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## Developing a service offering for a logistical service provider—Case of local food supply chain

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### ABSTRACT

This study introduces a process of building potential business models for a logistic service provider operating in a local food supply chain. As a starting point, the logistical service needs of different participants in regional food supply chains are analyzed. Based on the analysis, two potential service offerings for a logistical service provider or an integrating entrepreneur of a local food supply chain are formed. Business models for the two service offerings are developed and analyzed using the Business Model Canvas. The study shows that this approach builds a logical connection between the services offered and the fundamentals of the business of a logistic service provider.

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### 1. Introduction

Local, alternative and short food supply chains have attracted considerable public and political interest in recent years. As a consequence, also academic research has increasingly started to examine the possibilities and preconditions of local food systems as an alternative food supply chain. As the customer interest and demand for local food products is growing, the needs, requirements and opportunities for logistical service providers for local food producers should be studied in order to create innovative solutions to the matter. On the other hand, logistical service providers are facing growing customer demand to broaden their range of services from simple transportation and inventory services to more advanced supply-chain solutions (Langley, 2012; Yazdanparast et al., 2010).

The small-scale rural food manufacturers and distributors face a traditional logistical problem of a small or medium sized enterprise (SME): the logistics and distribution is expensive on one's own, and access to major distribution systems is difficult. The alternative supply chains consist of small companies with thin material flows under the pressure of vast competitors, the major food retailing industry. The fact that the goods are perishable and the handling is regulated with complicated national and EU-wide legal provisions gives its own characteristics to the supply chain. It is obvious that a local food supply chain calls for innovative logistical solutions provided by specialized service operators. The question is, what service offerings are feasible, and whether they offer a sound basis for business.

Service offering, the definition of what services is offered to customers and how, is a pivotal task in the service business (Grönroos, 2000). The service offering emerged in the logistics research literature in the 1990s together with the trend to out-source logistics services to third party (3PL) service providers (Langley, 2012; Yazdanparast et al., 2010). On the other hand, logistics services have been seen as a source of a competitive advantage component in the service offerings of manufacturing companies (e.g. Shapiro and Heskett, 1984; Mentzer et al., 1989; recently Hülsmann et al., 2011; Langley, 2012). The research focus has mainly been in the supply chains of large companies and their networks, there are only a few studies on logistics services for SMEs (Soinio et al., 2012).

The term business model came to common knowledge in the late 1990s, and since then it has appeared more and more often also in the scientific literature. Putting it simply, a "business model defines how a firm delivers value to customers and converts payments into profits" (Teece, 2010). The origins of the concept are strongly connected to information technology and the emergence of internet-based businesses (e.g. Magretta, 2002; Gunther Mc Grath, 2010; Baden-Fuller and Morgan, 2010). The new technology has made it possible to challenge the dominant logics and practices of traditional industries, and as a consequence ways to define and describe the new ways to make business are needed. Thus, the idea of business models seems lucrative for operationalizing the service offerings for a local food supply chain to more credible description of the business opportunities.

The primary motivation for this study was the recognized need to find effective third party logistics solutions for local food supply chains. Presumably, a logistics service provider (LSP) operating in the SME and food environment needs unique service offerings and business models. Therefore, the case study in itself had the aim to

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build generic service offerings to be utilized in present and forthcoming practices. However, many tools for building service offerings are available, but there is no clear process of building a logical connection between the services offered and the fundamentals of the business of an LSP. This led to the main objective of this paper, to outline a process on how to build a service offering and business model for a local food LSP.

In the study, the service expectations of regional food supply chains have been collected by conducting and analyzing a total of 23 semi-structured interviews covering the whole supply chain (food producers, downstream operators and retailers) in south-eastern Finland. As a result of the case study, the paper introduces two potential service offerings for a logistical service provider or an integrating entrepreneur of a local food supply chain. The description of the case process serves as a suggestion for a process of identifying a potential business model for service offerings developed from the expectations of local food supply chain operators.

In Sections 2 and 3, the related literature concerning local food supply chains, as well as business model and service offering development are reviewed. Section 4 presents the case environment and the research process of the study. The empirical findings are summarized in Section 5: the analyzed service offerings and business models presented and evaluated. Finally, concluding remarks are made in Section 6.

## 2. Local food supply chains

The rise of local food and short food supply chains as an issue of public and policy interest can be seen largely as a consequence of political, economic and socio-cultural aspects connected to rural area development, as well as a backlash against standardized and mass-produced food products, global food processing chains and the ever greater distance between the production and consumption of food (see e.g. Ilbery and Maye, 2006; La Trobe and Acott, 2000; Marsden et al., 2000; Morris and Buller, 2003; Renting et al., 2003). The research has taken several different perspectives to studying and examining local food systems, the most common approaches being the political economy perspective, the rural sociology perspective and the governance and network building perspectives (Tregear, 2011). Even though the idea and benefits of local food is attractive to a wide range of actors, much of the activities surrounding the concept are on the level of advocacy, rather than being based on empirical evidence concerning strategies, business opportunities, improvement initiatives and value adding potentials for different local food supply chain operators (Ilbery and Maye, 2006; Morris and Buller, 2003).

The growth of the local food sector has been largely a consequence of new types of producer-consumer relationships. A typical feature for these new food supply solutions (for example local butcher's shops and specialty shops) is that they rely essentially on the food producers themselves and not on other actors in the food chain. This separation from traditional and conventional mainstream commercial food chains makes the local food sector operate separately in its own food-chain framework (Morris and Buller, 2003). This can be seen largely as a consequence of the fact that many farms and small-scale food-processing organizations face difficulties in getting their products into traditional distribution channels (see e.g. Forsman and Paananen, 2002). Even though the demand and interest for local food products are growing, in traditional food supply chain the local food producers are still often seen as supplementary suppliers. The small production volumes, inadequate resources, high price levels, challenges in creating and marketing appropriate products, challenges in creating close business relations, and the

risks related to the reliability of deliveries are typical issues hindering the access to traditional food supply chains (Forsman and Paananen, 2002).

Strengthening the co-operation in the chain, as well as creating different types of joint ventures and networks are seen as the best possibility to remove the barriers of entering the mainstream food chains (Forsman and Paananen, 2002; Morris and Buller, 2003; Renting et al., 2003). Close and active co-operation between the customers and suppliers in the chain is needed in order to improve new product development, increase customer-orientation and to understand better the customers' needs and the value creation process. Closer co-operation between different local food producers is needed especially in logistics in order to eliminate non-value added costs, to utilize the resources better and to improve the reliability and cost-efficiency of the deliveries. The major challenge remaining is how to start building alternative sustainable business models for effective and customer-oriented local food systems and networks (Forsman and Paananen, 2002). The study at hand takes this challenge as a starting point and aims to bring new insights into building business models for logistical service providers operating in local food supply chains.

## 3. Connecting business models and service offerings

### 3.1. Business model concept

The basic idea of business models is that a company can create a competitive advantage by doing something differently than others (Gunther Mc Grath, 2010). A business model ties the pieces of a business together to achieve at least temporary competitive advantage. It is not only the value offering, revenue model or cost structure, but how the pieces fit together (Magretta, 2002; Gunther Mc Grath, 2010; Sorescu et al., 2011). The business model connects also the firm's internal resources to external suppliers and partners (Teece, 2010). A slightly different viewpoint to the business models is to see it as a snapshot or a map of the realized strategy of a firm (Casadesus-Masanell and Ricart, 2010; Chesbrough, 2010), as Osterwalder et al. (2005: 3) thoroughly define:

"A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams."

The motivation to define, depict and publish the business model is in a sense related to communicating and understanding the strategy of a firm. Thus, the concept of the business model can be seen as an instrument to analyze, design, change, align and innovate new businesses. (Osterwalder et al., 2005).

Osterwalder and Pigneur (2010) present a framework, the Business Model Canvas, on how to define a business model. It contains nine, quite simple, building blocks for a business model, as presented in Fig. 1.

It has been noted that the business model concept lacks a theoretical foundation (Teece, 2010), and the Business Model Canvas has been criticized likewise for not considering all areas of the firm or business. However, the aim of the Canvas should not be seen as describing the business holistically, but pinpointing the essential elements of the business when innovating new ways to operate. The model seems to highlight the elements necessary to be considered in the first steps of crafting a new, start-up service business model like the case business.

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