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Logistics Service Providers and Value Creation Through Collaboration: A Case Study

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Logistics service provider (LSP) strategy and value creation is a cooperative endeavor. The study focuses on how LSPs create value by taking advantage of being connected and exploring the presence of various forms of interdependence. Using a single case study and a framework addressing network externalities and the concept of value logic interaction, we identify three types of collaborative value creation; distributive, functional and systemic. Whereas the fundamental logic of the LSP is mediation in terms of performing a distributive service, it is also subject to externalities in its functional and systemic value creation initiatives. LSPs are thereby portrayed as strategic entities dealing with a set of interdependencies in order to facilitate value creation in their networks. These firms need a rather advanced understanding of different types of economies and forms of collaboration to succeed. The study also associates different types of LSPs with the identified types of collaborative value creation.

Introduction

Despite their increasing importance,[1] logistics service providers (LSPs) have received minimal attention in the literature on strategic management.[2] The mainstream literature has commonly defined logistics management as part of supply chain management, and supply chain frameworks tend to characterize LSPs as supporting actors to manufacturing firms and as non-value-adding entities (Rabinovich and Knemeyer, 2006). This suggests that the stream of research on strategy and value creation has tended to overlook LSPs.

Although the number of studies on LSPs has increased, few have addressed value creation; exceptions are Berglund (2000) and Huemer (2006). Berglund (2000) related LSPs' value creation to their functions, and Huemer (2006) related it to their mediating role. Both studies were conducted at the firm level, although they also acknowledge the importance of collaboration for LSPs to create value.

The present paper examines LSP value creation by using the case study of TLog, a fourth-party logistics service provider (4PL) (also known as an asset-neutral LSP), and its partners and clients. The study illustrates three forms of value creation, all of which are collaborative in nature: the linking of actors in the network, the coordination of sequential logistics flows, and the development of the network over time. Building on the collaborative nature of LSP value creation, the study also addresses how LSPs can take advantage of being connected and utilize the various forms of interdependence they face.

The paper contributes to the strategic management of LSPs by viewing them as strategic entities with the capacity to create value. Based on a developed conceptual framework, we identify the three ways in which LSPs create value in collaboration, as mentioned above. We relate different types of LSPs to these forms of value creation, and highlight the cooperative scope that LSPs have with respect to value creation. On a general level, the study adds to cooperative strategy with a focus on mediation-based business models. The paper ends with a discussion of managerial implications and directions for future studies.

[1] A recent study showed that 82 percent of logistics executives worldwide considered their companies to be clients of LSPs during 2007; this is an increase of approximately 72 percent from the start of the 2000s (Langley et al., 2007).

[2] A literature search using Business Source Complete and the key expressions "strategy" and "logistics service providers" (AB Abstract or author-supplied abstract in academic journals) returned only 33 hits, whereas "strategy" returned 106,881 hits.

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Literature review and conceptual framework

This section provides an overview of generic value creation frameworks from resource and activity perspectives, and at the firm and system levels of analysis, which characterize contemporary strategy research on value creation. It addresses those studies that have focused specifically on LSPs and outlines the development of the study's conceptual framework.

General value creation frameworks

Studies on value creation occur in at least two parallel research streams: activity-based and resource-based studies. These two streams can be further divided into the firm level and the interorganizational level. Firm-level studies stress firm differentiation, indicating that they provide a competitive perspective and emphasize that firms should control either strategic resources (e.g., Barney, 1986, 1991; Rumelt, 1984; Teece, 1982; Teece et al., 1997; Wernerfelt, 1984) or value-creating activities. The interorganizational level of analysis focuses on interaction interfaces. Accordingly, the perspective is collaborative and stresses either combining organizational resources (e.g., Pfeffer and Salancik, 1978), or collaborating across firm boundaries.

The present paper adopts an activity approach. Following such an approach, Porter's (1985) value chain model dominates the contemporary view of firm-level value creation and focuses on sequentially dependent activities. The model favors manufacturing firms that create value by transforming inputs into products, and is less suitable for analyzing service industry activities (Stabell and Fjeldstad, 1998). Based on Thompson's three technologies and different types of interdependences (Thompson, 1967), Stabell and Fjeldstad (1998) broadened firms' value creation logic into three value configurations: the value chain, the value shop and the value network. The value shop model captures the value creation logic of professional service firms or so-called knowledge-intensive organizations focusing on problem solving rather than the production or sale of physical products. The value network describes how firms based on a mediating technology create value by linking actors who are or wish to be interdependent.

Activity-based studies at the interorganizational level have had different areas of emphasis. The business model concept emphasizes the design aspects of value creation. Teece (2010) noted that business models reflect management's ideas about what customers want and how they want it, plus how the enterprise can best organize to meet those needs, get paid for doing so, and earn a profit. Moreover, business models have been referred to as firms' underlying core logic and strategic choices for creating and capturing value within a network (Dahan et al., 2010; Shafer et al., 2005).

The business model concept emphasizes the design elements of an activity system, such as content, structure and governance, as well as the characteristics of that system. On the other hand, strategic networks (Gulati et al., 2000; Jarillo, 1988) highlight mechanisms with which to realize a specific business model and distinguish the critical role of a focal firm as the center or hub, controlling and orchestrating the network.

Logistic service providers and value creation

Most of the extant strategic management studies of LSPs have taken a professional service firm perspective. These studies include topics such as competitive advantage and firm performance (Sum and Teo, 1999; Wang et al., 2006; Yeung et al., 2006), strategic positioning (Juga et al., 2008) in terms of classical-based positioning (Bask, 1999; Cooper et al., 1994; Delaney, 1991; Persson and Virum, 2001), resource-based positioning (Berglund, 2000; Persson and Virum, 2001; Skjøtt-Larsen et al., 2007), and competency-based positioning (Berglund, 2000; Lai, 2004; Hertz and Alfredsson, 2003; Naim et al., 2010), etc.

Berglund (2000) adopted a general service firm's perspective on studying LSPs and identified the four following LSP value creation modes with associated value drivers: operational efficiency, integration of customer operations, supply chain management and integration, and vertical or horizontal network development. Berglund (2000) noted that collaboration is an important value creation mode, while Huemer (2006) acknowledged the mediating role of LSPs. By viewing LSPs as the ones that connect senders and receivers (in line with Thompson's 1967 description of the postal services), the value network model (Stabell and Fjeldstad 1998) is fundamental for LSP value creation on the firm level of analysis.

However, contemporary studies on LSP value creation have revealed little about cooperative efforts. To address how LSPs create value by cooperating with others — an insight that emerged from the case study — we required a theoretical framework that addresses collaborative value creation. The HP model (Håkansson and Persson, 2007) provides such a view. In contrast with work on strategic networks, the HP model does not portray focal firms as centers or hubs in charge of governing and controlling the network. The following section describes the HP model and its development for the purpose of this study.

A framework of collaborative value creation

Notably, the HP model and the value configuration framework (Stabell and Fjeldstad, 1998) share the same theoretical heritage from Thompson (1967). According to Thompson, the types of technologies used to describe different value configuration logic (mediating, long-linked and intensive technology) correspond to the types of interdependence (pooled, serial and reciprocal interdependence) and to different forms of coordination (standardization, planning and mutual adjustment). Stabell and Fjeldstad (1998) used this framework to define three different forms of value creation at the firm level, whereas Håkansson and Persson (2007) used it to describe three different types of collaboration on a system level of analysis. Table 1