Creating competitive advantage for the 3PL sector
by identifying retailers’ needs

Master’s thesis within Business Administration
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Jönköping May 2012
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Jönköping, May 2012

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Subject terms: 3PL outsourcing, competitive advantage, logistics selection criteria, value-added services, retailer’s logistics activities

Abstract

Globalization, economic volatility and uncertainty have impacted global business markets. This has also had an effect on the logistics and supply chain sector. The third party logistics (3PL) industry is constantly changing due to global industry consolidation, technology integration, industry specialization, and industry alliance networks. The most significant changes have been in areas such as 3PL industry size and make-up, services offered, geographical reach, and the information technology (IT) support provided. Companies can survive in a highly competitive environment by creating competitive advantage. Literature presents three different strategies for creating competitive advantage. These are cost leadership, differentiation and focus. Furthermore, innovations and collaboration between companies can also be strategies for creating competitive advantage.

The purpose of this paper is to analyse from the retailers’ perspective, how 3PL providers could meet the customers’ needs better and create competitive advantage in the 3PL market. Furthermore, the purpose of the research is to find out which are, according to the customers’ needs, the best directions that 3PL providers should follow.

This research contains both inductive and deductive research approach elements. The empirical data is collected through a survey and interviews. In total 45 retailers took part in the survey. Moreover, five of the survey respondents were selected for additional interviews. The collected data have been analysed by using theories and previous studies in the literature.

The main findings from analysing the empirical data and the existing theory are that in order for 3PL providers to create competitive advantage, they should focus on the three elements: selection criteria, incentives and barriers. These influence their relationship with the retailers. 3PL providers should also try to enhance the service quality and satisfaction level in the fields of transportation, warehousing and reverse logistics activities. Most importantly, 3PL providers should provide logistics services and solutions that are in the same level with the retailers’ objectives. Furthermore, 3PL providers can also improve their efficiency and become more competitive by having deeper co-operation with other logistics providers.
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1 Introduction

This chapter presents the background, problem, purpose and research questions for the thesis. Moreover, the delimitations and outline for the paper are discussed.

In recent years, globalization, economic volatility and uncertainty have impacted global business markets. The third party logistics (3PL) sector has not been unaffected by these changes. The 3PL industry, although its existence is not something new, is constantly changing. Global industry consolidation, technology integration, industry specialization, and industry alliance networks are the main drivers for this change (Aghazadeh, 2003). The changes have been significant in areas such as industry size and make-up, services offered, geographical reach, and the information technology (IT) support provided (Lieb, 2005).

According to Hertz and Alfredsson (2003), the 3PL sector is developing through the growing demand for advanced logistics services. Globalization, lead time reductions, customer orientation, and outsourcing are the main drivers for the growing demand for logistics services. Consequently, more and more companies are entering the 3PL market, which has created growing competition. As the competition in the 3PL sector is high, the service providers must find new ways to create competitive advantage and stand out from their competitors.

1.1 Background

1.1.1 Stages of 3PL evolution

The development of the 3PL industry can be divided into three main stages. The first one was in the early 1980’s when only traditional logistics service providers existed such as transportation companies, warehouses, forwarders, shippers and agents. The second stage was in the early 1990’s when network players, mainly parcel and express companies got involved in the industry. These were companies such as DHL, UPS and TNT. The third and the last stage of evolution started in the late 1990’s, when companies from different sectors such as consulting, finance and IT companies entered the 3PL industry (Berglund, Laarhoven, Sharman & Wandel, 1999).

1.1.2 Definitions of 3PL

During these periods there have been several definitions regarding the term “3PL”, and some of them are mentioned below. According to Lieb (1992, p.34), “3PL involves the use of external companies to perform logistics functions that have traditionally been performed within the organization. The functions performed by the third party can encompass the entire logistics process or selected activities within that process”. Berglund et al. (1999, p.59) define 3PL as “activities carried out by a logistics service provider on behalf of a shipper and consisting of at least the management and execution of transportation and warehousing activities.” Berglund et al. (1999) mention that 3PL contract should also contain some management, analytical or design activities. Furthermore, the length of cooperation between the customer and provider should be at least
one year in order to differentiate 3PL from traditional ‘arm’s length’ sourcing of transportation and/or warehousing. Evangelista and Sweeney (2006, p. 56) give the following definition: “Third party logistics are activities carried out by a logistic service provider on behalf of a shipper and consisting of at least transportation.” In addition, the service offering can include other activities such as warehousing and inventory management, value added supply chain activities and information-related activities.

1.1.3 The growth of the 3PL industry

The 3PL industry is of a substantial size and it is therefore worth studying on its own. In recent years, the academic interest and publications in the area of 3PL have increased. This can be explained by the growing interest of companies to outsource more and more of their non-core activities (Selviaridis & Spring, 2007). According to Berglund et al. (1999) the main drivers for outsourcing from the demand side are the reduction of asset intensity and the reduction of labor costs. From the supply side the main drivers are the deregulation of the transportation industry and the availability of capital. Moreover, Jharkharia and Shankar (2007) state that the essential drivers for outsourcing are the willingness of companies to focus on their core competencies, cost reduction, restructuring of the company, partnerships developed in the supply chain, globalization, improvement of services, success of other firms by using contract logistics and more efficient operations.

The outsourcing of logistics functions to 3PL companies has increasingly become a powerful alternative to the traditional, vertically integrated company (Boyson, Corsi, Dresner & Rabinovich, 1999). There are a lot of benefits of outsourcing logistics activities to 3PL companies, and this is the reason why companies prefer to outsource more and more of their activities to 3PL providers. Some of the advantages offered by outsourcing are that companies can reduce their costs, become more competitive and improve their customer service activities (Sinkovics & Roath, 2004). Moreover, according to Ansari and Modarress (2010), apart from cost reduction, cargo security is also an important reason to outsource logistics activities to 3PL providers. Furthermore, market knowledge, data access, improved expertise and flexibility are some other benefits (Aghazadeh, 2003). In addition outsourcing of activities to 3PL providers can reduce logistics costs by an average of 11% (Commonwealth Business Media Inc., 2006).

During recent years, companies faced with supply-chain complexity and a growing need for more specialized value-added services, have turned more to 3PL providers (Commonwealth Business Media Inc., 2006). The number and the type of activities that companies are outsourcing to 3PL providers have also changed through the last years. In the beginning of the 3PL industry companies preferred to outsource main activities such as transportation and warehousing with some additional secondary activities such as freight payments, auditing, inventory management and value adding services (Boyson et al., 1999).
Nowadays, companies require more complex and more advanced services from 3PL providers. Companies turn to 3PL providers asking for activities and services such as order fulfilment, consulting procurement, product labelling and packaging, reverse logistics and waste disposal activities, product returns and a wide variety of technology and integration systems (Commonwealth Business Media Inc., 2006). Furthermore, Ying and Dayong (2005) state that 3PL business processes suitable for supply chain should also include processes of customer relation management, customer service management, customer order fulfilment, structural logistics network design and stock management. Even though these services may be important for the 3PL’s customers, they are still generating less revenue compared with the traditional activities of transportation and warehousing (Lieb, 2005).

Nevertheless, the 3PL industry has developed as a result of the emerging demand for advanced logistics services. The growth of the 3PL industry has caused many companies from different sectors and industries to enter this field (Hertz & Alfredsson, 2003). The 3PL industry has grown in Europe at an average annual rate of 10% (Commonwealth Business Media Inc., 2006). Many companies entered the business as subsidiaries of established transportation and warehousing companies. As an alternative to acquisitions, many 3PL providers have developed alliances and agreements with other 3PL or transportation and warehousing companies, in order to broaden their portfolio and their served area. Logistics alliance is the evolution of the traditional form of contract logistics services. Companies are increasingly forming alliances with 3PL providers in an attempt to improve their delivery services and to reduce their own logistics costs (Laarhoven & Sharman, 1994).

Although the 3PL industry is a growing industry, many companies have been going out of business. According to Lieb (2005), this can be explained by the normal industrial evolution. However, there are several criteria regarding the selection of a 3PL provider. Companies prefer providers that have outstanding customer service levels, low prices and financial stability (Boyson et al., 1999). With the growth of the industry and the amount of competition, it is important for 3PL providers to understand and take into consideration these criteria, and therefore create competitive advantage.

1.2 Problem

Although, the 3PL sector is a fast growing sector, the competition in the industry and the needs of the customers are increasing as well. Customers claim that the 3PL should provide a broad comprehensive set of service offerings. Therefore, providers are under constant pressure to expand and differentiate their services (Commonwealth Business Media Inc., 2006).

There are several different directions and strategies for 3PL providers to follow in order to be more competitive. In order to expand their activities, some 3PL companies create alliances with other 3PLs and transportation companies (Lieb, 2005). There is also the trend from companies to reduce their suppliers and focus on a full product service provider (Trent, 2005). This is the reason why some 3PL providers prefer to implement the strategy “everything for everyone”, and offer all kinds of services to all kinds of cus-
tomers. However, this strategy is not always successful as it might lead to a situation of losing the company focus and competence (Lieb, 2005). Another strategy is to focus on a specific industry and try to offer more customized services. According to Lieb (2005), major service providers in the 3PL sector, in the United States, have become more “customer selective”. This customer selective approach has led the providers to focus on long-term relationships and on a tendency to reply to fewer requests for quotation (RFQ). The customer selective approach has benefited the large 3PL providers and their customers, but has left many small to medium-size enterprises (SMEs) with fewer alternatives for 3PL services.

Moreover, a large amount of 3PL providers focus on value-adding services such as packaging, labeling etc. (Laarhoven & Sharman, 1994). Even though, the return on investment is low, some 3PL providers invest a lot in IT assets and services (Lieb, 2005). Furthermore, moving to more complex and advanced services has increased the cooperation between 3PL and fourth-party logistics providers (4PLs) (Hertz & Alfredsson, 2003). Finally, there are supporters who claim that the more costs a 3PL provider takes from its clients business the more the 3PL provider will earn (Hertz & Alfredsson, 2003).

According to Berglund, et al. (1999), in the end of the 1990’s the 3PL industry had not yet reached its mature stage and would continue growing. According to Lieb (2005), even though a lot of 3PL providers have gone out of business, the revenues of the remaining companies have increased. On the other hand, competition has forced 3PL companies to try to find more advanced services in order to differentiate themselves and be more competitive. In a global competitive environment 3PL providers should differentiate themselves and offer better services to their customers, compared with their competitors, in order to stay in business.

1.3 Purpose
The purpose of this paper is to analyze from the retailers’ perspective, how 3PL providers could meet the customers’ needs better and create competitive advantage for 3PL providers in the market. Furthermore, the purpose of the research is to find out which are, according to the customers’ needs, the best directions that 3PL providers should follow.

1.4 Research questions
Q1: What are the current logistics needs in the retail sector?
Q2: What are the main incentives and barriers for retailers to outsource 3PL activities?
Q3: What are the criteria for retailers to select the 3PLs they will use?
Q4: According to customers’ needs, which are the best directions that 3PLs should follow?
1.5 Delimitations

Due to the time constraints and wide scope of the research topic, delimitations are necessary. In order to make the study more feasible, the authors of this research have decided to conduct the research in the Jönköping area by surveying and interviewing local retailer stores. None of the 3PL providers’ have been interviewed. Thus, the research is based on the survey and interviews conducted with retailers located in Jönköping. The research sample is limited to clothing, sport equipment, electronics and interior design retailer stores as these kinds of retailers represent the majority of the retailer stores in Jönköping. Moreover, the authors have decided to focus on small and medium size retailers and have not included the food retailers in this research, as their requirements could differ more from the retailers chosen.

1.6 Outline of the thesis

The thesis consists of six main parts.

The first part includes an introduction to the research topic, providing general information regarding the main terms discussed in the paper, the problem, the research questions, the purpose and the limitations of the research.

The second part presents terms and theories related to the research topic and previous research that has been conducted in the past in the same field. The terms competitive advantage, 3PL activities, motives and barriers in outsourcing as well as the logistics needs of retailers are also presented.

The third part provides information related to the research characteristics, approaches, types and strategies. Moreover, it indicates the method that was used in order to collect and analyze the data. Finally, terms of reliability and validity are presented.

The next part, presents the primary data that was collected through the questionnaires and the interviews that were conducted with the local retailers.

In the fifth part, a deeper analysis of the collected data and their connection with the related theory are presented. The answers to the research questions and a model which summarizes the findings is presented as well.

In the last part, the conclusions of the research are presented as well as some suggestions for further research.
2 Literature review

The purpose of this chapter is to present a literature review, which focuses on theories and previous studies, related to outsourcing and classifications of logistics service providers. Furthermore, the concept of competitive advantage is presented. Finally, this chapter discusses the logistics needs of retailers and the incentives and barriers in outsourcing the logistics activities for 3PL providers.

2.1 Competitive advantage

Competitive advantage exists when a company is able to deliver the same benefits as competitors at a lower price, or deliver benefits that exceed those of competitors’ products or services (Porter, 1985). According to Porter (1985, p.15) "competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice". The choice that every company should take is based on two aspects. The first aspect is related to the type of competitive advantage that the company seeks and the second to the scope within which the company will attain it.

Porter (1985) suggests three general strategies for creating competitive advantage. The first one is called “Cost Leadership”. In this strategy companies try to become the low-cost producer in their industry. However, companies with cost leadership strategy should not ignore the bases of differentiation. The second strategy is called “Differentiation”. In a differentiation strategy, companies try to be unique in each sector by providing products and services that their competitors are not able to provide. However, companies which follow this strategy should not ignore the cost factor either. The third strategy is called “Focus”. In this strategy companies elect to serve a segment of the market or a group of customers and adjust their services for this specific sector. However, the other two factors of cost and differentiation should not be ignored.

As companies seek to create competitive advantage in the global marketplace the consequences of poor strategic decisions increase dramatically. If companies want to create competitive advantage based on low cost, they should take into consideration that low cost strategies may reduce the quality of the products and services (Whipple & Roh, 2010).

Furthermore, one critical factor which determines company’s success and their competitive advantage is innovation. As the global marketplace is changing, companies are forced to look for new ways of innovation (Flint, Larsson, Gammelgaard & Mentzer, 2005). Moreover, collaboration is another factor that leads to an effective supply chain and can create ultimate core capabilities. Good collaboration, includes activities such as information sharing, joint problem solving, joint planning, and leads to efficiency, effectiveness, profitability, and at the end helps companies to gain competitive advantage (Min, Roath, Daugherty, Genchev, Haozhe Chen, Arndt & Richey, 2005).

Yazdanparast, Manuj and Swartz (2010) also state that developing a competitive advantage is becoming difficult in the existing hyper-competitive, complex, global envi-
environment. Yazdanparast et al. (2010) suggest that logistics companies can achieve competitive advantage through co-creation of logistics services with their customers.

Moreover, information communication technology (ICT) has become an important element of 3PL competitive advantage (Evangelista & Sweeney, 2006). Furthermore, companies’ activities and their social consequences have attracted the attention of governments, activists and media. There are organizations that rank companies based on their “social responsibility” and usually these rankings attract considerable publicity. If companies are able to use their “social responsibility” in an effective way, they can create opportunities, innovation and competitive advantage (Porter & Kramer, 2006).

### 2.2 Types of 3PL providers

In the literature, 3PL providers are classified in different ways. In 2006, Stefansson classified the different third-party logistics service providers in three groups: *carriers, logistics service providers* and *logistics service intermediates*. Other bases for classification are type of alliances with the customer, design and management, level of knowledge between shipper and provider and the characteristics of the material flow (Andersson, 1995).

Hertz and Alfredsson (2003), classify logistics service providers in four different groups which are based on the ability of customer adaptation and the ability of problem solving. These groups are standard transport firms, traditional house brokers or warehousing firms, integrators and 3PL firms. This classification is reflected in the Figure 2.1.

![Figure 2.1 Classifications of logistics providers (Hertz & Alfredsson, 2003, p.141).](image-url)
On the upper right corner of the figure 2.1, Hertz and Alfredsson (2003) have divided the 3PL providers in four different sub categories. These categories are: standard 3PL provider (3), service developer (4), customer adapter (1) and customer developer (2). This classification is also based on the ability of customer adaptation and the ability of problem solving. In the bottom left corner of the figure 2.1 are located the standard 3PL providers, which provide standardized 3PL services such as transportation, warehousing, distribution etc. and these services constitute the main business activities of the company. Between 3PL providers, this sub-category has the lowest problem solving and customer adaptation ability. Second sub-category in 3PL sector is the Service developers, which offer advanced value-added services such as cross-docking, track-and-trace and further customized services for different customers. On the top left corner are located the customer adapters, which improve the efficiency of existing customers’ activities. Their problem solving ability is higher than standard 3PL providers or service developers. The most advanced and complex form of 3PL provider is the customer developers, located in the upper right corner. They are 3PL providers that share the risk with their customers. 3PL providers belonging to this category are taking care of the customer’s whole logistics operations. Between 3PL providers, they have the highest problem solving and customer adaptation ability. However, as seen from the figure 2.1, all the 3PL providers have relatively high problem solving and customer adaptation ability compared to the other logistics providers such as traditional transportation companies, house brokers or warehousing companies.

2.3 Activities of 3PL providers

Within the logistics sector, there have been several definitions regarding the third-party logistics activities and the involved parties (Stefansson, 2006). Sink and Langley (1997) mention that even though no definition of third-party logistics satisfies all industry observers, most of them agree in the principle that it consists of at least the combination of two activities, such as final product warehousing and outbound transport to the customer. Warehousing can be defined as “an important logistics activity, where products are stored between point of origin and point of consumption” (Lambert & Cooper, 1998, p.7). Coyle and Bardi (1996) define transportation as “the physical movement of products from one place to another” (Stefansson, 2006, p. 79).

There are several ways to classify the activities provided by 3PL providers. Delfman et al. (2002) suggest a classification based on the degree of customization among standardizing, bundling and customizing logistics service providers.

However, Engelsleben (1999) suggests a more conceptual approach and divides the activities provided by 3PL firms in two broad categories. The first category includes services which are related with the physical flow of goods, and the second category includes services which are not directly related with the physical flow of goods (Delfman et al., 2002). Furthermore, these two categories are divided in subcategories which are presented in the table 2.1. The table includes the basic 3PL’s activities in each category.

According to Aghazadeh (2003) the most frequently used 3PL activities within large American manufacturers are: warehouse management (56%), direct transportation ser-
vices (49%) and shipment consolidation (43%). In 2004, Langley, Allen and Dale presented the results of the 9th annual study regarding 3PL providers, which revealed that in Western Europe warehousing (70%) and outbound transportation (89%) were the most common outsourced logistics services.

In the same research, 3PLs’ customers were generally satisfied by the main services offered by their 3PL providers. However, the issues that drive 3PL users to outsourcing have changed. They had the feeling that 3PL providers still offer static services when their needs are dynamic. Most of the 3PL users mentioned that they were not satisfied with the value added services provided by 3PL firms (Langley et al., 2004).

Table 2.1 Classification of 3PL activities (Sink, Langley & Gibson, 1996, p. 41)

<table>
<thead>
<tr>
<th>Activities related directly to the physical goods flow</th>
<th>Activities not directly related with the physical goods flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistical core processes</td>
<td>Management support and tools</td>
</tr>
<tr>
<td>Activities not directly related with the physical goods flow</td>
<td>Financial services</td>
</tr>
<tr>
<td>Transportation:</td>
<td>Assembly, quality control, merchandising, receiving/ order entry fulfilment, return goods handling, kitting, marking/labeling, project-related consulting/forecasting, tracking and tracing, routening, scheduling</td>
</tr>
<tr>
<td>shipping, forwarding, brokering, (de)consolidation, contract delivery</td>
<td></td>
</tr>
<tr>
<td>Warehousing:</td>
<td>Logistics project controlling, anticipative logistics consulting, location analysis, layout design MRP, DRP, LIS, XPS development EDI/VANS</td>
</tr>
<tr>
<td>storage, handling, commissioning, packaging, paletting</td>
<td></td>
</tr>
</tbody>
</table>

The 16th annual study regarding 3PL providers, published in 2012, revealed that companies continue to outsource a wide variety of logistics activities. International transportation was the most popular outsourced logistics activity and 78% of the respondents outsourced this particular activity. Domestic transportation and warehousing follow with 71% and 62% respectively (Langley, Allen & Dale, 2012).

However, 3PL companies continue offering a great variety of services as well. According to Langley et al. (2012), the most commonly provided services by 3PL firms are presented in the table 2.2.
Table 2.2 The most commonly provided services by 3PL firms (Langley et al., 2012, p. 12)

<table>
<thead>
<tr>
<th>Outsourced Logistics Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Transportation</td>
<td>83%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>81%</td>
</tr>
<tr>
<td>International Transportation</td>
<td>70%</td>
</tr>
<tr>
<td>Inventory Management</td>
<td>66%</td>
</tr>
<tr>
<td>Order Management and Fulfillment</td>
<td>65%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>64%</td>
</tr>
<tr>
<td>Transportation Planning and Management</td>
<td>63%</td>
</tr>
<tr>
<td>Cross-Docking</td>
<td>62%</td>
</tr>
<tr>
<td>Product Labeling, Packaging, Assembly, Kitting</td>
<td>62%</td>
</tr>
<tr>
<td>Freight Forwarding</td>
<td>58%</td>
</tr>
<tr>
<td>Customs Brokerage</td>
<td>50%</td>
</tr>
<tr>
<td>Reverse Logistics (Defective, Repair, Return)</td>
<td>56%</td>
</tr>
<tr>
<td>Information Technology (IT) Services</td>
<td>51%</td>
</tr>
<tr>
<td>Supply Chain Consultancy Services Provided by 3PLs</td>
<td>51%</td>
</tr>
<tr>
<td>LLP (Lead Logistics Provider)/4PL Services</td>
<td>42%</td>
</tr>
<tr>
<td>Service Parts Logistics</td>
<td>38%</td>
</tr>
<tr>
<td>Freight Bill Auditing and Payment</td>
<td>34%</td>
</tr>
<tr>
<td>Sustainability/Green Supply Chain-Related Services</td>
<td>31%</td>
</tr>
<tr>
<td>Fleet Management</td>
<td>26%</td>
</tr>
</tbody>
</table>

2.4 Outsourcing to 3PL providers

2.4.1 Definitions for outsourcing

Outsourcing can be described as “an arrangement of cooperative inter-firm relationships based on mutual trust between partner organizations, for improving performance of the inter-firm transactions” (Parker & Russel, 2004, p. 56). Oxford English Dictionary (2005, p. 75) defines the concept of outsourcing as “the action or practice of obtaining goods or services by contract from outside sources”. According to Scott, Lundgren and Thompson (2011, p. 169), outsourcing is “a process of moving aspects of your own company to another supplier” and in supply chain management, outsourcing usually refers to giving functions such as buying, manufacturing, warehousing and transportation to a 3PL provider. These functions are usually outsourced when a company does not have the capability to perform these tasks on their own, or when they believe another organization can perform these tasks better.

The practice of outsourcing was recognized already in the early 1960s but it was not until the 1990s that outsourcing became a popular concept. Even though outsourcing as a term is nearly as current as the Internet, it has evolved into a world-wide business strategy in a relatively short time. Outsourcing has become a megatrend in many industries, particularly in logistics and supply chain management (Sanders & Locke, 2007).
2.4.2 Incentives to outsource logistics operations to 3PL providers

Globalization of the world economy demands cost effectiveness of the company. Consequently, more companies are likely to outsource their business activities to specialized suppliers (Aktas, Agaran, Ulengin & Onsel, 2011). Successful logistics management depends more and more on the performance of the 3PL providers. Therefore, the 3PL provider can be seen as “an integrator”, connecting information flows with the entire delivery of goods. The operational structure of many companies in the face of globalization shows that long-term co-operation agreements between buyer and seller are increasingly common. This has inspired especially production companies to establish strategic relationships with 3PL providers (Aktas & Ulengin, 2005). Organizations sometimes outsource a critical success factor if the costs of outsourcing are significantly less than those of performing it in-house (Bolumole, 2001). Traditionally, 3PL providers have offered customers three essential competitive benefits: reduced cost, faster delivery and improved reliability (Anderson, Coltman, Devinney & Keating, 2011).

According to Scott, Lundgren and Thompson (2011), the most common reasons for a supply chain to engage in 3PL outsourcing are:

- Increase operating flexibility
- Reduce fixed assets
- Increase efficiency

Coping with seasonal swings such as Easter or Christmas or to switch between transportation modes such as rail to road transport is much easier when you do not own your own transport assets. This will help the company to increase operational flexibility. Furthermore, outsourcing to 3PL providers might save companies’ money, and definitely reduce fixed assets as they do not need to provide transportation capacity by themselves. Also, according to Scott, Lundgren and Thompson (2011), 3PL providers strive to spend less money and achieve better results. Thus, reduced costs help to increase companies’ efficiency.

Persson and Virum (2001) discuss the potential advantages of 3PL outsourcing. These are: the elimination of infrastructure investments; risk sharing; better cash-flow; reducing operating costs; access to world-class processes, products, services or technology; access to resources not available in own organization; improved ability to react quickly to changes in business environments; exchanging fixed costs with variable costs.

The recent research by Melnyk, Davis and Spekman (2010) suggests that a new paradigm, based on a more sophisticated supply chain is emerging. The authors believe that supply chains should provide one or more of six basic outcomes. The 3PL providers should be aware of these outcomes and provide logistics services and solutions that are on the same level with the company objectives.
The six basic outcomes are:

- **Cost** (objectives: reducing cost and ultimately the price)
- **Responsiveness** (objectives: ability to change quickly in terms of volume, mix or location)
- **Security** (objectives: the supply chain’s products will not be contaminated or unsafe)
- **Sustainability** (objectives: eliminate waste, reduce pollution and contribute in a positive manner to improving the quality of the environment through eco-friendly processes, subassemblies and finished goods)
- **Resilience** (objectives: recover quickly and cost-effectively from disruptions caused by natural disasters, social factors (employee strikes), medical emergencies, economic setbacks or technological failures (a software crisis))
- **Innovation** (objectives: provide critical customers with products and services that not only are new but also fulfil needs that competitors have neglected or not served well. Furthermore, objectives include providing new ways of producing, delivering and distributing products)

### 2.4.3 Selection criteria for outsourcing logistics to 3PL providers

A key decision in logistics management from the customer’s point of view is the selection of the transportation mode and carrier to move company’s inbound and outbound freight. When making this decision, managers must typically consider different attributes related to cost and transit time as the primary criteria. However, the importance of individual factors often depends on the industry and company size. Moreover, even these factors may differ within a company form one facility to the next (Meixel & Norbis, 2008). 3PL selection criteria, especially the mode choice and carrier selection are part of the logistics decision making process of the 3PL customers. These include identifying relevant logistics performance variables, selecting the most suitable mode of transport and carrier, negotiating rates and level of service, and evaluating the carrier performance (Monczka, Trent & Handfield, 2005). According to Russell and Taylor (2003), transportation costs within manufacturing firms in 2003 were average 20 percent of the total production costs. Thus, no doubt these decisions are important to logistics managers.

Research by Selviaridis and Spring (2007), highlights that decision to outsource other activities differs substantively from the 3PL selection, but the factors used to evaluate different providers are similar. These are cost, service quality, reliability, flexibility and responsiveness. According to McGinnis (1990), when it comes to the carrier selection attributes both before and after the deregulation in logistics industry, transportation choice was largely influenced by six factors: freight rates; transit time; reliability, loss/damage/claims processing/tracing; shipper market consideration; and carrier considerations.

When evaluating the 3PL provider, a set of criteria must be defined. The can typically include cost, quality, capacity, delivery capability, and financial stability. Furthermore, cultural compatibility, customer references, operating and pricing flexibility and IT ca-
pabilities can play an essential role in selecting 3PL provider (Vaidyanathan, 2005). According to Vaidyanathan (2005), different 3PL evaluation criteria (table 2.3) can help the 3PL customers to evaluate their current and prospective 3PL providers and choose the most suitable one.

Table 2.3 Criteria for 3PL evaluation (Vaidyanathan, 2005, p. 93)

<table>
<thead>
<tr>
<th>Information technology</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer of data at scheduled intervals from 3PL to customer</td>
<td>Cost of warehousing</td>
</tr>
<tr>
<td>Transfer of data in real time</td>
<td>Cost of IT services for effective information flow</td>
</tr>
<tr>
<td>Connectivity to warehouse locations to the data center</td>
<td>Cost of logistics, supply chain and inventory management</td>
</tr>
<tr>
<td>Encryption of data</td>
<td></td>
</tr>
<tr>
<td>Automated technology to capture data for all shipment, directed put-away, picking, and cycle counting</td>
<td>Quality</td>
</tr>
<tr>
<td>Accuracy of data transmissions with existing clients</td>
<td>FAA/FDA or other compliance requirements for warehousing requirements</td>
</tr>
<tr>
<td>Validation and verification of data from flat file transmissions and XML transmissions and usage of standards</td>
<td>ISO procedures for units handling, storing, and preservation</td>
</tr>
<tr>
<td>Data security to maintain the security of customer data</td>
<td>ISO procedure for delivery</td>
</tr>
<tr>
<td>Application security to validate security and access to application programs and screens</td>
<td>Six sigma and commitment to continuous improvement</td>
</tr>
<tr>
<td>Network security to prement intruders access</td>
<td>Facilities and personnel to identify, correct, collect, index, access, file, store, maintain and dispose quality records in accordance with ISO</td>
</tr>
<tr>
<td>Systems, Networks, Data Centers availability and compability analysis</td>
<td>Training procedures</td>
</tr>
<tr>
<td>IT infrastructure availability and compability analysis</td>
<td>Service</td>
</tr>
<tr>
<td>Redundancy, Scalability, Availability of systems</td>
<td>Physical warehousing services</td>
</tr>
<tr>
<td>FTP, VPN, extranet connectivity</td>
<td>Security and scalability services in warehousing</td>
</tr>
<tr>
<td>EBPS and Billing systems</td>
<td>Monitoring/Tracking efforts in warehousing</td>
</tr>
<tr>
<td>Data Integrity and realiability</td>
<td>Historical delivery and reverse logistics</td>
</tr>
<tr>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td>Historical On-time delivery schedules and deviations</td>
<td>Historical transportation Management Metrics</td>
</tr>
<tr>
<td>Historical Inventory Carrying Rate</td>
<td>Customer support services (24/7 help desk)</td>
</tr>
<tr>
<td>Historical average obsolescence rates</td>
<td>Historical average time to settle warranty claim</td>
</tr>
<tr>
<td>Historical forcast errors in a year</td>
<td>Summarized reports available on monthly basis</td>
</tr>
<tr>
<td>Historical average lead times</td>
<td>Inventory Management historical metrics</td>
</tr>
<tr>
<td>Historical shipment errors in the past</td>
<td>Intangibles</td>
</tr>
<tr>
<td>Historical productivity metrics</td>
<td>Financial Stability</td>
</tr>
<tr>
<td>Historical DTT (Delivery Turnaround Time)</td>
<td>Strong profitability</td>
</tr>
<tr>
<td>Historical quality of units delivered/month</td>
<td>Experience with similar companies</td>
</tr>
<tr>
<td>Historical late/lost delivery</td>
<td>Global scope</td>
</tr>
</tbody>
</table>

2.4.4 Risks and barriers in 3PL outsourcing and how to reduce them

According to Langley et al. (2012), one of the main reasons for companies not to outsource their logistics activities is that they consider logistics as their core competence, and therefore choose not to outsource. Moreover, some companies believe that cost reduction would not be experienced through outsourcing this particular function. Barriers related to information technology integration and company’s belief that they can operate logistics activities more efficiently by themselves, are also reasons not to outsource logistics activities.
Kaya and Özer (2009) state, that one of the main risks in outsourcing is related to the quality of the offered products or services. For example, the contract company may not be able to satisfy the quality level that the customer desires. Moreover, the price strategy and the selection of a contract partner based on price, may also affect the quality of the products or the services. Wang and Regan (2003) list eight potential risks and barriers related to 3PL outsourcing. These are:

- The possibility of inefficient management
- Latent information asymmetry
- Loss of logistics innovative capacity
- Hidden costs
- Dependence on the third party logistics provider
- Loss of control over the third party logistics provider
- Problems of evaluating and monitoring third party logistics provider performance
- Conflicts of firms’ culture

If a company has an efficient and well-managed distribution system, outsourcing this function to a 3PL provider may not reduce operational costs. If this is not the case, a company might have an incentive to outsource it to a 3PL provider. However, even in the case of outsourcing, the executives of the company must also have the know-how and skills to manage contracts and relationships with the 3PL provider. Wang and Regan (2003) state that if the logistics activities have been managed poorly in the first place, logistics manager of the company may not be able to manage the external provider any better.

There is also always an existence of an information asymmetry in logistics outsourcing. The 3PL provider rarely has complete information about their contracting company and vice versa. For example, if the 3PL provider does not have the sufficient information about their contracting company’s cost structure, the price they offer, may not match to that cost structure. Wang and Regan (2003) also discuss the risk of losing the logistics innovative capacity, when outsourcing the logistics operations. The authors claim in order for the company to maintain competitive competencies, it has to find new ways of provide logistics services for the business. Outsourcing logistics activities does not guarantee innovation; the 3PL provider may have a primary focus on costs and does not necessarily recognize the opportunity to innovate.

Many companies tend to underestimate the costs related to selecting an appropriate 3PL provider, and negotiating and drawing up the contract. Thus, benefits can be weakened by the costs that managers cannot identify. According to Garaventa and Tellefsen (2001) the costs that managers may not be able to identify from the beginning can be categorized as: administrative costs, human costs such as lower employee performance and ethics costs. Giving more time and allowing additional expenses early help to avoid problems later. For example, estimating transition costs, when switching in-house logistics operations to a 3PL provider, can be very difficult. Managing the transition process of outsourcing the operations from in-house to 3PL provider, covers three areas: monitoring to see that logistics providers fulfil their contractual obligations; bargaining with
logistics providers; and negotiating any needed contract changes. (Wang & Regan, 2003)

Another risk related to 3PL outsourcing is the dependence on the 3PL provider. If a company outsources their logistics activities to the same 3PL provider over a long period of time, it may become vulnerable and even lose the control of its logistics activities. As a result of a collaborative project, part of the control inevitably passes from the user to the provider. Wang and Regan (2003) claim that the level of how effectively a company can control its outsourced logistics will be greatly determined by the type of information received and how early the problems are detected. Lack of effective communication could lead to problems of quality and delays, and misunderstandings and even mistrust.

In order to evaluate properly the performance of a 3PL provider, companies should have clear guidelines to measure a 3PL provider’s outcomes. However, this is usually overlooked and left without proper attention when having a partnership with a 3PL provider. Thus, in order to ensure that a 3PL provider meets the required standards, resources, such as time, money and expertise must be allocated in establishing an effective monitoring system (Wang & Regan, 2003). According to Vaidyanathan (2005) a set of criteria must be defined, in order to evaluate the performance of 3PL provider. These criteria typically include cost, quality, delivery capability, capacity and financial stability.

Finally, conflicts in firms’ culture can also a potential risk in 3PL outsourcing. These conflicts arise through different goals of each party in 3PL arrangements. According to Power, Bonifazi & Desouza (2004) the impact of cultural differences between the client and the vendor is one of the most difficult issue in outsourcing. Both client and vendor have the opinion that their partner has the same culture and way of thinking; however, this is not always true. Moreover, the management style and the level of bureaucracy within companies may also vary. Thus, taking these factors into consideration is vital in order to maintain the viability of the collaboration and future success of the partnership (Wang & Regan, 2003).

2.5 Retailer’s perspective

2.5.1 Definitions for retailing

Retailing in the 21st century is very different from retailing in the 20th century. According to Petersona and Balasubramaniana (2002), any definition of retailing should be treated as context- and time-dependent. Levine and Weitz (1996, p. 419) define retailing as “the set of business activities involved in selling products and services to ultimate consumers.” Dunne and Lusch (2008, p. 4) define retailing as “all of the final activities and steps needed to place a product made elsewhere into the hands of the consumer or to provide services to the consumer” and it is the last step in the supply chain before the consumer. Baker (1998) gives a thorough description of retailing functions, which may be summarized as:
- the physical movement and storage of goods
- the transfer of title to goods
- the provision of information concerning the nature and use of goods
- the standardization, grading and final processing of goods
- the provision of ready availability
- the assumption of risk concerning the precise nature and extent of demand
- the financing of inventory and the extension of credit to consumers.

2.5.2 The logistics needs of retailers

In today’s highly competitive retail marketplace, characterized by changing consumer preferences as well as the large geographical spread of stores, retail logistics play an important role in ensuring efficiency and managing cost margins. Retailing and logistics are usually related with product availability. Thus, many have described this as “getting the right products to the right place at the right time”. The beliefs and needs of consumers change over time. Traditional methods of developing logistics strategy are no longer valid for ensuring companies’ survival (Bolumole, 2001). Customers, nowadays, are less willing to wait to be satisfied or served and more often expect instant product availability. Thus, the supply or logistics system which enables the product to go from production through retailing and final consumption has also needed to be transformed. As a result, physical distribution and materials management have been replaced by logistics management and are part of the whole supply chain. This transformation arises from increased cost and service requirements and changes in consumer and retailer preferences (Fernie & Sparks, 2004). Figure 2.2 illustrates this transformation.

![Figure 2.2 Transformation of material and physical distribution management (Fernie & Sparks, 2004, p.2).](image)

The logistics operations in retailing can be considerably expensive, if not managed effectively. For example, keeping too much inventory is a highly costly activity. Moreover, building, operating and maintaining warehouses and distribution centers are generally expensive. Also, owning trucks and transporting goods between different locations are costly activities, which require capital and create running costs. Thus, it is important
to make sure that these operations are carried out effectively and efficiently (Fernie & Sparks, 2004). Outsourcing these activities to 3PL service providers can help retailers to increase operating flexibility, reduce fixed assets and increase efficiency (Anderson, Coltman, Devinney & Keating, 2011). Outsourcing distribution operations to 3PL service provider is not a new trend in retailing, as plenty of retailers have outsourced some of the logistics operations going back to the 1970’s (Wulfraat, 2012).

Capgemini’s 2005 “10th Annual Third-Party Logistics Study”, conducted jointly with the Georgia Institute of Technology, DHL, and SAP, reveals that retailers see the outsourcing partnerships with their 3PL providers as an essential factor in improving company’s performance and critical in achieving better replenishment in retailing establishments (Goolsby, 2006). Roughly seventy percent of the survey participants report, that they have a co-operative relationship with 3PL providers and that they are under pressure to maintain this relationship in the future as well (Langley, 2005).

According to Fernie and Sparks (2004) with appropriate logistics, retailers’ products can achieve better presentational quality, possibly be cheaper, and have a longer shelf life. Moreover, there should be significantly less instances of stock outs. By using information transmissions and dissemination technologies, retailers can radically improve their reaction time to fluctuations in demand. Thus, if the logistics system operates properly, a company can both reduce costs and improve service quality, and therefore create competitive advantage.

In order for the products to be available for the customers, retailers should efficiently manage their logistics activities in terms of product movement and demand management. Thus, retailers must know what is selling in their stores and react quickly to the changes in demand. Moreover, retailers must be able to move less demand-volatile products in a cost-effective and efficient way. Fernie and Sparks (2004) have identified five components of the logistics mix, which retail logistics management must be able to manage efficiently. These five components are: storage facilities, inventory, transportation, unitization and packaging and communication.

Storage facilities: For example warehouses and distribution centers, or stock rooms of retail stores. Retailers should be able to manage these facilities in order to respond to the customers’ demand for products.

Inventory: Retailers should always hold stock to some extent. The question is, however, what is the appropriate level of stock that has to be held for each product. Furthermore, the location of this stock is also important in order meet the demand changes.

Transportation: Most products require transportation at some stage of their journey from production to consumption. Therefore, retailers must manage transportation methods, which might include different transportation modes, sizes of containers, vehicles and scheduling.

Unitization and packaging: Consumers typically purchase products in small quantities. Their purchase decisions are sometimes based on the look of the product packaging and how it is presented at the store. Thus, retailers must develop unitization that is easy to
handle from a logistics point of view, and does not cost too much to package, while making sure that products retain their shelf selling ability.

*Communication:* In order to get the product to where retailers need them, it is important to collect information related to demand, supply, volumes, stock, prices and movements. Therefore, capturing data at appropriate points in the system and utilizing it in an appropriate way is essential for efficient effective logistics operations.

All these components of the logistics mix should be interlinked. In the past these components often have been managed separately as functional silos. However, nowadays, more recent managerial approach is to integrate these tasks and therefore reduce functional barriers (Fernie and Sparks, 2004).

**2.6 Summary of the literature review**

To be able to understand how companies can survive in a highly competitive environment, the concept of competitive advantage is presented. According to Porter (1985) achieving competitive advantage, requires companies to make a choice which is based on two aspects; the type of competitive advantage the company seeks and the scope within which the company will attain it. Porter (1985) lists three strategies for achieving competitive advantage: cost leadership, differentiation and focus. Furthermore, innovations and collaboration between companies can create competitive advantage (Flint, Larsson, Gammelgaard & Mentzer, 2005; Min, Roath, Daugherty, Genchev, Haozhe Chen, Arndt & Richey, 2005).

In the literature, logistics service providers are classified in different ways. According to Hertz and Alfredsson (2003) 3PL providers can be divided into four sub-categories: standard 3PL providers, service developers, customer adapters and customer developers. In 2006, Steffansson classified the different third-party logistics service providers into three groups: carriers, logistics service providers and logistics service intermediates. Sink and Langley (1997) state that even though no definition of third-party logistics satisfies all industry observers, most of them agree in the principle that it consists of at least the combination of two activities, such as final product warehousing and outbound transport to the customer.

Outsourcing is “an arrangement of cooperative inter-firm relationships based on mutual trust between partner organizations, for improving performance of the inter-firm transactions” (Parker & Russel, 2004, p.56). There can be many incentives for retailers to outsource logistics activities. According to Scott, Lundgren and Thompson (2011), the most common reasons for a supply chain to engage in 3PL outsourcing are: increase operating flexibility, reduce fixed assets and increase efficiency. 3PL companies should provide services that are in line with six basic company outcomes: cost, responsiveness, security, sustainability, resilience and innovation (Melnyk, Davis & Spekman, 2010).

According to Meixell and Norbis (2008), there are different criteria regarding the selection of 3PL provider. When evaluating the 3PL provider, a set of criteria must be defined. They can typically include cost, quality, capacity, delivery capability, and finan-
cial stability. Furthermore, cultural compatibility, customer references, operating and pricing flexibility and IT capabilities can play an essential role in selecting 3PL providers (Vaidyanathan, 2005). The outsourcing of 3PL services also includes risk aspects. According to Reagan and Wang (2003) there can be the possibility of inefficient management; latent information asymmetry; loss of logistics innovative capacity; hidden costs; dependence on the third party logistics provider; loss of control over the third party logistics provider; problems of evaluating and monitoring third party logistics provider performance and conflicts between the company cultures.

Baker (1998) gives a thorough description of retailing functions, which may be summarized as the physical movement and storage of goods; the transfer of title to goods; the provision of information concerning the nature and use of goods; the standardization, grading and final processing of goods; the provision of ready availability; the assumption of risk concerning the precise nature and extent of demand and the financing of inventory and the extension of credit to consumers.

According to Fernie and Sparks (2004) with appropriate logistics, retailers’ products can achieve better presentational quality, possibly be cheaper, and have a longer shelf life. Fernie and Sparks (2004) have identified five components of the logistics mix, which retail logistics management must be able to manage efficiently. These are storage facilities; inventory; transportation; unitization and packaging; and communication.
3 Methodology

The following chapter presents to the reader the research theory and strategy which was implemented in order for this research to be conducted according to scientific business research principles. Moreover, it presents the research methods which are used to collect the primary and secondary data as well as why these methods were selected as the most appropriate for this research.

3.1 Research characteristics

Research can be defined as a process that someone conducts in order to find out things systematic way, and therefore increase their knowledge (Saunder, Lewis & Thornhill, 2009). It is a process of creating specific questions and systematically finding answers to them. In general science is an intellectual process, which aims to help understand the natural universe (Graziano & Raulin, 2010). Ghauri and Grønhaug (2005), emphasizes the importance of the two phrases ‘systematic way’ and ‘to find out things’. ‘Systematic’ highlights that the research is based on logical relationships and not just on beliefs. The phrase ‘To find out things’, suggests that there can be several possible purposes for the research. These include describing, explaining, understanding, criticizing and analyzing (Ghauri and Grønhaug 2005). Moreover, the phrase also suggests that the research must have a clear purpose or set of ‘things’ that it wants to find out such as the answer to a number of questions (Saunder, Lewis & Thornhill, 2009). Scientific research is a way of thinking. It is at some extent similar to everyday thought, but it is, however, more formalized and deliberate, and therefore more accurate and reliable (Graziano & Raulin, 2010). This research involves the explanation of the methods used in collecting the data. Furthermore, it argues why the results collected are meaningful and explains the limitations that are related with them.

3.2 Research approach

In the beginning of the research it is important be clear about the research structure and decide which research approach would be best for the research. According to Saunder et al. (2009), commonly used alternatives to construct a research are deductive and inductive approach; and they are based on the different method of reasoning.

In the deductive approach, the research process begins with development of theory and hypothesis, and it is then followed by observation through data, information and confirmation. Thus, in this approach researcher starts from something more general and concludes to something more specific. The inductive approach, however, is the opposite, as it is based on empirical evidence and moves from specific observations to broader generalizations and theories. In this approach, data are collected and theory developed as a result of the data analysis (Saunder et al. 2009). According to Trochim and Donnelly (2007), these two methods have very different characteristics and “feel” when conducting a research. Inductive reasoning is more open-ended and exploratory. Deductive, however, is more narrow and concentrated in testing or confirming hypotheses. Figure 3.1 illustrates the differences between these two research methods.
Figure 3.1 Deductive and inductive research approaches (Vignali & Zundel, 2003, p. 208).

For this research it is difficult to define which scientific approach is specifically followed. The research is based on the existing theories and literature which has been presented in the literature review, and based on this; the authors reached the research’s results and conclusions. However, the research of this thesis do not create, test of confirm hypotheses. Moreover, at the end of the research the thesis presents a model (theory) for 3PLs to create competitive advantage. Thus, it can be stated that the research contains both inductive and deductive elements.

3.3 Research types

In the research methodology literature, there are two main types of research. The first one is the quantitative and the second one is the qualitative. The terms quantitative and qualitative have been broadly used in business research to differentiate data collection techniques and data analysis procedures. In order to distinguish the difference between those two, is to separate numeric and non-numeric data. Quantitative data is commonly used as a synonym for any kind data collection technique that generates or uses numeric data. Qualitative, on the other hand, is used as a synonym for any kind of data collection technique that generates or uses non-numeric data (Saunder et al. 2009).

According to Bryman and Bell (2007), the fundamental differences between these strategies are based on the principal orientation to the role of theory in relation to research. Malhotra and Birks (2007) characterize qualitative research as an unstructured and ex-
ploratory research technique which is based on small samples and it intends to provide insight understanding about the research area. Quantitative research, on the other hand, can be described as a research technique which seeks to quantify data and typically applies some form of statistical analysis. It is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. Qualitative research, on the other hand, is concerned with phenomenon relating to or involving quality. (Malhotra & Birks, 2007).

Depending on the desired outcome of the research, researchers may choose between quantitative or qualitative designs. However, a combination of these two types of research is also possible. Johnson and Christensen (2007) identify this type of method as a mixed research. In this type of research quantitative and qualitative methods, techniques, or other characteristics are mixed in one overall study. Thus, in mixed research, the researcher uses quantitative paradigm for one part of the research and qualitative paradigm for the other part of the study.

For this thesis, the authors have chosen to use both the quantitative and the qualitative research approach by using numeric data through questionnaires and qualitative data through interviews. The quantitative approach enables the collecting of large samples through questionnaires and helps to analyze the data more efficiently. The qualitative approach on the other hand helps to provide more insight and understanding about the research area.

3.4 Collection of data

The collected data can be divided in primary and secondary data. The primary data is all the data that is fresh and collected for the first time, specifically for the research project being undertaken. The secondary data, on the other hand, are all the data collected by someone else for a research project. Secondary data can be collected through for example academic articles and other research papers. Researchers should decide which type of data to collect for the study and select an appropriate method for the data collection (Kothari, 2004; Saunders et al., 2009). This research relies mainly on primary data which is collected through survey questionnaires and semi-structured interviews. Besides the primary data, the research also utilizes some secondary data, collected from previous research in 3PL sector.

3.4.1 The survey questionnaire

According to deVaus (2002), questionnaire is commonly used term to include all the data collection techniques in which each respondent is asked to answer the same set of questions in the same order. The data collected by this technique is, however, unlikely to be as wide-range as those collected by other research strategies. This is partially because there is a limit to the number of structured questions asked in the questionnaire.

Before choosing questionnaire to collect data, other methods should be also taken into consideration. According to Saunders et al. (2009), researchers should evaluate other possible data collection methods and choose the most appropriate ones for the research questions and objectives. For example, interviews can help researchers to have a deeper
knowledge and a more holistic view of the study object. Moreover, interviews are more flexible compared with the surveys. However, interviews are usually costly, and can take more time to conduct and it is difficult to compare and analyze the collected data. Questionnaires are not typically good for research which requires large numbers of open ended questions but work the best with standardized questions which can be interpreted the same way by all respondents (Robson, 2002).

According to Kothari (2004), successful questionnaire should be relatively short and simple. The questions should follow logical order, starting from easy and moving to more difficult ones. Moreover, the technical terms and vague questions should be avoided. According to Crowther and Lancaster (2009), question types in questionnaire can be divided into two categories: closed and open questions. According to Kothari (2004), the open-ended questions should be avoided in the questionnaire as they are often difficult to summarize and analyze. Open questions are most suitable for interviews, as they often go deeper than closed questions and offer deeper insights (Crowther & Lancaster, 2009).

For this research, the authors compiled a questionnaire, which included in total 13 closed questions. The questions were based on the literature review and the five research questions mentioned in the introduction of this thesis. Besides the first two questions, the rest follow a six scale evaluation. According to Garland (1991) the interviewees desire to please the interviewer can be minimized by eliminating the neutral point. Thus, the reason to choose the six scale evaluation for this research was to avoid the respondents to choose neutral. More specifically, with six scale evaluation, the respondents were forced to choose either positive or negative. In the beginning of the questionnaire, the question 1 and 2 attempts to discover where do retailers’ products come from and what kind of logistics activities do they outsource to 3PL providers. In question 3 a list of 11 pre-selected criteria were drawn, in order to find out which are the most important criteria in selecting the provider. Question 4 and 5 attempts to find out how satisfied the respondents are with the current 3PL provider. The questionnaire also includes questions 6 and 7, which tries to find out the incentives for retailers to outsource their logistics activities and how the 3PL provider has helped them to achieve these objectives. Questions 8 - 12 are all related to value-added services. These questions were drawn in order to get information regarding the respondents’ needs for extra value-adding activities. In the last question, the respondents are asked to evaluate how willing they be to change the current 3PL provider. The complete questionnaire can be found in appendix 1. The details are also mentioned in section 4.2.

The authors of this thesis decided to choose the questionnaire as data collection method as it is an easy and fast way of collecting a large amount of information in a non-threatening way. Questionnaires can be completed anonymously, the cost to conduct them is low, the researcher can collect a large amount of data and it is easy to compare and analyze. In general, questionnaires help the respondents to respond faster as interviews are not needed.

According to Saunders et al. (2009), the design of a questionnaire depends on how it is administered and the amount of contact with the respondents (Figure 3.2). Self-
administered questionnaires are commonly completed by the respondents. These kind of questionnaires are conducted electronically using either the Internet (Internet-mediated questionnaires) or intranet (intranet-mediated questionnaires), posting the questionnaires to the respondents who return them by post after completion (postal questionnaires), or delivered by hand to each respondents collected later delivery and collection questionnaires. The interviewer-administered questionnaires, however, are recorded on the basis of each respondent’s answers. These questionnaires can be conducted either by using telephone (telephone questionnaire) or by using structured interviews. Structured interviews refer to questionnaires where the interviewer meets the respondents physically, face to face. These interviews, however, differ from semi- and unstructured interviews in that there is a defined schedule of questions which interviewer should hold to. (Saunders et al., 2009).

Figure 3.2 Types of questionnaire (Saunders et al., 2009).

When choosing the type of questionnaire for the research, the factors related to research questions and objectives must be taken into consideration. Saunders et al. (2009) lists five characteristics which influence the choice of the questionnaire type:

- The characteristics of the respondents;
- The importance of reaching a particular person as respondent;
- The importance of respondents’ answers not being contaminated or distorted;
- The size of sample required for the analysis;
- The response rate;
- The types of question needed to ask in collecting the data;
- The number of questions needed to be asked to collect the data.

The questionnaire type chosen for this research contains both self- and interviewer-administered characteristics. Thus it does not follow strictly the Saunders et al. (2009) questionnaire design illustrated in the Figure 3.1. The survey was conducted in Jönköping area, by choosing 45 retailers’ store managers as survey participants. Five of these participants were chosen for a more in-depth interview, which will be discussed more detailed later on this research. As mentioned, the questions for the questionnaire are based on the 5 research questions and theoretical framework of the thesis. The authors
decided to keep the questionnaire as short as possible and have a logical structure, so that it is easy to follow and answer. Moreover, the authors have tried to avoid using over-complex language and leading questions. In most of the questions respondent is asked to rate from 1 to 6, where one is the low and 6 is high. By this rating technique, the survey tries to find out the respondents level of agreement or satisfaction in certain areas.

3.4.2 The interview

According to Crowther and Lancaster (2009), interviews are one of the major categories of techniques for collecting data through questioning. An interview is a deliberate discussion between two or more people (Kahn and Cannell 1957). Furthermore, Merriam (1998) states that interviewing is a common method collecting qualitative data. One way to classify interviews is to divide them into standardized and non-standardized interviews. Structured interviews are seen as standardized and semi-structured and unstructured interviews as non-standardized (Saunders et al., 2009).

Structured interviews involve using questionnaires with standardized or identical set of questions. As structured interviews are used to collect qualitative data and referred to as “quantitative research interviews”. (Saunders et al. 2009) Semi structured interviews, however, are non-standardized and are often referred to as “qualitative research interviews. (King, 2004; Saunders et al., 2009) In semi-structured interviews the researcher has a list of themes and questions to be covered (Saunders et al., 2009). According to Saunders et al. (2009), semi-structured interviews try to get an answer not only to questions “what” and “how” but also to question “why”. Unstructured interviews, on the other hand, are informal. These types of interviews are suitable for exploring in depth a general area of the interested research topic. Thus, they can be referred as “in-depth interviews”. In unstructured interviews, the interviewee has the opportunity to discuss freely about the events, behaviour and beliefs related to the topic area. In unstructured interviews there are no pre-set questions, however, the interviewer must a clear aim of the interview (Saunders et al., 2009).

For this research, five semi-structured face-to-face interviews were carried out with store managers of five retailer stores. These interviews focused on finding out the logistics needs of particular retailer. Furthermore, they aimed to find out what sort of additional 3PL services would the retailers be willing to outsource. A semi-structured interview schedule was designed to collect data flexible way from the store managers. In total five subjects were discussed with the interviewees. The basic questions that were used during the interviews are presented in the appendix 2. These questions were related to current outsourced logistics activities of retailers, selection criteria, level of satisfaction, incentives of outsourcing and value-added services. The questions were based on the questionnaire and they were designed to receive more in-depth information regarding the questionnaire data.
3.5 Sample selection

Kothari (2004, p.152), defines sampling as a process of “obtaining information about an entire population by examining only a part of it.” Whatever the research question(s) and objectives are, it is always necessary to consider whether sampling is needed. Sometimes it may be possible to collect and analyze data from every possible case or group member. This, however, is quite rare in business research as for many research questions and objectives it will be impossible to collect or analyze all the data available due to restrictions of time, money and more often also restricted access of information. Thus, sampling is often necessary to reduce the amount of data needed to be collected. Sampling techniques provide various methods that enable to collect data from sub-group rather than from all possible cases or group members (Saunders et al., 2009). According to Kothari (2004), there are many sample designs available for a researcher to choose from. Some of the designs are more precise and easier to apply than others. Thus, researcher should select and prepare a sample design which is reliable and appropriate for the particular research. Selecting a sample is equally important whether planning to use interviews, questionnaires, observation or some other data collection technique (Saunders et al., 2009).

Saunders et al. (2009) divides the sampling techniques into two types: probability or representative sampling and non-probability or judgmental sampling. In probability sample the chance of each case being selected from the population is known and often equal for all of these cases. According to Saunders et al. (2009), probability sampling enables to answer research questions and achieve objectives which require estimating statistically the characteristics of the population from the sample. Probability sampling is often used in survey or experimental research strategies. Non-probability samples, however, the chance of each case being selected from the total population is unknown and it is impossible to answer research questions or achieve objectives which require statistical reasoning about the characteristics of the population.

For this research, non-probability sampling technique is used to collect data. According to Saunders et al. (2009) probability technique is commonly used for survey-based research strategies, where observations from the sample are needed in order to answer the research questions or meet the research objectives. However, non-probability sampling is used in this research, as it is characterized by the fact that it is not based on random selection of sample but rather on a certain set of desirable characteristics.

The sample frame is a complete list of all cases in the population from which the sample will be formed. As in this research the research questions are concerned with the retailers in Jönköping area, the sample frame will be the retailers in Jönköping area. Reason to choose retailers in Jönköping as a sample frame was that they generally represent the common users of logistics services provided by logistics companies. More specifically, the researchers decided to conduct the survey in downtown Jönköping and at “A6”, a local shopping center outside downtown. The reason to do so was that most of the retailers in Jönköping are located in these areas. Deciding the suitable sample size is also an important stage in probability sampling. The larger the sample’s size is, the lower the error in generalizing to the population. The sample size was selected to be 45 partici-
pants due to the limited amount of stores in Jönköping area. Moreover, in order to get in depth information about the research topic, additional five interviews were conducted. The interviewees were chosen based on survey results, regarding the amount of 3PL services that they use, the type of the industry and the store manager’s knowledge regarding the use of logistics services.

3.6 Data analysis

According to Yin (2003), data analysis is a complex process which may include different strategies and procedures. In order to solve a research problem, it is important to choose suitable strategy and procedures for data analysis (Kumar, 1999). According to Collis and Hussy (2003), the reduction and structuring the data and using them in an appropriate way for the analysis and conclusions.

For this research both qualitative and quantitative data collection methods are used. For qualitative data analysis, the analysis process can be divided into three main types: summarizing, categorization and structuring. In this research both summarizing and categorization are used. When summarizing, only the relevant information from the collected data are taken into consideration, by compressing the data in brief statements. Categorization involves both developing meaningful categories and attaching the data into these categories. Structuring is the process used for narrowing the data by creating specific structures (Saunders et al., 2009). For this research, the qualitative data collected through interviews is summarized in order to get the relevant information for the analysis. Moreover, the data is categorized mainly in based on the research questions.

Quantitative data collected, is always in raw form, therefore it needed to be processed in order to turn them into meaningful information (Saunders et al. 2009). For this research, techniques such as graphs, tables and statistics are used in order to turn the quantitative data into information. After the collection, the data was input to a computer software and checked through. MS Excel was used for this process. After the input, the most appropriate tables and diagrams were created in order to explore and present the data. Finally, the weighted mean, which determines the relative importance of each quantity on the average, is used to analyze and compare the data.

The weighted mean can be calculated as:

$$\bar{x} = \frac{1}{W} \sum_{i=1}^{n} w_i x_i$$

Where discrete set of numbers \{x_1, x_2, ..., x_n\} are multiplied by weights \{w_1, w_2, ..., w_n\} and the sum of the value is divided by the sum of weights.

3.7 Reliability and validity

One of the key issues in data collection is related to the quality of data. The most important criteria in evaluating the business and management research quality are reliability and validity (Crowther & Lancaster, 2009).
According to Crowther and Lancaster (2009), reliability relates to whether the particular data collection approach will give the same results in different occasions. Saunders et al. (2009) defines the reliability to the extent to which data collection techniques or analysis procedures will yield consistent findings and it can be evaluated by posing the three following questions:

1. Will the measures give the same results on other occasions?
2. Can similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?

According to Robson (2002), there can be four threats to the reliability of the research. First one is the subject or participant error. This means different times in conducting the research may generate different results. Saunders et al. (2009) suggests that, risk of participant error can be reduced by choosing the most “neutral” time to conduct survey or interview. For this research, in order to avoid participant error, the questionnaire has been conducted over a period of days. Another threat to the reliability may be subject or participant bias. For example, interviewees may say something that their bosses want them to say. Thus, in this research the researchers designed a questionnaire which ensures the anonymity of the respondents. Moreover, when conducting the interview for this research, names of the company and the interviewees are intentionally left anonymous. Third threat to the reliability of the research is the observer error. For example, if there is more than one person conducting the interviews, there are different ways of asking questions to elicit answers. In this research, two people were conducting the interviews. However, in order to reduce the observer error, both of the interviewers were attending the interviewing session. Finally, there may be an observer bias. This means that there is risk of different ways of interpreting the replies. Again, as the interviews were conducted with two interviewers, the risk of interpret difference is small.

Validity refers to whether the findings are really what they appear to be (Saunders et al., 2009). It relates to the extent if the chosen data collection method measures what it is supposed to measure. In general, researchers must assess which of the chosen data collection methods will produce data that is valid (Crowther & Lancaster, 2009). In this research, researchers have carefully assessed different data collection methods, in order to achieve valid results. Questionnaire was chosen for this research as a data collection method, in order to collect as many point-of-views as possible. Moreover, interviews were conducted in order to get deeper understanding about the research problem.
4 Empirical study

The following chapter presents the findings from the empirical study. This research was conducted in order to determine how 3PL companies can create comparative advantage by meeting the needs of retailers. Through quantitative and qualitative approaches, the researchers developed a survey questionnaire and interview questions that would gather the data. The findings are a result of five interviews and a survey of 45 retailers in the Jönköping area. This chapter starts with presenting the results of the survey and continues with the interview findings.

4.1 Overview of the empirical material

The survey was selected as the main research strategy and data collection method for this research. The survey was conducted through a questionnaire which contains both self- and interviewer-administered characteristics. However, due to a relatively small amount of survey respondents, and in order to get more in-depth information about the findings, an additional five interviews with the retailers were conducted. For both surveys and interviews, the store managers were selected as respondents. This research follows the principals of confidentiality and respects the privacy of the respondents. Thus, the detailed information regarding the retailers, such as names of the interviewees and retailer stores were intentionally left anonymous. The study, however, reveals some level of information of each participant, critical for the research and key findings.

4.2 The survey

As discussed in chapter 3 and the methodology a survey questionnaire was undertaken. The survey is based on a questionnaire of ten different closed questions. The questions for the survey were drawn by keeping mind the research questions and problem discussion mentioned in the introduction chapter. Before the actual survey questions, the respondent is asked to identify the area of business they are operating in, such as sport; electronics; clothing; shoe or interior design. This is followed by specifying the number of employees in the store. 21 out of 45 respondents identified themselves as either clothes or shoe retailers. Second largest group of respondents were the interior design retailers, with a number of 5. Moreover, three of the respondents were operating in the field of electronics and two in sport equipment retailing. Rest 14 retailers were operating in various other retailing fields.

In the first question the respondents were asked to specify where their products mainly come from; by selecting out of three different sources, which were local manufacturers, wholesalers/agents or through direct import. The respondents also had the possibility to select ‘other’, if the source of their products would not fall into any pre-given categories. The question regarding the origin of the retailers’ products were selected for the survey, in order to address whether the retailers need domestic or overseas logistics services. Moreover, this question helps the researchers to analyze whether the logistics services are arranged by the retailer or by the provider of the products.
As seen from the table 4.1, according to the survey respondents, the retailers purchase their products either through local agents and wholesalers in Sweden, or by importing them by themselves. Most of the retailers participated in the survey, used local agents for procuring the products to the retail stores. Many of the larger retail stores, however, seemed to use both local agents and directly importing the products from the origin countries.

After identifying the origin of the retailers’ products, the respondents were asked to select the logistics activities they outsource to 3PL provider. Again, the respondents had a possibility to choose out of 12 the most common logistics activities offered by 3PL providers, or select ‘other’ if the outsourced logistics activity was not mentioned on the list of 3PL services. The respondents had possibility to choose more than one service. As seen from the figure 4.1, the most common logistics services outsourced to 3PL were domestic transportation. All of the 45 respondents used domestic transportation at some steps of the supply chain, in order to get the retail products to the desired destination. Furthermore, reverse logistics services were also commonly used to transport the damaged or defective products, in order to enable reverse flow of goods. However, more advanced 3PL services such as cross-docking, product assembly, information technology, or consultancy services were not acquired by the retailer according to the respondents.

Figure 4.1 Logistics services outsourced to 3PL providers.

### 4.2.1 Selection Criteria

Third question was related to 3PL selection criteria of the retailers. The respondents were asked to grade how important the each criteria in selecting a third party logistics
provider were. These criteria were price; financial stability; reliability; quality of the services; flexibility; trust and fairness; experience; variety of services; problem solving ability; information technology capability and environmental friendly operations. The respondents were asked to give a grade from 1 to 6, where ‘1’ represents the lowest level and ‘6’ the highest level of importance. As seen from the table 4.2, the most important criteria in selecting the 3PL provider for retailers were price and overall trust and fairness of the provider. The second most important criteria in selecting 3PL provider were reliability of the provider. However, criteria such as variety of services, information technology capability or financial stability of the provider did not receive the highest grade (6) from any of the respondents. Furthermore, general experience and environmental friendly operations of the provider received both highest grades from only of the providers. 13 of the 45 respondents were not able provide information regarding the question 3 as they were not involved in the process of selecting the 3PL provider.

Table 4.2 Third party logistics provider selection criteria for retailers

<table>
<thead>
<tr>
<th>Criteria/ Grade from 1=Low to 6=High</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>5</td>
<td>12</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial stability</td>
<td>1</td>
<td>9</td>
<td>11</td>
<td>7</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>1</td>
<td>3</td>
<td>14</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of the services</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>9</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>1</td>
<td>14</td>
<td>7</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Trust and fairness</td>
<td>2</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>1</td>
<td>10</td>
<td>11</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Variety of services</td>
<td>8</td>
<td>13</td>
<td>3</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problem solving ability</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Information technology capability</td>
<td>7</td>
<td>14</td>
<td>8</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental friendly operations</td>
<td>5</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

4.2.2 Level of satisfaction

After identifying the 3PL selection criteria, the respondents were asked to grade from one to five, where ‘1’ represents the lowest level and ‘6’ the highest level of satisfaction regarding the price, reliability, quality of services, flexibility, trust and fairness, variety of services, communication and problem solving, information technology capability, delivery frequency and transportation safety of the 3PL provider. Table 4.3 reveals that all 11 fields received good general scores and the retailers were generally satisfied in all those fields. However, the retailers were the most satisfied on the transportation safety of the 3PL provider. 16 of the respondents gave the highest grade possible grade regarding this field. When it comes to the problem solving skills of the 3PL provider, five of the respondents graded it with number two, which indicates some level of dissatisfaction. Moreover, two of the respondents gave the poorest grade for the 3PL provider’s flexibility.
Table 4.3 3PL provider service satisfaction

<table>
<thead>
<tr>
<th>Field / Grade from 1=Low to 6=High</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>7</td>
<td>11</td>
<td>5</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>3</td>
<td>10</td>
<td>19</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of services</td>
<td>1</td>
<td>2</td>
<td>17</td>
<td>16</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>14</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Trust and fairness</td>
<td>2</td>
<td>4</td>
<td>24</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variety of services</td>
<td>5</td>
<td>17</td>
<td>17</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication and problem solving</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>Information technology capability</td>
<td>3</td>
<td>3</td>
<td>14</td>
<td>17</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Delivery frequency</td>
<td></td>
<td></td>
<td>7</td>
<td>24</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Transportation safety</td>
<td>3</td>
<td>3</td>
<td>22</td>
<td>16</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the fifth question, respondents were asked to give general level of satisfaction of their current logistics service provider. The grading was again from 1 to 6, where ‘1’ represents the lowest level and ‘6’ the highest level of satisfaction. The results can be seen from the table 4.4. Total 44 participants were able to answer this question. The general level of 3PL satisfaction gained 5.1 average score. None of the respondents gave grade 1 or 2 for the provider.

Table 4.4 General level of satisfaction of the current 3PL service provider

<table>
<thead>
<tr>
<th>Grade from 1 = Low to 6 = High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

4.2.3 Incentives to outsource

The questionnaire strived also to find reasons and incentives for the retailers to outsource their logistics activities. In the 6th question, the retailers were asked to give again a grade from 1-6, to what extend have the 7 factors mentioned in the table 4.5, made the company to outsource the logistics activities. Only 32 of the 45 respondents were able to provide information regarding this issue. According to the respondents, the most important reason to outsource logistics activities to 3PL providers was to improve company’s focus. Moreover, reducing transportation costs was also seen as an important reason for outsourcing logistics activities. However, obtaining the access to other markets was seen as the least important reason or incentive to outsource the logistics activities to 3PL providers.

Besides the reasons and incentives in outsourcing the logistics activities, the respondents were asked in question 7 to explain to what extent the 3PL provider has helped the retailer in the same fields mentioned in the question 6. As seen from the table 4.6, 21 of the respondents gave the highest grade for 3PL provider in reducing transportation costs.
and improving company’s focus. However, the 3PL providers received lowest grade when it comes to obtaining access to other markets.

Table 4.5 Reasons and incentives in outsourcing 3PL activities

<table>
<thead>
<tr>
<th>Field / Grade from 1=Low to 6=High</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce transportation cost</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Reduce warehousing costs</td>
<td></td>
<td></td>
<td>8</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Improve company’s focus</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Improve delivery times</td>
<td>5</td>
<td>7</td>
<td>9</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Obtain access to other markets</td>
<td>18</td>
<td>8</td>
<td>3</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Be more competitive</td>
<td>3</td>
<td>8</td>
<td>13</td>
<td>8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.6 The 3PL providers ability to create value

<table>
<thead>
<tr>
<th>Field / Grade from 1=Low to 6=High</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce transportation cost</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td>9</td>
<td>21</td>
</tr>
<tr>
<td>Warehousing costs</td>
<td></td>
<td></td>
<td>5</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve company’s focus</td>
<td></td>
<td></td>
<td>2</td>
<td>9</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Improve delivery times</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>10</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Obtain access to other markets</td>
<td>13</td>
<td>12</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Be more competitive</td>
<td>1</td>
<td>12</td>
<td>13</td>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2.4 Additional services

Question 8, 9 and 10 addresses whether the retailers need more customized, advanced information technology, or consultancy services. As presented in table 4.7, most of the respondents did not need any of these extra services and graded them very low. However, regarding the need for customized services, 5 of the respondents graded it 4.

Table 4.7 Retailers need for additional services (grade from 1= Low to 6=High)

<table>
<thead>
<tr>
<th>Need for more advanced information technology services</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for more advanced information technology services</td>
<td>35</td>
<td>9</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for more customized services</td>
<td>9</td>
<td>20</td>
<td>10</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Need for consultancy services</td>
<td>38</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the table 4.8 the willingness of retailers to use value-added services provided by 3PL providers is presented. As it can be seen from the table the willingness for these services is very low. Lastly the retailers were asked, if they were willing to change 3PL providers. Most of them stated that they are satisfied with the current provider and there is no need for a change.
Table 4.8 The willingness of retailers to use value-added services offered by 3PL providers

<table>
<thead>
<tr>
<th>Field / Grade from 1=Low to 6=High</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaging</td>
<td>27</td>
<td>11</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Labeling</td>
<td>28</td>
<td>13</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bar-code labeling</td>
<td>41</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Price tagging</td>
<td>34</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product assembly</td>
<td>41</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality control</td>
<td>17</td>
<td>11</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Door to door deliveries</td>
<td>12</td>
<td>5</td>
<td>11</td>
<td>7</td>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>

4.2.5 Summary of the survey

According to the survey respondents, domestic and international transportations as well as reverse logistics were the most common outsourced logistics activities. When it comes to 3PL provider selection criteria, the most important criteria for retailers were trust and fairness, price and reliability of the provider. Moreover, the respondents were the most satisfied with their current 3PL providers in the fields of transportation safety, delivery frequency and trust and fairness. Reasons and incentives to outsource logistics activities to 3PL providers were mostly related to improving company focus and reducing transportation costs; and according to respondents, the 3PL providers were also the most able to create value in those particular fields. Retailers’ needs for additional value-added services offered by 3PL providers were low.

4.3 The interviews

After the primary data collection from the questionnaires, in addition the authors decided to conduct interviews in order to obtain more reliable and in-depth information regarding the research topic. The interview questions are based on the initial questionnaire and are presented in the appendix 2. Apart from the questionnaires, the authors decided that a more in-depth discussion with the local retailers was necessary and should be conducted.

Based on the data, collected and analyzed from the questionnaires, the major amount of retailers in Jönköping area are related to the industries of clothes/shoes, interior design, electronics and sport equipment. There are a lot of different categories of retailers in the Jönköping area, however based on the delimitations of the research; these are the main types of retailers that participated in the survey.

The authors decided to conduct interviews with in total five retailers; two clothes retailers, one retailer in the sector of the interior design, one shoe retailer and one sport retailer. The decision for the selection of the interviewed retailers was based on the amount of the stores in each category. Some general information regarding the companies are
presented, however the names of the interviewees and the companies are confidential and thus will not be published.

The interview questions were structured and sometimes modified in order to collect information regarding the following subjects:

- The current logistics activities that the retailers outsource
- According to the retailers, what is the most important criteria in selecting 3PL providers
- The level of satisfaction with the outsourced activities
- The main motives to outsource the logistic activities
- What other activities do the retailers need that 3PL providers can provide?

4.3.1 Retailer A

The first retailer interviewed belongs to the field of clothing industry. The company has more than 75 stores in Sweden, Norway and Finland. Their target group is mainly young people, both males and females. The retailer sells not only its own brands but also international well-known brands. The interview was conducted with the manager of the store which is located in the main trade street in the city center of Jönköping.

According to the store manager there are usually five employees working in the store daily. All the products sold in the store are imported directly by the retailer itself and come mainly from Italy.

Regarding the use of 3PL provider, the store manager mentioned that in each region they use different 3PL providers. This specific retailer uses two 3PL companies for their own brands and more than four for the international brands. The company has its own warehouse in Gothenburg, and the only logistics activity that they outsource to 3PL providers is the domestic and international transportation. The products are assembled and packed in the manufacturing level and no value-added services are needed after this stage. Even though, they do not have standard reverse flows, the company uses the same 3PL provider whenever it is necessary; in order to send back damaged products.

When asking the question regarding the 3PL selection criteria, the store manager stated that it is not a decision that is taken at the “store level” but the responsibility of the head office. The head office collects feedback regularly from the retailer stores, regarding the 3PL providers’ performance. However, regarding local transportations, which is store manager’s responsibility, the most important criteria are the price and the fairness of the provider. This is followed by the reliability and the problem solving ability of the 3PL provider. The quality of the services, the experience and the environmental friendly operations of the provider represents the lower level of importance for the retailer; followed by the financial stability, the flexibility and the information technology capability of the provider. As the store manager mentioned, the company uses only the transportation services, thus the variety of services offered by the 3PL provider represents the lowest level of importance.
Another topic discussed with the store manager was the degree of satisfaction of the services offered by the 3PL provider. According to the store manager they are very satisfied with their current 3PL provider. Thus, in a scale from 1 to 6, where ‘1’ represents the lowest level and ‘6’ the highest level of satisfaction, the store manager gave the second highest score (5), for the most of the fields. The only field with lower score is the field of flexibility which was scored as 4. According to the store manager, the retailer have had some problems with the 3PL provider in making changes for the delivery schedule, thus the retailer gave 4 for flexibility.

Regarding the incentives for retailer to outsource their logistics activities, the store manager did not have official information. However, the manager believes that outsourcing the transportation activities can reduce the transportation costs and help the company to focus on its own core activities. When the interviewers asked if the store manager believes that the 3PL providers have helped the company to achieve these targets the answer was positive.

In the next group of questions regarding the needs of the retailer, when the interviewers asked the store manager if they need more advanced information technology services the answer was negative. The information system that they use is connected only with the head office and not with the transportation company. Moreover, the store manager mentioned that they are not willing to implement new technologies such as “virtual mirrors” because of the high cost. Furthermore, according to the store manager they do need neither consultancy services nor more customized services.

In the next question, regarding value adding operations, the store manager stated that most of these operations are carried out in the manufacturer level except from the price tagging. However, the company is not willing to outsource the price tagging because they believe that they can perform this operation easily by themselves. Furthermore, the retailer believes that there is a risk of incorrect price tagging at the 3PL provider level.

The retailer is very satisfied its current 3PL provider and is not willing to change it. However, if there would be a need for change, it would not be difficult as the level of integration and commitment between retailer and 3PL providers is very low.

4.3.2 Retailer B

The second interview conducted was with a retailer that belongs to the industry of interior design. It is a chain of four stores in the south of Sweden. It sells products for interior design and house decoration. The store that was selected for the interview is located in the center of Jönköping, in the main trade street. The interview was conducted with the manager of the store. The store was opened in March 2012 and thus relatively new. There are three employees working in the store. The retailer obtains the products from wholesalers and agents.

When the authors describe to the store manager the meaning of 3PL providers and if they use any, the answer was positive. They use 3 different 3PL providers but only for domestic transportation.
In the question regarding the selection criteria of the 3PL provider, the store manager mentioned the reliability and the fairness of the 3PL provider as the most important criteria. In the second position, according to the store manager is located the factor flexibility followed by the price and the environmental friendly operations. These factors are followed by the quality of the services, which is located one position above the problem solving ability.

The next question was related with the retailer’s satisfaction of the provided services. The store manager said that it was too early to have an opinion since the store is quite new. However, until now they have not have any problems.

The main factors that drove the retailer to outsource the transportation activities were related to the reduction of transportation costs and the improvement of delivery times. Warehousing costs are not a driver for outsourcing since the retailer uses its own warehouse which is located in the store. The factor related to company’s focus was not an outsourcing driver for the store manager. When asked if the 3PL provider had helped the company to achieve in their targets, the store manager replied it was too early to express an opinion regarding this topic.

The store manager was also asked if the retailer needs any advanced IT-services or consultancy services. According to the store manager, there was no need for these kinds of services. However, there are some activities that they were considering to outsource such as bar-code labeling, packaging and labeling of the products.

In the last question the store manager mentioned that it is too early to think about changing TPL provider but if the company decides it, it will not be difficult.

4.3.3 Retailer C

The next retailer that was interviewed for the research belongs to the industry of clothes and fashion. This specific store has six employees. The retailer is selling clothes and accessorize for women and children. It belongs to a big chain with more than 450 stores in Sweden, Norway, Finland, the Baltic States, the Czech Republic, the Slovak Republic, Poland, Russia, Bosnia-Herzegovina and the Middle East. The interview was conducted with the store manager. However the knowledge of the store manager in some questions was limited because outsourcing decisions are taken at the head office. Thus it will be presented only the most important information gathered from this interview.

The products are imported directly and the company uses its own warehouse located in Gothenburg. The logistics activities the company outsource to 3PL providers are related to transportation and reverse flows at the end of each season collection. They use three different 3PL providers for transportation and reverse flows.

The store manager stated that she is not responsible for the selection of 3PL provider, and these decisions are taken from the head offices. However, her opinion regarding the performance of the providers is taken into consideration at the head office.
The most important outcome of the interview is the level of satisfaction of the retailer. The store manager mentioned that they have great communication level and relationship with the 3PL providers and they consider the provider very flexible. Moreover, the staff of the providers responsible for deliveries is very polite and helpful. They are very satisfied and they do not want to change 3PL providers.

The information that the store manager could provide in this subject was limited. However, the store manager mentioned that it is very convenient that they do not need to arrange all these issues regarding the transportation of the products.

Regarding the questions related to additional services from 3PL providers the store manager mention that it is not the store managers’ decision but believes that these services are not necessary for the company.

4.3.4 Retailer D

The next retailer that the authors interviewed belongs to the shoe industry. The retailer operates in Sweden, Denmark, Finland and Norway. The company’s target group is males and females without any age limitations. The retailer offers casual, exclusive as well as sport shoes of well-known international brands. Additionally, company has its own brands as well. The interview was conducted with the store manager of the store which is located in the city center of Jönköping. In the specific store usually work five employees.

The company import direct the products from different countries and uses its own central warehouse which is located in Stockholm. The logistics activities that the company outsources are related to domestic and international transportation. The manufacturers are responsible for the final product, thus any additional operations between manufacturers and retailer are not necessary.

The store manager mentioned that they had changed 3PL provider two weeks before the interview was conducted. There were a lot of delays especially in the international transportation of products and a lot of damages on the products as well. Even though, the store manager do not decide the 3PL provider, the problems that she reported with other store managers to the head office, made the company to reconsider the cooperation with the specific 3PL provider. Reliability and safety of the products seems to be the most important criteria for them.

The store manager stated that it was too early to evaluate the new 3PL provider; however until then there were no problems.

The information that the store manager could provide related to motives of outsourcing was limited. She did not know the official motives for outsourcing, however she believed that is impossible for a shoe company to own transportation assets just for the delivery of the products. Regarding the potential outsourced activities, the store manager stated that the manufactures finalize the products and no additional activities are needed after this stage.
4.3.5 Retailer E

The retailer that was interviewed last belongs to the sport industry. The retailer is one of the biggest sport retailers in the Scandinavia with more than 110 in Sweden, Denmark and Finland. The company sells clothes and sport equipment, targeting the whole family. The company sells not only its own brands but also well-known international brands. There are 2 stores in Jönköping and the authors conducted an interview with the store manager of the store which is located in the city center. This particular store has 14 employees.

The logistics activities that the retailer outsources are limited to the transportation of the products. Most of the products are produced in Asia and transported by ship to the company’s central warehouse which is located in Norrköping. Moreover, whenever it is necessary the company uses air-transportation as well.

According to the store manager, the company uses only one 3PL provider and the most important criteria in order to select 3PL provider are the reliability, the price and the quality of the services. As the store manager stated, they have deliveries every day in a specific time and it is very important the products to be in the store at eight o’clock in the morning.

The level of satisfaction is very good especially in the fields related to the reliability, the frequency of the deliveries and the transportation safety of the products. However, according to the store manager, there are some problems related to the communication, since the 3PL provider is a large company and it is very difficult to find a responsible person to be in contact with in order to solve occurred problems.

In the next question regarding the motives of outsourcing, the store manager mentioned the transportation cost and the company’s focus on its core activities. The store manager stated that a sport retailer does not need any assets related to transportation since it is not their core activity and there are other companies that can take care of that.

In the last part of the interview, the store manager mentioned that value-added services are not necessary to be outsourced since the manufacturers and the central warehouse are responsible for these.

4.3.6 Summary of the interviews

In the table 4.9 the summary of the interviews is presented. The main points of the interviews are provided in a format of key words. The outsourced logistics activities, the selection criteria, the level of satisfaction, the motives for outsourcing, the potential outsourced activities as well as some comments of each retailer are presented in the table.
### Table 4.9 Summary of the interviews

<table>
<thead>
<tr>
<th>Outsourced logistics activities</th>
<th>Selection criteria</th>
<th>Level of satisfaction</th>
<th>Motives of outsourcing</th>
<th>Potential outsourced activities</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Domestic &amp; international transportation</td>
<td>Price Fairness Reliability</td>
<td>5</td>
<td>Reduce transportation costs</td>
<td>None</td>
<td>Do not decide but influence the selection of the 3PL provider</td>
</tr>
<tr>
<td>B Domestic transportation</td>
<td>Reliability Fairness</td>
<td>Too early to evaluate</td>
<td>Reduce transportation costs, improve delivery times</td>
<td>Product packaging and labeling</td>
<td>New store</td>
</tr>
<tr>
<td>C Domestic &amp; international transportation, Reverse logistics</td>
<td>Limited knowledge</td>
<td>6</td>
<td>Limited knowledge</td>
<td>None</td>
<td>Do not decide but influence the 3PL selection</td>
</tr>
<tr>
<td>D Domestic &amp; international transportation</td>
<td>Reliability Transportation safety</td>
<td>Too early to evaluate</td>
<td>Limited knowledge</td>
<td>None</td>
<td>The company changed provider based on store managers comments</td>
</tr>
<tr>
<td>E Domestic &amp; international transportation</td>
<td>Reliability Price</td>
<td>4</td>
<td>Reduce transportation costs Improve company’s focus</td>
<td>None</td>
<td>Low level of problem solving ability (too large company)</td>
</tr>
</tbody>
</table>
5 Analysis

In this chapter, the analysis of the thesis is presented. The findings from the empirical study will be analyzed and connected with the theoretical framework.

5.1 Logistics needs in the retailing sector

3PL activities, logistics needs of retailers

Retailers are located in the last stage, before the final customers, in the supply chain and all parts of the supply chain are corporate so that the products will be available to the final customer. In chapter two the five components of the logistics mix of retailers are presented and analyzed. According to Fernie and Sparks (2004), retailers’ necessity for logistics operations is related to storage facilities, inventory management, transportation, unitization-packaging and communication.

On the other hand, 3PL providers offer a great variety of services which cover not only the retail sector but other industries as well. Transportation, warehousing, inventory management, value added services, reverse logistics and consultancy services are some of the services that 3PL providers offer.

As it can be seen in the figure 5.1, the activities that the retailers who participated in the survey use are domestic transportation, reverse logistics, international transportation, warehousing and inventory management.

![Figure 5.1 Outsourced logistic activities of the surveyed retailers.](image)

Figure 5.1 Outsourced logistic activities of the surveyed retailers.

From the whole participants, 45 in total, 98% outsource domestic transportation, 64% outsource reverse logistics, 42% outsource international transportation, 27% outsource warehousing and only 7% outsource inventory management. Comparing these results with the results of the 16th annual study of 3PL by Langley et al. (2012) there are some
differences. Both surveys present the domestic transportation as the dominant outsourced activity. However, warehousing seems to be less common outsourced activity in the retail sector in Jönköping area, compared with the results of the 16th annual study. Reverse logistics is located in the second position in this research, when in the 16th annual study is located in the 12th position. In both studies international transportation is located in the third position. According to the survey and interviews conducted, most of the products acquired by retailers came from either agents or wholesalers from Sweden. Retailers, who did not need any warehousing activities, claimed that this activity was taken care by the agents or wholesalers. The products acquired from the agents or wholesalers were stored in their own warehouses and delivered directly to the retailers’ stores whenever retailers placed an order. Thus, there was no need for outsourced warehouse or value-added services as most of these activities were taken care by the agents or wholesalers.

Based on the data collected through the survey and the interviews, the retailers were not willing to outsource more logistics activities. The reasons for this trend are presented in the next part. Thus, it can be concluded that the main outsourced logistics activities of retailers are domestic transportation, reverse logistics and international transportation. According to retailers no other activities are necessary to be outsourced.

5.2 Incentives and barriers in 3PL outsourcing for retailers

Incentives to outsource logistics operations to 3PL providers, risks in outsourcing and how to reduce them.

5.2.1 Incentives

According to Scott et al. (2011), the most common reasons that drive companies to outsource logistics activities are: increase operating flexibility, reduce fixed assets and increase efficiency. Moreover, cost reduction, faster deliveries and improved reliability are some other reasons that drive companies to outsource logistics activities (Anderson et al., 2011). Furthermore, Langley et al. (2004) mention that cost reduction, supply chain improvements, significant pressures to enhance customer services and globalization are some other additional reasons.

In the research conducted among retailers in the area of Jönköping the results slightly differ from the ones in the literature. As it can be seen in the figure 5.2 the most important incentives for retailers to outsource is the improvement of company’s focus (5.41). The numbers on the graph are the weighted mean of the different factors on a scale from one to six. In the second position is located the reduction of warehousing costs (5.33). However, it should be mentioned that only 12 out of 45 retailers outsourced warehousing to 3PL providers. In the third position is located the reduction of transportation costs (4.84) followed by the factor regarding the improvement of the competitiveness of the retailer (4.81). The survey respondents do not consider the improvement of delivery times as important factor as the previous ones and graded it with an average of 3.94. In the last position is located the factor related to access to other markets (1.65). However, most of the respondents were small sized companies which
operate mainly locally and did not intend to expand in other markets. These results can be verified from the interviews as well, since the data collected from the interviews agree with these results.

Taking everything into consideration, it can be concluded that the main drivers for retailers to outsource logistics activities are to reduce transportation and warehousing costs, improve company focus, improve delivery times and improve the competitiveness of the company.

### 5.2.2 Barriers

According to Langley et al. (2012) companies who do not outsource their logistics activities consider that logistics is a core competency of their company, logistics is too important to outsource, cost reduction will not be achieved, they do not want to lose the control of logistics and that they can operate their logistics activities more efficiently than the 3PL providers. Moreover, there are some other risks, which are presented in chapter two, related to outsourcing such as conflicts of company’s and 3PL provider culture, hidden costs, latent information asymmetry etc. (Wang & Regan, 2003).

Based on the results of the research, only 1 out of 45 retailers do not outsource any logistics activities. The main reasons are the small size of the company and the owner’s belief that outsourcing cannot reduce company’s costs. Moreover, the surveyed retailers outsourced only a few activities. Their willingness to outsource other activities is very low, 1.67 in average in a scale of one to six. The first reason is the characteristics of the products which finalized at the manufactures level. The second reason is their belief that they do not need any other services and they are not convinced that outsourcing other activities will improve the efficiency of the company and reduce the costs.
Thus, it can be concluded that the main barriers for retailers in outsourcing more activities are that they believe outsourcing will not improve the efficiency of their company and the characteristics of the products.

5.3 Selection criteria for retailers in 3PL outsourcing

3PL selection criteria

According to Vaidyanathan (2005), the selection criteria that the companies use in order to evaluate and select 3PL provider can be categorized six categories. These categories are related to: costs, quality, services, information technology, performance and intangible factors. Selviaridis and Spring (2007) highlighted as the most important selection criteria the following: cost, service quality, reliability, flexibility and responsiveness.

The figure 5.3 presents the weighted mean of the factors in a scale from one to six. As it can be seen in the figure the most important criteria is related to trust and fairness (5.41). In the second and third place are located with a very small difference the criteria price (5.31) and reliability (5.28) respectively. In the following positions are located problem solving ability (4.26), quality of services (4.16), flexibility (3.8), environmental friendly operations (3.63). Experience and financial stability follow with grades 3.03 and 3.00 respectively. The surveyed retailers graded with (2.11) the variety of services and with (2.10) the information technology and capability of the 3PL providers.

![Figure 5.3 3PL selection criteria for retailers in Jönköping area.](image)

Moreover, these results also agreed with the data collected from the interviews. The interviewees mentioned price, reliability, trust and fairness and transportation safety for the products as the most important criteria. Furthermore, since all of the interviewed retailers are small size companies, the personal daily communication with the employees of the 3PL provider are also important and determine the retailers’ general opinion regarding the 3PL provider.
Taking everything into consideration, theory, survey and interviews it can be concluded that the most important criteria for retailers to select a 3PL provider are: trust and fairness, price, reliability and the communication between the company and the employees of the 3PL provider.

### 5.4 Opportunities for creating competitive advantage

According to Porter (1985), and as mentioned previously, there are three different strategies in order to create competitive advantage. These strategies are: cost leadership, segmentation focus and differentiation. Since there are no data related to prices and margins of 3PL providers, the authors do not focus on the first strategy, cost leadership. Moreover, 3PL providers serve different sectors and industries and it might not be vital to focus only on the retail sector. Thus, the suggestion in order for 3PL providers to create competitive advantage is to focus on the differentiation strategy. The 3PL providers can create competitive advantage if they offer better and different services than their competitors.

Based on the research in the literature, the secondary data, and after the analysis of the primary data the authors suggest a model which is presented in figure 5.4 and highlights the main areas that the 3PL providers should focus on in order to create competitive advantage.

![Figure 5.4 Suggested model for 3PL providers to create competitive advantage (created by authors).](image-url)
The first area (area A in the model) that 3PL providers should focus on is the selection criteria that retailers use in order to evaluate and select a 3PL provider. Based on the results of the research, retailers in the Jönköping area consider as the most important criteria the trust and fairness, the price, the reliability and the communication skills of the provider.

Figure 5.5 Level of satisfaction of retailers.

Regarding the factor of trust and fairness, retailers seem to be very satisfied since they graded with a mean (5.14) in a scale from 1 to 6 in the question regarding the satisfaction level of the retailers. Trust and fairness is located in the second position after the transportation safety of the products (5.16) in the degree of satisfaction. Thus, most of the retailers are very satisfied with the degree of trust and fairness; however, according to some retailers there is still room for improvements. Regarding the factor price, there is not enough information. Retailers seem to be satisfied (4.50). However, lower prices can create competitive advantage since it is a separate and independent strategy. The next important criterion for retailers is the reliability of the provider. Retailers seem to be satisfied (4.90), but still there is room for improvement. Among the important selection criteria that retailers use, communication and problem solving has the lower grade (4.52). Moreover, this factor was mentioned as a problem in one of the interviews. Furthermore, even though flexibility might not be considered as one of the most important factors for retailers, 3PL providers should make improvements in this particular field.

Thus, it can be conclude that 3PL providers should continue the efficient performance in the fields of trust and fairness, price, reliability and make improvements in the areas of communication, problem solving ability and flexibility.

When it comes to the retailers’ general level of satisfaction of the current 3PL providers, retailers’ were least satisfied with the IT-capability and flexibility of the provider. IT-capability however was ranked as the least important criteria when selecting the 3PL
provider. Thus, 3PL providers should not emphasize too much the importance of IT-services when enhancing their service satisfaction but rather concentrate more on the flexibility issues. However, appropriate IT-solutions can help the 3PL to perform better internally, and therefore create efficiency and effectiveness.

Furthermore, 3PL providers should focus is the drivers and barriers for retailers to outsource. If 3PL providers know what factors motive retailers to outsource they can invest on these factors, convince retailers to outsource more activities, and gain competitive advantage by increasing their market share. The main motives for retailers are to improve company’s focus and reduce logistics costs. Thus, 3PL providers should offer services that save time and money for retailers.

Regarding barriers, the characteristic of retailers’ products are one of the main barriers. Retailers believe that because the products are finalized in manufactures level, no additional services, apart from transportation and warehousing, are necessary. Thus, the main challenge for 3PL providers is to convince retailers that they need also other services.

The second area (area B in the model) that 3PL providers should focus on is the current logistics services that they offer for retailers. As it can be seen in the figure 5.6, the willingness of retailers to outsource more activities is very low, in average (1.67) in a scale from 1 to six. Thus, 3PL providers should focus on the existing activities and try to be better than their competitors. Domestic transportation, reverse logistics and international transportation mainly and warehousing as well, should be the main activities that 3PL should focus on in order to be better than their competitors and gain competitive advantage.

![Figure 5.6 Willingness of retailers to outsource additional services.](image-url)
In chapter 1 some general strategies were presented for 3PL providers to follow in order to gain competitive advantage. Some 3PL providers implement the strategy “everything for everyone” and try to offer services for every industry and sector (Lieb, 2005). This strategy might not be the most successful since each industry has specific requirements and the companies prefer providers who have previous experience and are experts in their field. In this research retailers do not consider previous experience as an important selection criterion. However, in other industries previous experience is a major selection criterion in selecting a 3PL provider (Vaidyanathan, 2005). According to Lieb (2005) another strategy that 3PL providers follow, is to focus on a specific industry. However, since retailers use only a few of the provided logistics services, focusing only on the retail sector might not be the best strategy either. Laarhoven and Sharman (1994) state that 3PL providers should focus on value-added services. However, since retailers are not willing to outsource these activities, it is not the recommended strategy that 3PL providers should follow in order to create competitive advantage. According to Lieb (2005), investing in information technology systems is another strategy. However, the retailers’ needs for advanced information technology systems are very low. Moreover, since the market demands more complex and advanced services the cooperation between 3PL and 4PL providers has increased (Hertz & Alfredsson, 2003). However, based on the research, retailers do not need more advanced and complex services. Based on the research, retailers use more than one 3PL provider. The main reason is not that 3PL providers do not offer the appropriate amount of services, but since the products come from different regions, retailers need larger geographical coverage. In order for 3PL providers to achieve benefits such as economies of scale, risk sharing and transparency, creating alliances and co-operation with other providers might therefore also be an appropriate direction to follow (Lieb, 2005).
6 Conclusions

This following chapter includes the conclusions from the research. It concludes the main findings from the empirical study and literature review. Furthermore, this chapter reflects the research purpose with the research findings. Finally, ideas for future research are discussed.

The purpose of this research was to analyze from the retailers’ perspective, how 3PL providers could meet the customers’ needs better and create competitive advantage for 3PL providers in the market. Furthermore, the purpose of the research was to find out which are, according to the customers’ needs, the best directions that 3PL providers should follow.

The research findings indicate that there are three main elements, which influence the level of co-operation and commitment between the 3PL provider and the retailer. These are the 3PL selection criteria, the incentives, and the barriers for retailers to outsource 3PL activities. Thus, in order to create services that meet the needs of retailers, 3PL providers should carefully analyze these three elements and create services accordingly.

The research findings revealed that trust and fairness followed by the price of the services, reliability and the communication between providers, were the most important criteria for retailers to select the 3PL provider. According to the findings, the most important drivers for retailers to outsource logistics activities were to decrease costs in transportation and warehousing, and to improve company focus, delivery times and the competitiveness of the company. The main barriers for retailers not to outsource logistics activities was the thought that the 3PL provider would not be able to increase the efficiency of the retailer or that the characteristics of retailers’ products would not need 3PL outsourcing.

In general, the retailers are satisfied with the variety of services offered by 3PL providers and most of them do not currently need any value-added services. Thus, the research suggests that 3PL providers should rather develop the most commonly outsourced 3PL activities for retailers, such as domestic transportation and reverse logistics and in that way increase the level of satisfaction among these activities. Most importantly, 3PL providers should provide logistics services and solutions that are in line with the retailers’ objectives, such as improving the company’s focus which was the most important reason for outsourcing.

Taking everything into consideration, in order for 3PL providers to create competitive advantage, they should focus on the three elements: selection criteria, incentives and barriers, which influence their relationship with the retailers and try to enhance the service quality and satisfaction level in the fields of transportation, warehousing and reverse logistics activities. Furthermore, since retailers do not seem to need more advanced, customized, value-added and consultancy services, 3PL providers can also improve their efficiency and become more competitive by having deeper co-operation with other providers.
It is important to note that this research was limited in its scope, particularly with regard to the 3PL customers, industries, sectors, and geographical area. Therefore, there is potential for this research to be expanded upon to provide more generalized results. Finally, as this research was conducted from the retailer’s perspective, there is possibility for further research by conducting the same research more upstream in the supply chain. The research’s focus can be for example from the wholesaler or importer perspective. Moreover, since the sample frame was limited to Jönköping area, there is also possibility to conduct further research from other geographical areas which would allow the comparison of the results.
References


Appendices

Appendix 1 Survey: Outsourcing logistics services in Jönköping area

Survey: Outsourcing Logistics Services in Jönköping area.

Please first complete the following information regarding your company:

The type of retailer (e.g. sport, food, electronics, etc.) ...........................................................

Number of employees in the store, please select from the following:

- □ 1-10
- □ 11-20
- □ 21-50
- □ >50

Question 1. The products mainly come from:

- □ Local manufacturers
- □ Wholesalers
- □ Direct import
- □ Other, please specify: ........................................................................................................

Question 2. Which of the following activities do you outsource to third party logistics (3PL) providers? (You can select more than one)

- □ Warehousing
- □ Inventory management
- □ Domestic transportation
- □ International transportation
- □ Reverse logistics
- □ Product labeling
- □ Cross-docking / Consolidation
- □ Product packaging

- □ Product assembly
- □ Order management and fulfillment
- □ Information Technology (IT) services
- □ Consultancy services
- □ Other, please specify:

Question 3. How important are the following criteria in order to select a third party logistics provider?

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<thead>
<tr>
<th>Grade from 1=Low to 6=High</th>
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<th>2</th>
<th>3</th>
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<td>1. Price</td>
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<td>2. Financial stability</td>
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<td>3. Reliability</td>
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<td>4. Quality of services</td>
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<td>5. Flexibility</td>
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<tr>
<td>6. Trust and fairness</td>
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<tr>
<td>7. Experience</td>
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<tr>
<td>8. Variety of services</td>
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<tr>
<td>9. Problem solving ability</td>
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<tr>
<td>10. Information Technology capability</td>
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<td>11. Environmental friendly operations</td>
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</table>
Question 4. How well has the 3PL provider satisfied you in the following fields?

<table>
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<th>Grade from 1=Low to 6=High</th>
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<tbody>
<tr>
<td>Price</td>
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<td>Reliability</td>
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<td>Quality of services</td>
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<td>Flexibility</td>
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<td>Trust and fairness</td>
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<td>Variety of services</td>
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<td>Communication and problem solving ability</td>
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<td>Information Technology capability</td>
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<tr>
<td>Delivery frequency</td>
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<tr>
<td>Transportation safety (e.g., damage, theft etc.)</td>
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Question 5. What is your general level of satisfaction of your current third party logistics service provider?

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<thead>
<tr>
<th>1. Low</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6. High</th>
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</thead>
</table>

Question 6. To what extent have the following factors made you to outsource the logistics activities.

<table>
<thead>
<tr>
<th>Grade from 1=Low to 6=High</th>
<th>1</th>
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<tbody>
<tr>
<td>Reduce transportation costs</td>
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<td>Warehousing costs</td>
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<td>Improve company’s focus</td>
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<td>Improve delivery times</td>
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<tr>
<td>Obtain access to other markets</td>
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<td>Be more competitive</td>
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Question 7. To what extent the 3PL provider has helped your company to:

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<th>Grade from 1=Low to 6=High</th>
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<tbody>
<tr>
<td>Reduce transportation costs</td>
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<td>Warehousing cost</td>
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<td>Improve company’s focus</td>
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<td>Improve delivery times</td>
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<td>Be more competitive</td>
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Question 8. To what extent does your company need more advanced information technology services?

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<thead>
<tr>
<th>1. Low</th>
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<th>4</th>
<th>5</th>
<th>6. High</th>
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</thead>
</table>
Question 9. To what extent does your company need more customized logistics services?

<table>
<thead>
<tr>
<th>1. Low</th>
<th>2</th>
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<th>5</th>
<th>6. High</th>
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</table>

Question 10. To what extent does your company need consultancy services?

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<tr>
<th>1. Low</th>
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<th>5</th>
<th>6. High</th>
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</table>

Question 11. To what extent is the company willing to outsource the following activities

<table>
<thead>
<tr>
<th>Grade from 1=Low to 6=High</th>
<th>1</th>
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<tbody>
<tr>
<td>Packaging</td>
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<td>Labeling</td>
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<td>Bar-code labeling</td>
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<td>Price tagging</td>
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<td>Product assembly</td>
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<td>Quality control</td>
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<tr>
<td>Door to door delivery</td>
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</table>

Question 12. How willing are you to change your third party logistics provider?

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<thead>
<tr>
<th>1. Low</th>
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<th>4</th>
<th>5</th>
<th>6. High</th>
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</thead>
</table>

If you are not currently outsourcing any logistics services, please answer the questions below:

Question 13. Which of the following attributes are the most important reasons for you not to outsource logistics services? Please scale these, 1 = the most important reason and 7 = the least important reason.

<table>
<thead>
<tr>
<th>Reasons not to outsource:</th>
<th>Scale 1 to 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics is a core competency at our firm</td>
<td></td>
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<tr>
<td>Logistics too important to consider outsourcing</td>
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<tr>
<td>Cost reductions would not be experienced</td>
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<tr>
<td>Too difficult to integrate our IT systems with the 3PL’s systems</td>
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<tr>
<td>Control over the outsourced function(s) would diminish</td>
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<tr>
<td>Service level commitments would not be realized</td>
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<tr>
<td>We have more logistics expertise than most 3PL providers</td>
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</tbody>
</table>

Thank you for your time and efforts!
Appendix 2 Questions for the interviews

1. How many employees work in the store?
2. The main products that you have in the store, where do you purchase them from? For instance, do you obtain them from local manufactures, agents, and wholesaler or do you import them directly from other countries?
3. Do you use any “third” company that takes care of the company’s logistics activities?
4. How many different companies do you use?
5. What are the main services/activities that you outsource to the third party logistics provider?
6. How important are the following criteria for you in order to select a third party logistics provider? Please, give a grade from 1=low to 6=high: price, financial stability of the provider, reliability, quality of the services, flexibility, trust and fairness, experience, variety of services, problem solving ability, information technology capability, environmental friendly operations.
7. Are you satisfied from the third party logistics provider?
8. How well has the third party logistics provider satisfied you in the following fields? Please, give a grade from 1=low to 6=high: price, reliability, quality of services, flexibility, trust and fairness, variety of services, communication and problem solving ability, information technology capability, delivery frequency, transportation safety.
9. Which are the main factors that made you to outsource the company’s logistics activities? For instance, transportation and warehousing costs, better delivery times, save of time etc.
10. Do you think that the third party logistics provider has helped your company to achieve in the previous targets?
11. Does your company need more advanced information technology services from the third party logistics provider?
12. Does your company need more customized services from the third party logistics provider?
13. Does your company need consultancy services from the third party logistics provider?
14. Does your company want to outsource also the following activities: packaging, labeling, bar-code labeling, price tagging, quality control, door to door deliveries?
15. Is it easy for you to change third party logistics provider?