EXPLORING THE 3PL VALUE PROPOSITION

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ABSTRACT

Marketing scholars suggest core competitive advantage in modern markets is most effectively represented by the firm's value proposition. While much of the value proposition research is rooted in the marketing discipline, it is increasingly a topic of interest in supply chain literature. Value propositions are analyzed by the contracting organization when contemplating the hiring of a third-party logistics firm for example. This investigation responds to theory-based calls into 3PL research by employing a grounded theory based content analysis of 3PL websites, with the intention of understanding the structure of a the 3PL value proposition. The results indicate that 3PL's produce a range of value propositions that coalesce around three distinct value propositions associated with solutions, services and integration.

Firms project their go-to-market strategy through the *value propositions* they project in the marketplace (Flint and Mentzer 2006; Vargo and Lusch 2004). This may be inherent in the brand (Ballantyne and Aitken 2007) or seen through marketing and sales messages (An 2007; Kassarjian 1977; Spears 2001). While much of the value proposition research to date is rooted in the marketing discipline, it is increasingly a topic of interest in the logistics and supply chain literature (Swink 2006; Global expenditures on third party logistics providers has reached $225 billion (Lieb and Butner 2007), with approximately 65 percent of Fortune 500 firms now employing 3PL's (Lieb and Kendrick 2003). These 3PL's provide a wide range of logistics-based value offerings to their customers ranging from simple, single function activities like transportation or freight claims management to more complex, comprehensive arrangements requiring the 3PL to combine multiple functions into a coordinated offering (Langley 2007). Studies

Tuominen 2004). This is especially true in regard to the value projected by firms collaborating to form a supply chain network (Pil and Holweg 2006). Supply chain firms may be influenced to align with others through their perception of the external marketing messages (e.g., value propositions) disseminated by potential partners (Bititci et al. 2004). The relationships formed with third-party logistics (3PL) firms is a prime example.

indicate that logistics outsourcing choices are evolving to become key strategic decisions, particularly for those firms competing in a global marketplace (Lieb and Butner 2007). Research into 3PL phenomena has been primarily oriented toward the practitioner and covers a variety of topics, including overall industry growth, shifts in outsourcing trends, frequency that specific logistics functions are outsourced, the rationale for outsourcing, 3PL selection methodologies, and the impact of globalization on the outsourcing decision (Aimi

2007; Ashenbaum et al. 2005; Langley 2007; Levans 2006; Lieb and Butner 2007; Shanahan 2004). The existing research is quite practical, but provides little illumination of 3PL theory based-variables and relationships, making the current body of knowledge overwhelmingly descriptive.

Many 3PL's routinely produce marketing messages that project their value propositions. These messages are intended to influence potential B2B customers in need of 3PL services. Without a theoretical foundation, it is difficult to estimate the effect such value propositions actually have on the intended audience. Greater understanding of the core theoretical variables that make up the underlying structure of a 3PL's value proposition is needed. Therefore, the research question of interest in this research is: What are the value propositions being utilized by 3PL's? The primary goals of the investigation are to develop a classification scheme of the value propositions used by 3PL's to facilitate understanding of the phenomena, and to establish a foundation for future research in the area of value propositions in a supply chain context.

In this research, the web-based value propositions of 100 large 3PL's are evaluated to determine how the propositions are intended to impact firms that purchase 3PL services. The effort supports recent calls for theory-based research into the phenomena (Ashenbaum et al. 2005; Selviaridis and Spring 2007). The theory building approach combines content analysis and grounded theory evaluation techniques to explore the type(s) of value messages 3PL's present through their websites. This is an important step in a research agenda aimed at developing a theoretical framework that can be used to understand, and predict, 3PL success and failure.

LITERATURE REVIEW

This section provides an overview of the 3PL literature and describes the concept of value propositions. The term 3PL is used throughout The use of 3PL's has increased significantly

the paper to include similar terms such as "logistics outsourcing," "contract logistics," and "logistics service provider."

Third-Party Logistics Service Providers

3PL's got their start as consolidators of freight acting as the "middle men" between carriers and shippers (Sheffi 1990). Historically, a source for overflow transportation and warehousing requirements (Aimi 2007), 3PL's now provide a broad range of services and solutions (Lieb and Butner 2006; Lieb and Butner 2007; Sanders and Locke 2005; Shanahan 2004). The 3PL area has been widely researched. A recent literature review found 114 articles on the subject published in refereed journals between 1990-2005 (Selviaridis and Spring 2007). Knowledge of 3PL trends and growth has been enhanced by long-term studies led separately by Lieb (e.g., Lieb and Butner 2007) and Langley (e.g., Langley 2007). However, much of the previous research is descriptive in nature, and has been criticized as lacking sufficient rigor (Ashenbaum et al. 2005) and in need of a theoretical foundation (Selviaridis and Spring 2007).

Many definitions of 3PL have been proposed. Sink, Langley and Gibson (1996) define 3PL's as external entities (to the contracting firm) that provide multiple distribution services without assuming inventory ownership. Lieb and Randle (1996) describe a 3PL as an outside firm responsible for logistics activities ranging in scope from a single logistics activity to a company's entire logistics operation. Murphy and Poist insist 3PL's must provide customized offerings encompassing a broad number of services. Generally then, a 3PL may be viewed as an outside firm "that performs all or part of a company's logistics function" (Coyle et al. 2003), and may include the outsourcing of a single function (e.g., Warehousing) or an integrated bundle of services DDIN (Panayides 2007).

during the past 20 years (Langley 2007; Lieb

and Butner 2007). This growth has been fueled by globalization and the need for expertise to manage increasingly complex supply chains (Aimi 2007; Razzaque and Cheng 1998). As a result, 3PL's have expanded the breadth of services they provide to include information systems, contract manufacturing, and consulting and procurement (Aimi 2007; Langley 2007; Lieb and Bentz 2005). Despite this, it has been argued that demand for these value-added solutions has been weak (Langley 2007; van Hoek 2000).

Value Propositions

Logistics and marketing scholars have begun to challenge purely product-based views of the firm's market offering (Lambert and Garcia-Dastugue 2006; Vargo and Lusch 2004). Scholars suggest that the product-based pedigree of classic economic exchange theory limits its ability to explain the more evolved value propositions emerging in the marketplace (Hunt 2002; Hunt 1983; Hunt and Madhavaram 2006; Lusch and Vargo 2006; Wilkie and Moore 1999). These scholars assert that the market is evolving toward a service-based view, in which the firm's offering is only comprehensible as value propositions. In this view, the product is merely an intermediary element supporting, and translating, the firms value propositions (Bolton 2004; Vargo and Lusch 2004).

The literature on market-based value propositions is consistent with recent supply chain research. This value proposition research considers a firm's offering as part of an integrated value chain. Additionally, that value offering is co-managed between the supplier network and the customer.

> Customers value different components of suppliers' value propositions in each of their different use situations. Thus, suppliers must anticipate or respond to varying value perceptions and desires associated with different customer use situations. Customer value research, although still in the embryonic stage,

finds that business customers interact with suppliers in attempts to achieve certain functional and relationship goals (Flint and Mentzer 2006)

Thus, value propositions and their integration across the supply chain network, as articulated through corporate marketing communications such as websites, form the foundation of competitive advantage for the firm (Deighton and Narayandas 2004). In this value proposition research, 3PL's play a unique role in linking the contracting firm's value proposition with those of the firm's customers and suppliers (Arnould et al. 2006; Langley 2007).

> In many cases customers are partners as well as suppliers, exchanging and modifying value propositions within a dynamic web of constantly changing needs, (Flint and Mentzer 2006).

METHODOLOGY

Understanding the nature of the fundamental value offerings of a firm, and the industry, has important implications for research and practice (Vargo and Lusch 2004). Content analysis was used to create an aggregate level taxonomy of 3PL value propositions by studying the value offerings described through the websites of the top 100 3PL's in the U.S. Harvesting content from web-based communication has proven to be an effective means of producing strong research results (An 2007). An approach facilitating an aggregate level of understanding may assist in describing the dominant orientation(s) and elements of 3PL value propositions by illuminating the core variables and relationships that form the theoretical foundation of the 3PL phenomena.

Previous research on communication has shown content analysis to be an effective means to generate understanding (Kassarjian 1977; Spears 2001; Stafford et al. 2003). Content analysis was found to be a useful tool for rapidly determining the core content of 3PL value messages and intended outcomes in the aggregate. Given that content analysis provides

a way of understanding an entity's *apparent intent* with respect to an *apparent audience* (An 2007; Kassarjian 1977; Spears 2001), the use of this method was particularly appealing and Integrated into this content analysis was a grounded theory data analysis approach (Charmaz 2006; Glaser and Strauss 1967), delving iteratively into the communicative content in order to inductively generate and relate the core variables that make up the 3PL value proposition. By choosing a method that is both descriptive and theoretical, this approach provided the framework to develop general categories and position those categories relative to each other. Table 1 details the specific steps followed in this research. The first step in this process was accomplished in the previous section.

Sampling and Unit of Analysis

The sample (step 2) was drawn from *Inbound Logistics* annual listing of top 100 3PL's in the U.S. (O'Reilly 2007). The authors believe this sample supports the goals of the research for two reasons. First, large firms by their nature must routinely prospect for new business and have refined their value propositions over a period of several years. Clearly, value propositions evolve over time, but these firms have a demonstrated track record of success in business development and thus have arguably refined their value messages over time. Second, the firms sampled each had a functioning, updated website which as previously stated is a baseline requirement for the chosen sampling frame. Increasingly, web-sites are used by organizations to project strategic content toward intended customers (An 2007). The use of web-based corporate messages provided an effective source of data to obtain content for later aggregation and analysis. Using a web-based method overcomes the notorious "low response rate" associated with survey research (Dillman 2000). A "100% response" was generated from the sampled firms' websites.

ANALYSIS AND INTERPRETATION

MAXQDA qualitative analysis software was relevant in addressing the goals of the research.

used to support this research (Lewins and Silver 2006). MAXQDA enables word pattern searches (e.g., word combination frequencies), and quantitative statistical analysis through word counts and frequencies. For instance, MAXQDA allowed a count of the frequency that the terms *transportation* and *service* occurred in a shared context (568 times). Using this type of software also increases the administrative efficiency of a grounded theory analysis by providing tools needed for the efficient coding of text, use of code trees, memo writing, and analysis of code intersections. Step 3 begins the initial examina-tion of the data by importing website content into the analysis software. This generated 5,319 distinct words. Stop lists were then used to remove words with low meaning such as *the*, *of* and *is* from the analysis resulted in a reduced set of 579 key terms.

Steps 4-7 are the core qualitative analysis and interpretation steps, and were performed iteratively. In step 4, and step 5, the two researchers independently began the coding of key terms into sub-categories. During this process each of the key terms were linked back to their original website content in order to affirm contextual understanding. These steps allowed the evaluation of the value proposition (if any) supported by each term. The initial context-linked catalog of key terms was culled, and aggregated, to include only words that contained logistics or supply chain specific meaning. This resulted in a refined "short list" of 177 logistics-oriented words. The 32 most frequently used words are shown in Table 2.

At step 6, it was determined how the sub-categories logically related and grouped into major categories of words. Several words from the short list emerged which appeared to suggest *selling messages*, or value propositions, when considered in context. These words always modified some type of function (e.g., "we offer modal *solutions,*" "we are one of the fastest growing transportation *service* providers," "specializes in providing *integrated*

supply chain solutions"). Those value proposition words, bolded in Table 2, were again indexed to the original text in order to understand the contextual dimensions associated with these words. In step 7, the independently developed major categories of words and supporting context analysis were compared. Table 3 provides several representative examples of contextual linkages that help describe essential 3PL value propositions. This example shows value

TABLE 1
RESEARCH METHODOLOGY STEPS

Step 1	Identify an undeveloped research problem and review the relevant literature.
Step 2	Determine sample and data sources for content analysis.
Step 3	Import data into the software and create stop lists.
Step 4	Perform independent coding of key terms found into sub-categories.
Step 5	Review the source data to ensure the key terms are considered in the correct
Step 6	Development of major aggregate categories (independently, by each researcher).
Step 7	Compare category findings, resolve any discrepancies, re-categorize if necessary. Repeat beginning at step 4 if necessary.
Step 8	Calculate the frequency of the key term intersections associated with each value proposition.

TABLE 2
FREQUENTLY USED LOGISTICS-ORIENTED TERMS

Word	Freq	Word	Freq	Word	Freq	Word	Freq
services	1181	distribution	211	industry	127	air	95
logistics*	686	global	200	customer	122	dedicated	92
management	411	technology	199	portal	110	resources	91
transportation	399	warehousing	194	international	108	packaging	89
solutions	507	customers	157	company	108	contract	89
supply	363	**integrated**	140	information	105	companies	89
chain	323	network	138	warehouse	100	ocean	88
freight	302	business	135	carrier	97	industries	85

* The term *logistics* was later dropped from follow on analysis. Logistics appeared multiple times in company names, and in association with both functions and value propositions, making its use confounding.

TABLE 3
SAMPLING OF 3PL VALUE OFFERINGS BASED ON "SOLUTION"

As **functions**	As **multiple functions**	As an **integrated set of activities**
hassle-free shipping solution a mouse click away	*pick and pack, sorting, ticketing, repacking, fulfillment, relabeling, and warehousing*	*total supply chain solutions equal to that of a global conglomerate, but without the investment of infrastructure costs*
transportation solutions	*modal solutions*	*the design, implement and operate complex supply chain solution on a national, regional and global scale*
warehousing solutions	*solutions to logistics problems*	*single source for logistics, we draw from our state-of-the-art technology, asset-based resources, manpower and ingenuity to…[provide] powerful solutions that are customized and fully integrated.*
Solutions for worldwide mail services	*transportation, distribution and facility-based solutions, along with the sophisticated information flows that accompany them*	*managing hi-tech supply chains for customers across various industry segments…We pride ourselves on leveraging this vast knowledge to deliver innovative solutions that yield results for our clients*

propositions using the term *solution*. In the first column, *solution* is used in a limited form associated with a specific function. In the middle column, *solution* is found to be a more robust term combining multiple logistics functions into a unique service offering. The third column represents the broadest use of *solution* to include a comprehensive, integrated set of services tailored to address a company's supply chain-wide needs.

Analysis of the primary selling message words was performed next in step 8. *Services* (or *service*) was found 1,181 times in the data. *Solutions* (or *solution*) was used 507 times. *Integrate* (or *integration*) occurred 140 times. Interpretation of the data suggests that the bulk of web-based 3PL value propositions are linked to these three terms. Interestingly, each of the three primary value proposition words appeared to target a distinct type of value proposition. The cross index of these value proposition words with the other logistics related words in the data generate a distinction between these value proposition words and the intent of that proposition.

Table 4 summarizes the findings of the analysis, and demonstrates how the value propositions separated into three concise themes. As described in step 8, the three key value proposition words were cross-referenced with the 21 most logistics-oriented, content rich words emerging from the initial content analysis. Each major column in Table 4 has four sub-columns. The first sub-column (Value) is the number of times an intersection occurred between the value proposition word and each function word. For example, *service* (the value proposition word) and *transportation* (the function word) occurred in context 568 times. The second sub-column (Exp Value) represents the expected number of times each value proposition and function word would be expected to occur in the data if the function

TABLE 4
TABLE 4
3PL VALUE PROPOSITIONS DESCRIBED BY KEY LINKED TERMS

	Service used 1181 times, 65% of the V.P words				Solution used 507 times, 28% of the V.P. words				Integrate used 140 times, 8% of the V.P. words				1828 V.P. words
	Value	Exp Value	Diff	Diff =+5%	Value	Exp Value	Diff	Diff =+10%	Value	Exp Value	Diff	Diff =+10%	Total row
Transportation	568	623	-55	-9%	292	267	25	9%	104	74	30	41%	964
Management	484	601	-117	-19%	332	258	74	29%	114	71	43	60%	930
Freight	413	385	28	7%	127	165	-38	-23%	56	46	10	23%	596
Warehouse	313	338	-25	-7%	126	145	-19	-13%	84	40	44	110%	523
Global	311	339	-28	-8%	150	145	5	3%	63	40	23	57%	524
Distribution	299	291	8	3%	83	125	-42	-34%	69	35	34	100%	451
Trucking	208	178	30	17%	44	77	-33	-43%	24	21	3	14%	276
International	205	183	22	12%	53	78	-25	-32%	25	22	3	15%	283
Technology	197	283	-86	-30%	160	121	39	32%	81	34	47	141%	438
Ship	196	262	-66	-25%	147	113	34	31%	63	31	32	103%	406
Packaging	183	168	15	9%	58	72	-14	-20%	19	20	-1	-5%	260
Rail	99	83	16	20%	20	36	-16	-44%	9	10	-1	-8%	128
Facilities	96	107	-11	-10%	46	46	0	1%	23	13	10	82%	165
Information	91	126	-35	-28%	71	54	17	31%	33	15	18	121%	195
Customs	66	63	3	5%	22	27	-5	-18%	9	7	2	21%	97
Inventory	60	70	-10	-15%	39	30	9	29%	10	8	2	20%	109
Manufacturing	58	74	-16	-21%	38	32	6	20%	18	9	9	106%	114
Visibility	48	81	-33	-41%	49	35	14	41%	28	10	18	192%	125
Export	45	39	6	16%	11	17	-6	-34%	4	5	-1	-13%	60
Bill /Payment	43	38	5	13%	9	16	-7	-45%	7	5	2	55%	59
Software	31	37	-6	-16%	10	16	-6	-37%	16	4	12	267%	57
Reverse	30	37	-7	-19%	25	16	9	58%	2	4	-2	-54%	57
Total Column	4044				1912				861				6817

words were distributed evenly in respect to the total amount of value proposition words. Sub-column 3 (Diff) indicates the numerical difference between the expected value and the value. Sub-column 4 (Diff=+5%) highlights those intersections that had at least a 5% difference from expected value.

Although recent literature suggests a rapid evolution toward 3PL managed, fully integrated supply chains, (Aimi 2007; Lieb and Butner 2006), the research presented here indicates the bulk of 3PL customer-facing value propositions are not integrated *per se* and Each of the value proposition terms appeared

involve "à la cart" logistics functionality such as transportation, freight, warehousing, trucking and distribution. The frequency counts suggest that services, solutions, and integration value propositions are most often used in conjunction with these basic logistics functions – although they represent distinct messages. Expanded functions like information technology, manufacturing, and procurement are found much less frequently. Yet, the term integration, when used, is found across a broad spectrum of logistics functions.

to be aligned with a unique message. *Service*

tended to be associated more closely with classic logistics functions like freight, distribution and trucking. Specifically, service is used as a value proposition pointing to a single logistics function. *Solution* seemed to bridge between single logistics functions and more technology-supported, or bundled offerings (e.g., logistics, technology, shipping, information, visibility and reverse logistics). *Integration* is found less frequently in the data. However, integration-related value propositions span the broadest range of functions and tie those functions together into a more comprehensive overall offering. Integration-oriented value propositions contained a greater focus on technology and information spanning capabilities (e.g., technology, information, visibility and software).

Although the literature discusses the "stages or evolution of 3PL's" toward the 4PL (Boughton

2007), this investigation suggests a more pragmatic approach is to consider 3PL value propositions as distinct customer offerings. Figure 1 summarizes this interpretation of the research findings. The bulk of 3PL value propositions appear to be targeted toward individual functional logistics processes such as transportation and warehousing. The analysis supports previous research that suggests 3PL's are focusing on value-added services in conjunction with these functions to generate increased revenue, as the *solutions* and *integration* messages suggest. However, the majority of 3PL value propositions still focus on promoting individual logistics functions.

FIGURE 1
NORMATIVE MAP OF 3PL VALUE PROPOSITIONS
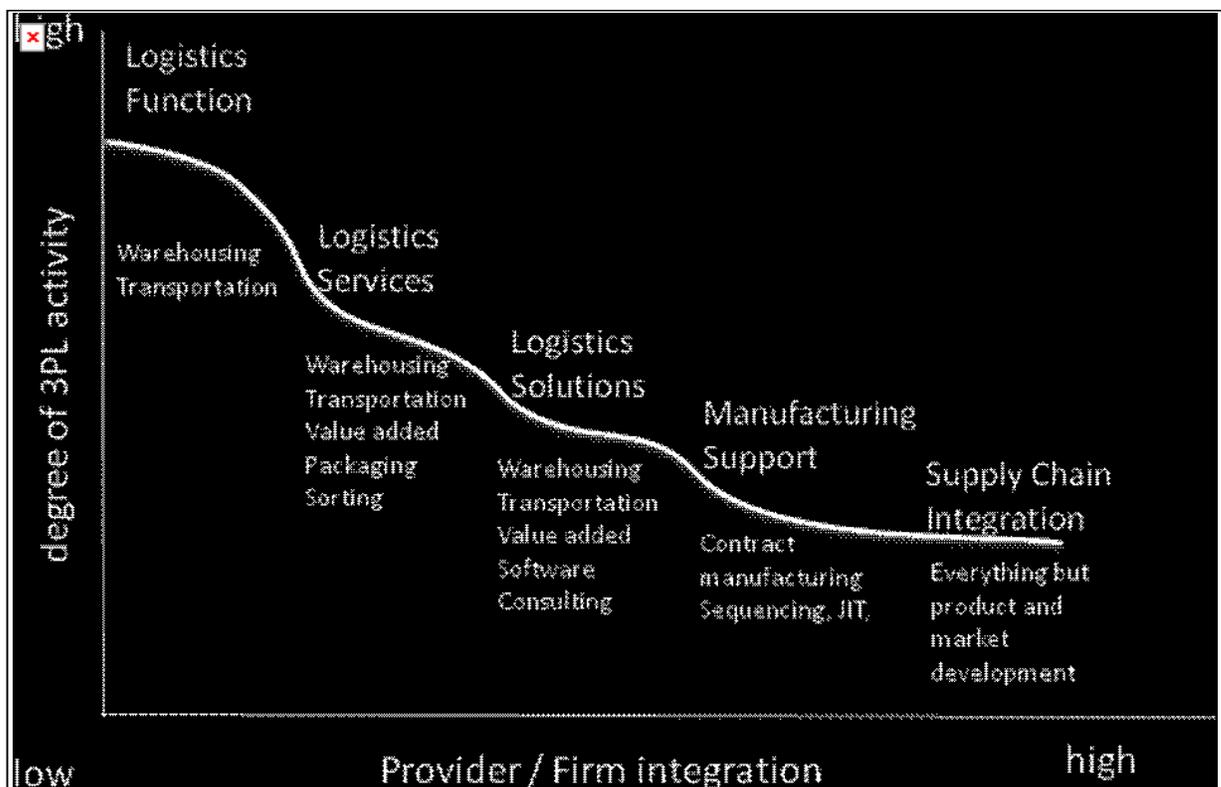
CONCLUSION

3PL's produce a range of value propositions to sell their services. These selling messages can be separated into three distinct themes (service offerings, solution offerings, and integration offerings). The research indicates that the value proposition words *service*, *solution*, and *integration* are not used interchangeably. Each value proposition has a specific dimension, and when viewed in the aggregate, 3PL's are focused on projecting three distinct offerings.

In addition, expectations of 3PL's readiness and interest in taking on supply chain-wide responsibilities for integration appear to be premature. While some 3PL's are issuing integrative value propositions, these are found less frequently. Additionally, the analysis indicates that the majority of these few integrated value offerings incorporate the use of software and supply chain technology. The data suggest that 3PL supply chain technology value propositions lag wide spread application despite fifteen years of research and practice (Simchi-Levi et al. 2003). This idea of integrated value chain management and the need for a supply chain integrator suggest an interesting hint of possible future developments in the industry. Recent research proposes that the fundamental value proposition offered by a supplier network requires one firm act as an integrator. That integrator will function to co-manage the supplier network's value proposition with the customer (Lambert and Garcia-Dastugue 2006; Vargo and Lusch 2004). 3PL's may be well positioned to fill that integration role.

The data reflect a few value propositions that incorporate contract manufacturing to provide a broad array of asset–based, non-core logistics supply chain capability. This is an area that has traditionally been the realm of contract manufacturers, like Flextronics (www.flextronics .com). Perhaps a few 3PL's have the financial and operating capacity to extend their offerings to include true manufacturing, as compared to the light assembly operations often associated with 3PL's. These full *Supply Chain Integrator* firms might become the natural partners of the "pure marketing firms."

This research culminates in a normative map, with positive implications. The findings indicate that 3PL's can benefit from targeting their unique selling propositions to specific types of contracting companies as shown in Figure 2. It is suggested that the nature of the channel and specific attributes of the customer give a reasonable indication of the type of logistics value propositions a contracting firm may be interested in. For instance, a virtual, pure marketing firm such as Keen Footwear (www .keenfootwear.com) may find supply chain integration a strong value proposition. A virtual firm possessing little supply chain expertise, limited production capability, few supply chain assets, but faced with a global market, can benefit from a relationship with a 3PL-based Supply Chain Integrator firm. However, the firm with robust logistics infrastructure, a history of company-owned logistics capabilities, and a regional market may find little value in the same value proposition. It appears that the 3PL value proposition is a co-created market offering and the success of the offering may be predictable based upon customer and channel factors.

Future research into 3PL value propositions is needed to provide in-depth knowledge of the phenomena, and allow for broader generalization of the results. For example, case studies could provide insight into the applicability of Figure 2's proposition concerning value proposition tar-geting.

Additional qualitative methods using depth interviewing techniques can be used to provide insight into the nature and potential dimensionality of a value proposition construct. Although this research offers no conceptual model concerning value propositions at this point, quantitative approaches utilizing surveys should be considered as the construct becomes better understood.

This research has limitations as does any study. Value propositions have not been studied in a supply chain context. Therefore, understanding of the concept applied to this industry should   be

FIGURE 2
TARGETING OF THE 3PL VALUE PROPOSITION

		Strength of channel factors supportive of 3PL engagement	
Strength of customer factors supportive of 3PL engagement	high	Channel : Low tech turn over, Regional market Customer : lack of log infrastructure, lack of expertise, lack of import export expertise, desire to reduce capital investment, lack of manufacturing expertise / facilities *Value proposition: Logistic solutions*	Channel : High tech turn over, Global, trade barriers Customer : lack of log infrastructure, lack of expertise, lack of import export expertise, desire to reduce capital investment, lack of manufacturing expertise / facilities *Value proposition: Supply chain integration*
	low	Channel: Low tech turn over, Regional market Customer: Significant log infrastructure and expertise, log is part of competitive advantage *Value proposition: Logistic function*	Channel: High tech turn over, Global market Customer Significant log infrastructure and expertise, log is part of competitive advantage *Value proposition: Logistic services*
		low	high

considered minimal currently. Managers should be careful in extrapolating these conclusions to their own situation. Specifically, managers dealing with small to mid-sized 3PL's—smaller firms than those found in this sample—should be

cautious in equating the selling messages of these companies with the three categories covered in this article. This extends especially to the breadth of logistics service *intentions* of these partner firms.

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