To answer the purpose of this thesis there was a necessity to clarify the term “value-added service”. Our research shows that there are different ways to look at value-added services. The value-added character of such services was especially emphasised by our respondents. Value-added service is something more than basic logistics service. Even customized basic service can be perceived as value-added service. As transportation related services was not directly called core service by two of our target companies (although mentioned as very important), such services can be regarded as supplementary services for these companies from a service management perspective while still being basic service from logistics literature perspective. The respondents did not view value-added services as very closely related with their core service. Although value-added services are customized, sometimes the customization is of quite a low level. It can happen that a service moves from value-added to basic logistics, i.e., division of services in basic and value-added logistics are not static and can change over time.

The purpose of our paper was to analyse the development process of value-added services. Two of our three target companies admitted that they are not as innovative as they would like to be which is consistent with the literature saying that overall innovation level by LSPs is low. Service development in most of the cases is initiated by customer’s request. The conclusion expressed in the literature that value-added services are supply driven can be explained by the fact that TPL firms in some cases want to expand service developed for one customer to the wider customer base but there is no careful market research done before doing so. This can lead to service offering with the low demand on the market. TPL provider’s employees have an important role in value-added service development; especially significant is the contribution of warehouse workers, handling customer’s products on an everyday basis. Not only customer’s but also customer’s customer needs are important in the service development process. The fact that value-added services are customized which imply that there are different needs from customers’ and also the customers’ customers, can be one of the reasons why it is easier for the customer than the TPL firm to come up with the idea for development, as exploring different needs of customer and customer’s customer can be a too resource-demanding task for the TPL firm.

Internal development of TPL firm’s operations may still affect the customers indirectly in form of monetary savings since TPL firms spend less time on handling customers’ products. Development of value-added service can occur both in the beginning of the relationship or in an ongoing relationship but the potential lack of knowledge of customers business in the beginning of the relationship can be a hindrance for development in the first stage. In the development of value-added service sometimes more than two parties are involved. The development process can consist of cooperation with other companies such as IT companies, packaging suppliers or transportation companies. The TPL firms investigated in the empirical study did not have any formal innovation process as described in the logistics innovation literature with leasing special facilities for this purpose or doing in-depth interviews. Being part of the global group of companies can in some cases diminish innovation ability of global LSP, as it is a LSP who needs to adjust to the needs of this global group.
Conclusions

The purpose of our thesis also involved investigation of driving forces and barriers for value-added services. The main driving force behind value-added services for all three companies in our study is to meet customers’ demands although the extent to which the company is forced to innovate to meet customers’ demands can differ, depending on the already available and advertised service offerings. Other driving forces for developing and providing value-added services are willingness to be more competitive and attractive to the customers. Value-added services are seen as a possibility for the TPL firms to differentiate themselves from the competitors if TPL firms are not willing or cannot compete with the price. Although in the literature it is stated that the fundamental reason to choose third-party companies to perform value-added services is their ability to specialize in such solutions, our research revealed also such reasons as TPL provider’s warehouse being the suitable place in the supply chain to perform value-added services and TPL provider’s willingness to do the tasks that nobody else (customer, customer’s customer, specialist in providing particular service) wants to do, even if such tasks in some cases are not company’s specialization.

Another driving force for developing value-added services is changes in customer business and outer environment requiring such development. Economical reasons can be a driving force for TPL firms to provide value-added services, as well as the better possibility to plan work force by undertaking value-added service which can be accomplished under a longer period of time. Unwillingness of TPL firm to make big investments in, for example, extra warehouse necessary to expand volume of basic service, can be the reason to provide value-added services not requiring so big investments thus shifting the costs of company’s operations in greater extent from fixed to variable costs.

High costs are a common barrier for service development. Problems with establishing successful organisational learning can hinder a company from developing services as useful ideas of the co-workers can be overlooked. Competence necessary for service development can be lost by hiring personnel from staffing agencies. Lack of trust and communication derived from not enough close relationships between the TPL provider and the customer can be a barrier for providing value-added services, as such services are in many cases customized and thus require closer collaboration to be adjusted to the particular customer. Lack of proactiveness from the TPL provider’s side can also hinder development towards broader scope of the services provided to the customer. Lack of proactiveness can result from, for example, TPL providers themselves being more oriented towards doing than thinking, but it can also depend on logistics seen as a less important development area from the customer company’s point of view. Offering of supply chain management as a value-added service in the future requires the TPL providers to establish closer relationships with customers compared to the relationships in existence today. Necessity of too big investments in providing value-added services, as well as requirements from customer’s side to extensively customise value-added service, can be reasons why TPL companies can be reluctant to provide such services. The difficulty for the TPL provider to coordinate offering of so many different value-added services can be seen as a barrier as well. The possible lack of expertise in the area of service which can result in service of low quality can be seen as a barrier in such extent that somebody needs to pay for the costs of acquiring necessary expertise to ensure quality.
7 Ideas for Future Research

In this chapter we propose ideas for future research based on our observations during the carrying out this study.

This paper is written in an area where limited amount of research has been done previously, therefore quite a lot of possibilities for future research can be seen. Here we present some of them.

Since our study was done mainly concerning TPL providers operating in Sweden, perception of value-added services by TPL providers in other parts of the world could be interesting to study to acquire a better understanding about generalisation possibilities of our results.

As our study is based on qualitative data, a study analysing quantitative data concerning value-added services can help to facilitate deeper understanding about the phenomenon. There is, for example, lack of information how big part of the TPL firms’ incomes comes from provision of value-added services.

A longitudinal study could be done to observe how offering of value-added services and development of value-added services changes over time. Data already gathered by us in our study can be used as a secondary data for such a study.

Core competencies of TPL firms seem to be a neglected area of research. Understanding core competencies is, however, important also when discussing value-added services. For this reason the question “What are core competences of TPL companies?” could serve as a base for future research.

Customization and standardization issues in value-added services can be another interesting area for future research, as the degree of customisation widely differs between different value-added services. Difficulties for TPL firms to expand value-added services provided for one customer to a wider customer base can be investigated deeper.

Overall value-added services in TPL seems to be a complex issue and therefore an exciting area for future research by either using proposals for future research provided by us or finding an own interesting research perspective within this topic.
List of References


Appendix 1 Interview Questions

1. Please introduce yourself briefly, describe your position in the company and tell about your responsibilities.
2. Please describe your company’s operations as TPL service provider.
3. What type of customers do you have?
4. What kind of relationships do you have with your customers?
5. How do you work with your customers?
6. Which are your company’s competitors?
7. What are your company’s core activities?
8. What is your perception of value-added service?
9. What kind of value-added services does your company offer?
10. Do you offer any standardize portfolio including value-added services?
11. Who proposes adding of value-added services to the provided logistics solution?
12. How do you develop value-added service and how do you renew yourself to stay competitive on the market?
13. How is adding of value-added services to logistics solution done?
14. Who is involved in the development process?
15. To how great extent are customers involved in developing of value-added services offered to them?
16. How important role does the value-added services plays in getting new/ keeping old customer?
17. What are the reasons why your company chooses/agrees to offer value-added services for your customers?
18. What are the barriers for developing and providing value-added services?
19. How do you guarantee quality in the provided value-added services?
20. Are you planning to expand your offering of value-added service in greater extent in the future?
21. Please, can you tell us more about it?
22. How do you as TPL provider work together with your suppliers?
23. Can you recommend us to talk to someone else regarding this subject?
Appendix 2 List of Respondents

**Bring Logistics Solutions**

Peter Thulin, Marketing director, interview 2009-03-24, follow up telephone interview 2009-05-11.


**Schenker Logistics**

Arnold Svensson, Key account manager, interview 2009-04-29.

David Hoffmann, Business development manager, telephone interview 2009-05-11.

**Aditro Logistics**


Johan Widheimer, Sales manager in Jönköping, interview 2009-04-02.


Maria Andersson, Key account manager in Borås, interview 2009-05-04.