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### **Exploring LSP's value proposition process in E-commerce supply chain**

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Xiaojing Xiu

## **ABSTRACT**

Service is a process that doing something for someone that is valued. This thesis explores LSPs' value proposition process in e-commerce supply chain. In addition, try to investigate in-depth about what would be importance of service-dominant logic in the context, and how can it propose and co-create value in the e-commerce supply chain management. This study provides the chance for the author to get insight of real operation in different LSPs with e-commerce supply chain, firstly by literature review, thereby decide the methodology which author would like to use and design it. After this, data collection will help the author to see and understand what is the gap of application of S-D logic between theory and real operation.

**Key words:** e-commerce supply chain, LSPs, service-dominant logic, value co-creation

## Table of Content

<b>Acknowledgement</b> .....	<b>2</b>
<b>ABSTRACT</b> .....	<b>3</b>
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>6</b>
<b>1.1 Research Background</b> .....	<b>6</b>
<b>1.2 Research Problem</b> .....	<b>8</b>
<b>1.3 Research Aim and Objectives</b> .....	<b>8</b>
<b>1.4 Research Questions</b> .....	<b>9</b>
<b>1.5 Research Limitation</b> .....	<b>9</b>
<b>CHAPTER TWO: RESEARCH METHODOLOGY</b> .....	<b>10</b>
<b>2.1 Research Approach</b> .....	<b>10</b>
<b>2.2 Case Study</b> .....	<b>11</b>
<i>2.2.1 Pros of case study</i> .....	<i>11</i>
<i>2.2.2 Cons of case study</i> .....	<i>12</i>
<i>2.2.3 Why multiple case study</i> .....	<i>12</i>
<b>2.3 Case Study Design</b> .....	<b>13</b>
<b>2.4 Data Collection</b> .....	<b>14</b>
<b>2.5 Validity and Reliability</b> .....	<b>15</b>
<b>CHAPTER THREE: LITERATURE REVIEW</b> .....	<b>17</b>
<b>3.1 Introduction</b> .....	<b>17</b>
<b>3.2 E-commerce</b> .....	<b>17</b>
<i>3.2.1 Brief history of e-commerce related to logistics aspect</i> .....	<i>18</i>
<i>3.2.2 E-commerce in Sweden</i> .....	<i>20</i>
<b>3.3 E-commerce Supply Chain</b> .....	<b>21</b>
<i>3.3.1 Definition of LSPs</i> .....	<i>21</i>
<i>3.3.2 The role of LSP in e-commerce supply chain</i> .....	<i>22</i>
<i>3.3.3 The back-bone of e-commerce: logistics service provider</i> .....	<i>24</i>
<i>3.3.4 Extract the E-commerce supply chain</i> .....	<i>24</i>

<b>3.4 Service management</b> .....	<b>26</b>
3.4.1 <i>Why service is important in LSPs?</i> .....	27
3.4.2 <i>Co-creating value in service to be competitive</i> .....	28
<b>3.5 Service-dominant logic</b> .....	<b>29</b>
3.5.1 <i>Why 'service-dominant' logic?</i> .....	30
3.5.2 <i>Ten foundational premises in LSPs</i> .....	31
<b>CHAPTER FOUR: CASE DESCRIPTION</b> .....	<b>35</b>
<b>CHAPTER FIVE: FINDINGS AND ANALYSIS</b> .....	<b>40</b>
<b>CHAPTER SIX: CONCLUSION AND RECOMMENDATION</b> .....	<b>54</b>
<b>REFERENCES</b> .....	<b>58</b>
<b>APPENDIX</b> .....	<b>62</b>

# CHAPTER ONE: INTRODUCTION

## 1.1 Research Background

With the development of economy and Internet, the demand for e-commerce activities is rapidly increasing. The 5<sup>th</sup> Annual European E-commerce Conference 2013 showed that e-commerce will reach a turnover for €350 billion in short term future compare with €185 billion in 2009. As well as the European Multi-channel and Online Trade Association (EMOTA) also reported, the recent data on e-commerce within 2013/14 shows the same trend of e-commerce as others. Therefore, the call for logistics service has risen up; more and more service-oriented firms is make a grand blueprint. Service is not just adding value to product. The new perspective on service activities is proposed to emerge marketing management logic, according to Vargo & Lusch (2006, p 4) “...marketing has moved from a good-dominant view, in which tangible output and discrete transactions were central, to a service-dominant view, in which intangibility, exchange processes, and relationships are central.” Service dominant logic (S-D logic) was introduced by marketing theory, according to Ordanini & Paolo (2008), the customer is always a co-producer of value, not a target of that value. Vargo & Lusch (2004) emphasized that customers are embedded in the service offering and as well as for the value added to the process by offering knowledge and other resources; and the value of a service is phenomenologically determined by the beneficiary.

Many of service firms would like to exploit these concepts in their business markets in which customers play the importance role. With the development of Internet, variety of service forms show up. E-commerce, as one of the most significant Internet co-product, has made a great role in the growing market. “Broadly speaking, electronic commerce includes any form of economic activity conducted via electronic connections” (Wigand, 1997). It is clear that e-commerce combines economic

transactions electronically, the marketing is not limited to one single way that consumer enters a store to buy and pay. E-commerce has become the buzzwords for long time in the global market. As e-commerce growing, logistics is the key factor of success, implying a prominent role for companies specializing in the logistics segment (Delfmann *et al.*, 2002). Nowadays, people choose logistics service provider (LSP) from international market rather than domestic market; and the demand and expectation from service providers are changing as well.

According to Persson and Virum (2001), there are two factors affecting the choice of customers or shippers: product features and superior delivery. In addition, companies are forced to concentrate on outsourcing activities as well as reevaluating their logistics processes; thereby it is creating growth opportunities for logistics service provider. Therefore, logistics service providers (LSP) confront with various changes in their respective market environments, and these changes will influence indirect and direct implications for LSPs.

As service oriented firms, LSPs become more important since there are even more companies need to outsource their logistics functions (Sheffi, 1990). Companies do not only focus on traditional distribution activities, such as warehousing and transportation operations, but also certain activities related to flow of goods and production activities to LSPs (Fabbe-Costes, *et.al*, 2009). The function of LSPs is to provide transportation warehousing and other logistics services involved in the collection, consolidation, storage, handling, reloading, tracking, and controlling the movement and storage of goods (Persson & Virum, 2001). The activities of logistics service provider are performing on behalf of others. The fast growth of the Internet is changing the way corporations conduct business, therefore, the function demand for LSPs is changing and the traditional way of being LSPs cannot satisfy the market requirements. In addition, adapting S-D logic as core concept in LSPs could create more co-creating value/service for customer to the process of co-creation, but also the organization's partner throughout the value creation network (Lusch & Vargo, 2006).

## **1.2 Research Problem**

Nowadays, there is a change in outsourcing logistics service especially e-commerce supply chain. Consumers are no longer interested in single function of LSPs; instead they choose integrated function logistics with low cost and high efficiency. Delfmann *et.al* (2002) reported that many of e-commerce companies failed in recent years due to the neglect of logistics as a key factor of success. Meanwhile, there are no empirical studies applying a value-in-use perspective with a managerial focus for LSP in e-commerce supply chain. This draws the attention for both researchers and E-commerce firms are looking forward to integrating functions with LSPs to achieve high service standard and low cost for consumers.

However, there are only small amount of studies regarding what influence they can exercise in e-commerce supply chain and application of S-D logic concept in service oriented firms. This indicates that more research needs to be done on the relationship of these two areas: e-commerce business and LSPs. How to help e-commerce business choose a good LSP to satisfy end customer and itself, and how to make a LSP to be competitive than others are hot topics in increasing e-commerce marketing.

## **1.3 Research Aim and Objectives**

This paper aims to explore LSP's value proposition process in e-commerce supply chain. Furthermore, this thesis will also investigate the importance of Service Dominant Logic, and give out the suggestions how it can propose and co-create value in the e-commerce supply chain management. Specifically, the following objectives will be achieved:

1. To determine the way LSPs create value for e-commerce supply chain.
2. To identify how LSPs design processes for creating value for e-commerce supply chain.
3. To identify the values that an LSP can deliver to e-commerce supply chain.



#### **1.4 Research Questions**

Based on the main research aim, this paper will answer the following questions:

**RQ1 - *How are LSPs creating value for e-commerce supply chain?***

**RQ1.1 - *How are LSPs designing processes to create value for e-commerce supply chain?***

**RQ1.2 - *What are the values that an LSP can deliver to e-commerce supply chain, and how do they define it?***

#### **1.5 Research Limitation**

This paper has certain limitation when it comes to time and resources. As the author mentioned above, the corresponding literatures are limited, and this research is a new area for researcher to focus on. Therefore, the author could only formulate her own theory model and create a new logic for this paper. This process took longer time than the author thought.

## CHAPTER TWO: RESEARCH METHODOLOGY

### 2.1 Research Approach

*“Research methods are core to scientific activity.”* (May, 2011, p. 1) They help people to understand the social phenomena, the inner workings of disciplines as well. If the purpose of a paper is to generate new hypotheses based on data collection, measuring variables and verifying existing theories or hypotheses are need, in this case, a *qualitative* method is adopted. However, sometimes the statistics data collection cannot answer to understanding meanings and experience, which is better to use *qualitative* data. Qualitative research effectively helps people understand the information about the values, opinions, behaviors, and social contexts and so on. (Wisker, 2008) It could also produce findings that were not determined in advance and beyond the immediate boundaries of the study.

*“Qualitative methodology and case studies provide powerful tools for research in management and business subjects...”* (Gummesson, 2000, p. 1). While the puporse of the research is to provide practitioners with tools, case studies can be valuable in the applied social science. (Gummesson, 2000). Yin (2009) distinuishes between the three different types of case studies research: exploratory, descriptive, and explanatory.

*Descriptive* case study is to describe, for instance, what happens when a new product launched on the market and how does it develop. Furthermore, Gummesson (2000) also claimed that :” *...case research is a useful strategy for studying processes in companies and also for **explanatory** purposes”.*

## **2.2 Case Study**

This methodology was chosen since the method is typically used when related to questions to “how” and “why” (Yin, 2009). The author hopes to get insight to understand how LSPs create value for e-commerce supply chain.

From the technical aspect of view, case study method is used to explore preliminary to theory development, attend to the idiosyncratic more than to the pervasive. Somehow, it has been useful in theory building; does not mean it is its best use. (Gomm *et al.*, 2009) In addition, choosing case study is because people want to understand a real-life phenomenon in depth and the boundaries between phenomenon and context are not evident (Yin, 2009). Smith (1998) also claimed that case studies are tools to produce ‘deep’ insight into some phenomenon, also conclusions based on the context of the topic being studied, involving the use of multiple methods and data sources.

Theory development is necessary for part of case study, whether the purpose of the case study is to develop or to test theory (Yin, 2009). In-depth investigation of participants could give out a description and detail about the cases. As Yin (2009) said, the case study method allows us to retain the holistic and meaningful characteristics of real-life events. Gummesson (2000) also claimed that case study provides people a great opportunity than other methods to get a holistic view of a specific object. In addition, George and Bennett (2005) also stated that intensive case study make use of process tracing is much better than large quantitative studies.

### **2.2.1 Pros of case study**

Firstly, a case study can take people to places where most of people have no chance to go; have vicariously, unique situations and unique experience within our own culture. When generalizability is viewed from the perspective of schema theory, uniqueness is an asset rather than a liability. It allows asking questions about typicality, about what most principals normally do (Gomm *et al.*, 2009).

Secondly, Case studies allow researchers to get a high level of conceptual validity and measure the theoretical concepts that the researchers try to measure. On the other hand, case studies can accommodate complex casual relations. (Georage & Bennett, 2005)

Thirdly, according to Georage and Bennett (2005, p. 20) said “...*have powerful advantages in the heuristic identification of new variables and hypotheses through the study of deviant or outlier cases...*” Once researchers had a question that get an entirely differernt answer, the new theories will be tested through the unexamined evidence and it would lead to new hypotheses.

### ***2.2.2 Cons of case study***

However, everything has two aspects: the limitation of case study would be not representative, the selection of cases cannot generalize all the other cases; on the other hand, the investigator has not followed possible biases in data collection and interpretation and has not followed systematic procedures to the findings and conclusions (Yin, 2009).

### ***2.2.3 Why multiple case study***

According to the topic and the approach of this thesis, multiple-case design seems to be appropriate. As the case study about: how LSPs create value for e-commerce supply chain, the purpose of this thesis is to compare between different cases to explore the understanding of value creation. Multiple-case also has been considered as “comparative studies” (Yin, 2009).

One particular advantage for multiple-case study is “*considered more compelling, and the overall study is therefore regarded as being more robust*” Yin (2009) cited in (Herriott & Firestone, 1983). Multiple-case can require extensive resources and time beyond a single-case study. Compare with single-case study, multiple-case study has the analytic benefits that might be substantial (Yin, 2009).

However, how to select multiple cases follows a “replication” design. This does not mean to set a multiple respondents in a survey to follow “sampling” design. (Yin, 2009) According to Yin (2009), “*each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) predicts contrasting results but for anticipatable reasons (a theoretical replication)*”. Those replication procedures should not just compare with two cases to be different or similar, but also reflect part of the theoretical interests.

### **2.3 Case Study Design**

This research followed an **in-depth, qualitative, exploratory** case study approach with the data collection tool: semi-interview. Meanwhile, a case study **protocol** has been used as well. According to Yin (2009), the protocol can increase the **reliability** of the case study research and intend to guide the researcher to carry out the data collection. The literature review served as a background in the analysis of collected data. Firstly, the information collected about the relationship of between e-commerce supply and LSPs should help to understand the importance of LSPs in e-commerce supply chain. Secondly, the discussion about LSPs’ roles in e-commerce supply chain is to explore how functional and flexible the LSPs could be competitive for e-commerce supply chain. Thirdly, another literature part discuss about the importance of service management, especially S-D (service dominant) logic. Due to all the LSPs are service-oriented firms; to understand how LSPs adopt service management is essential for both e-commerce supply chain and LSPs to create more value.

In this thesis, LSPs are the cases, e-commerce can be seen as the context, and the unit of analysis of the case study is value creation. After literature review as part of the background of the case study, selecting case companies is next step. By using a “replication” method to choose the cases companies and use an open mind to

understand the context within which it operated. Then, semi-structure interviews will be taken with the managers/employees who work in the case companies to understand how do they design the process for e-commerce supply chain, how do they handle LSPs change roles in e-commerce supply chain and the using Service-dominant logic. In conclusion, understand the process how case firms value creating in e-commerce supply chain. Finally, collecting all the data through interviews to analyze and find out.

#### **2.4 Data Collection**

As Yin (2009) said, interview is one of the most important methods of getting case study information, as well as most case studies are about human affairs or relevant events. Especially having cases study in an organization, researchers want to know “how” a particular process occurred as it did, for instance, the author would like to know why case companies want to enter e-commerce at first beginning by continuing with “how” question is in contrast to posing a “why” question. There are two types of interviews, one is an *in-depth interview* which is ask interviewees to propose their own insights into certain things and use the such propositions as the basis for future research. For instance, this form of interview wills last period of time, not just single sitting, furthermore, interviewees could also introduce other persons for researcher to interview as well as other resources. Another one is a *focused interview*; the interview period would be short, such like an hour. (Yin, 2009) From the typology point of view, interview can be categorized into structured, semi-structured, unstructured or in-depth interview. (Saunders *et al.*, 2009)

For this multiple-case study, in-depth interview would be more suitable; the author would like to know how case companies understand service-dominant logic concept in their new focusing area: e-commerce supply chain and get insights into this case to find gaps about theories and reality. Semi-structure interview can be very useful when researcher enable to explain the purpose of research and to involve in a conversation

with the interviewee to gain his/her perspective of the issue discussed (May, 2001, p. 123)

*Semi-structured* interview will be used in this case study, because it would avoid that interviewees might refuse to answer or deliberately hide the truth. According to (Flick, 2006) semi-structured interview contain three types of questions the research can start with: open questions, where the respondents can answer them quickly based on their knowledge. During the interview, the need for the researcher to link the hypothesis with the interviewees can be formed by asking *theory-driven* questions. Therefore the author would like to interview people who work in the specific department deal with e-commerce supply chain, by asking clear questions in order to record the data can yield a high response and ensure the quality of the results. The **limits** of semi-structure interview is due to the empirical data, the number of participants in companies is limited, but the interviewees are leading the work within e-commerce supply chain, it can still be considered as an important source that can provide rich insights and understanding.

## **2.5 Validity and Reliability**

The National Academy of Science said (2009) “*The scientific research enterprise is built on a foundation of trust. Scientists trust that the results reported by others are valid.*”

It is very important for a research work to be validity and reliability. They are criteria to judge the quality of research designs (Yin, 2009). Reliability is the tool for researcher to collect data, by checking whether different scholars are reproducing the same result; validity is appropriate for measuring tool to collect that are appeared to be true or not. (Saunders *et al.*, 2009). In this research design, reliability is enhanced, the themes are developed before the process of data collection. In addition, the themes are coming from the literature review and provide the direction of the research to explore.

To make sure the validity of the research design, the author had three interview meeting with three different LSP companies: PostNord, DHL and DB Schenker to make interview as rich as possible. Before semi-structure interview, the author reviewed the related literature, articles, books and so on to get a grasp view of the topic explored. Furthermore, during the interview, the author explained the questions to make sure both author and interviewees understand correctly about the meanings of questions.



## CHAPTER THREE: LITERATURE REVIEW

### 3.1 Introduction

Finding new way to win the market is essential for all the firms, such as providing service diversity and solutions for customers (Chakkol *et al.*, 2014). Solutions are underpinned d by a deep understanding from the demand of customers (Tuli *et al.*, 2007). For example, using a long-term collaborative approach could provide solutions in which value is co-created with the customer as it involves a series of consultations to get things right (Chakkol *et al.*, 2014). According to Chakkole (2014), this is in line with service-dominant logic (SDL), which is a suitable lens in examining the solution provided by firms. SDL has been widely used by logistics firms such as DHL and UPS to provide solutions tailored to customers especially among business-to-business customers (Vargo and Lusch, 2008).

The review of literature is divided into certain subjects: E-commerce, Service management, and Service Dominant Logic. The topic underpins this research on e-commerce supply chain and thus, deemed to be crucial in the development of theory and the framework of inquiry.

### 3.2 E-commerce

As a jumpstart, a definition of e-commerce is appropriate. E-commerce means, “*the process of buying, selling, transferring, or exchanging products, services, and/or information via computer networks, mostly the Internet and intranets*” (Turban, *et al.*, 2010, p1). With the spread of the Internet in households, e-commerce has become the new avenue for buying and selling goods. An increasing number of businesses has acquired or adopted e-commerce systems to cater to the new breed of customers online (Fernie and McKinnon, 2009). This section tackles the theories and practices

on e-commerce. It begins with the brief history of e-commerce in the context of statistics followed by the following sub-sections: E-commerce in Sweden, E-commerce supply chain, and Logistics Service Providers.

With the use of information technology, commerce found its new avenue known today as E-commerce, which means electronic commerce. E-commerce is commerce in electronic format or more commonly known as online or through the use of wireless communication technology. The starting point of e-commerce is the implementation of Internet technologies in business that began in the 1980s and continuous to spread today (Feng, 2007). E-commerce is a phenomenon in business that spread as fast as the Internet became available for commercial use (Toland, 2006).

IT infrastructure is the core of e-commerce and the mutually exclusive concept is e-business as it is the symbiosis of technology and business (Feng, 2007). In brief, e-businesses is the conduct of business using Internet technologies and e-commerce is the conduct of commercial transactions using the same technologies (Feng, 2007). E-commerce is differentiated from e-business in a wider sense of encompassing the market involving all the actors: business entities, consumers, third party providers, and so on. E-business on the other hand, is an area or a function in business with the sole purposes of reaching customers online.

### ***3.2.1 Brief history of e-commerce related to logistics aspect***

The history of e-commerce began way back the development of Internet technology in the 1970s; however, commercial transactions online came later when Internet technology was offered to public consumption (Kalakota and Robinson, 2000). The Internet was actually an experimental technology pioneered by researchers and scientists for government duties. Two decades after its development, in the 1990s, consumers widely accepted the Internet as the newest and exciting technology with the introduction of the World Wide Web (Ferne and McKinnon, 2009). The business sector followed suit and many businesses began to engage in the World Wide Web

through having website or having an online presence on online marketplaces (Turban, *et.al*, 2010).

Online transactions began as a buyer and seller interaction rather than a buyer to business interaction, although the business sector immediately caught up with the e-commerce trend (Turban, *et al.*, 2009). A transaction takes place when service or product is transferred across an interface, which will link a consumer with a server. Once this transaction between buyer and seller occurred, information will be accessed, absorbed, arranged and sold. The completion of transaction is concluded with payment or fund transfers by consumer, as essential in commerce.

E-commerce became widespread among companies in the form of electronic messaging technologies: Electronic data interchange (EDI) and electronic mail during the late 1970s and early 1980s (Kalakota & Robinson, 2000). With the aid of EDI, companies started to reduce paperwork and become efficiency in many ways. For instance, combined with just-in-time (JIT) method, the function of EDI is to enable supplier to deliver products directly to factory floor, saving inventory, warehousing and so on.

In 1969, the Internet began life as an experiment by the US Government. Most of the users are researchers, scientists and so on. A major milestone started early in 1990s with the introduction of World Wide Web, e-commerce expanded rapidly. Since 1995, the users of Internet witnessed the development of applications, from direct sales to e learning. During that period, most of the organizations and companies started to have their Web site. (Turban, *et.al*, 2010)

In 1999, e-commerce shifted from B2C (business to customer) to B2B (business to business) and in 2001 from B2B to B2E (business to employee) and so on. In 2005, the application of wireless drew attention by social networks (Turban, *et al*, 2010). The Internet created a new marketing channel and e-commerce will influence how

firms operate business and provide logistical support activities.

### ***3.2.2 E-commerce in Sweden***

Sweden is a country with a highly developed Information Communication Technology (ICT) facility. The Swedish e-commerce has a ratio of 3 out of 10 Swedes purchasing something online every month. Swedes have a monthly average spent of about €590 making the total value of online market in Sweden at €3.5 billion in 2011. Most of the things that Swedes buy online are leisure travel, clothes/shoes, books and magazines, and music or film.

Swedes rapidly adopts innovation, this means that when new products are launched on the market, Swedes are most likely to be the first consumers. Accordingly, most products are not readily available in Sweden and thus, e-commerce is the way to go for businesses. In fact, the share of Internet-relates economic activity has been increasing annually at a rate of 10.3% and with a 7.7% share of total GDP (BCG, 2014). Online consumption in Sweden was initially a trend but has grown into becoming a way of life (Schneider, 2011). With this, e-commerce in Sweden is projected to continue growing in the next years with an expected increase in number of consumers and increase in amount of spending (Eriksson, et al., 2008). Accordingly, government and business investment on online facilities have increased from 2.4% in 2009 to 13.5% starting 2010. Thus, this makes Sweden a leader in e-commerce in terms of the size of the market and the government and business support on e-commerce (Schneider, 2011).

The height of e-commerce in Sweden is a good indicator for the economy of logistics. Logistics service providers are core to the complete operation of e-commerce in the country because e-commerce demands a delivery system that businesses cannot possibly provide on its own (Eriksson et al., 2008). Thus, e-commerce in Sweden greatly relies on logistics service providers. This means that logistics services will continue to increase its market as e-commerce continues to increase in Sweden.

### **3.3 E-commerce Supply Chain**

The impact of technology in supply chain management was unprecedented. The impact on cost reduction amounts to about \$155 billion in a three year-period from 1998-2000, which was the period of the World Wide Web's inception (Berger and Gattorna, 2001). Thus, the use of Internet technologies has provided businesses and even consumers with tremendous savings. Aside from cost savings, technology has provided solutions towards an optimized logistics system for businesses (Berger, 2001). With new technologies, primarily the Internet technologies, logistics has never been easier. An electronic inventory for instance saves time and effort for businesses. Not only do they have more time on their pockets but also some job vacancies could be filled up with technologies at an even better investment.

To further understand the impact of new technologies on the supply chain, the Council of Supply Chain Management Professionals (CSCMP) defined supply chain management as involving the “*planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be supplier, intermediaries, third-party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies*” (Dittmann, 2013, p5). In e-commerce, there is the multiplication of actors as there have been the additional parts to play in the supply chain. This particularly includes the logistics services providers, which are crucial in e-commerce supply chain management (Berger, 2001). The LSPs are discussed in the following section.

#### **3.3.1 Definition of LSPs**

Logistics service providers are business solutions provider of logistics services (Mangan, et al., 2012). LSP is also perceived as a new and dynamic sector of activity

in supply chain management. An LSP can be seen as a provider of logistics services that performs all or part of a client company's logistics function (Coyle *et al.*, 1996; (Delfmann *et al.*, 2002). Traditionally, there are third party providers of other services used in logistics such as trucking services and courier. However, the beginning of e-commerce marked the alteration of service provisions in supply chain management. The LSPs could provider a part or all of the activities in logistics thereby rendering optimized operation to businesses. Thus, instead of hiring people or developing a logistics department, some businesses of today outsource all logistics functions to an LSP for a better logistics performance.

For instance, UPS was one of the most successful and largest logistics companies that started delivering parcels by bicycle in the North America. That way of delivery of goods is still popular for light parcels in urban areas. The delivery system enabled a better performance of courier services, as they will not be burdened with traffic. For variety of reasons, many companies start to outsource various activities, from providing their own transport services to third-party transportation, somehow it increase the opportunities for transport and logistics companies. In addition, the LSPs have noticed that to develop their capabilities both in service offering and in providing solutions adapted to demanded customers (Fabbe-Costes, *et.al*, 2009).

### ***3.3.2 The role of LSP in e-commerce supply chain***

In order to understand the role of LSP in e-commerce supply chain, the following table illustrates the flow of activities in e-commerce supply chain.

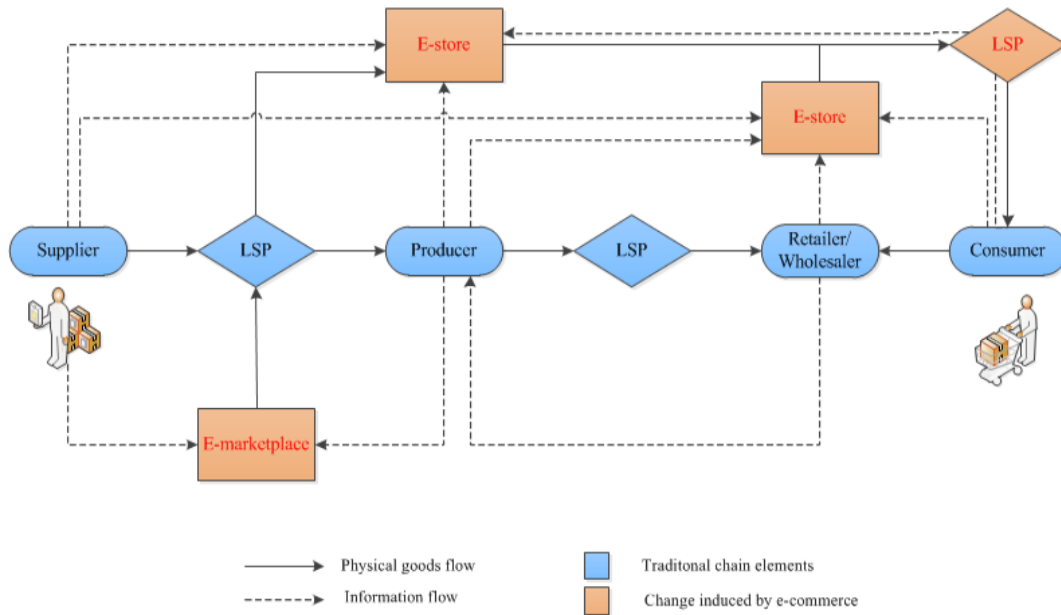


Figure 3.1: *Combination of supply chain and E-commerce* (Turban, et. al, 2010)

In Fig 3.1, this flow chart explains the changes from ordinary supply chains to the e-commerce supply chains, and subsequently discusses the implications of logistics service provider (LSP). At the beginning of e-commerce transactions, consumers select a delivery service and through that order, the LSPs begin to process as the third party provider in bringing the goods to consumers (Turban, et al., 2010). Accordingly, when the purchase is made, a tracking number is then provided by LSPs that directly to the customers or indirectly through the merchant. Upon delivery, the order is then considered complete.

For business-to-business transactions, LSPs serve as conduit to the whole flow of the supply chain. Also, LSPs provide logistics solution involving software or physical entities according to the demand of clients (Berger, 2008). The figure also showed how LSPs could now directly contact consumers in that they serve as the marketplace that link producers to consumers over the Internet. This means that in some cases, consumers are actually transacting with LSPs instead of the merchants. LSPs then contact the merchants with regards to the order of consumers. Merchants also rely on LSPs to sell the products online and also perform the completion of orders.

### ***3.3.3 The back-bone of e-commerce: logistics service provider***

A successful e-commerce requires many assets, for instance, computers, the internet, information technology, logistics activities and service (Murillo, 2001). With the development of e-commerce, the trend for logistics capability and outsourcing is increasing. When people talk about “logistics outsourcing”, it means that contract logistics, third-party logistics (3PL) and logistics service provider.

While people set your own time schedule and conduct product sales automatically through online business, firstly, it will take time to establish a solid customer base; secondly, the quality is another factor to keep customers back and make future purchases. Thirdly, how to choose a reliable, agility, low cost logistics service provider (LSP) is one of the most important issues. Deliver time and quality will influence the expression of customers about the e-commerce. For this issue, the next following part talking about logistics service provider will explain what and how a good LSP enables the development of e-commerce supply chain.

### ***3.3.4 Extract the E-commerce supply chain***

The following figure shows the three types of e-commerce supply chains in a linear format. Type 1 shows that LSP mediates between the supplier and e-store and between retailer and consumer. The second type shows that LSP mediates between the e-store and consumer. Lastly, LSP can also mediate between producer and retailer and e-store and consumer at the same chain.



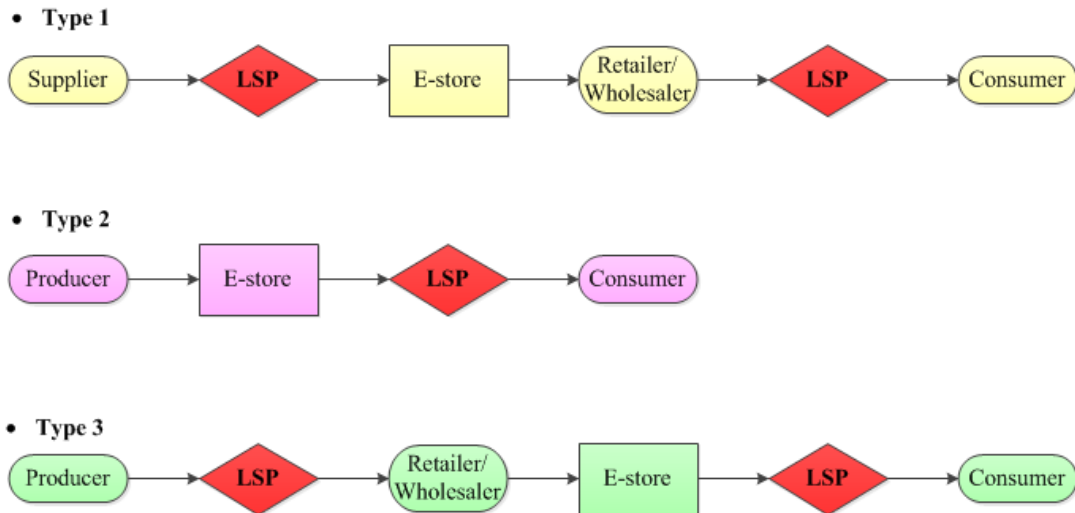


Figure 3.2: *Extract the E-commerce supply chain*

There are changes both in downstream and upstream segment in e-commerce supply chain. The following next two paragraphs will explain those changes. In addition, Fig3.2 is the extract e-commerce supply chain of combination supply chain. This flow chat explains more details for the function of LSPs.

In the downstream segment, one of the most obvious points is between consumer and retailer. Traditionally, the consumer himself uses the last mile logistics to purchase the product in store. However, in e-commerce supply chain, the consumer shops via online store with the products provided by the e-commerce provider. It seems like from one unorganized logistics activities (from individual customer aspect) to a type with bundled goods flows and information flow and effective logistics system. There will be some extra cost and demand occurred in the e-commerce supply chain, but they also add value. (Turban, et. al, 2010) For instance, if a product shipped from producer to consumer, the retailer part skipped, the configuration of shipments will be changed from big pallet to small package. The cost for retail part will be saved, but extra effort needs to be solved in producer aspect. From another aspect, the deliver time from producer to consumer will be shorten, which is the additional stages of the distribution chain will be saved.

E-commerce becomes more visible through the electronic marketplaces; furthermore, the Internet and modern information technology will reduce the transaction cost. As this paper early mentioned (in brief e-commerce history), Electronic data interchange (EDI) provides strong connection in the traditional supply chain. A limited number of partners of supply chain are interconnected. (Turban, et. al, 2010) In addition, the change of market from a long term and stable relationship to an unstable relationship with changing collaborates. However, no matter how these actors change, the role of LSPs will not be disputed. Especially, e-market has much tie relationship with LSPs, aiming to provide high service to their customers. Even though IT does not lead to the electronic marketplace, the integration of supply chain will be highlighted. (Turban, *et. al*, 2010) Somehow, in this case, new challenges and opportunities for LSPs will occur.

### **3.4 Service management**

The core of the offering for most industries is a service or a physical product; however, firms cannot develop a sustainable business by simply offering a core service or a physical product. Firms compete with service offerings, not only with a physical product or a single service. It is the core solution/offering for service companies, only if managing the firm with service logic; otherwise the firm will not deliver the service what its customers expect. (Grönroos, 2007)

It is essential to have service management in line with real operation management, obviously, the service business particularly need service management, hence, it will benefits from a relational approach to customer management. This is a good base for firms to run long-term and successful business with their customers.

### ***3.4.1 Why service is important in LSPs?***

In order to answer why service is important in LSP, it is important to begin with a definition. Service, unlike products, is an invisible activity that involves the completion of a desired outcome, for instance, delivery of goods. Better service offering renders a more competitive position for LSPs.

*Service*, an invisible activity, occurred during plan, design, produce, sales, using and after consumption, including people, product and other resources. It is to fulfill the customers' need, supporting customers' daily life. There are two classifications for services: high-touch/high-tech services which is built on people resources to serve and another one is built on automated system; discretely/continuously rendered services depends on whether service is continuous or discrete (Grönroos, 2007, p57). The real attention of service is in the late 1980s, because of the developing technology and social productive forces, marketing turn to buyer's market (Grönroos, 2007, p1). With raising the level of consumption, customers' demands have gradually changed; satisfying diversification of service is the development tendency. Through this whole process, based on the same product, which all the company can provide at the same time, better service owns more competitive situation.

Service per se has become more and more at the frontline of overall product offering. For instance, electronic products are no longer patronized based on the product itself but on the after sales services offered. Some consumers even base orders on delivery set-up. For instance, there are no “**services**” (noun) but rather “**service**” (verb), such as hotel services that involves helping and assisting guests in the process of service for their comfort and security while they are away from home, not producing units of lodging (bed nights). (Lusch & Vargo, 2014)

Service is important in LSPs because just like hotels, it is their product offering. Service is harder to measure and qualify that is why it is a challenge for LSP to actually perform according to the diverse preferences of consumers (Lusch & Vargo, 2014).

Service is also harder to make consistent because it heavily relies on human performance that are subject to various obstacles and errors. LSPs sell service in the sense that it makes sure the logistics activity flows smoothly and that involves strict coordination and consistency in the quality of targets achieved. For instance, to deliver a product requires the product to arrive safely and timely. Now delivery is subject to obstacles such as accidental dropping of goods, losing goods through faulty inventory, traffic, and so on. The role of service is therefore crucial in the very existence of LSPs.

#### ***3.4.2 Co-creating value in service to be competitive***

Creating value is a strategy to stay competitive in e-commerce. There are two segments: knowledge and relationships, which pertains to a company combining links and business together (Normann & Ramirez, 1993). Higher service quality leads to higher customer satisfaction. Based on the word of mouth of satisfied customers, new customers could be attracted and compelled to experience the same satisfaction (Grönroos, 2007). The trend today is the emphasis on customer relationship through increasing or maintaining the quality of service to impact customer satisfaction (Grönroos, 2007). There are three ways to ascertain service quality (Normann & Ramirez, 1993). First, bring more services that are new to customer. This means offer a variety or fresh set of services. Second, dig out hidden service in the business relationship. This entails the complementary services that the business can provide to consumers at minimum cost. Finally, change the direction from good element into service component. This means take service to a higher level as the very function that makes the whole business run as it concerns consumers' demands.

In a business relationship, while firms might supply particular resources, they also have a demand for end customer's resources. This is the reason why firms engage with marketing activities, in order to build the engagement with end customer. Meanwhile, an end customer would like to have demand, it is also necessary to have the exchange process with supplier or provider. In S-D logic, value is something that

is **co-created** through those processes, exchange, integration and use of resources from other resources, associated with multiple actors. (Lusch & Vargo, 2014)

To understand social structures is an essential component of understanding the contextual value co-creation and resource integration in social systems. (Lusch & Vargo, 2014) For instance, eBay change its role from merchant to platform-support by creating a new business model to make exchange by providing resources and rules that help individual actors in their own value-creation activities. This is a strategic advantage for a company to become **competitive**. “... *firm... focuses on making better products to increase market share in existing markets to one of redefining existing markets for strategic advantage or defining and thus creating new markets.*” (Lusch & Vargo, 2014, s. 25) This logic could affect the strategy of firms to maintain existing customers and develop new customers.

### **3.5 Service-dominant logic**

S-D logic is based on an understanding of the interwoven fabric of individuals and organizations, brought together into networks and societies, specializing in and exchanging the application of their competences for the applied competences they need for their own well-being. (Vargo & Lusch, 2008a)

#### **G-D logic versus S-D logic**

According to Vargo and Lusch (2014), some of the problems relate to G-D logic is where it focuses attention, for instance the goods have value through production and that distribution added costs and thus economic waste prevailed. Likewise, Theodore Levitt suggested fifty years ago that customers do not buy the product what firms produce but the transportation and entertainment services. People are using an embedded G-D logic mindset as well as in firms. The firms are seen as innovator, developer, producer, distributor and promoter of goods, playing an essential role in markets and exchange. The role of firms is to help humans solve problems associated

with the exchange of their individual advantageous ability. Therefore, human are the key actor in the co-creation by combining resources from different aspects from the social science. The knowledge, skills, innovative abilities of human actors is integrated with the other actors to co-create value.

There is a key difference between G-D logic and S-D logic is starting from “*the fundamental difference in how the business process is informed between understanding the purpose as selling things to people and understanding it to be serving the exchange partner’s needs*” (Lusch & Vargo, 2014, p. 11). In another word, the way of understanding things will decide peoples’ mindset and influence the result of doing things. For instance, in S-D logic, the fuction of an enterprise is to connect with and serve other enterprises in an ever-changing market, which is marketing. Likewise, enterprises cannot independently create value.

In S-D logic mindset, “*value is something that is cocreated through the exchange, integration and the use of resources in the context of other resources, associated with multiple actors*” (Lusch & Vargo, 2014, p. 21). Therefore, it cannot provide **added value** either. What is most important for a firm is to provide a **value proposition**. If the proposition is suitable, through service, followed by the application of its resources, somehow makes integration with the ofering possibles.

### **3.5.1 Why ‘service-dominant’ logic?**

“*Logistics, being a service characterized by frequently changing service offerings, provides a dynamic context which potentially stands to gain from the S-D logic perspective.*” (Yazdanparast, *et.al*, 2010) Moreover, LSPs play and important context in which to explore the value creation process and service provision from an S-D logic perspective. Because the demand for customer is more and more customized product in marketing, especially in e-commerce supply chain, firms are looking for new ways to be competitive than others through logistics.

Moreover, value for customers means that after they have been experiencing the whole service process, they have better feeling than before. It is a easy definition but it indicates what a process of value creation about. However, for understanding the value for customers is also an elusive issue, perceiving by different people the result would be different.

Vargo and Lusch (2004) argued that ‘service’ is not an intangible product, indicating a process of doing something for someone. The difference between goods and services is that in S-D logic, a good is appliance used in service provision. In addition, there is no winner or loser between good versus service in S-D logic.

S-D logic sees service as a process, which means doing something for others, aim to have economic exchange. However, G-D logic sees service as unit of output, usually tangible that require actions to make them valuable. (Vargo & Lusch, 2008a) Grönroos (2007) stated that service is a process that consist a series of activities where variety resources are used interaction with customers. Thereby, a problem of customer is founded by a solution. Service, as a foundational concept of exchange and marketing intimates a different purpose and process for both firms. By providing service to stakeholders, customers, employees and stockholders and so on. In addition, the notion of investment in people is pointed directly by service, long-term relationships, quality service, and only somewhat less directly towards transparency, sustainability and ethical methods. However, not all these above-mentioned directions can be found in G-D logic. (Vargo & Lusch, 2006)

### ***3.5.2 Ten foundational premises in LSPs***

Ten foundational premises (FPs) (Vargo & Lusch, 2008b) were the revised from the original eight FPs (Lusch & Vargo, 2006). Vargo, S. L., & Lusch, R. F.

<b>Foundational premises of SDL</b>	
FP1	Service is the fundamental basis of exchange
FP2	Indirect exchange masks the fundamental basis of exchange
FP3	Goods are a distribution mechanism for service provision
FP4	Operant resources are the fundamental source of competitive advantage
FP5	All economies are service economies
FP6	The customer is always a co-creator of value
FP7	The enterprise cannot deliver value, but only offer value propositions
FP8	A service-centered view is inherently customer oriented and relational
FP9	All social and economic actors are resource integrators
FP10	Value is always uniquely and phenomenologically determined by the beneficiary

Table 3.1: *The Foundational premises of SD-logic*

**FP1**, *service is the fundamental basis of exchange*. This is particularly relevant to logistics service context as LSPs do not produce physical product, in contrast, the skills and knowledge of LSPs in creating a solution is the exchange between the provider and the consumer. (Yazdanparast, *et.al*, 2010)

**FP2**, *indirect change masks the fundamental basis of exchange*. Since logistics service is a complex process which includes goods (physical assets), money (the fundamental meaning of exchange), and institutions, the service basis of exchange between LSPs and consumers is not always apparent. (Yazdanparast, *et.al*, 2010)

**FP3**, *goods are distribution mechanisms for service provision*. The value is derived by goods through the service they provide. In spite of logistics managers or warehousing managers are not taking responsibility for producing physical goods, appropriate logistic service is important so that the goods may provide the service that they are intended to provide (Yazdanparast, *et.al*, 2010).

**FP4**, *operant resources are the fundamental source of competitive advantage*. In the logistics activities, all the customers are different, and it is infrequent that there is an off-the-shelf logistics service that may be provided to multiple customers. Consequently, how to apply knowledge to deliver a unique, customized logistics



service to customer is a powerful way to become competitive than others. (Yazdanparast, *et.al*, 2010)

**FP5**, *all economies are service economies*. All the activities such as research and development, outsourcing of goods manufacturing of components is making the world economies more and more service-based and logistics is the important key in these economies. (Yazdanparast, *et.al*, 2010)

**FP6**, *the customer is always a co-creator of value*. A firm is actively involving customers in the service provision process in co-production of value is a basic precondition to succeeded. In this context, customers should be involved in the process of value creation and considering them co-creators of value. For instance, as a logistics company, it is necessary for a provider to have a comprehensive and deep understanding of its customers: the process, the procedures and as well as the understanding of the environmental and competitive factors facing the customer. S-D logic perspective says that a company must focus on applying the customers as a resource contributing to the creation of value. (Yazdanparast, *et.al*, 2010) (Vargo & Lusch, 2008b)

**FP7**, *the enterprise cannot deliver value, but only offer value proposition*. Customer is the one who determines that proposed logistics service satisfied with his/her needs and has value. In another word, the provider cannot create and deliver value by its own but allow customer to participate in creating service and deriving value through cooperation with service provider. (Yazdanparast, *et al*, 2010) (Vargo & Lusch, 2004) (Xie *et al.*, 2008)

**FP8**, a service-centered view is inherently customer oriented and relational. Providing a valued logistics service demands a high level of customer orientation is the relational nature of co-creation. (Yazdanparast, *et.al*, 2010)

**FP9**, all economic and social actors are resource integrators. After intergration with other resources, the value can be realized, some of them are from the market and some others are provided by privately or publically. (Yazdanparast, *et.al*, 2010)

**FP10**, value is always uniquely and phenomenologically determined by the beneficiary. The value is determined by a customer is unique to that customer's experience, context and cooperation. Even though the same service provided to different customers will provide a different value as well. (Yazdanparast, *et.al*, 2010)

## CHAPTER FOUR: CASE DESCRIPTION

### Case 1: PostNord

PostNord is one of the largest logistics service providers in Sweden. Furthermore, PostNord AB was established in 2009 through the merger of Post Denmark A/S and Posten AB. The public limited company's headquarter is located in Solna, Sweden. It is owned 40% by the Danish State and 60% by the Swedish State. Main activities of PostNord are in three areas: Mail (Mail Denmark and Mail Sweden), logistics and Strålfors. (PostNord, 2014) However, with an expanding amount of business volumes within e-commerce, the annual reports from 2011 to 2014 show that e-commerce is growing strongly across national borders.

In 2013, PosNord transported 110 million parcels, 5.9 billion letters and shipments, and 2.5 billion kilos of goods to 25 million residents and 2 million businesses in the Nordic region. The company handles about 70,000 parcels and 30,000 pallets daily. As the leading logistics service provider in the Nordic region, PostNord boasts of its unique distribution networks and communications solutions. With its track record of logistics success, the case of PostNord is set to reveal how it is able to provide value to its client.

To represent PostNord's case, a Senior Advisor and two branch managers approved to participate in the study and answer the interview questions. The core of PostNord's strategy is the realization of logistics' role in e-commerce. PostNord know the value of the logistics service it provides that it could make or break the business of its client and hence, it is its core value to identify the client's demand and realize the efficiency of service.

The case study revealed how speed or the time essence of service delivery is central to

LSP as such is the expectations of the clients. Customers expect quick access to relevant information and fast-paced action resolutions to identified issues in logistics. PostNord provides these information and resolutions to customers and this secures the trust relationship between them. Customers trust PostNord to handle their logistics services smoothly but with relevant control of the operation through the provision of timely and quick access to logistics information. The value for the companies that entrusted their logistics operations to PostNord is not only the reduced cost but more important, the acquired advantage on having logistics work seamless with the marketing and sales operations.

### **Case 2: DB Schenker**

DB SCHENKER stands for the transportation and logistics activities of Deutsche Bahn. It has a presence in some 130 countries around the world and 2,000 locations in all of the world's most important economic regions with 64,000 employees in total. It involves many products and services, for instance land transport, air & ocean, rail, truck and so on. The cooperation with E-trade (e-commerce supply chain), for instance home delivery has the widest range of delivery alternatives on the market. (DB Schenker, 2014)

The logistics sector of DB Schenker occupies majority of total revenue of the whole Deutsche Bahn at €15, 389 million. DB Schenker has a total revenue of €20,314 million while DB Bahn with its three main operations had a total of €16,738 million in 2012. DB Schenker is the second largest transportation and logistics company in the world next to DHL. The company has around 100,000 employees spread in 130 countries. In land transport and rail freight, it is number one in Europe. It is number two on airfreight and number 3 in ocean freight all over the world. It is number 5 in contract logistics based on revenue.

The case study reveals, from the branch manager's point of view, that DB Schenker's

success is owed to its strong strategic culture of adapting to trends and challenges. The companies has a keen understanding on the volatility of logistics market and devise ways to overcome and face the challenges. For instance, sustainability has been a pressing issue for transportation and logistics but DB Schenker has taken the steps to prioritize the issue through its eco solutions. Thus, DB Schenker is now known as the most environmentally friendly transport and logistics services provider in the world. The company is also continuously developing its innovative logistics services for specific target markets.

The contract logistics sector of DB Schenker as the case reveals has the following characteristics: network of business, wide customer base, and asset-light business model. It has 500 sites spread in 50 countries and a fleet of 2,500 trucks, and 22,000 loading units. DB Schenker employs its Go for Growth-Program where it exploits attractive market opportunities, focuses on specific industry sectors, and makes use of standardized, replicable logistics solutions.

### **Case 3: DHL**

DHL spreads all over 220 countries and territories across the globe, exceeding 315,000 employees. DHL is divided into three divisions: DHL Express, DHL Forwarding, Freight and DHL Supply Chain. The function of DHL is: freight transportation, warehousing and distribution, customs, security & insurance, supply chain solutions, industry sector solutions and customer resource area. DHL deliver both B2B and B2C e-commerce fulfillment services with alternative services for instance, network design, process modeling, facility design, and systems setup and so on. (DHL, 2014)

The logistics sector of DHL comprises more than 120,000 employees in more than 200 countries. It is the world's number one in logistics services. With its huge global network, DHL is a world-leader in transport and logistics services through its

consolidated and centralized processes. ICT is a huge part of how DHL delivers its logistics services to add value to its clients. DHL services 8 million customers worldwide with its 4,770 offices and fleet of 350 airplanes and 75,000 vehicles. Its total average annual revenue since 2011 amounts to \$31,432 million making it the largest 3PL and contract logistician.

From the Senior Advisor's perspective, the case reveals that the strategy remains to be ensuring customer satisfaction. DHL listens to customers and are aware of the wide variety of supply chain options that their clients can choose from. Keeping this in mind, DHL works double time to satisfy the customers so that they are pulled to stay and remains as loyal DHL customers. Thus, DHL mainly focuses on marketing that is customer satisfaction in terms of its provision of value as a logistics service provider.

The wide business and network scope of DHL allow for its flexibility in the supply chain. With a huge network reach, DHL is more able to fulfill customer satisfaction, as it is able to reach more markets for its clients. The case reveals how DHL satisfies customers and in return, customers stick to DHL regardless of its huge competitors. Reliability is core to logistics and such is the associated value of DHL to its customers.

### **The reason for chosen these three cases**

All these three LSPs are taking big percentage of logistics market in Sweden, as well as they are competitors with each other. There is no doubt that PostNord is the largest logistics company in Sweden since it was Posten, most of Swedes are familiar and trustful with it. Besides, PostNord is trying to serve e-commerce market lately, it is worth to study as a well-known LSP in Sweden about what are they doing and how will they do in the future for e-commerce supply chain.

For DB Schenker and DHL, they have the similar reason to be chosen as PostNord, as

the author mentioned earlier, they are taking big percentage of logistics market as well as PostNord in Sweden. Further more, DB Schenker and DHL are also trying to enter e-commerce market these years in Sweden. At the same time DB Schenker is the second largest transportation and in the world next to DHL. As two big international logistics companies, what and how they try to enter e-commerce market in Sweden is also very interesting to study as a case. It leads to the author's interest whether PostNord can work better for Swedish market or the other two magnates will serve more value.

All the three LSPs have their own core service product, but now they all are trying to cooperate with e-commerce supply chain. Even though it is not their essential service product, it's new area for all of them in Swedish market. Author tried to find out the similar and differences from different LSPs to understand in this drastic competition circumstance, how service-dominant logic will help LSPs to be more advantage than other competitors.

## CHAPTER FIVE: FINDINGS AND ANALYSIS

### Case 1: PostNord

Firstly, PostNord understands logistics service provider is the “back-bone” of e-commerce. Logistics is the backbone for e-commerce; every business cannot work without logistics. If the logistics service does not develop well in the whole system, the business will not succeed. Because they want this seamless experience, consumers don’t have to understand just shopping. However, as a company they have to see it, to understand the working process, for instance how to acquire returns on investment and competitive advantage.

Secondly, PostNord used to be a mail company, has been involved in this business for many years with end-consumer, but fragmental services. They also have these infrastructures, also the 5 working days to deliver parcels or mail box. Head of Corporate Strategy said PostNord wants to provide end-consumer seamless experience because it has been working with small parcels stuff like that for end-consumer for many years. Senior Advisor also said that in the past, there was only he who had experience with e-commerce supply chain with old services. Furthermore, since the long-term cooperation relationship with end-consumer, PostNord has the advantage that they can maintain old customer and develop new customer at the same time. Because PostNord was Posten in Sweden, most elder people use Posten a lot; it is a reliable and good brand for elder people. Nowadays, the young generation knows PostNord very well and trusts it as well. Therefore, the market share of PostNord is approximately 60% in a very good track. The author believes that from this evidence also shows that PostNord hold a G-D logic.

Thirdly, according to the interview result, PostNord has already had this **S-D** logic in line. In S-D logic, service is defined as the application of knowledge and skills for the



benefit of others (Lusch & Vargo, 2014). There is few evidences show this point. According to **FP8** of S-D logic: *a service-centered view is inherently customer oriented and relational*, G-D logic is focused on transactional exchange and the enterprise is “encouraged” to have a long term, customer perspective relation. S-D logic perspective on relationship is grounded in value co-creation by actors not like G-D logic, output-producing orientation, in which value is assumed to be added and embedded in the production of the output. In addition, the service-centered view is inherently customer or beneficiary oriented. It focuses the firm on doing things, not just for the beneficiary but also in concert with the beneficiary and it does not separate all actors (the firm, suppliers, customers and stakeholders) (Lusch & Vargo, 2014).

For instance, at the very first beginning, the interviewees said they do not only listen to what e-commerce business wants but also the end-consumer. They are trying to reach the end-consumers as well. The Senior Advisor also said that they try to have online services that they can print out their own labels and PostNord try to work on that customers can scan and trace their goods. The ambition of PostNord is to collect parcels, letters, and pallets with one man or one truck and then delivers it. These above understanding are similar with the **FP7**: *the enterprise cannot deliver value, but only offers value propositions*. PostNord proposed many service for customers to them. Moreover, PostNord has the analysis reports and tries to sell these reports to e-business company to convenience them to buy and make profitability for e-commerce companies. Furthermore all small services will try to do it easier for end-consumer to buy online and use one man or one truck to deliver goods to make it simpler.

PostNord realized their status in the market is so backward the digital world, and also understand the customer behavior in different ways. PostNord understand S-D logic within **FP4** that *operant resources are the fundamental source of competitive advantage*. For instance, they realize PostNord is lack of digital integration with e-commerce and do not have big shift from last few years and try to work it better for

the future, because even growing operand resources will not be a sustainable strategic advantage forever if the focus is the market. Instead of by developing “sustainable market creation” and using the dynamic and largely intangible resources, such as the managerial competences to work collaboratively to co-create value to use a knowledge generating and using for the sustainable market creation (Lusch & Vargo, 2014). Moreover, PostNord already realized the big challenge in company is that logistics manager or warehousing manager is lack of the competence in this new world. They do not really know how to deal with one order instead of one pallet out of the store, and the return process. Therefore, people from PostNord said when you want to meet the demand of the market, you have to invest something, and such like IT system and order management, ERP system and so on.

Even though PostNord is in line with **S-D logic**, they still hold **G-D** mind in a **pushing** way to provide value to customers. Interviewees from PostNord talked a lot about what they can provide to customers and what they are trying to do for the customers, but they ignore the real participant- customers. Does all the service what PostNord propose to provide to the customers are exactly what customers what? Does customer care about the service value what they proposed? Is there any added value in this process for proposing more services? The answers for all these three questions are “no”. Because in S-D logic definition, **value is co-created when the customer (no matter the business partner or end-consumer) involve in the process and recognize the service what LSPs provide**. For instance, if the service that PostNord proposed to customers that they do not care, this service is no value for both PostNord and customers, somehow the service what PostNord proposed is failed.

In conclusion for PostNord’s case, contrary to its claim, the company is not actually creating value for its clients in the e-commerce supply chain. It is not PostNord’s interest to create value to its clients but it is its interest to meet the clients’ demands. Creating value and meeting demands are two different things because the latter pertains to having the job done and the former pertains to going the extra mile of

actually helping in the e-commerce supply chain by creating value that means making PostNord a most wanted factor in the overall logistics operations of the clients. While PostNord boasts of identifying client needs and fulfilling their commitment to them through logistics services, it does not necessarily cater to creating value in the e-commerce supply chain.

Value is co-created with the customers, which is the S-D logic (Chakkol et al., 2014), and in application to PostNord's case, its rejection of customer suggestions and opinions on how things could be done for them specifically, show how it fails to create value for the e-commerce supply chain. The G-D logic is applied in the case of PostNord. PostNord does not necessarily include customers in the processes of LSP strategy and planning but rather takes on a distant understanding on what customers want and just base operations on what the customers need in retrospect. Thus, for this case, creating value by LSP in e-commerce supply chain seems far-fetched as compared to other industries where business outsourcing prove to create value for the company.

### **Case 2: DB Schenkner**

The interview results showed that DB Schenkner recognizes the role of its contract logistics to e-commerce clients. In proof of that, the interviewees mentioned that DB Schenkner has partnered with several ICT companies known for their excellence in ICT particularly on online logistics management and network including tracking and automatic inventory. With the help of these partners, DB Schenkner is able to create value for customers by providing sustainable logistics services according to the regulations of each client's jurisdiction. DB Schenkner, makes sure it interacts with policymakers to guarantee compliance and to make clients in e-commerce satisfied of its logistics services. DB Schenkner, according to the interview results, sees to it that they help customers attain a competitive advantage through its logistics services, which means choosing DB Schenkner guarantee reduced cost and high value for the

clients.

The case study revealed that DB Schenker creates value for customers by beating deadlines at no extra cost. This is done through timely and accurate communication. DB Schenker and its clients undertake a contract involving complex data exchange. An example of this is providing the logistics service for a consumer goods manufacturer that caters to several retailers. The clients require for DB Schenker a real time purchase order and inventory synchronization, which means when an order comes in, DB Schenker has to recognize it and be able to deliver on time. The interviewees mentioned that DB Schenker partners with ICT experts in each strategic location to provide the necessary communication technology to facilitate the complex data exchange between its clients and the clients' party. Thus, the company becomes not just a conduit of information but an actual recipient of all information from both parties.

DB Schenker recognizes the emergence of e-commerce industry not just for their clients but also for their clients' customers, thus creating value in the long run. With DB Schenker, clients are spared of the headache of logistics and all the extra costs associated with the technology for logistics to work. In-house logistics for example, requires technical know-how for the companies to make logistics work and thus they have to hire people with specialties and that is extra cost as compared to outsourcing logistics or seeking the help of LSPs. DB Schenker can shoulder the extra cost because of its wide network and thus its ability to bargain with third party providers of communication technology thereby working for the company to provide logistics services at lower costs than when a client is to choose in-house logistics.

In terms of DB Schenker's advantage over competitors, the interviewees mentioned their customer satisfaction rating that proves that the company is well aware of the need to make customers happy as the evidence of creating value for them. DB Schenker believes in creating value for customers as core to its marketing strategy.

The company does not only value customers but their customers' customers as well. With that in mind, DB Schenker is able to perform according to the expectation and even beyond the expectations of customers.

In terms of understanding the role of the company in e-commerce, DB Schenker representatives confirmed how the company is dedicated into tapping the opportunities of e-commerce and becoming best at this new platform. DB Schenker has taken steps in to understanding the new platform that is electronic or online transactions to be able to respond to the dynamics of the market and to overcome challenges as they appear from time to time.

DB Schenker has experienced many challenges in the e-commerce market. Some of these are the following. Delayed logistics has been experienced in some of its branches due to failure of communication. In response to that, the company knew a better ICT is needed but another problem arise, who could provide it and should it be standard to all DB Schenker? Thus while the need for ICT is recognized there is also the problem of choosing the right ICT provider. Managers listed several qualities it needs from an ICT provider and we found one that is willing to extend its services to fulfill the requirements of the company and its clients. So far, the ICT provider has been excellent in providing ICT services. Although there are tiny problems experienced, majority of the services have been beneficial for DB Schenker.

The company believes that even the ICT provider is creating value for the company because as mentioned, they believe in creating value for clients. In return, the maintained relationship helps both parties in achieving mutual goals. DB Schenker's culture therefore is crucial in its e-commerce success as an LSP. The values that DB Schenker delivers include reduced cost, flexibility leading to better performance, and increased revenue for its clients.

The function that DB Schenker believes is important, as an LSP is the on-time

delivery system that is what clients signed up for that the company would provide in the first place. All the other functions as an LSP work together for that single function of delivering the goods on time to the end user. With e-commerce, it becomes easier because of the reduced paperwork. The difficulty experienced is the journey of finding a third party provider for the ICT that is supposed to cure all problems. E-commerce requires handling of complex data and with that there is the difficulty of technology in terms of finding the right program, maintenance, knowledge management, knowledge transfer and so on. With e-commerce, the company takes on a whole new method in its businesses processes. Accordingly, there are also the problems with people on how they accept the change and work together with the changes in mind.

The adoption of new technology was not smooth and the interviewees mentioned how hard it was for the people to accept changes within the company. Still, people get through with it with proper stimulus such as a reward system. Also, the company opened up a new department for its ICT operations. This enables the ongoing performance of ICT within the company as the department works closely with the third party provider. Issues are communicated real time and solved with short lead-time.

DB Schenker takes e-commerce seriously that its marketing department has a special function to survey online shopping experiences by working closely with clients. The company would like to know if there is any dissatisfaction with the logistics and would like to know the issue as soon as it arises so that responses could be made with urgency. The company would like to avoid any problems that are linked with DB Schenker's failure to deliver its logistics services because that would mean the company did not create value for its clients.

Focusing in e-commerce was vital to DB Schenker because it is in line with its corporate objective of being on top. DB Schenker understands the dynamics of the

logistics market that is closely linked with the way people shop and that is with the use of new technologies. The company has to cope with these trends by tapping opportunities and this means focusing on e-commerce. As an LSP, the company is aware that logistics services are in demand as more and more businesses are finding it crucial to outsource logistics in fast-paced markets. Shopping via the Internet continues to grow and will continue in the long term and with that, DB Schenker recognizes its value to the businesses. It is with tapping the current market and the future market that DB Schenker chose to enter the e-commerce supply chain with the mission to be of value to customers.

In terms of cross-border trade barriers, DB Schenker believes that a lot of work has to be done to eliminate it and the company is working with policymakers to get the job done. The process is difficult and requires a huge amount of time and DB Schenker is collaborating as well with other LSPs to make cross-border trade barriers disappear for the benefit of all. Regulations and politics have always been the great challenge of logistics and such is not new to DB Schenker. Thus, certain actions have been done and are currently on the way to solve and overcome the difficulties.

Conclusively, DB Schenker's case is an example of S-D logic applied in e-commerce. The company believes in the value of the customer and the value creation for customers. As one of the top logistics companies, DB Schenker is responsible for the smooth completing of business transactions that in turn creates value to the customer. ICT is a core instrument to delivering the right service to satisfy the purchase experience of customers. With online shopping gaining momentum, LSPs such as DB Schenker has to keep up with innovations in technologies so that they can keep up with the dynamics of the e-commerce industry.

### **Case 3: DHL**

The interviewees from DHL reveal that the company takes a lead role in e-commerce

as it has recently made use of a centralized procurement process within its supply chain. DHL consolidated its worldwide operations to improve service quality. The strategy is to streamline the business in European countries with preferred suppliers. The goal of partnering with preferred suppliers is to reduce direct and indirect costs so that services could be offered at a value for clients. DHL acknowledges and put to good use the growing e-commerce industry.

The emergence of the e-commerce industry, according to DHL's experience, has expanded the businesses as the number one logistics provider in the world. It would be unimaginable if DHL fail to keep up with the emergence of e-commerce and its growing and speedy progress in world market. It is therefore the task of DHL to spearhead ways to make good use of e-commerce opportunities and of course, to face and overcome the challenges associated with it.

DHL takes pride on the importance of logistics in the overall supply chain of any industry especially in e-commerce where delivery is an important basis of customer satisfaction. To stay on top, DHL has to ensure the reliability of its technologies such as auto-ID solutions, scanning systems, and so on. Thus, it partners with industry leaders that can fulfill its requirements for information and communication technology. By making sure that its ICT works excellent, DHL guarantees quality service to its clients worldwide especially with its centralized and standardized approach in logistics services. With the e-commerce development at a speed, DHL keeps up through the strategic adoption of new technologies.

The role of logistics in e-commerce is widely acknowledged, according to the DHL interviewees. It is with this fact that DHL improves its ICT and keeps up with the pace of market change. With move towards virtual offices and warehouses, DHL is leading the way for businesses to streamline its supply chain through efficient logistics operations. DHL's supply chain solutions have designs fit for businesses in the e-commerce industry. Supply chain solutions that DHL provide are comprehensive



from assembly and packaging services to reverse logistics and from planning to returns.

As an LSP in e-commerce supply chain, the role of DHL is to make sure value is created to its clients all over the world. The strategy is simply, customer centric approach. It is the culture of DHL to put customers first with excellent customer service as the mantra of the organization. Customer service at DHL is every employee's responsibility, not just the marketing staff and the store staff, but everyone (that is 110,000 employees) in the organization. DHL requires zero bad experience with employees, and that zero margin or error pulls people to work together to provide the best customer experience as possible. If problem arise, DHL notifies customers and explains the reasons for the problem. Transparency is central to customer relationship at DHL. It is through its customer centric strategy that DHL is able to play its role as the leader in the e-commerce supply chain.

Another strategy to cope with the e-commerce trends is its centralization and standardization with local augmentation strategy that caters to have a uniform system for its ICT across the globe. This means that DHL makes use of one database to optimize its operations but with local customization according to the local requirements of all its branches. Partnership with an effective ICT partner is crucial in making things happen at DHL. The interviewees admit that having the latest technologies is core to DHL's ability to maintain quality service especially within the e-commerce industry that is heavily reliant on newest technologies.

DHL do not have a specific strategy for e-commerce as it treats it as ordinary industry where logistics is necessary to keep it going. It does pay attention to details such as the knowledge on the clients from e-commerce. Knowledge management is essential in retaining customers and DHL has been an expert in this sense as it gives value to customer retention. To keep the customers is more important than acquiring new ones as an LSP because the e-commerce industry is highly networked, which means

referral system works best and that means making customers so happy so they can also refer the business to others.

The challenges in the e-commerce supply chain include practically the volume of packages and the diversity of items in various places. Another challenge is the crucial role of delivery that is logistics in the e-commerce experience of end-customers that puts pressure on LSPs such as DHL in making on-time deliveries. Another challenge is hosting the IT supply chain online with its huge data. Innovation such as cloud computing therefore is a challenge for DHL because there is cost associated with the adoption of any new technologies.

In e-commerce, there is no limit of orders unless items are out of stock. With that, logistics are challenged to work 24/7 to make sure items, numerous items, are delivered on time in various places. The volume of packages, the number of locations, and the diversity of items have increased and are continuously increasing. LSPs are at the forefront of the phenomenon and DHL is working hard to meet the huge demands globally. Several actions are done to meet this challenge starting from the operations of marketing to ICT operations and then on the local level. Meeting the demands greatly depends on collaboration of its business units.

Another challenge is the growing importance of LSPs in e-commerce as they are the hands and feet of the business. LSPs bridge the gap between the business and end-customers thus, businesses are heavily reliant on LSPs to satisfy customers in terms of their expectation on deliveries and returns of goods. This is where LSPs create value for clients as it is with DHL. The company makes sure that it satisfies customers by acting as if they are part of the clients' business and not just a third party provider. DHL deals with this challenge by acquiring the best new technologies in the market. There is the need to be in pulse with the latest technologies as an LSP even more as DHL is a market leader. With the new technologies, DHL is able to ace the challenge of increased volumes and other associated challenges of this in the business.

New technologies are constant challenges to DHL because it has to be in pulse with what could be applied or adopted to the system of the company for better operations. Procurement of new technologies is costly for a logistics company even for DHL. Relying on technologies have huge risks but it is unimaginable for a global company especially in an e-commerce industry to lag on innovative technologies. In order to deal with this challenge, DHL partners with industry leaders that can provide its requirements for its complex business processes and functions. The company evaluates existing providers and retains them according to evaluation results to ensure that third party providers do not hinder the company's ability to provide quality service to its customers.

The function of LSP that is important to the company is information dissemination towards the clients. It is important to keep clients posted on their package and this is why DHL acquires the latest technologies just so it can disseminate information to customers when they need it. Information is crucial in e-commerce as this is where business and customers rely on. AS an LSP, DHL has to keep the business and customers posted on their package.

As an LSP, there are always difficulties in getting the job done. That is why culture within the organization is important for DHL. Employees are nurtured to provide excellent customer services despite difficulties. Bad moods are not welcome on DHL premises as employees are trained to work with difficulties in mind and with customer satisfaction as the goal. At DHL, the customer is always right and it is the task of everyone to make sure they take responsibility for every interaction with the customers. Employees at DHL are all aware of the value of customers and they are cultured to ensure customers experience utmost satisfaction.

DHL takes customer service seriously that it is willing to entertain customer evaluation. A department is dedicated to understand customer needs according to their

experience with DHL. This is the same with the e-commerce sector where people are assigned to survey on customer satisfaction. They evaluate and recommend on what DHL can do better in response to the analysis of customer survey. The information gathered is also disseminated to the specific business client so that they can also have the knowledge and use it for improving its business. Thus, DHL is not only benefiting in itself through its marketing actions but also creates value to its clients through knowledge mining and management.

DHL recognizes the value of e-commerce to the business. The company sees unlimited opportunities in e-commerce. For instance, it sees opportunities with social media networking on how DHL can tap these opportunities to improve its services and increase demands. The company website is designed to attract clients with various requirements for an LSP. Marketing online has been going on and are successful in acquiring clients in e-commerce from all over the world. With a tough competition, DHL is able to persuade through its track record of excellence in the industry.

The advantage of DHL over its competitors, why it remains on top is its customer centric value that in turn creates value to customers. Value creation with DHL is realized through the delivery of excellence to customers. Excellence simply means meeting customer expectations. DHL creates value to business by its dedication to delivering excellence and fulfilling such promise. If that promise is somehow broken by delays, DHL quickly apologizes and lay out all the issues to the customers so that still they are in touch with their package. Creating value to customers is not the explicit promise of DHL but its promise of excellence delivered leads to value creation.

In terms of the cross-border trade barrier in Europe, DHL has the largest market share both in B2B and B2C in Europe and this means it is most eager to solve this issue. The company supports every effort to eradicate cross-border barriers in the EU not

only to benefit the businesses but also to create value for clients as all will benefit from having the barriers eradicated. DHL engage in policy making and sponsorship of events related to eradicating cross-border barriers in Europe.

Conclusively, DHL provides the best practice for LSPs in e-commerce. The company is dedicated to creating value by meeting the requirements of clients with awareness on provision of lower cost and high value service. DHL is also employing the S-D logic in that it is aware of its role in the supply chain and that being a core player in the overall customer experience. Customer centric strategy proves to be effective in the e-commerce industry in the perspective of DHL.

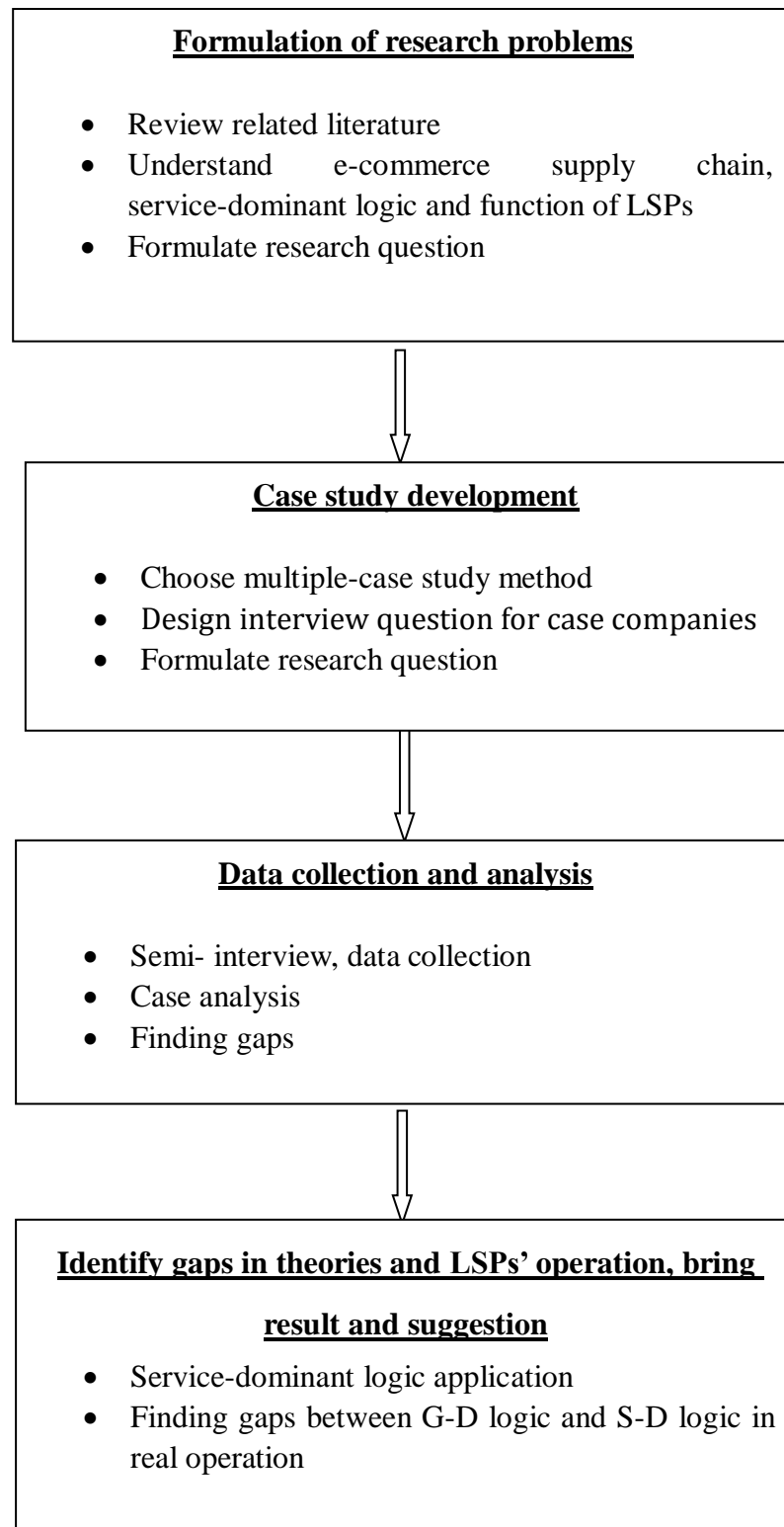
## CHAPTER SIX: CONCLUSION AND RECOMMENDATION

In this research, the author followed this following logic way to design the research. First of all, formulate the research problems, by review related literatures, articles, reports and information from the Internet to understand different actors in e-commerce supply chain, especially the actor of LSP. At the same time understand what is service-dominant logic and the application in different areas.

After understand the related literatures, next step is to choose the methodology. Since the author would like to understand and investigate how LSPs designs the process for e-commerce supply chain as well as explore LSP's value proposition process in e-commerce supply chain. What would be importance of Service Dominant Logic in this context, and how can it propose and co-create value in the e-commerce SCM. Therefore, the author decided to use case study as method, the in-depth understanding need more than one case as subject in this thesis, multiple case study would be better choice than single case study. The in-depth investigation needs interview as a tool to help author to collect the **validity** and **reliability** data through face-to-face interview and the semi-structure interview will give interviewees more space to spread their thought and opinion.

Once the data collection and analysis finished, the gaps between literature and real operation were found. Take PostNord as one example, after interview analyze, it is easy to see that even though PostNord is trying to bring best service to customers, they ignore that they are still use G-D mindset. **In S-D logic mindset, value is only created by logistics service based on the perceptions of the gap of the customers' between the service performed by the provider and the service received by the customer (Yazdanparast *et al.*, 2010).** The service beneficiary experience is dynamic and interactive can lead to new thinking for more compelling value propositions and

service innovation (Lusch & Vargo, 2014). However, in real operation of PostNord, they are still trying to propose value, which might not be the right service that customers want. It is not just for LSPs, every company might try to apply S-D logic in their mindset to co-create more value for both the companies and the customers.



S-D logic is predominant in LSPs. The case studies revealed how LSPs are aware of their responsibility for value creation to their customers. In this highly networked world and indeed in e-commerce, value is co-created by all the parties involved in a business transaction. Customers are well aware of LSPs from shopping online to having the goods delivered; customers are exposed to the presence of LSPs and the role they play in the purchase process.

LSPs are aware of the S-D logic in that the G-D logic is not frequently applied in e-commerce especially in the supply chain. As it is now, the reality is that LSPs help businesses in logistics and supply chains but the help could not be given without the cooperation and the same value with the businesses they serve. Even with customers, LSPs are aware that S-D logic makes sense in online transactions rendering G-D logic obsolete. When customers shop online, they have the option to choose their preferred courier. Value therefore is co-created through the process, exchange, integration and use of resources from other sources particularly the LSPs aside from the producer or retailer of goods (Lusch & Vargo, 2014).

PostNord, DB Schenker, and DHL are global LSPs yet they still experience difficulties in logistics and supply chain system despite their huge resources. This means that the S-D logic makes more sense than the G-D logic in application to e-commerce due to its complex network of business processes. Customers on e-commerce are more understanding in that they are knowledgeable of the presence and importance of LSPs in their buying experience.

Service-dominant logic is more applicable for e-commerce customers because the online platform requires service as inseparable to goods purchased. LSPs are vital in this sense because they deliver the service by delivering the goods. Thus, LSPs play an important role in e-commerce. With logistics and supply chain systems more commonly outsourced, LSPs are becoming more important in this new business platform that is e-commerce.



Aforementioned, PostNord is at a lost in this S-D logic in that the company somehow fails to listen to customers' requirements, as they are only third party player. Yet for DB Schenker and DHL, both on top of the world market, they perceive the important thing they do as third party players in e-commerce. Such is the S-D logic applied in the real world. Value creation must be recognized first by the LSPs in order to fulfill it to their clients. Without the recognition, such as in PostNord, there is no value creation in LSPs.

Information and communication technology are core to the operations of e-commerce. Thus, LSPs are keeping in pulse with the latest innovations so that they can deliver improved services. Improvement of service quality is core to the LSPs operations and development that is attained through innovation in technologies they use in logistics and supply chain management. However, it is not just acquiring the latest technologies but also having the right organizational culture to go with the technology. DHL is an example of how culture is crucial in the overall fulfillment of LSPs in its responsibility to create value to customers.

Conclusively, LSPs vital role in e-commerce is value creation through service delivery. LSPs must necessarily fulfill their responsibility in the supply chain not only through logistics and supply chain management but also through marketing particularly in understanding the needs of customers and meeting these needs accordingly. E-commerce requires much of LSPs to go the extra mile of creating value to customers.

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## **APPENDIX**

### **Interview questions**

#### **Introductory Questions: (1-7)**

The following questions begin with understanding the interviewee's role and responsibilities in the organization and their general perception about the importance of e-commerce and logistics.

1. What is your name? What is your working title? How long time have you been working in this company as this title?
2. What is your responsibility in company?
3. What do you think of your company's mission and vision in this business?
4. What do you think of your company's position in the market?
5. What is your personal aim and ambition in your career?
6. What do you think about the emergence of e-commerce industry? How do you rate the value of e-commerce in people's lives?
7. How important do you think, logistics' role and contribution in economy building?

#### **Understand LSPs in E-commerce (8-11) supply chain**

8. How do you define your role as a LSP in e-commerce supply chain? Since the e-commerce business increases, does your company have different strategy compare to other business activities? If yes, what is it?

9. Are there any challenges have you met so far in e-commerce supply chain? If yes, what is it? How do you deal with them?
10. What function of a LSP is important for your company? (Are there any difficulties to be a LSP? If yes, what are they? How do you mitigate them?)  
Can you tell me how does your company deal with e-commerce supply chain?
11. Have your company done any investigation towards what consumers need from satisfied online shopping experience? If yes, what is it? How do you do?

**Understand Value creation (12-15)**

12. Why does your company start to focus on e-commerce market? Who designed this strategy? Does anyone have the experience in e-commerce supply chain? What is the expectation to enter e-commerce supply chain (from which aspect consideration)?
13. How do you design the process for e-commerce supply chain? Considering there are many consumers segments, how you positioning logistics service from online market? What service could you propose to customer?
14. Do you think the appropriate image of your company will benefit the business in long-term? If yes, what is the image of your company? (How do you maintain the relationship with old customers (loyalty)? How do you develop new customers (trust)?
15. The fifth Annual European E-commerce Conference 2013 reveals shopping via the internet continues to grow and that the proportion of the Internet

shoppers is likely to meet or even exceed 50% by 2015. However, when it comes to cross-border sales, only a quarter of EU consumers are interested and three quarters of retailers sell only domestically. In addition, LSPs are the key area where most improvements are still needed for the development of cross-border trade.

How does your company react to the cross-border trade barriers? What kinds of difficult aspects, if any, has your company faced with the cross-border institution? How do you deal with the difficult aspect?