LAPPEENRANTA UNIVERSITY OF TECHNOLOGY
School of Industrial Engineering and Management
Department of Innovation Management

Sini-Kaisu Kinnunen

Service offering classification for logistics services

Examiners: Professor Timo Kärri and Post-Doctoral Researcher Ari Happonen
Supervisor: Bachelor of Engineering in Logistics Jarno Voutilainen

ABSTRACT

Author: Sini-Kaisu Kinnunen

Title: Service offering classification for logistics services

Year: 2014 **Place:** Lappeenranta

Master's thesis, Lappeenranta University of Technology, School of Industrial Engineering and Management

84 pages, 8 figures, 9 tables and 8 appendices

Examiners: Professor Timo Kärri and Post-Doctoral Researcher Ari Happonen

Keywords: solution business, logistics services, offering, value proposition, customer value, value-added pricing, customer benefits

This thesis studies the development of service offering model that creates added-value for customers in the field of logistics services. The study focusses on offering classification and structures of model. The purpose of model is to provide value-added solutions for customers and enable superior service experience. The aim of thesis is to define what customers expect from logistics solution provider and what value customers appreciate so greatly that they could invest in value-added services. Value propositions, costs structures of offerings and appropriate pricing methods are studied.

First, literature review of creating solution business model and customer value is conducted. Customer value is found out with customer interviews and qualitative empiric data is used. To exploit expertise knowledge of logistics, innovation workshop tool is utilized. Customers and experts are involved in the design process of model.

As a result of thesis, three-level value-added service offering model is created based on empiric and theoretical data. Offerings with value propositions are proposed and the level of model reflects the deepness of customer-provider relationship and the amount of added value. Performance efficiency improvements and cost savings create the most added value for customers. Value-based pricing methods, such as performance-based models are suggested to apply. Results indicate the interest of benefitting networks and partnership in field of logistics services. Networks development is proposed to be investigated further.

TIIVISTELMÄ

Tekijä: Sini-Kaisu Kinnunen

Työn nimi: Palvelutarjooma luokittelu logistiikkapalvelualalle

Vuosi: 2014 **Paikka:** Lappeenranta

Diplomityö. Lappeenrannan teknillinen yliopisto, Tuotantotalouden tiedekunta
84 sivua, 8 kuvaa, 9 taulukkoa ja 8 liitettä
Tarkastajat: professori Timo Kärri ja tutkijatohtori Ari Happonen

Hakusanat: ratkaisuliiketoiminta, logistiikkapalvelut, tarjooma, arvolupaus, asiakasarvo, arvopohjainen hinnoittelu, asiakashyödyt

Tässä diplomityössä tutkitaan asiakkaalle lisäarvoa tuottavan palvelumallin kehittämistä logistiikkapalveluyrityksessä. Tutkimus keskittyy palvelumallin tasojen luokittelun periaatteisiin ja tasojen sisältöihin. Mallin tarkoituksena on tarjota asiakkaille lisäarvoa tuovia ratkaisuja ja kehittää palvelukokemusta. Tutkimus pyrkii selvittämään, mitä asiakkaat odottavat logistiikkapalvelujen tarjoajalta ja mistä arvosta asiakkaat saavat sellaisia hyötyjä, jotta he voisivat jatkossa investoida lisäarvopalveluihin. Mallin rakentamiseksi selvitetään arvolupaus, tarkastellaan mallin kustannusten aiheuttajia sekä esitetään hinnoittelulle suuntaviivoja.

Tutkimus toteutetaan tutkimalla ensin ratkaisuliiketoimintamallien kehittämistä ja asiakasarvoa kirjallisuudessa. Asiakashaastatteluiden avulla selvitetään asiakasarvo. Jotta logistiikka-alan asiantuntemus voidaan tehokkaasti hyödyntää, järjestetään innovointityöpaja. Sekä asiakkaat että asiantuntijat ovat mukana kehittämässä palvelumallia.

Tutkimuksen tuloksena luodaan kolmiportainen palvelumalli. Tasoille on määritetty omat tarjoomat arvolupauksineen ja tasot kuvaavat asiakkuuden syvyyttä sekä luotavaa lisäarvoa. Tulokset osoittavat, että logistiikkapalvelu-alalla lisäarvoa asiakkaalle tuovat tehokkuuden lisääminen ja kustannussäästöt. Arvoperusteisia hinnoittelumalleja, kuten suorituskyvyn tasoon perustuvia hinnoittelumalleja suositellaan käytettäväksi. Tulokset osoittavat, että verkostojen hyödyntäminen kiinnostaa asiakkaita ja verkostojen tehokkaampi hyödyntäminen vaatii jatkotutkimusta.

ACKNOWLEDGEMENTS

I would like to express my gratitude to those who have participated in my thesis project and helped me to accomplish this study. I would like to thank people of HUB logistics for your time and efforts. Furthermore, thanks to my advisors for useful suggestions and ideas.

I want to say thank you to my family who has always supported my decisions. I hope they understand why I had to come all the way to Lappeenranta to study and start my own life.

Special thanks to my study friends who have shared all the lessons and school works with me during past five years. I want to thank them for sincere support and encouragement. I also want to thank you, Sanni for always being there for me.

I am grateful to my adorable cats and Jussi for reminding me what is important in life in the end. Now, one chapter in my life ends and new challenges lie ahead.

Lappeenranta, 3rd July 2014

Sini-Kaisu Kinnunen

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

3PL, TPL	Third-party logistics
4PL	Fourth-party logistics
B2B	Business-to-business
BMC	Business Model Canvas
CMC	Care model canvas
CRM	Customer relationship management
CSCMP	The Council of Supply Chain Management Professionals
KPI	Key performance indicator
LLP	Lead logistics partner
LSP	Logistics service provider, Logistics solution provider
OpEx	Operational Excellence

1 INTRODUCTION

1.1 Background

In the business-to-business world the services and service-based solutions have become more and more remarkable during 21th century (Lehtinen and Niinimäki 2005, 13; Ojasalo and Ojasalo 2010, 13). Global competition and challenging economic situation have led companies to think new possibilities to survive. Concentration on the core business and core competence has been one of the leading trends in the companies globally. Thus, these things have led to the outsourcing of different function of business that have previously been considered as essential parts of business processes. Companies are willing to outsource, for instance, information technology, logistics, finances and maintenance. (Pekkarinen 2013, 1; Ford et al. 1998, 109; Jaakkola and Hakanen 2013, 47) The rising trends of outsourcing, specialization, and knowledge intensiveness in many industries have now led customers to centralize their purchases and seek suppliers that can provide more extensive offerings or solutions (Jaakkola and Hakanen 2013, 47).

Outsourcing trend is reality also in supply chains where logistics functions have been outsourced as for many companies these are not core business and the cost reduction possibilities have been noticed. The available logistics services include from the standard type of transport-oriented logistics services to the value-added services offered through longer-term third party arrangements, partnerships and alliances (Berglund et al. 1999, 63). Outsourcing logistics functions have become a fascinating choice for many manufacturing companies (Li 2011, 58) as it enables to concentrate on core competencies and outsource the logistic functions where they are expected to be operated more efficiently. Outsourcing of logistics functions are striving for the improvement in functionality of supply chain and cost efficiency, and finally leading to the improvement in competitiveness. While current economic environment makes it difficult to forecast the demand, outsourcing logistics enables more flexibility and new solutions in the supply chain management. (Berglund et al. 1999, 66)

Therefore, by the reason that the relevance of solution business has increased in business-to-business markets, there is a need to explore the issue in the field of logistics services. In the field of logistics services the value-added and comprehensive offerings aiming even at value partnership have not been widely examined. In recent research, solution business has got attention in literature, for example in the field of industry (Pekkarinen 2013) and maintenance (Ali-Marttila et al. 2013; Tynninen et al. 2012). In the field of supply chain management there has recently been demand for innovative solutions which can reduce costs and increase earnings. Today's customer is waiting for transparency and cost savings in the supply chain. Service providers create solutions to solve customer's specified problems and the trend is moving towards more customer-oriented and comprehensive solutions where the need to understand customer's processes and value elements is vital. This is prerequisite for establish longer-term relationships and even partnership arrangements. (Selviaridis and Spring 2007)

This thesis is made for a Finnish logistics service company, HUB logistics Oy. HUB logistics provides tailored logistics service solutions principally for the customers in the industry sector. HUB logistics provides logistics services for material, capital and information management, from warehousing to complex outsourcing projects. HUB logistics also provides packaging services and supports Finnish companies to globalize by providing, for example, warehouse space in Germany. In this thesis the logistics services company is considered as service-oriented solution provider. HUB logistics has grown rapidly in recent years and development projects have not kept up with the growth. The study is motivated by the practical needs in the company to develop new service concept which can support sales and customer relationship management, increase customer's understanding and satisfaction, develop cooperation in relationships and manage profit objectives. Development of global markets has resulted in that key customers, usually large global customer companies, require even better and more comprehensive service. Companies are interested in the advantages of networks and value partnerships while the future business markets are suggested to be run by networks.

1.2 Goals and restrictions

The purpose of this study is to create a service offering model for the logistics service company. The aim is to create HUB Care service concept by which the company can provide more value and specific service experience for its customers. The model should also work as an internal tool to help classify and manage customer relationships, and develop more consistent practices how to serve customers. HUB Care concept is also offered to customers as a value-added solution alongside other logistics services and solutions, and it is a part of the comprehensive solution. HUB Care model aims to create added value for customers and value is aimed to be created to correspond the variable needs of different customer relationship levels.

Consequently, the main research question is:

> What kind of value-added service offering model could be created in the field of logistics solution business?

The main research question is divided into three sub questions:

1. What needs to be considered when building a service offering in the field of solution business?
2. From which cost elements does the service consists of and what pricing practicalities could be utilized?
3. What is the value proposition; what benefits do customers expect and why are they willing to pay for the service solution?

Service offering model created should include service offerings for each service level and their contents described, cost structures considered and possible pricing practicalities discussed. The service offering model created should be based on customer needs and value. The objective of this study is approached by defining customer value and value elements in order to create service concept and define service levels. Thesis is restricted to cover customer value and customer value elements, while the service provider view of value has not been closely dealt with in this thesis, although Lapierre (2000) suggests that value creation should include

both customer's and service provider's perspectives. As value evaluation is only one part of this thesis and the customer aspects are vital in regard to the result of the model, only the customer value is discussed within the limits of the thesis. The weight in this thesis is on finding out customer value and creating HUB Care model based on the results of customer interviews, professional insights and theory. Customer value is also used as a basis of pricing guidelines. In addition to the customer value, the pricing issues of HUB Care concept are approached also by analyzing most remarkable causes of costs at each service level. The value-based pricing is discussed more carefully in literature review part as it should be the main principle when pricing this kind of service concept. However, cost-based and market-based effects need to be discussed as well. Cost structures and pricing methods are discussed in general and actual pricing model is not generated within the limits of this thesis, but the subjects are analyzed and guidelines are given for further development.

As a result, HUB Care concept will be built for the needs of the company, in order to define specified service offerings that customers are willing to pay for. Customers' needs and expectations are taken into consideration and customers can experience more superior and comprehensive service. Therefore, the model facilitates the service provider and customers to achieve strategies and deepen the relationships. Also the sales work is easier when service concept is concrete, and customers' understanding improves when the content of solution, benefits and pricing methods are explained to customer. It can be predicted to find interesting results considering the customer benefits in this field of business. This kind of Care concept is new to logistics service business and it is interesting to investigate what are the services and benefits that create the added value and what customers are willing to pay for.

1.3 Research methods

In theoretical part a descriptive research method is used to describe previous researches and to give theoretical guidelines to this study. Applied theory and literature is based on the concepts and definitions of notable researchers in this field. Source material in theory is mainly the latest scientific researches and scholarly journals but also books relating to marketing of business-to-business services and creating service offerings are used. Theoretical part is executed as a narrative literature review to give a general overview of the previous research and to give theoretical guidelines. A narrative literature review is classified a descriptive research method and it is often used to give theoretical guidelines to a study. Narrative literature review aims to give an overview of previous research and relevant literature. (Salminen 2011, 7)

In this thesis the empiric part is executed as a constructive-type case study. Constructive study aims to solve problem by constructing model, figure or blueprint, for instance (Kasanen et al. 1991, 305). The construction is built for the needs and the usage of case company. The model is created in phases. Hypothesis for the model is created and then developed while more empiric data is gathered. Prototypes of construction are considered and presented to case company in the innovation workshop during the last part of thesis process. According the results of workshop, the model is developed further based on professional insights, experience and comments.

In this thesis, the methods employed to gather empiric data are interviews and a workshop tool. The empiric data utilized in this thesis are collected from a few selected customers by interviews and from HUB logistics professionals by discussing and with a help of an innovation workshop arranged to develop HUB Care model. Empiric data concerning customer value is qualitative interview data. Interviewed customers are selected to represent customers of different service level. The primary method of data collection is semi-structured in person interviews. Before the interviews, a web-based questionnaire is sent the customer in order to get firsthand information Customers are interviewed to get more information about

customer value elements and drivers, but customers are also involved when generating prototype of HUB Care model. Later, this empiric data is complemented by arranging an innovation workshop. In workshop, eight HUB professionals, two researchers of Lappeenranta University of Technology and two thesis workers attended in the developing of the final HUB Care model. Therefore, the result is combination of customers', HUB professionals', researchers' and thesis workers' insights.

1.4 Structure of the report

This thesis consists of theoretical and empiric parts. First, chapter 1 is introduction where background, goals and restrictions, research questions, research methods and the structure of the report are introduced. Theoretical guidelines are discussed in chapters 2 and 3. The main idea of chapter 2 is to present theories how to build offering portfolio in the field of logistics services. Chapter 2 introduces the definitions of service, solution and solutions business in the field of logistics services. The theory of creating service portfolio and business model design process are also introduced in chapter 2. Chapter 3 includes the theories of customer value creation and customer value elements. Pricing methods, especially value-based pricing approach are also presented in chapter 3.

Empiric part is presented in chapters 4 and 5. Empiric part consists of the building process of HUB Care model in chapter 4. There the main issues are the formation of service offering, including the analysis of customer interviews and forming the value proposition based on them, the cost structures of service offerings are analyzed and pricing guidelines proposed. Results and discussion are extended in chapter 5 where the final result is presented, usage instructions proposed and further development and research subjects are considered. Finally, chapter 6 concludes the main contents of the thesis. The structure of the report is presented more specifically in figure 1.

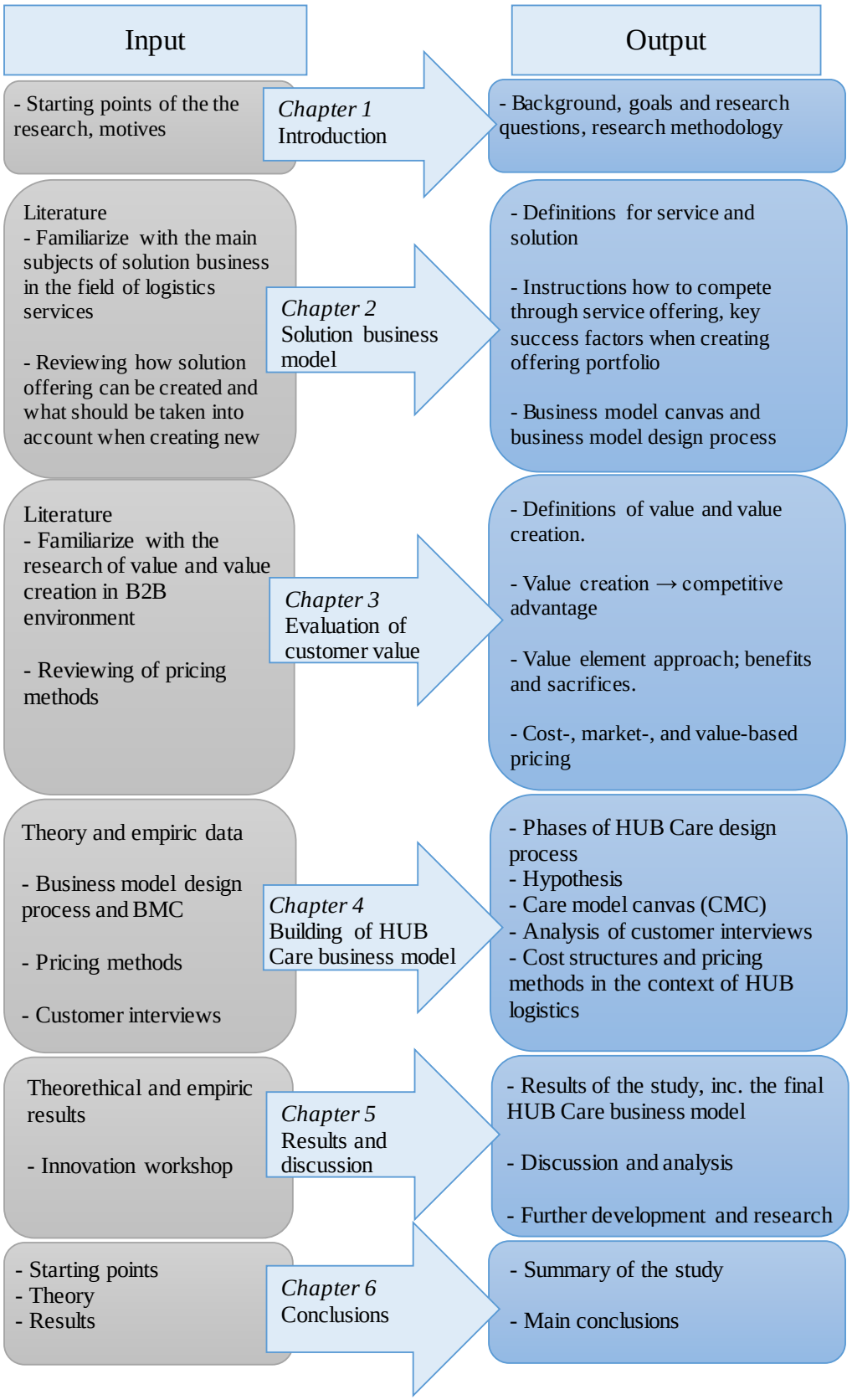

Figure 1. Input-Output chart of the report structure

2 SERVICE SOLUTION BUSINESS MODEL

2.1 Definition of service

Service business, also in business-to-business markets, is quite broadly studied and there are a few definitions to the term of service. Service can be described as a process of using one's specialized competences, such as knowledge and skills, for the benefit of another entity or the entity itself. The use of resources for another party's benefit is "service." Whereas the plural "services" is often used to describe immaterial goods, the units of output. (Vargo and Lusch 2008, 26, 36) Whereas Grönroos (2000, 48) defines services as "processes consisting of series of activities where a number of different types of resources are in direct interaction with a customer, so that a solution is found to a customer's problem." The term of "service" is becoming more apparent with increased specialization and outsourcing (Vargo and Lusch 2008, 36).

In addition to the term of service, the term of solution appears often in literature when it is question of specialization and outsourcing. Extant literature and suppliers view a solution as a customized and integrated combination of goods, services and information for meeting a customer's business needs to solve their problems. The solution or service can include different types of services and also products combined with bundle of services. Product-centric view of a solution, where a solution is considered as a customized and integrated set of goods and services, has been confronted the view where a solution should be considered as a set of relational processes. (Tuli et al. 2007, 13) Customers regard a solution as s set of customer–supplier relational processes. These processes are: (1) customer requirements definition, (2) customization and integration of goods and/or services, (3) deployment of goods and/or services and (4) post deployment of customer support. All these processes are aimed at meeting customer's business needs. (Tuli et al. 2007, 1) Several customers note that processes such as requirements definition and post-deployment support are key areas of weakness for many suppliers (Tuli et al. 2007, 5). But post-deployment support cannot be diminished because it is the basis for the cultivation of relationship and to deepen the partnership in future.

Solution often contains services which are related to special skills and expertise. These services can be called expert services and knowledge-intensive services. The term of expert service or knowledge-intensive service is used when there is expertise related to the service. The expertise is usually related to the solving of customer's problem. As nature, the expertise is knowledge work, planning and corresponding intellectual processing. Therefore expertise is based on knowledge, skills, creativeness and partly, motivation. (Lehtinen and Niinimäki 2005, 8) Expert service differs from other services because of their characteristics. Expert services are the most intangible services, such as analyses, advice and quidelines (Lehtinen and Niinimäki 2005, 11; Ukko et al. 2011, 136), and their development and production processes are often invisible to the customers. (Lehtinen and Niinimäki 2005, 11) Knowledge-intensive services are often customized (Muller and Doloreux 2009, 128) and challenging to sell profitably (Ukko et al. 2011, 136). However, Ukko et al. (2011, 136) claim that these challenges, can be met with well conducted productisation.

Expert services involve big risks because an unsuccesful expert service can damage the customer's business (Lehtinen and Niinimäki 2005, 11). Especially, in the case of performance management as expert service, the role of expertise and trust are highlighted. It is challenging to convince a customer to submit the analyzing of performance measurement to an outside organization, because the information – measures and numbers – are considered sensitive and usually kept firmly inside the organization. The benefits of submitting the analyzing to an external service provider should be thoroughly explored and then highlighted in the marketing. (Ukko et al. 2011, 137)

Consequently, solution – sometimes also called singular form "service" – is multidimensional totality that can be composed of goods, services, expertise services and relational processes. Berglund et al. (1999, 63) determine the solution provider as a company that provides customized and complex services. Logistics solution providers aim to be value leaders in global integrated logistics. They provide value added logistics services and the value added logistics solutions are

consultative solutions offered to customers. Solution providers are distinguished from service providers who offer low-cost and mass services. (Berglund et al. 1999, 63) Rajahonka et al. (2013, 187) suggest that large global logistics solution providers can offer both solutions and basic services. Thus, when exploring logistics solution business, both relational process view and product-service buddle view of solution need to be acknowledged. In logistics solution business the logistics solutions are delivered through relational processes with customers by using solution-driven business models. Therefore companies competing with solutions need to develop various capabilities, such as business consultancy but also system integration and human resources management, to mention a few. (Tuli et al. 2007, 10; Storbacka 2011, 704)

2.2 Features of solution business in logistics services

More and more companies are moving towards solution business. Therefore the solution business is becoming more significant in different sectors of business. While customers are becoming more focused on their core business processes and technological complexity is increasing, this has led to a massive reconfiguration of business-to-business markets and offerings. These offerings are then called solutions, which provide customized sets of goods, services and knowledge to solve customers' problems. (Pekkarinen 2013, 16; Tuli et al. 2007, 1) Pekkarinen (2013, 16–17) characterizes three main drivers towards solution business: (1) financial aspects (2) marketing related reasons (3) strategic consideration.

1. Services have usually higher margins than just products while being less capital-intensive (Ojasalo and Ojasalo 2008, 8).
2. There are growing need for services as customers are outsourcing their operations (Ojasalo and Ojasalo 2010, 13) Service business can also provide higher customer satisfaction and longer customer relationships (Ojasalo and Ojasalo, 2008, 6).
3. Differentiating as services are a sustainable source of competitive advantage (Pekkarinen 2013, 17).

In the field of logistics services the main driver towards solution business is especially the increased outsourcing trend. The term of third-party logistics (TPL, 3PL) is widely used in the field of solution business related to logistics services. The Council of Supply Chain Management Professionals' glossary (CSCMP) defines 3PL: "Outsourcing all or much of a company's logistics operations to a specialized company. Preferably, these services are integrated, or "bundled," together by the provider. Services they provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding." (CSCMP 2013, 195) Logistics service providers (LSP) need to offer diverse range of services to support customers' supply chain management. Customers' demands vary by the completeness of the solution but also by the customer specific needs, and logistics service providers should be able to provide solutions to solve customers' problems. The main question that logistics solution provider (LSP) needs to think about is: How logistics services can provide enhanced competitive advantage for customers? Another remarkable question concerns the relations between solution provider and customer. The design and implementation of 3PL relations appears to be problematic (Selviaridis and Spring 2007, 135). Selviaridis and Spring (2007, 135–136) summarize success factors to overcome observed challenges. These factors which are common in the wider inter-firm partnership and strategic alliances literature are presented below:

- Common goals and compatible interests;
- Compatibility of information systems;
- Compatibility of organizational culture and routines;
- Customer orientation;
- Expert knowledge in specific markets/products/processes;
- Financial stability of service provider;
- Frequent communications and information exchange;
- Joint investment for achieving relationship objectives;
- Joint planning, management and control of 3pl relationship;
- Mechanisms for dispute resolution;
- Power balance between contracting parties;

- Provider ability to stay updated with respect to new technologies;
- Risk and reward sharing;
- Service level improvement/reduction of distribution costs;
- Service provider flexibility and responsiveness;
- Top management support; and
- Understanding client's supply chain needs. (Selviaridis and Spring 2007, 135-136)

In recent years, the term fourth-party logistics (4PL) has also emerged to describe more advanced contracting arrangements compared to 3PL (Selviaridis and Spring 2007, 126). Also the term of lead logistics partner (LLP) is used alongside the term of 4PL. According to CSCMP (2013, 113) LLP is an organization that organizes other 3rd party logistics partners for outsourcing of logistics functions. LLP is the client's primary supply chain management provider, defining processes and managing the provision and integration of logistics services through its own organization and those of its subcontractors. CSCMP (2013, 86) defines that 4PL differs from third party logistics in four ways:

1. 4PL organization is often a separate entity established as a joint venture or long-term contract between a primary client and one or more partners;
2. 4PL organization acts as a single interface between the client and multiple logistics service providers;
3. All aspects (ideally) of the client's supply chain are managed by the 4PL organization; and,
4. It is possible for a major third-party logistics provider to form a 4PL organization within its existing structure. (CSCMP 2013, 86)

Selviaridis and Spring (2007) review literature to classify logistics service research and to find a research gap related to fourth party logistics. The research subjects of third-party logistics (3PL) are broadly introduced and some research gaps are presented in the article. Selviaridis and Spring (2007) argue that further empirical research in relation to 3PL design or implementation and fourth party logistics

(4PL) services is needed. The review has revealed a knowledge gap in relation to the design and implementation of 4PL/LLP contracting arrangements. Existing studies focus on conceptualizing 4PL and pointing out its difference from 3PL, without reaching a common definition. A few examples of these proposed further empirical research subjects are:

- Rationale and main drivers for 4PL solution development;
- Scope of service offering;
- Structure and management of 4PL networks;
- Extent of solution standardization and transferability (to other clients);
- Profit and risk-sharing in 4PL; and
- Empirical examination of the role of 4PL providers as supply chain integrators. (Selviaridis and Spring 2007, 138)

2.3 Creating service offerings

In solution business, companies are competing with solutions which are often called also service offerings. An offering describes the value that a company can provide its customer. Construction of service offering is performed based on the company's internal factors and customer values (Torkkeli et al. 2005, 29). Defining value proposition, company should create service offering based on customer's businesses and processes (Kindström 2010, 484). Tuulenmäki (2012, 121) suggest that companies are not competing with each other but the offerings and their capability to help customers to solve their problems. Also Lusch et al. (2007, 17) suggest that companies competing through service should view competitive advantage as a function of how to apply company's operant resources to meet the need of customer better than competitors. Collaboration and applied knowledge are proposed to be key drivers for companies to successfully compete through service (Lusch et al. 2007, 8). Also relationships with customers are highlighted by several researchers (Kindström 2010, 479; Lusch et al. 2007, 8; Selviaridis and Spring 2007, 137). Service companies are advised to collaborate with customers and

network partners to enhance knowledge, which is regarded as the fundamental source of competitive advantage (Lusch et al 2007, 8).

There are multiple ways to approach the construction of offering portfolio. One way is to provide standardized or modularized service packages and another more adaptable approach is to provide more customer tailored solutions. The construction of offerings can also be approached from customer relationship management view where the offerings are determined by the customer group. Defining service offering consists of outlining service package and production process. (Torkkeli et al. 2005, 29) Also the delivery process must be analyzed and designed in order to take advantage of the customer's input and role (Kindström 2010, 484). The extent, target groups and totality of service modules should be outlined for each package (Torkkeli et al. 2005, 29). Companies should learn to construct a solution offering in a way that supports company's core business instead of being a burden. (Pekkarinen and Salminen 2013, 144)

Companies should create a dynamic service offering portfolio that is adaptive to changing customer needs. (Kindström 2010, 479) Also Pekkarinen and Salminen (2013, 161) argue that suppliers must be able to flexibly adjust their offerings according to evolving customer needs. Thus, companies should build an effective business model portfolio which consists of multiple service offerings to satisfy right customers. However, solution providers should find the balance between unique customer needs and standardized service offering. Rajahonka et al. (2013, 187) suggest that large global logistics solution providers can offer both solutions and basic services. Thus, the offerings should include both basic services and complex tailored service solutions which create added value. Some customers are willing to build a deep relationship and develop the offering together with the supplier while some customers prefer transactional offerings and are not willing to hand over the control of their operations to solution provider. (Pekkarinen and Salminen 2013, 161) The offering portfolio should serve the both ends of customers (Pekkarinen and Salminen 2013, 164). It is important to understand different level of customer needs but also acknowledge that customer needs and relationship might become

deeper overtime. The scope of the relationship increases over time and the offering expands to include more value-added and customized solutions. Therefore a demand for various levels of offering completeness and customer-supplier integration in solution offering seems to exist.

Creating a dynamic service offering portfolio is challenging. In addition to the challenge of creating adaptive offering, companies also confront other challenges, such as to develop their abilities to build relationships with customers and to visualize the intangible value of their service offering. (Kindström 2010, 479) Because customers have more knowledge about the problem and providers have more information about the solution, the collaboration is vital. Their collaboration should focus on the joint development of a solution. The source of the value constellation for service providers is thus finding a solution to a customer problem. (Moeller et al 2013, 474)

Then, what elements should dynamic offering consist of? It is obvious that goods and services have an essential role in the offering, but the other elements that should be included, differ depending on the context. Pekkarinen and Salminen (2013, 147) have gathered from literature different elements that authors have suggested as elements to be included in an offering. These proposed elements are for example technology, information, capabilities, financial elements, quality, benefits and sacrifices, risk sharing, and brand image. To define the elements and to improve its offerings, a supplier has to understand various customer value components (Klanac 2013, 22). By analyzing logistics service related literature, Selviaridis and Spring (2007, 130) find that there is relatively low demand for value-added services. Customer companies prefer to outsource transport- and warehouse-related functions although logistics service providers include value-added services increasingly in their offerings. These services are for example, information systems, consulting, contract manufacturing, purchasing and financial services. (Selviaridis and Spring 2007, 130–131)

Pekkarinen and Salminen (2013, 145) introduce a comprehensive conceptualization of a solution offering that includes different elements beyond traditional goods or services. They present categorized building blocks, which helps companies to build value-adding customer-oriented solution offerings. The framework consists of relational elements, financial elements and performance elements, but also includes the dimensions of offering completeness and dynamism to adapt customer needs. (Pekkarinen and Salminen 2013, 162) Relational elements comprise supplier-customer collaboration – from pure transactional deals to relational collaborative partnerships. Financial elements are price and benefit and risk sharing. The benefit and risk sharing element can be utilized by setting specific targets for process outcomes in conjunction with the customer. Performance elements include, for example, process support services, services supporting customer network and services supporting mutual actions. (Pekkarinen and Salminen 2013, 162)

Customer strategies can also be utilized as way of creating offering portfolio. Customers can be divided into groups based on the attractiveness of customer for a service supplier company. Customers can be, for example, divided into three groups according to ABC-grouping based on the importance of customership. (Ojasalo and Ojasalo 2010, 157) The best Key Account Management collaboration and service is built for A-customers. B-customers relationships are also managed well but with slightly stripped-down approach. C-customers are managed with mass marketing and mass production but it must be acknowledged that, nevertheless, C-customers compose a significant segment. To manage each customer group separate principles are developed. The solution customer receives, its cost, tailoring, time of delivery, terms of payment, for instance, are depending on the group of customer. This is also called the quality of offering, and it depends on the importance of customer. (Ojasalo and Ojasalo 2010, 158) Accordingly, the most important customers are provided with the best quality service. However, B- and C-groups should also receive the quality of service good and competitive enough. The quality of offering should therefore adapted to correspond the importance of customer. (Ojasalo and Ojasalo 2010, 159) This has been illustrated in figure 2.

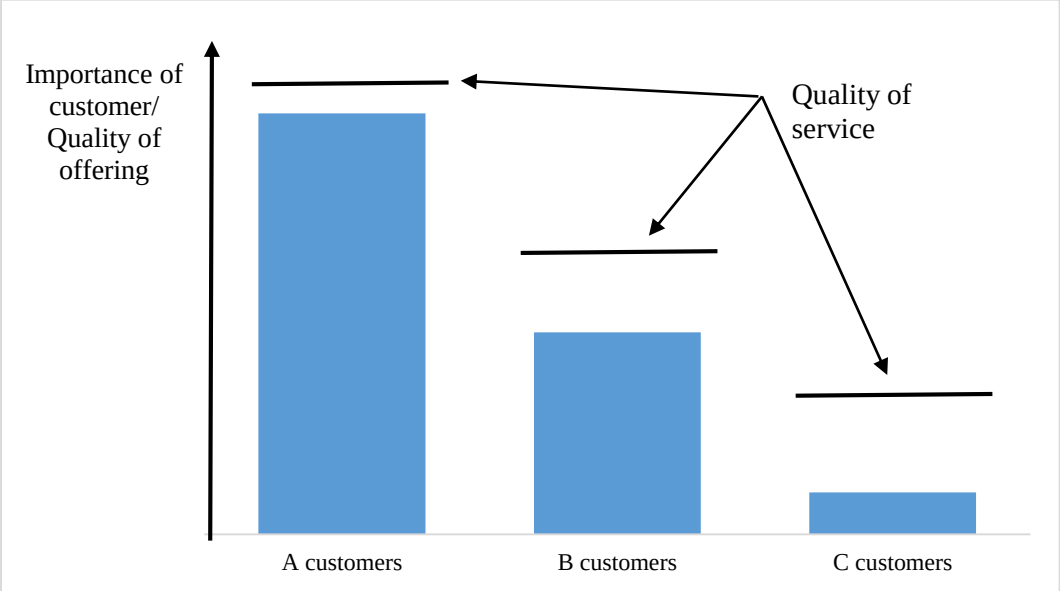

Figure 2. Offering adapted according to the importance of customer (Ojasalo and Ojasalo 2003, 265)

2.4 Business model design process

Definition of business model can be defined as follow: "a business model describes the rationale of how an organization creates delivers and captures value" (Osterwalder and Pigneur 2010, 14). Companies need to develop innovative business models actively to provide new value for customers (Chesbrough 2010). However, business models in solution business have only lately interested scholars (Storbacka 2011). But with an effective business model, solution providers can provide competitive advantage and compete against price cuts (Pekkarinen 2013, 21). Ukko et al. (2011, 136) suggest that a specially designed process model should be used and it should work as a guideline for actions. Process model helps to avoid the general mistakes in the process and to take every critical phases into account to success.

Osterwalder and Pigneur (2010, 249) introduce a generic business model design process with five phases: Mobilize, Understand, Design, Implement and Manage. Every business model design process is unique and has its own challenges, obstacles and critical success factors. The process model provides a starting point

to customize organization's own approach to business model design. (Osterwalder and Pigneur 2010, 244) Although process is presented as linear, the process rarely is as linear as illustrated in table 1. Especially, Understanding and Design phases tend to proceed in parallel. Business model prototyping can be started already in Understanding phase while sketching preliminary business model ideas. On the other hand, prototyping in Design phase may lead to new ideas that require additional research. (Osterwalder and Pigneur 2010, 248)

Table 1. Business model design process (adapted Osterwalder and Pigneur 2010, 249–259)

	Mobilize	**Understand**	**Design**	**Implement**	**Manage**
Objective	Prepare for successful business model design project	Research and analyze elements needed	Generate and test viable business model options, and select the best	Implement the business model prototype in the field	Adapt and modify the business model in response to market reaction
Focus	Setting the stage	Immersion	Inquiry	Execution	Evolution
Description	Assemble all the elements needed. Create awareness of the need for new BM, describe the motivation.	Immerse yourself in relevant knowledge: customers, technology and environment. Collect information, interview experts, study potential customers and identify need and problems.	Transform the information from the previous phase into BM prototypes. After inquiry, select BM design.	Implement the selected BM design.	Set up the management structure to continuously monitor, evaluate and adapt or transform BM.
Activities	Frame project objectives, Plan,Test preliminary business ideas Assemble team	Scan environment, Study potential customers, Interview experts, Collect ideas and opinions	Brainstorm, Prototype, Test, Select	Communicate and involve, Execute	Assess the BM, Rethink the model, Scan the environment
Critical success factors	Appropriate people, experience and knowledge	Deep understanding of potential target markets	Co-create with people, Taking time to explore multiple BM ideas	Best practice project management, Ability and willingness to adapt the BM	Long-term perspectives, Proactiveness, Governance of business models
Key dangers	Overestimating value of initial idea(s)	Over-researching, Biased research	Not enough ideas	Weak or fading momentum	Failing to adapt, A victim of own success

Torkkeli et al. (2005, 28) have introduced a process model for productizing expert services (figure 3) and there are some interesting points of view to be taken into consideration when modelling solution business. As solutions are composed mostly of knowledge and expertise, and therefore of knowledge-intensive services, it is meaningful to explore the process model of productizing knowledge-intensive services. Although the process model is planned for productizing knowledge-intensive services – not particularly to design solution business model – there are similar and complementary phases and factors to be taken into consideration. Because of complementary features related to knowledge-intensive services, this process model is also introduced in this thesis. The idea of introducing the process model is to find the critical success factors related to knowledge-intensive services when creating solution business model. The process model indtroduced by Torkkeli et al. (2005, 28) highlights the pricing and marketing planning, including customer benefits and brand building. Especially, the communication of customer benefits is extremely important when productizing knowledge-intensive services. In this thesis pricing guidelines are also discussed and instructions for further development are considered. It can be stated that the business model design process by Osterwalder and Pigneur (2010) weights the strategic approach and the process model by Torkkeli et al. (2005) weights the marketing approach to the business model design process.

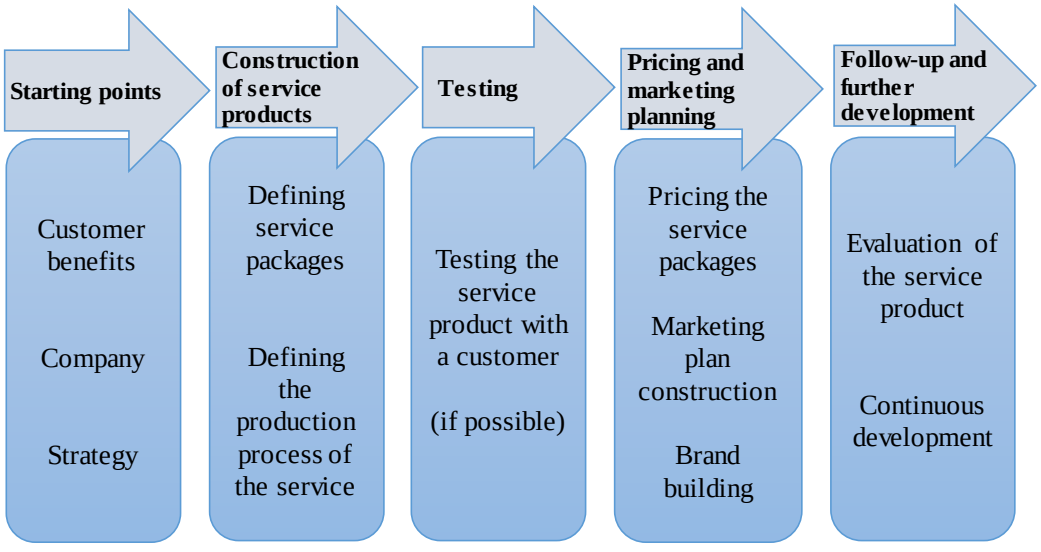

Figure 3. A process model for productizing expert services (Torkkeli et al. 2005, 28)

Torkkeli et al. (2005) and Ukko et al. (2011) discuss the creating service offerings as productizing services. In their studies, they focus on creating offering which consist of knowledge-intensive services. As solution business comprise mostly expert services, and the process model proposed is rather generic, interesting considerations can be found when creating solution offering. The benefits of productizing expert services are presented by Torkkeli et al. (2005, 22). Productizing expert services offers many benefits both to the service provider and the customers. Well productized services include specifically defined and documented processes. Therefore the service can be marketed more easily and the pricing is more concrete and transparent. This leads to more accurate budgeting and brand creation is possible. (Ukko et al. 2011, 128)

First phases are quite similar in both approaches: both processes start with defining the motivation and company's strategy. In the process model by Torkkeli et al. (2005, 28) the first phase includes also defining customer related factors, such as customer values and benefits, which is performed in Mobilize phase in the process model by Osterwalder and Pigneur (2010). Accurately clarified customer needs result in the features of service product. In other hand, insufficient familiarity with customer needs leads usually to unsuccessful productizing process. (Torkkeli et al. 2005, 28) This first stage should be highlighted because it ensures that the expert service serves the organization's targets and it has a place in the market (Ukko et al. 2011, 136).

Construction of service packages and Design phase are similar but Design phase highlights the importance of exploring multiple ideas and prototypes (table 1). Testing and Implement phases are also quite similar. It would be good to test the service product with customer before the launch. Testing is usually hard to test in practice and therefore this phase is often neglected. It would be advantageous to ask customer's opinions of the suitability of service offering. (Torkkeli et al. 2005, 30) Ukko et al. (2011, 136) also highlight the importance of testing phase. It is important that the service product is designed with the final market in mind.

Expert services are generally highly tailored to meet different customer needs which makes them hard to price and sell (Ukko et al 2011, 128). Productizing enables moving from time-based pricing to other pricing methods. Productizing services makes the services more concrete and easier to market and sell. Marketing planning is essential part of productizing process. It is important to highlight customer benefits when marketing service offering. (Torkkeli et al. 2005, 30; Ukko et al. 2011, 137; Sipilä 1999, 62) Customer benefits are appropriate basis to price offering although customer value creation requires often also customer's participation (Sipilä 1999, 62). One of the marketing paradoxes is that customer always wants to have tailored and comprehensive service at low price. This is challenging especially for companies that provide tailored and comprehensive solutions with added value services and who compete with companies that provide low-priced services and do not pursue in research and development. For that reason, companies who provide tailored and comprehensive solutions should also provide low-priced standard service in order that customer understands that it is not only a question of price differences but strategy choice. (Sipilä 1999, 65) Marketing and productizing knowledge-intensive services are usually executed quite poorly (Lehtinen and Niinimäki 2005, 13). Ukko et al. (2011, 136) remind that there is no need to hide the expertise as it cannot be stolen.

The last phase in both process model are also rather similar. Follow-up and further development and Manage phases highlight the adaption and modification of the business model in response to market reaction. Profitability and cost structure of service products should be followed and corrections for service products should be made if needed. Customer needs and competition environment are changing in time. Therefore, service offering should be developed to correspond the customer needs constantly. (Torkkeli et al. 2005, 31) This phase ensures demand in the long run and it can lengthen the lifecycle of the expert service (Ukko et al. 2011, 136).

2.5 Business model canvas

Business models have been studied widely and multiple approaches are presented in literature. For example, Chesbrogh and Rosenbloom (2002, 533) describes the functions of a business model to consists of six sections. Whereas, Osterwalder and Pigneur (2010) presents a nine block approach to the business model functions. This approach is widely used and therefore it is utilized in this thesis. The approaches that can be found in literature include similar functions and features. The grouping of functions and application of frameworks differ. For example, the business model generation framework presented by Osterwalder and Pigneur (2010) is at the same time simple and visual but also comprehensive.

Osterwalder and Pigneur (2010) present a tool, called Business Model Canvas (BMC), which enables to easily describe and work with business model. They suggest that a business model can best be described through nine building blocks. These blocks show the logic of how a company plans to make money. The nine blocks cover the four main areas of business: customers, offer, infrastructure and financial viability. (Osterwalder and Pigneur 2010, 15) The nine blocks are (1) Customer segments, (2) Value proposition, (3) Channels, (4) Customer relationships, (5) Revenue streams, (6) Key resources, (7) Key activities, (8) Key partnerships and (9) Cost structure. The Business Model Canvas concept is illustrated in figure 4.

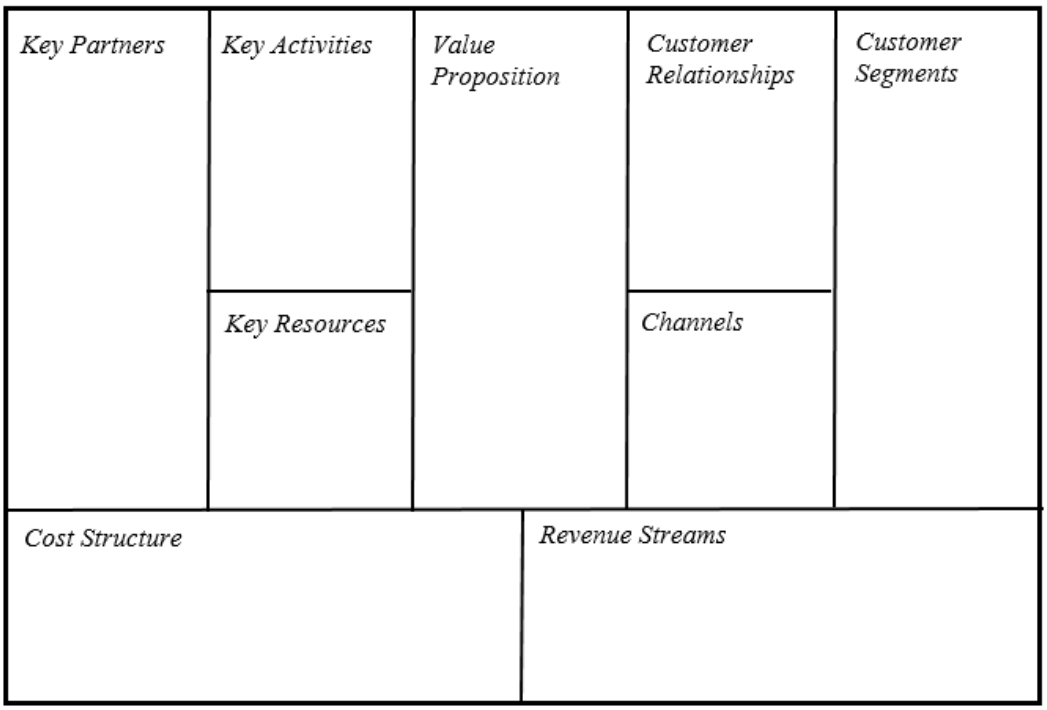

Figure 4. The Business Model Canvas (Osterwalder and Pigneur 2010, 15)

The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems (Osterwalder and Pigneur 2010, 15). Findings indicate that companies need to focus on all areas of their business models in a holistic fashion, and not just change isolated elements. (Kindström 2010, 479) When exploring all the areas of business model Business Model Canvass is a visual and comprehensive tool for handle the unity. Osterwalder and Pigneur (2010) have also gathered the questions to help explore each block of the BMC. The questions are presented in table 2.

Table 2. The nine building blocks and questions to consider (Osterwalder and Pigneur 2010, 20–41)

9 blocks	*Questions to consider*
Key Partners	Who are our Key Partners? Who are our key suppliers? Which Key Resources are we acquiring from partners? Which Key Activities do partners perform?
Key Activities	What Key activities do our Value Propositions require? Our Distribution Channels? Customer relationships? Revenue streams?
Key Resources	What Key Resources do our Value Propositions require? Our Distribution Channels? Customer relationships? Revenue streams?
Value Propositions	A value proposition is a promise about future potential value What value do we deliver to the customer? Which one of our customer's problems are we helping to solve? What bundles of products and services are we offering to each Customer Segment? Which customer needs are we satisfying?
Customer Relationships	What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?
Channels	Through which Channels do our Customer Segments want to be reached? How are we reaching them now? How are our Channels integrated? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?
Customer Segments	From whom are we creating value? Who are our most important customers?
Revenue Streams	For what value are our customers really willing to pay? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each Revenue Stream contribute to overall revenues?
Cost Structure	What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key activities are most expensive?

2.6 Summary of chapter 2

In chapter 2, the theoretical background and theoretical frameworks are explored for the study. The main subjects that are reviewed in chapter 2 are:

- Definitions of service and solution in the field of logistics services;
- Introductions how to compete through service offering and what key aspects need to be taken into account when creating offering portfolio;
- Business model design process and business model generation tool called Business Model Canvas (BMC).

Figure 5 describes the theories that are utilized in empiric part when creating HUB Care model. Figure 5 illustrates how the HUB Care model is designed in logistics solution environment utilizing BMC tool. For the specific needs of this thesis, Care model canvas (CMC) has been derived from BMC. Five blocks of original BMC, which are presented in figure, are included in CMC. HUB Care model is created through Business model design process, but also complementary aspects of productisation process model are used. When designing the HUB Care model questions relating how to create dynamic service offering portfolio are considered.

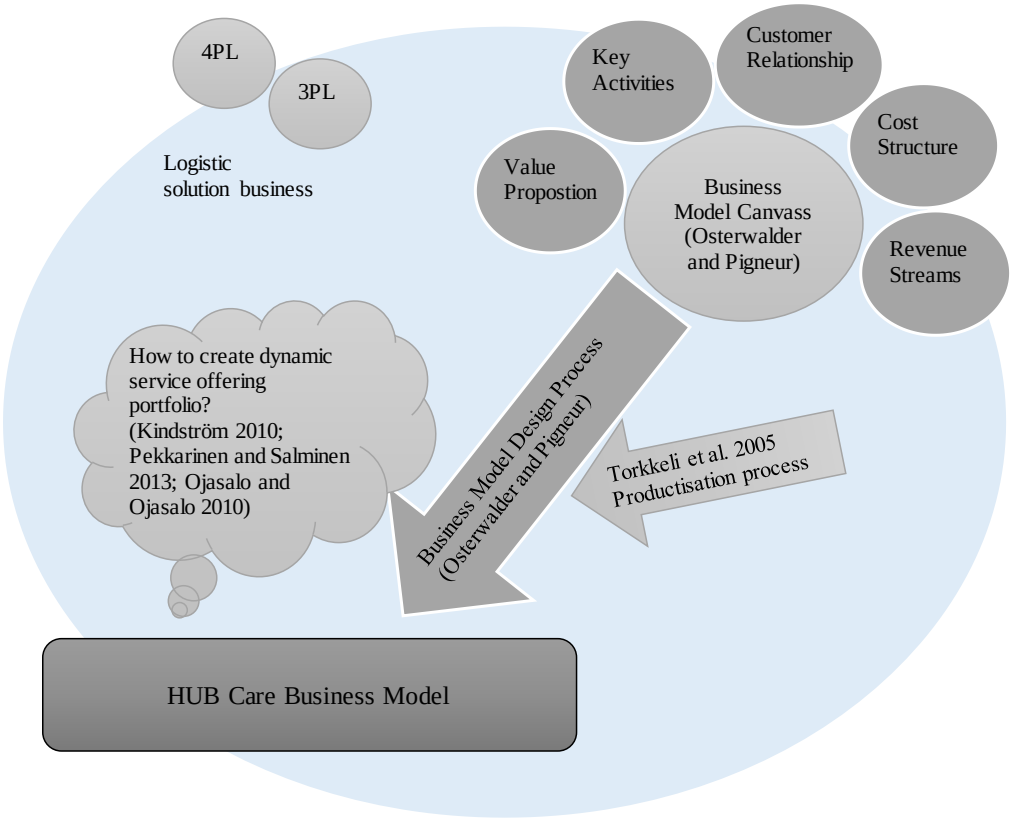

Figure 5. Summary of chapter 2

3 EVALUATION OF CUSTOMER VALUE

3.1 Customer value creation

There are different views to evaluate customer value creation. The customer value creation perspectives have been shifted from the company creating value for customer to creating value with customer (Vargo and Lusch 2004, 1; Grönroos and Voima 2013, 133). One way to define value creation is value-in-use approach where value has not created until customer use the product or service. (Grönroos 2011, 296) Weight in approaches to customer value creation is moving toward the collaboration and co-created value (Grönroos and Voima 2013; 134). In literature, issues such as customer participation, customer interaction and co-creation have become major actors in customer value creation process (Moeller 2008; Moeller et al. 2013, 473; Grönroos 2011, 295). In these co-production approaches, the experience the customer develops with the service provider determines the value created (Moeller et al. 2013, 473) and the value is contextually perceived and determined by the customer (Grönroos 2011, 295). Landroguez et al. (2013, 240) propose a model that links perceived value, value creation and value appropriation and demonstrates that it is this relationship between the three views that really creates value for the service customer.

Grönroos (2011, 296) highlights that customer value can be co-created by customer and company together. To understand customer value creation, it is necessary to view the customer as the value creator and the service provider and other customers as facilitators of that value creation. Customers are, by definition, value creators but it is possible to service providers to become part of customers' value creation, and therefore move beyond being value facilitator and also become co-creators of customer value alongside customer. From a management point of view, the importance of interactions with customers is highlighted. This enables managers to create and manage direct interactions in a way that supports customers' value fulfilment. (Grönroos 2011, 296) Thus, Moeller et al. (2013, 472) defines the customer value creation as "a process through which customers perform roles to derive benefits by either jointly with the service provider or independently

leveraging their own and the service provider's resources". This conceptualization includes the activities, resources and value perspectives (Moeller et al. 2013, 473).

It is highly important that the customer value and its various components have to be understood when improving offerings (Klanac, 2013, 34). In business markets, it is critical for organizations to understand their offerings and learn how they can be enhanced to provide value to their industrial customers (Lapierre 2000, 122). The understanding of the components of customer value allows companies to improve the design of offerings as well as to tailor marketing strategies to the perceptions and experiences of customers. Managers should consider how each service characteristic impacts customers by understanding which characteristics they like or dislike and the reasons behind their perceptions and experiences because their perceptions and experiences might differ. (Klanac 2013, 34) Accordingly, it is important to understand the individual customer value perceptions and improve services and offerings based on them.

Competitive advantage can be achieved by creating superior value. Value creation is considered the central means through which to gain competitive advantage in the marketplace (Woodruff 1997, 140). Offering better value than the competition will help a company to create sustainable competitive advantage (Landroguez et al. 2013, 236) Company has to develop a set of distinctive capabilities that allow it to stand out from the competition. The proposition of value of each company helps them to create value for its customers. Value proposition includes all the benefits, loyalty rewards and tailoring that the customer receives in relationship with supplier. Also the supplier company receives benefits which are mostly related to cost savings and customer loyalty. According to a strategic approach to customer relationship management (CRM), the value is created for each party in customer relationship and all the parties are involved in value creation. (Ojasalo and Ojasalo 2010, 123)

As customers search for potential suppliers in this highly competitive marketplace, where service providers need to create superior value, companies must find ways

to differentiate themselves and their service offerings in order to avoid fierce price competition (Marquardt et al 2011, 49). B2B marketers must relentlessly concentrate on developing and communicating points of difference, such as the firm's technical competence or the strength of the company's reputation, as the basis for creating differentiation and providing superior value. In B2B services branding in the logistics services industry, it is nearly impossible to build strong brand meaning on a point of parity, such as quality service. Quality service is likely the price of admission for B2B service providers; therefore, it is not a meaningful point of differentiation. A brand must achieve meaningful differentiation in order to be truly useful in a highly competitive, commoditized service industry, such as logistics. This is best achieved by focusing on distinctive customer experiences with the brand. (Marquardt et al. 2011, 56) For a solution offering, a service provider should stress its reputation through quality certificates and its success record through success stories (Moeller et al. 2013, 483).

To create superior value, companies can learn from competitors' offerings and improve their own offerings by analyzing competitors (Tuulenmäki 2012, 120). Companies are advised to find features that are basic, discriminating and energizing features in their offerings compared to competitors. Both positive and negative features should be acknowledged. Then, company could consider if it could differentiate its offering by creating new energizing features or change competitor's discriminating feature to basic feature by providing the same value. For example, could company provide value-added services in standard offering where these features are not normally available and which are generally considered as premium services? (Tuulenmäki 2012, 121–123)

3.2 Customer value elements

Customer value is comprised of value elements. Zeithaml (1988, 14) defines customer value as the total value of product or service benefits and sacrifices. Total value bases on customer's experience of what he has given and received, also compared to their expectations, needs and wants. Woodruff (1997, 142) qualifies

the customer value as customer preferences and evaluations of product attributes, attribute performances and consequences, when the product is used to fulfill customer needs and goals. The benefit-sacrifices approach is usually used in business-to-business environment (Klanac 2013, 26).

Customer value can be categorized as having three value drivers which include product-based, service-based, and relationship-based value drivers (Lapierre, 2000, 125). Grouping of benefits into these categories is presented in table 3. Table illustrates the formation of total customer value which is formed both benefits and sacrifices. Because the nature of business-to-business, relational aspects are in major role in addition to product and service aspects when evaluating value elements. Results are indicative that, relationship value drivers act as important differentiators. (Lapierre 2000, 133)

Table 3. Total value proposition (Lapierre 2000, 125)

	Product	Service	Relationship
Benefit	Alternative solutions Product quality Product customization	Responsiveness Flexibility Reliability Technical competence	Image Trust Solidarity
Sacrifices	Price	Price	Time/effort/energy Conflict

Then, customer value is suggested to consist of multiple elements. The benefit-sacrifices approach stresses the need to assess both positive and negative aspects of customer perceptions. Customers consider both gains and losses when involved in any activity and to increase customer value. (Klanac 2013, 26) The benefits are generally related to quality, utilities and other benefits that customer receives (Zeithaml 1988, 14). Sacrifices are not only price but they consist of both monetary and non-monetary sacrifices. Customer sacrifices are the overall monetary and non-monetary costs the customer invests or gives to the supplier in order to complete a transaction or to maintain a relationship with a supplier. Non-monetary costs can be defined as the time, effort, energy and conflict invested by the customer to obtain

the products or services or to establish a relationship with a supplier. (Lapierre 2000, 123) Monetary costs are price, opportunity cost and maintenance cost, for example (Zeithaml 1988, 18).

When it is a question of business-to-business environment, relational benefits become more significant. Relational benefits are defined as benefits and rewards customers receive from long-term relationships with firms that executed services above or beyond the core service (Gwinner et al. 1998). In a business-to-business service environment, relational benefits affect customer's satisfaction and loyalty. Logistics providers who establish excellence in service operations and commit to strong customer relationships achieve high levels of customer satisfaction and loyalty. (Li 2011, 65) Relational benefits can be divided into social benefits, confidence benefits and special treatment benefits (Gwinner et al 1998; Dagger et al. 2011, 281).

Li (2011) has researched the relational benefits in logistics service environment and proposes another way to name relational benefits: collaborative benefits, value-added benefits and special treatment benefits. Li (2011, 59) has adopted the special-treatment benefit construct suggested by Gwinner et al. (1998), which consists of providing low price and faster delivery. Social benefits were originally referred to customer's familiarity with the service provider and the emotional part of the relationship. Social benefits are proposed to be called as collaborative benefits, which not only capture the essence of familiarity between the supply chain partners, but also constructive communication between the manufacturer and LSP. (Li 2011, 59) The collaborative benefits perceived by manufacturers lie in the broad exchange of each other's goals, information on production plan and capacity needs, and inventory data (Li 2011, 61).

Confidence benefits originally relate to the commitment of the service provider and the perceptions of comfort in knowing what to expect in the service encounter; this construct is broadened to value-added benefits that include both knowledge of what to expect and the commitment of the LSP in providing additional services beyond

the core service. These additional services are aiming to increase flexibility, service efficiency, and customer satisfaction and to reduce costs. Value-added benefits are also related to LSP's familiarity with manufacturer's businesses, safety rules and compliance responsibility. Li (2011, 59) extends the concept of relational benefits to the logistical service environment in a business-to-business setting and it is proposed that the explored benefits construct fits best to the manufacturer–logistics provider relationship. (Li 2011, 59–60)

Dagger et al. (2011) investigate commitment as a central construct in the development of customer loyalty. Specifically, they examine the impact of confidence, social and special treatment benefits as well as relationship investment, communication and management on customer commitment – and the impact that commitment has on customer loyalty. Service managers must ensure that customers feel secure, that they perceive minimal risk and are comfortable in the service relationship. This is particularly important as confidence benefits have the largest influence on commitment. (Dagger et al. 2011, 281) Perhaps of less importance to many customers, but nevertheless welcome, is the "special treatment" that a service provider might offer to a customer with an established relationship with the service provider. These special treatment can be, for instance, price breaks, a faster service or more individual service. (Dagger et al. 2011, 281)

Consequences of social benefits, such as association, friendship and personal recognition, add value to the customer's experience. This provides motivation to maintain the relationship and remain committed to that company. Service relationships facilitate experience and openness, which assists in mutual understanding and ultimately commitment. The social bonding that occurs in service relationships is likely to increase customer dependence on the service provider. (Dagger et al. 2011, 281)

Providers of solution offerings must find a balance, because customers' benefits relate to both experiential and economic benefits. The active role of a service provider is often associated with low economic benefit (high price), so customers

should be willing to pay a premium when interacting with the provider but also expect a significantly lower price when the provider remains a passive facilitator. Providers of network offerings should place more emphasis on the service delivery process, because these customers report experiential benefits from interacting with other customers. Such providers likely need to come up with process innovations and new features regularly. The overall service result is important, in terms of economic benefits (good price, effective solution), but so is the way the solution was accomplished (friendly interaction). (Moeller et al. 2013, 483)

A variety of benefits and problems, sacrifices or risks in relation to 3PL have been reported in the literature. These can be classified as strategy-, finance- and operations-related. (Selviaridis and Spring 2007, 129) Benefits are usually related to cost reductions in asset investment, reduction in inventory levels, order cycle times, lead times and improvement in customer service. Problems or sacrifices listed are, for example, control over outsourced functions has diminished, cost reductions have not been realized, inadequate provider expertise, inadequate employee quality, time and effort spent on logistics have not decreased, reliability, and flexibility in special circumstances. (Sink and Langley 1997, 182; Selviaridis and Spring 2007, 130)

Jaakkola and Hakanen (2013) investigate the value co-creation in solution networks. They recommend companies to identify both their suppliers' and end customers' views of the benefits and sacrifices they perceive in the collaboration, because these value processes are more or less directly interlinked. Customer experienced benefits are ease of buying, less coordination work, better results through seamlessly integrated marketing communications and concentration on core business. Customers perceive several sacrifices involved in solution development, mainly in terms of time and money invested, alongside risks and challenges. Other sacrifices noted are the risk of becoming too dependable and tightly linked with the other actors in the solution network and lack of transparency in pricing and cost structure of the solution. (Jaakkola and Hakanen 2013, 54–55)

However, not all customers feel that integrated solutions offer sufficient benefits, and a solution's value potential may depend on customer resources. Solution suppliers should therefore develop means of identifying customers with a greater tendency to acquire broader solutions, gain an understanding of the customer's value processes, and develop resource constellations and activities accordingly. Suppliers should develop methods and metrics for calculating and pricing the value of coordination and integration work, and make it visible to their customers. (Jaakkola and Hakanen 2013, 57)

The study of Jaakkola and Hakanen (2013) further indicates that customers may not always perceive benefits in integrated solutions. Particularly suppliers developing pure service solutions may face challenges in convincing customers of the solution value. Future studies could help companies identify the prerequisites for customer perceived value in solutions. More research is also needed on how customers differ in their co-creation preferences. The customer may experience an increased risk, as the outcomes of the solution are difficult to evaluate and predict. This may weaken the appeal of outsourcing the integration work. (Jaakkola and Hakanen 2013, 56)

3.3 Pricing of service offering

Gaining profit by delivering complex solutions has proved to be challenging (Tuli et al. 2007). There is a lack of scientific literature discussing aspects of solution pricing (Bonnemeier et al. 2010, 237). Bonnemeier et al. (2010, 237) recommend that innovative pricing methods should be used instead of traditional methods, when it is question of pricing solutions. However, a lot of work needs to be done in order to be able to use the innovative pricing methods. For example, there seems to be a lack of customer acceptance of innovative revenue models and this needs to be investigated more closely. (Bonnemeier et al. 2010, 237)

Pricing strategies are generally categorized into three groups: cost-based pricing, competition-based pricing and customer value-based pricing. Cost-based pricing derives from data from cost accounting, competition-based pricing uses anticipated

or observed price levels of competitors as primary source for setting prices and customer value-based pricing uses the value that a product or service delivers to a segment of customers as the main factor for setting prices. Examples of cost-based pricing are cost-plus pricing, mark-up pricing and target-return pricing. Pricing according to average market prices, parallel pricing and skim pricing are competition-based pricing methods. Whereas, perceived value pricing and performance pricing are value-based pricing methods. (Hinterhuber 2008, 42)

Bonnemeir et al. (2010, 230) categorize the pricing methods into traditional and innovative revenue models. Traditional pricing models are, for instance, cost-plus and fixed fee pricing whereas innovative pricing models are usage-based, performance-based and value-based pricing. Usage-based pricing is based on, for example, the service usage time, performance-based pricing is based on the performance level (availability, quality, response times), and value-based pricing is based on the performance result (turnover, cost savings). (Bonnemeier et al. 2010, 230) For value-based pricing method, it is characteristic that solution provider focuses on the customer's internal process and delivers value, such as optimization or productivity. To assess the value added for customer analyses of total-cost-of-ownership, monetary figures (increased turnover, the amount of cost savings or changes in profitability) and also non-monetary reference figures, such as customer satisfaction, can be useful. (Bonnemeier et al. 2010, 232) As these innovative pricing models are recommended to use when pricing solutions, the pricing of solutions should be based on the performance of the solution in the customer's business environment (Bonnemeier et al. 2010, 231).

When applying value-based models, service provider can for example set the height of price parameter (percentage) to benefit from customer's cost savings or turnover increases (Bonnemeier et al. 2010, 232). Applying value-based pricing methods makes internal pricing decisions more complex and solution providers need routines and resources to know when the price best matches the customer value (Bonnemeier et al. 2010, 233). Because of relational aspects of solutions (Tuli et al. 2007, 1) the long-term price planning is suggested to be applied in business-to-

business environment (Bonnemeier et al. 2010, 234). Also discount limits, pricing scenarios and guidelines on how to react when competitors cut prices, might be needed (Bonnemeier et al. 2010, 234).

It has been argued that a solid understanding and quantification of customer value is a key to profitable pricing (Hinterhuber 2004, 777). Understanding the customer needs enables company to implement more advanced pricing methods. Customer maturity in terms of buying services and the degree of a supplier company's internal focus on the customer and his business have an impact on the type of revenue mechanism employed. When a supplier company is familiar with customer's business and needs, more advanced and potentially more rewarding revenue mechanisms can be implemented. Thus, advanced methods, for example basing on service supplier returns on increases in the productivity of customers processes and profit sharing regime, can be used instead of or along with basic methods. (Kindström 2010, 485) Customer value-driven pricing approach may lead to relatively high prices as long-term profitability needs to be taken into account. It is important that customer value is communicated. (Hinterhuber 2008, 42) Customer value analysis is a tool, which can be used to justify price increases to customers (Hinterhuber 2004, 777).

Although value-based pricing methods are recognized to be superior to other pricing strategies (Ingenbleek et al. 2003, 289; Hinterhuber 2004, 766) and have significant advantages over conventional pricing methodologies, these methods play a relatively minor role in usage of pricing strategies (Hinterhuber 2008, 43). Cost-based pricing and competition-based pricing are commonly used in companies and pricing practicalities mostly rely on these methods. But cost-based and competition-based pricing methods have been criticized that they do not pay sufficient attention to customer needs and requirements. Conversely, customer value-based methods do take the customer perspective into account, but relevant data are more difficult to obtain and interpret. (Hinterhuber 2008, 42) Ingenbleek et al. (2003, 289) demonstrate the advantages of valued-based pricing. Also

practitioners have recognized the advantages of value-based pricing strategies (Hinterhuber 2008, 41).

Although empirical research shows that value-based approaches are superior to other pricing approaches, it has not been widely adopted in practice but value-based pricing strategies are used least by practitioners (Hinterhuber 2008, 42–43). There are several obstacles and difficulties related to value-based pricing and therefore other methods have remain more popular in practice. Especially, the availability of data affect to the used method. When implementing value-based pricing strategies, the determination of customer value demands a lot of work and efforts. Obstacles to the implementation of value-based pricing strategies are studied by Hinterhuber (2008). Hinterhuber (2008, 49) suggests that companies will be well-positioned to implement value-based pricing strategies if they are using the suggestions and guidelines presented to overcome the obstacles. The five obstacles that most commonly occur in companies are: (1) value assessment, (2) value communication, (3) market segmentation, (4) sales force management, (5) top management support.

Value assessment has been considered to be the most common obstacle to implement value-based pricing methods. If the company itself does not know the value of its products or services to customers, how does it know what to charge customers for value? The value-assessment problem can be overcome by rigorous value measurement. Hinterhuber (2008, 45) presents several methodologies for measuring value to customers. These tools are expert interviews, focus group assessment, conjoint analysis, assessment of value-in-use, and importance ratings. In practice, the most reliable assessments of customer value are likely to be obtained by using several of these suggested tools concurrently. (Hinterhuber 2008, 44–46)

The communication of value to customer has recognized challenging for companies. To improve the communication of value to customers, three levels of sophistication need to be recognized and used appropriately: (1) Communicating product/service features, (2) Communicating customer benefits, and (3) Communicating benefits in accordance with customer needs. (Hinterhuber 2008, 46)

Companies face difficulties also with market segmentation. Needs-based market segmentation has been proposed to be an effective marketing strategy. Companies confront difficulties with sales force management as well. Effective sales force management includes the establishment of clear guidelines regarding sales discounts. Also a lack of support from senior management has been mentioned as worthy obstacle when implementing value-based pricing strategies. (Hinterhuber 2008, 47–49)

3.4 Summary of chapter 3

In chapter 3, the second part of the theoretical background and theoretical frameworks are explored for the study. The main subjects that are reviewed in chapter 3 are:

- How customer value is created in business-to-business environment;
- Customer value elements;
- Total customer value and value proposition; and
- Pricing methods, especially value-based pricing.

Figure 6 describes the theories that are utilized in empiric part when creating HUB Care model. Concerning customer value, the theories of value elements are considered when preparing for the customer interviews. The interview plan is based mostly on theories of customer value elements and the results of interviews are the base of value propositions created. Also issues that customers consider as strengths and weakness of service provider are discussed in interviews, thus the framework proposed by Tuulenmäki (2012) is utilized to analyze which could be the discriminating or even energizing features of HUB Care offerings.

In addition to evaluation of customer value, the pricing methods are discussed in chapter 3. As the value is in a remarkable role in HUB Care offerings, value-based pricing methods are explored and considered to be applied. However, also cost-based and market-based approaches need to be acknowledged.

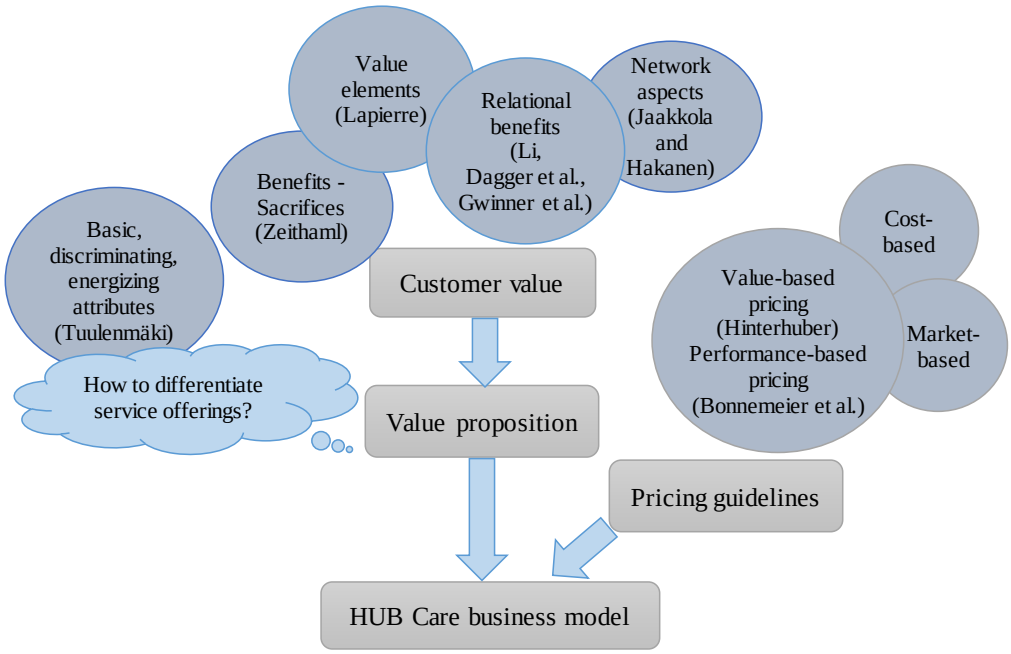

Figure 6. Summary of chapter 3

4 BUILDING OF HUB CARE MODEL

4.1 HUB logistics Oy

HUB logistics is a logistics service company which provides tailored solutions for its customers to manage material, information and capital flows. HUB logistics is Finnish based logistic services corporation, established in 1992. HUB logistics has 400 employees and the net sales of 30 M€ (2014). HUB logistics operates at several locality across Finland, and also has operations in Russia, Estonia and Germany. HUB's services include warehousing, outsourcing, staffing, procurement logistics, consulting, material financial services, wooden packaging production and packing services. The service solutions, provided by HUB logistics, enable customer's business to achieve the ultimate goal of increased performance efficiency through flexibility, cost savings and high quality performance. Customers work mainly in the industrial and trade sectors. (HUB logistics 2014)

HUB logistics is the leading logistics service provider for industry in Finland. The main values are to be responsible in every situation, continuous learning, pleased customers and win-win-win philosophy. HUB logistics stands out from competitors by providing innovative service solutions. HUB logistics also stands out from bigger competitors with its ability to be more flexible and to provide customer tailored processes and solutions. (HUB logistics 2014)

This thesis is motivated by the aim of HUB logistics to develop customer relationship management and create an innovative solutions for customers. The aims is to create model that could increase customer satisfaction and help HUB logistics to reach the profit objectives. The innovate model should create added value and superior service experience for customers. During this thesis process, there are overall four master's thesis in the works in this company and especially one of them is closely related to this model. In that another thesis, operational performance measurement is studied and tools to improve operational performance

are presented. The term of OpEx-tools is used in this thesis to mean these tools which aim to improve the operational performance.

4.2 HUB Care hypothesis

HUB Care hypothesis has been formed based on the commission given by case company and next, the hypothesis has been shaped by taking into consideration some recommendations from literature. The hypothesis for the HUB Care model is that there are three Care levels where the main distinction between levels is the completeness of solution. The levels would be HUB Care Standard, HUB Care Plus, and HUB Care Premium. Three offering levels are chosen as a logical selection to extend customers of different levels: three levels encompass completeness of customer's solution. Hypothesis suggest that customers are provided with three service packages and they can choose the package which provides the best added value to them. Offering levels strive to satisfy customer needs and create added value to different levels of customers.

According to Ojasalo and Ojasalo (2003), the model could work as a tool to categorize customers based on their importance. The quality of service and the completeness of service offering is based on the service level. This means that Standard level is provided to less significant customers and the offering is quite ripped-down, whereas Premium level is provided to the most significant customers and the offering is comprehensive and creates widely added value. Another approach to the hypothesis for the Care model is that the offering portfolio should be adaptive to changing customer needs and unique needs (Kindström 2010; Pekkarinen and Salminen 2013). Offering should create added value for customer why it is important that specific customer needs are understood and taken into account. However, the balance between customers specified needs and standardized service offering needs to be found.

Then, the hypothesis is that there are three value-added service packages: Standard, Plus and Premium. Each package consist of different amount of value-added services, naturally less services at standard level and more at plus level and wide

package of more specified value-added services at premium level. The hypothesis is that the packages include value-added services from following categories: Management, Customer service and management, Development activities and Communication. For example, in the Management category, different types of meetings are available (operational, development, management) and Customer service and management category could include contact person, key account manager and exchanged service hours. The hypothesis for HUB Care model is presented in table 4.

Table 4. First hypothesis for HUB Care model

HUB Care Standard	HUB Care Plus	HUB Care Premium
Relationship standard Contact person	*Relationship plus* Contact person extended service hours	*Relationship premium* KAM active communication extended service hours 24/7 possibility
Management standard Occasional meetings	*Management plus* Regular meetings (i.e. 1/month) (operational, development, logistics)	*Management premium* Wide package of meetings (strategic, operational, logistics, development), dynamic "when needed" meetings available
Communication systems standard Extranet	*Communication systems plus* Extranet, web-based interface possibility	*Communication systems premium* Plus + system integration possibility
Development standard 1-2 OpEx-tools	*Development plus* KPI reporting 2-3 OpEx-tools	*Development premium* Workshop KPI-bonus/penalty 4-5 OpEx-tools

This hypothesis has been developed and refined while study progress and when more information about customers, logistic services and professional knowledge of experts have been obtained. The content of customer interviews are planned also according to the first hypothesis, to get customers' insights into Care levels and their contents. Customers are involved in the generation process and their views have been affected to the further prototypes during the process and finally to the

result. Consequently, in Care model design process the collaboration with customers is utilized to enchance knowledge as Lusch et al. (2007) suggest. Also professional knowledge and views of HUB logistics are utilized in the final result presented in chapter 5. The final result is a fusion of customers', experts', university's researchers' and thesis worker's reflection.

4.3 HUB Care model generation process

This thesis deals with three first phases of business model design process: Mobilize, Understand and Design phases (Osterwalder and Pigneur 2010, 249). From table 5 can be seen how this business model generation process model is applied in this study. The three phases discussed in this thesis are presented with the activities and goals that should be acknowledged in each phase. Also complementary notices from the process model of Torkkeli et al. (2005) is utilized and added into the table 5. Pricing and marketing planning, further development recommendations and benefits communication are the subjects borrowed from the process model proposed by Torkkeli et al. (2005).

Table 5. HUB Care design process

	Mobilize	*Understand*	*Design*
Goal	Identify the need and purpose of Care model	Deepen understanding of existing theory, customers and the field of business	Design multiple alternatives for Care model, and choose the best
Activities	Company presentation, Outlining purposes and aims Hypothesis	Customer interviews: needs, value, benefits Expert interviews and discussions, Literature review	Care model prototyping, Innovation workshop, Choosing the best alternative, Pricing guidelines, Further development recommendations

Mobilize phase comprise the introduction of company for which the model is built, and setting the motivation and goals. Also the hypothesis for HUB Care model is created in the first phase. Introduction of HUB logistics is presented in chapter 4.1 and the hypothesis in chapter 4.2. Main goals and the motivation of HUB Care model are presented below:

- To improve customer's understanding and satisfaction;
- To create added value for customers;
- To create a dynamic offering portfolio;
- To find guidelines to price and enable profitability; and
- To develop customer relationships towards value partnerships.

Customer interviews are utilized in Understand phase in order to gather information about customers, their preferences and recognize the problems and unsatisfied needs. 11 customers' representatives have been chosen and they principally work in purchase managers, logistics managers or in other corresponding positions. These interviewed customers represent mainly large industry companies and totally 9 different companies have been interviewed. Customer companies are chosen to represent different customer levels. Some of the customers have longer-term relationship with service provider than others and the amount of purchased services differs among these customers. Thus, various aspects can be gathered to gain comprehensive understanding of customer preferences and needs.

Customer interviews are realized in two parts. In the first part, customers receive structured web-based questionnaire. The questionnaire concern customer value elements and customers are asked to grade the importance of elements with grading systems from 1 to 5. Value elements are chosen based on literature and earlier research (Lapierre 2000, 125; Li 2011; Dagger et al. 2011; Gwinner et al. 1998). The questionnaire is presented in appendix 1 and the results are discussed in chapter 4.4. This first part gives first-hand information of customer preferences and enable to preparing for the second part of interviews. The second part is realized with semi-structured interviews at customers and the structure of the interviews is presented

in appendix 2. Semi-structured interviews are utilized to get as encompassing answers as possible. First, customers are asked to give reasons for the value elements of the questionnaire. The other questions deal with the customer expectations of service provider, the criterions for service provider selection and what else would customer need and expect from a service provider and what benefits customers receive. Customers are also asked to position them on Care levels and describe, what they see as differences between levels and what should be available at each level. Some value-added services are presented to customers and they are asked to express if they are ready to pay a price of the services.

Design phase is partly realized simultaneously with Understand phase, when Care model options are generated. The hypothesis for the HUB Care model is developed while the research progress. Customers' ideas and opinions are taken into consideration and customers are added in the generation of Care model prototypes. Multiple propositions for Care model are considered in Design phase. During thesis process alternative prototypes are considered while new information about customer needs and theory is obtained. It is important to explore multiple business model ideas and co-create with people to success in Design phase (Osterwalder and Pigneur 2010, 249-259).

A few prototypes and ideas are presented to the HUB professionals in innovation workshop. In order to gather efficiently all the expert knowing, an innovation workshop is organized in the design phase. The purpose of innovation workshop is to create a collective vision of what HUB Care model would be. The innovation workshop make it possible to combine the experts' knowing in the company's field of business, the views of the university's researchers and the contribution of thesis workers. Altogether, 12 people attended in innovation workshop: 8 company representatives, 2 researchers and 2 thesis workers. At the innovation workshop issues such as the differences between offering levels and what each level should consist of, were dealt with. Care model canvas tool was utilized as a framework to help the picturing of HUB Care model and its offering levels. The innovation workshop enables the reflection in the discussion part. The results of innovation

workshop are reflected to the earlier conception of Care model which is formed based on the analysis of customer interviews. The final version of HUB Care model is then shaped and chosen. The final result is presented in chapter 5.

Last two phases, Implement and Manage, are not dealt with in this thesis by reason of time and effort limits. However, the pricing guidelines and instructions for further development are discussed according to the process model of Torkkeli et al. (2005). Also further development ideas and recommendations are proposed in chapters 5.2 and 5.3.

Alongside the business model generation process, the modified BMC is utilized. Business model canvas is utilized and adapted in the context and resulted in Care model canvas. Five blocks of original BMC are discussed more carefully. These blocks are Value Proposition, Key Activities, Key Resources, Cost Structure and Revenue Streams. Selected blocks are the most interesting fields relative to the problem of this study. Care model canvas has one extra elements which do not exist in original BMC. This extra element is energizing features (Tuulenmäki 2012, 120). Energizing features characterize the features that are superior to competitor's offering; what are the issues that settle the competition. There are usually strong emotional association related to the energizing features. Thus, the six blocks form a modified canvas which is called Care model canvas (CMC) in this thesis. CMC serves as a tool that puts together all the essential blocks of BMC when creating HUB Care model. During thesis process, Care model canvas is outlined separately for each service level when outlining possible Care prototypes. That is because each Care level is in a sense its own business model and has its own characteristics and purpose. The blocks are filled with the help of the questions presented in table 2. Canvasses illustrates the main contents and the critical differences between service levels and help to understand the main purposes of each level.

The blocks of CMC are discussed more carefully in the following chapters. For example, value propositions and cost structures are discussed in the following chapters. The Care model canvasses which are filled before innovation workshop

are presented in appendices 3–5 and the CMCs filled in innovation workshops are presented in appendices 6–8. This separation enables the reflection between writer's view and the results of innovation workshop in discussion part.

4.4 Value proposition

As a value proposition is a promise about future potential value to customer, customer needs and perceptions need to be fully understood. Determining customer value is a key to create service offering (Klanac 2013; Lapierre 2000). To determine value propositions customer interviews are organized. Because value proposition differs at each service level, it is important to interview customers that represent different customer levels in order to get diverse thoughts and understanding about customer needs.

The value elements questionnaire revealed that the most important value elements for these customers are flexibility, responsibility, reliability and performance/efficiency (table 6). Also service quality and trust/confidence are highly valued. Flexibility, reliability and performance/efficiency are related to operational functionality which is extremely important and typical to the logistics service customers who seek cost efficiency and reliability by outsourcing logistic functions. Reliability means that service is delivered timely with the expected quality. According to interviews, flexibility is often associated also to service flexibility and service availability, not only to the fast reaction time. Service aspects, quality and confidence, are therefore also remarkable in the relationship between a customer and a logistic service provider. Willingness to be of service is also mentioned by customer as one of required qualities. Consequently, in value proposition the operational view is highlighted but also relational benefits, such as collaborative and value-added benefits (Li 2011) should be in remarkable role in value propositions.

Table 6. Results of value elements questionnaire

Value element	*Grade*
Flexibility	4,73
Responsibility	4,73
Reliability	4,73
Performance/efficiency	4,73
Service quality	4,64
Trust/confidence	4,64
Conflicts can be solved	4,64
Logistic know-how	4,55
Technical competence	4,55
Staff/Social responsibility	4,55
Safety responsibility	4,55
Dynamic collaboration	4,55
Tailored solutions	4,36
Communication	4,36
Sustainable development	4,27
Followed savings	4,18
Openness, information sharing	4,09
Environmental responsibility	3,91
Service diversity	3,82
Low-price	3,82
Conflicts are avoided	3,27
References	3,00
Time, effort and resources are used in collaboration	3,00
Image	2,64

Customer value elements, and therefore total customer value, in logistic services are recognized with customer interviews. Value elements perceived by customers are discussed in customer interviews. According to customer interviews, the customer value elements, benefits and sacrifices, are presented in figure 7. Value proposition include product, service and relationship based elements (Lapierre 2000). The elements proposed by Lapierre (2000) are included in questionnaire and in addition, the elements recognized to be remarkable in solution business and logistic service environment are also taken into consideration when interviewing customers. By the reason of logistics service environment, where relationships and collaboration are emphasized, relational benefits are explored rather carefully. Relational benefits, such as trust, common goals, investments in developing activities, fluent communication practicalities and understanding of customer's processes are pointed out by customers and therefore are considered to be included in value proposition. These benefits are also mentioned by Li (2011) as essential

benefits in logistical service environment. According to Dagger et al. (2011, 281) confidence is highlighted as a creator of commitment. Similarly service relationships facilitate experience and openness, which supports commitment. These factors are also mentioned in customer interviews and therefore they should be involved in value proposition.

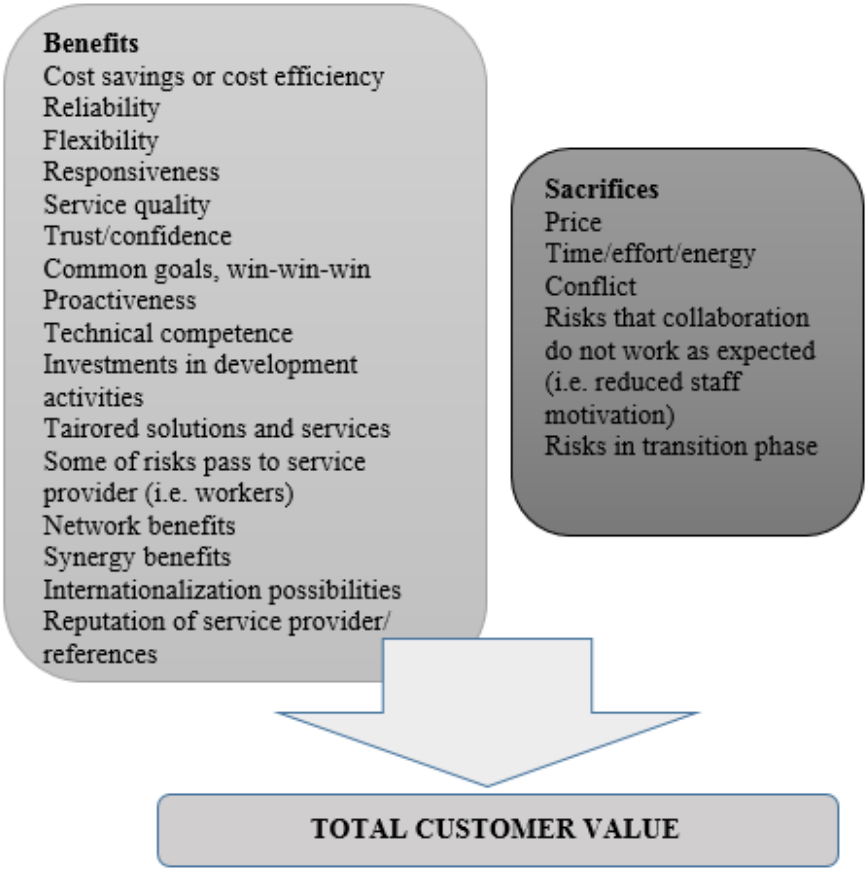

Figure 7. Benefits and sacrifices according to customer interviews

According to customer interviews, analyzing method proposed by Tuulenmäki (2012, 120) is also utilized. Based on customer interviews the attributes are recognized and the listed in table 7. The analysis helps to understand features that are typical in the field of logistics services and features that customers appreciate, and how they compare the service providers to each other. The analysis work as a tool which helps the creation of value proposition and offerings.

Table 7. Basic, discriminating and energizing attributes based on customer interviews

Attributes	*Basic attributes*	*Discriminating attributes*	*Energizing attributes*
Positive	- Technical competence - Flexibility - Quality - Communication - Performance/ efficiency	- Service diversity and availability - Synergy benefits - Location - Adaptation and understanding of customer's processes - Participative attitude - Development and innovativeness - Win-win-win-promise - Internationaliza-tion possibilities	- References - Approachability - Customer tailored services
Negative	- Time and efforts - Price - Occasional quality lacks	- Inadequate quality - Price - Lacks in staff management	- Unmotivated personnel/staff

Consequently, what value should we deliver for customers, in other words what is the value propositions to customers? Value propositions should include the bundles of products and services that are offered to customers at each service level. Value proposition should answer to the needs of customers. As three offering level are created, the different value proposition for each segment is proposed. Value propositions are also presented in appendices 3–5 (Care model canvases). These value propositions presented are formed based on customer interviews and recommendations of literature review. Notices from the value elements questionnaire, the benefits-sacrifices analysis and the attributes analysis, presented above, are taken into consideration when improving value propositions. Literature recommendations are also kept in mind. For example, as relationship value drivers

are noted to act as important differentiators (Lapierre 2000, 133) these factors should be highlighted in value propositions.

Value proposition for Standard level includes the basic features that customers expect when purchasing logistics services, such as warehousing and packages, and when the collaboration is at low-level. Customer at Standard level are not willing to use time and effort but they are seeking service with affordable price and with adequate service quality and reliability. These are considered as positive basic attributes by customers and these features are expected by customers as a self-evidence. The main motivation of Standard level customer is usually cost reduction purposes and customer's willingness to concentrate on its core business. Therefore, the easiness of customer relationship is important and the communication practices should be clear. In other words, the named contact person and clear instructions how to act are needed. The level of commitment in Standard level is low, therefore there should exits some features that still attract customers but which still cause minimum costs. The flexibility in availability of services is mentioned by customer as an important attribute and could be the feature that is discriminates the offering from competitor's offering.

Value proposition at plus level should answer to the need of continuous developing and actively find saving targets according to customers. At Plus level there are quite wide amount of services purchased and usually both parties have already invested in the relationship time and efforts. Inputs from service provider are expected to develop further the relationship and actively propose improvements. This level should be a demonstration of what service provider is able to do. This would provide the path and possibilities to get at Premium level. It is vital to build trust deepen the relationship. Flexibility, reliability, responsiveness, performance, trust, sustainable developing, win-win-win promise are what should be included in value proposition. Developing functions and operational efficiency are the key questions and positive discriminating attributes at Plus level. There is a possibility to create these features to become even energizing attributes, then the innovativeness and innovative solutions should be provided.

Premium level reflects the deeper collaboration and at this level the commitment is at high level. In one hand, customer is committed to the service provider and on the other hand, service provider is committed to customer. There is often bigger mutual investment or project related to the Premium level. Companies operate in-house and also information integration might be possible. Benefitting, especially, from service provider's networks and synergies are expected. Best practices of logistics services are expected to be utilized efficiently at Premium level, although this is desired also at Plus level. Transparency and openness are important factors at Premium level as the level is considered to represent partnership relations. Open books are also considered but some think that it is challenging to execute and not sure if it brings the value expected. Anyway, confidence is considered vital at Premium level where the risks are more significant for each party.

The co-creation level of customer value creation differs between offering levels. The higher the offering level, the more customer value is co-created by customer and service provider, in other words, more activities from customer's side is also needed when creating value at higher service levels. At Premium level the importance of collaboration and therefore value co-creation increases. For example, development project require resources also from customer's side because that kind of projects which affect also to the customer's processes cannot be realized by service provider alone. Whereas, at Standard level, co-operation and mutual project are not needed. Customers need to acknowledge that if they are willing to deepen the provider-customer relationship towards value partnership, customers' participation and inputs are required.

4.5 Cost structures of Care levels

Cost structure of each service level is determined by the services that customer has chosen. Cost structures for some of the value-added services of Care model could be defined but some of the Care services need to be tailored for each customer separately and customer related circumstances have an effect on the costs. The total costs of Care services and levels depends on, for example, the location of customer

(travelling expenses), the easiness of getting data (reporting) and how customer specific the processes are when development projects or tools are adapted. Therefore uniform total costs that hold up for each Care level cannot be determined but the cost structures and items affecting costs of Care levels are analyzed. Cost structures are discussed in general in this study and exact costs are not suggested, for the reason that the costs are highly case specific.

Nevertheless, the key cost items of each service level can be recognized. Also the cost items can be analyzed by the Care service categories and hence perceive which elements of Care offerings cause significant costs. In the table 8, the cost items that affect the total costs of HUB Care offerings, are analyzed by the value-added service category and by HUB Care service level.

Table 8. Cost items of HUB Care services by service category and by offering level

Service category	*Standard*	*Plus*	*Premium*
Management	Work hours, Travelling expenses	Work hours, Travelling expenses	Work hours (foreman, management), Travelling expenses
Customer service	Work hours (contact person), Phone	Work hours (contact person), Phone, Travelling expenses	Work hours (contact person), Phone, Travelling expenses
Responsibility	Licence trainings (i.e. occupational safety, truck)	Licence trainings, Training	Licence trainings, Training
Flexibility		Work hours, (work force, travelling costs)	Work hours, (work force, travelling costs)
Communication	IT support, phone	IT support, phone	IT support, phone
Development activities		Work hours	Work hours
OpEx-toolset		Work hours (consulting)	Work hours (consulting)
Investments and financing		Investments (equipments, materials), Interests	Investments (warehouse, system integration), Interests
Relationships and Networks			Staging of an event, Visit costs (travelling expenses, serving)

Cost items are not analyzed for each value-added service separately but the costs are explored by service categories (Management, Customer service, Responsibility, Flexibility etc.) that have been recognized in customer interviews. Therefore costs are itemized by service categories in general way to understand and illustrate what kind of cost elements are generated, and understand which customer needs and wishes are most costly to fulfill. According to table 8 it can be observed and stated that the biggest costs are caused by work hours. Work hours are used mainly by customer contact persons and development workers and managers, when it is a question of Care services. HUB Care services are mainly knowledge-intensive

services and consultative by nature, for example process descriptions, reporting, OpEx-tools, and therefore the cost of work is rather high as generally in consulting. Some service categories cause costs that are generally included in overheads of company's operations anyway, for example email addresses and other equipment. Therefore, the services using these kind of resources do not cause as much costs as the services that need to be done to customers separately or tailored according the specified customer needs.

For instance, at HUB Care Standard level the costs are tried to keep as low as possible. Costs are caused mainly by occasional communication in addition to the logistics services purchased. At Standard level customers are mainly provided with the value-added services that are provided all the customers and they do not cause any extra costs, an example of this is customer magazine. At Plus level there are significantly more costs generated. Maintaining and developing customer relationship and development activities cost relatively much. Planning and implementing development projects take time and other resources which makes development activities the remarkable cost item. In addition to resources, the need of tailoring might cause extra costs. Adapting one operational tool to a customer might be easy but to another customer plenty of work might be needed. At Plus level development manager might not be available but a limited time in month, therefore travelling expenses must be acknowledged. Like at Plus level, development activities, but also advanced OpEx-tools require plenty of resources at Premium level. At Premium level there are also other significant cost generators, such as network and relationship development, investments and financing. At Premium level strategic management meetings are available and naturally the work hours of management and travelling expenses cost.

Overall, in can be concluded that development activities and OpEx-tools are the most expensive service categories. Also if investments are made, they occur significant costs. Therefore, the services of these categories are not available at Standard level. In addition, it must be acknowledged, that the amount of customer service and management costs are affected by the number of meetings, for example.

Then, at Standard level these cost only a fraction of what all the meeting at Premium level cost. The cost structures and total costs of Plus and Premium levels are multidimensional and extremely customer specific. When contracting, customer specific estimation of the costs should be calculated while all the purchased services, their completeness and the level of customer tailoring are known. The costs would be good to present for customer in order to gain trust in partnership relations (Jaakkola and Hakanen 2013, 55). It could also help the service provider to justify the price of solution.

4.6 Pricing guidelines

Pricing and marketing planning is qualified as one phase of productizing process by Torkkeli et al. (2005). Also Business Model Canvas presented by Osterwalder and Pigneur (2010) suggest that revenue streams should be considered when creating business model. Therefore pricing aspects are discussed in this thesis. Pricing guidelines and customer profitability are discussed in the generation process of HUB Care model. Pricing guidelines and recommendations for pricing bases are given for each Care level. Customer profitability is also highly connected to the Care level strategies and therefore profitability aspects need to be considered when committing to certain Care level with customer.

The pricing of HUB Care model takes all three pricing approaches into consideration: cost-based, market-based and value-based pricing approaches. Costs are generally the leading basis when planning prices. As the logistics are generally the target of cost cuts, the market prices affect significantly to the low level of current prices. This means that logistics services are challenging to price purely based on customer value even though value-based pricing is suggested to be superior pricing method in comparison cost and market-based pricing (Ingenbleek et al. 2003; Hinterhuber 2004) and recommended to use when pricing solutions (Bonnemeier et al. 2010). Customers are price-conscious and pursuing cost savings by outsourcing logistics; they are not eager pay more than the most affordable price at the market.

When pricing HUB Care model, value-added and performance-based pricing models should be used alongside other pricing practices. Based on literature (Bonnemeier et al. 2010) pricing can be justified based on performance level, by setting a target to the different measures of quality, availability and response times, for example. Then, if the target is achieved, service provider can get a bonus and if the target is not achieved the penalty need to be paid for customer. The pricing can also be justified based on performance result, when if cost savings or increases in turnover are achieved by customer with the help used service, the profit sharing would appropriate. These pricing methods should be related to the results of customer value analysis in chapter 4.4.

There are critical value elements that can be utilized when applying performance- and value-based pricing. Customers value high the cost efficiency, reliability, flexibility, responsiveness, trust, quality and sustainable development according to customer interviews (chapter 4.4) and a part of customers are willing to pay more to get these benefits. According to interviews, also the partnership philosophy and the motivation to develop logistics functions by an innovative way, are mentioned to be worth of higher price by some customers. However, customers in general are not willing to pay for services or value that do not support the core service, and therefore do not directly increase efficiency. In other words, if responsibility issues are improved or if customer service is improved they should not have a price, they are just the proofs of better service quality and selling points which affects to the selection of service provider. Nevertheless, there are values that can be utilized in value-based pricing and they are related to improving the efficiency of core services. Customer is always interested in cost savings and therefore they value time savings, flexibility, and reliability, to name a few. Consequently, the services of HUB Care model that improve reliability, flexibility or cost efficiency can be priced using performance- and value-based methods. There are also customer specific values that customer could pay for, for example, if the work and efforts of customer are reduced that is valued by specific customers.

According to customer interviews, customers are not outstandingly excited about the performance-based bonus and penalty agreements. Actually, some of the customers think that it is good that targets are defined and if they are not achieved, penalty must be paid. However, if the targets are exceeded any bonus should not be paid for service provider. One customer consider that both bonus and penalty could be paid but even then, the penalties should be relatively higher than bonuses. Accordingly, there is a paradox related to the pricing of value-added solutions: customers want to have premium service with standard price. This is already claimed also by Sipilä (1999, 65). Therefore, if this kind of performance-based pricing or profit sharing arrangements are applied, it is extremely important to communicate the benefits with customer (Sipilä 1999, 62; Torkkeli et al. 2005; Ukko et al. 2011) and the partnership philosophy should be appreciated mutually.

As each Care level has its own customer segment and is its own model with own value proposition and other features, each level has separate pricing recommendations. Different pricing strategies for each service level are considered to correspond the each customer relationship and its features. Care level impacts on the pricing methods and the main reasons affecting to pricing of solution are:

- Quantity of services;
- Characteristics of services;
- Tailoring, value-added services;
- Length of contract; and
- Customer specific value.

The pricing of Standard level is mainly based on costs and profit margin but also the market-based aspects affect significantly the pricing at Standard level. From CMC for Standard level (appendix 3), can be noticed that the main revenue streams are related to the basic logistics services while value-added services have a minor role. Customers at standard level are more price sensitive and do not require but basic logistics services. Therefore the main purpose of customer relationship for customer is to gain cost efficient logistic services, such as warehousing or packages.

However, it is possible for LSP to stand out from competitors by providing low-cost value-added services that are resulted from higher levels of customer relationships. Accordingly, if at Standard level the basic logistics services can be provided at low price and in addition, several value added services can be provided in comparison to competitors – that is competitive advantage. (Woodruff 1997) This also signals the enterprise culture: culture to willingly innovate and develop logistics. This is classified by customers to be positive discriminating feature of logistic service provider (table 7)

Value-based pricing methods are used at higher levels, Plus and Premium levels where value-added services play remarkable role. From Care model canves for Plus level (appendix 4) can be noticed that there the revenues are proposed to be come from logistics services also by performance-based pricing. Then, if targets are achieved revenues can be received as bonuses. Especially, at Plus level customer could pay extra for added-value only if the value supports the purchased core service. The value that customers could pay more is related to developing projects, flexibility needs, and exceptional quality (usually related to reclamations). At Premium level customers might be more favorable to different types of value-based pricing reasons. For example, customers at Premium level might value network development and benefitting from networks, therefore when challenging development projects are done the profit sharing could be reasonable. There could be set a target profit margin to each level which should be realized at least. The fulfillment of the targets needs to be followed-up. Expected profit margin should be higher at Plus and Premium levels as more value is delivered to customer in different ways. But are the partnership relations in conflict with the higher price?

In addition to pricing practicalities, the customer profitability needs to be discussed. It is important to consider which service level is reasonable to be offered to each customer and what are the purposes and potential of each customer relationship. As not all customers can be upgraded Premium level even overtime. Issues that affect to the customer profitability are listed below:

- Revenue/net sales;
- Length of agreement period;
- Growth potential;
- Size of customer, internationality;
- Image and status of customer;
- Services purchased or Care level;
- Easiness of relationship; and
- Open books option.

5 RESULTS AND DISCUSSION

5.1 The result of HUB Care model

As a result, HUB Care model is created. The final version combines the customer needs and expectations, HUB logistics expertise and the thoughts of thesis worker conjoined with extant literature and theories. The created HUB Care model is presented in figure 8. Analysis and discussion of the result are dealt with in this chapter.

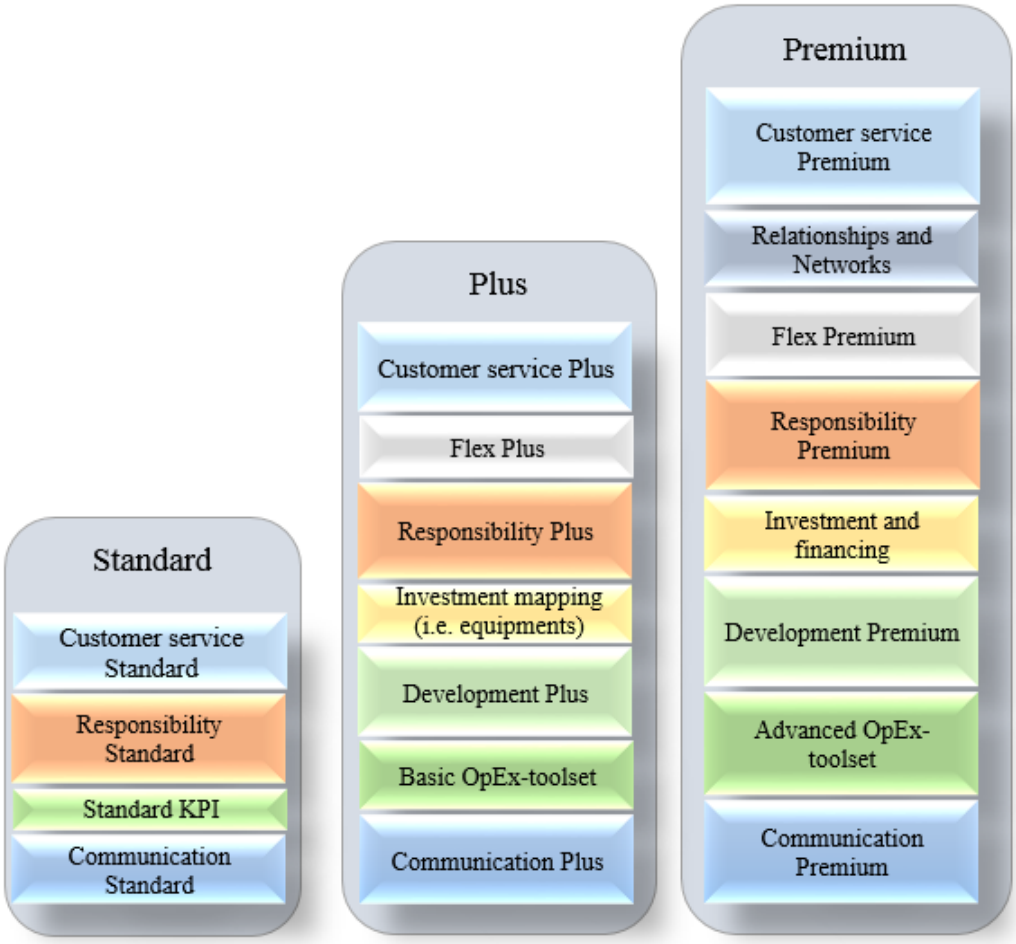

Figure 8. The final result of HUB Care model

As can be noticed from the figure 8 the three-stage model, with different offering to each level, is created. The blocks that forms the offerings have a linkage between the customer values which are determined by customer interviews. Also the professional view of HUB logistics is involved and the construction summarizes

the thought of thesis worker after customer interviews and innovation workshop. The each offering level has its own message to the target customer and it aims to respond to needs and desires of customers at each level, add value and make the relationship even more productive and rewarding. For customers, the resulted Care model signals the professional and innovative touch of HUB logistics and their urge to establish sustainable customer relationship by creating superior value. The association that is wanted to message for customer with Care model, is that the relationships are taken care of and they are developed over time and there is willingness to deepen collaboration and grow together.

Value propositions earlier proposed in chapter 4.4 are now improved with the views of HUB professionals. In outline, the value propositions hold true, but a few additions and correctives are considered after innovation workshop with HUB professionals and these are brought into the final HUB Care model. In the innovations workshop the fields of Care model canvases were considered and filled. The Care model canvases that were worked out are presented in appendices 5–8. In the following paragraphs the matters that are brought from the results of innovation workshop to the final result, are discussed. Then, the matters that are added or changed compared to the earlier value propositions are analyzed.

HUB Care Standard

The message of HUB Care Standard level is that quality, responsive and professional service is provided with competitive price. The value proposition at Standard level can be condensed into following promises:

- Sustainable cost efficiency;
- Responsible LSP; and
- Customer service.

These are the promises what HUB has promised to provide to the customer at this level. Sustainable cost efficiency contains professional outlook, technical competence, the philosophy of developing, performance measurement and follow-

up. Key Performance Indicators (KPI) ensure that the efficiency and quality targets are achieved. Responsible LSP promises to customer that the service purchased is realized taking all the responsibility aspects into account. Responsibility includes human resources, safety and environment aspects. Examples of these responsibility areas are certificates, contractor's obligations and liability, educated workforce, and QEHS standards. Customer service is provided also at the Standard level. It is important to message to customers that even smallest customers are important and get quality service. Customer service is provided by contact person, customer satisfaction inquiries, customer magazine, clear communication practices and the observed problems are solved.

If the CMC formed after customer interviews is compared to the CMC created in the innovation workshop the main differences are the emphasis on the responsibility aspects and customer service. Both CMCs agree that even at Standard level the quality and efficiency need to be high level and competitive, also as regards price. At innovation workshop, HUB professionals had the ideas what they could provide to the customer at minimum price but which still are the things that customers appreciate. Therefore, the responsibility and customer service matters are highlighted in the final result. These areas are also observed to create value to customers, according to value element questionnaire. However, these are not actually values that customers are ready to pay for, but they can affect to the provider selection decision. Thus it is important that these responsibility related services and customer service are provided on the cheap. The energizing attributes of Standard level are proposed to be references and the image of innovative logistics service provider. The idea is also bring the innovative solutions from higher levels to the Standard level overtime. This could provide competitive advantage also in future.

HUB Care Plus

After innovation workshop, some additions are included in the final value proposition and HUB Care model as regards Plus level. The main idea or message of the level is still the same: development of operational functions in order to gain

reliability, efficiency and cost savings. However, the investment mapping is proposed as a new element to the value proposition. The value proposition at Plus level can be condensed into following promises:

- Sustainable cost efficiency;
- Responsible LSP;
- Plus Customer service;
- Sustainable development and innovativeness;
- Reliability and flexibility; and
- Development and deepening of collaboration.

These are the promises what HUB logistics has promised to provide to the customer at Plus level. The value proposition of Plus level contains the promises of Standard level and a few additions. The most important difference to the Standard level is the development organization. Plus level promises sustainable development and innovativeness. This promise is fulfilled with Basic OpEx-toolset, development planning and development person that is provided the fixed amount of days per year. Also flexibility and investment mapping categories are new components at Plus level. The Flex Plus includes the HUB Kaukopartio, extended service hours, and fixed response time in resource needs or reclamations, for instance. Flex Plus, Development Plus, OpEx-toolset categories response to flexibility, active development work, cost efficiency and reliability expectations required by customers. Investment mapping is possible to make at Plus level and it concerns the investments in equipment and materials, for example. All the actions at Plus level aim to develop and deepen the collaboration between customer and HUB logistics. Trust and commitment are striven to be increased and these elements enables even deeper relationship towards the Premium level.

HUB Care Premium

The value proposition at Premium level can be condensed into following promises:

- Sustainable cost efficiency;
- Responsible LSP;
- Sustainable development and innovativeness;
- Extreme reliability and flexibility;
- Strong commitment and future planning, development projects, research cooperation, networks; and
- Premium Customer service.

The Premium level contains the highest quality of service and most added value. After the innovation workshop the final version is shaped to include the main motivation to get the relationship at ultimate level: the development collaboration is brought into new level where also the networks are pursued to get involved. At Premium level the aim is to benefit from mutual logistics chain. Commitment to the relationship aims to achieve development results, savings, and innovations in the long-run. This is enabled by HUB logistics with the services of HUB Care Premium level. For example, Premium Customer Service includes HUB Care Service Center which aims to solve the problems and serve customer instantly, also the 24/7 service is available and a service manager on the spot. Extreme reliability, flexibility and sustainable development and innovativeness are enabled by Advanced OpEx-toolset, innovation workshops, fixed response times and continuous follow-up and developments. At Premium level HUB logistics could also analyze customer's reports for action planning and therefore take also reporting to the deeper level.

In the final result, the greater role of customer service is main addition to the earlier proposed value proposition as it was highlighted in the innovation workshop by HUB professionals. From the innovation workshop, the emphasis on customer service is brought into the final Care model. The benefitting from networks is mentioned by customers at customer interviews and the professionals expressed their interest in the possibility, therefore it is included in Premium level. It is

interesting to see what possibilities and value this network utilization might bring in future. Energizing attributes at Premium level are considered to be reduced interfaces – in situations where purchased are concentrated to one provider –, the same goals and win-win-win promise, shared knowledge, volume benefits, customer tailored offering and good image and references.

Overall, if the results of HUB Care model are compared to the first hypothesis in chapter 4.3 the main differences are:

- Standard level is more stripped-down, but still the valuable elements can be highlighted with minimum price, for example responsibility, cost efficiency and uniform quality;
- Plus level highlights the operational development; and
- Premium level includes new elements, such as relationships and networks, investments and financing, and the weight of customer service is higher than expected.

However, the value propositions created after customer interviews are quite accurate. A few additions, correctives and changes are made after the innovation workshop, and it was resulted the final version of the HUB Care model. HUB professionals had concrete examples and solutions propositions, how the value can be provided to the customer. They had concrete means how they could provide better value when it is question of flexibility or reliability, for example. Their knowledge and experience of the field of business are valuable and therefore the results of innovation workshop are extremely valuable relative to this thesis. All the value-added services are not introduced in this thesis but the categories of each level are quite inclusive.

5.2 Instructions to implementation

The summary of main instructions for each HUB Care service level is presented in the end of this chapter, in table 9. General instructions on the usage of HUB Care model are proposed below:

- HUB Care model needs to be introduced to customers properly, explain what it means;
- The Care level is determined based on all the services that customer desires (core logistics services and value added Care services), criterions: amount and nature of services, the length of contract, revenue, etc.;
- Customer profitability aspects need to be considered;
- The aim is to deepen relationships and upgrade potential customers;
- 2 years rule for entering Premium level;
- What is promised is delivered, the fulfillment of value proposition needs to be followed-up as the trust must be premium in any circumstances; and
- The HUB Care model needs to be developed overtime, according to experiences and feedback.

The cost structures of Care levels are different: from Standard level where cost structure is quite simple to the Premium level where the cost structure is multidimensional and complex. The factors affecting to costs are: service level, location, the tailoring level of processes and tools, manual or automatic data gathering, selected OpEx-tools, investments, to name a few. The most costs at Standard level are caused by the responsibility promise, as HUB logistics needs to take care that workforce has appropriate licenses and training. At Plus level highest cost are considered to be generated by developing activities, including planning and execution, while inputs of development workers are needed to achieve operational development targets. And at premium level the most expensive areas are development activities, including Advanced OpEx-toolset, network and relationship development, investments and financing. The costs are suggested to evaluate case specific as the solutions varies remarkably among customers.

The different pricing strategies are decided to use at each service level. At Standard level where added value is minor role, and price competition extremely tight, mostly cost-based pricing is proposed to be executed. At Plus level the value-added pricing practices are already in more significant role and therefore pricing based on created customer value should be utilized. At Premium level even more advanced agreements or customer specific contract can be considered. Performance- and value-based pricing models need to be utilized at both Plus and Premium Care levels. For example, if customer receives time savings, improvements in quality (reclamations) or increases in turnover as a result of development activity, different kinds of bonus and penalty agreements or profit sharing contracts can be made. However, at Plus level the value-based pricing can be made only based on value that is directly connected to the improvements in cost efficiency as discussed in chapter 4.6. At Premium level the values that can be priced are more diverse and also option for open books might be applicable in some cases. At lower Care levels additional Care services might be available but for extra charge.

Because of value-based pricing utilized, it is extremely important to able to communicate to customer the benefits (Hinterhuber 2008, 42) that can be achieved with service level. It is important to create confidence that both parties have a common goal and both parties need to be satisfied. Communication and demonstrating the benefits numerically or non-numerically are sometimes challenging when the outcomes are not clear. However, different types of agreements can be done to share gained profits or invest to the development projects, for instance, and therefore the benefits are diverse. Also, when customer of Premium level is involved in generating new tools that can be standardized and therefore used more broadly, some arrangements needs to done that also the customer should benefit as well. The aim is to optimize the benefits-sacrifices relation and therefore maximize the created customer value.

Although the idea of service levels is to serve customer, participation and inputs of customers are nevertheless needed in the delivery of the value (Kindström 2010, 484). The amount of needed customer participation differs according the service

level. At Premium level where collaboration is at high level, the needed investments from both parties are required. Also the external parties might be involved, for example researches or customer's customer. At the same time, at Premium level HUB is serving customer comprehensively with complex solution, but especially for the development projects the participation of all parties concerned are needed. At Plus level, the customer participation is also needed but maybe not as broadly as at Premium level where the aims are at longer-term development. At Plus level, operational resources also from customer are needed in order to develop operational functions. Whereas, at Standard level, customer is not expected to participate in collaboration, but then, the service provided at Standard level is not comprehensive and many actions need to be done by customer itself.

Table 9. Summary of instructions for each offering level

	Standard	*Plus*	*Premium*
Value proposition	- Sustainable cost efficiency - Responsible LSP - Customer Service	- Sustainable cost efficiency - Responsible LSP - Plus Customer Service - Sustainable development and innovativeness Reliability and flexibility - Developing and deepening of collaboration	- Sustainable cost efficiency - Responsible LSP - Sustainable development and innovativeness - Extreme reliability and flexibility - Ultimate commitment and future planning, development project, research cooperation, networks - Premium Customer service
Cost structure: Most costly categories	Reliability	Development activities (inc. OpEx-toolset)	Development activities (inc. OpEx-toolset) Relationships and Networks Investments and financing Customer service
Pricing guidelines	Cost-based	Value-based Performance-based	Value-based Performance-based Profit sharing Other agreements
Instructions for HUB	- Serve customer by sparing resources, - Nothing extra cannot be promised, - Every customer is still important, - Sense the possibilities when it is time to sell more	- Problems need to solved, - Continuous improving, - Active in suggesting improvements, - Continuously improve relations, - Build the basis for upgrading to Premium level	- Customer Service need to be Premium, - Continuous improving, - Active in suggesting improvements and larger project ideas, - Regularly clear the long-term scheme
Customer participation	Low	Medium	High

5.3 Further development and recommendations

Within the limits of this thesis, part of the development work is left for to do subsequently. When viewing the process models of Osterwalder and Pigneur (2010) and Torkkeli et al. (2005) can be noticed that testing, marketing, managing and further development need to be done subsequently. In order to develop the model, it needs to be tested in practice to get feedback and experiences. Feedback gathered from sales persons and customers would be valuable. As sales person use the model, they can judge the functionality and achieving the objectives, whereas customers can bring their valuable opinions and development propositions in order for needs and desires to be satisfied.

Applicable pricing practices need to be investigated more carefully. As the factors affecting to the costs are case specific and highly variable, the costs of each Care level are impossible to determine accurately. Generic pricing model for HUB Care model appears to be troubled to realize. For example, the price of OpEx-toolset cannot be determined before the tools are selected and the operational environment is dictated. Therefore only pricing guidelines for each levels are considered (chapter 4.6). Also the savings sharing needs to be agreed.

HUB Care model needs to be updated to respond the current needs and purposes. New services can be included in model but it is also possible that new offering levels are created or some level is eliminated. When developing work at higher levels produce results, in other words, new tools can be standardized, they can be provided also at lower levels. Therefore the model and its offerings are changing over time and they should be kept up with competition. However, continuous follow-up is needed to keep the model up-to-date to respond customer needs and expectations.

In the innovation workshop, the idea of new possible service level came up. There is an idea that Economy level could be created. Economy level would be below the Standard level and therefore even more stripped-down offering could be considered. It would be the simplest offering where contact and customer service is

absolute minimum. But what could this kind of service be, what is the minimum that can be provided? Economy level would concern simple warehousing where customer specific processes are not required. For example, there could be a large warehouse, where concentrated at the same place could be served multiple customers, for instance web store customers. But could there be also be warehouse workers from HUB logistics or if then, is there already needed the value-added services of Standard level, for example, responsibility issues (HR, training, safety) and basic KPIs (i.e. claims)? What would then differ the Economy level from Standard level? The difference between Economy and Standard level could be that at Economy level there is no aim to move on higher Care levels but at Standard level there is the aim or at least possibility to deepen the relationship. Economy level could also be directed only to warehousing customers and Standard level is not even offered to only warehousing customers. But Standard level should then offer more than economy as no one wants to pay more if the content is the same? On the other hand, they cannot actually be compared to each other's if Economy is only offered to low-service warehouses. The question is, if there exist demand for this kind of warehouse service. This issue needs closer examination and profitability calculations to evaluate the potential. Also the question what would be the accurate value proposition for Economy customers or is there any discriminating or energizing factors in the Economy level or is it only the low-priced warehousing – need to be discussed.

Although some customers seem to be interested in networking aims and want to benefit more from value networks, the eventual success of Relationships and Networks block at Premium level will be turned out after implementation and use of HUB Care model. The question is, if also the customers are willing to put their resources in order to move the networking aim forward. For example, are customers willing to invest money or time in research and development with HUB logistics? There is also question related to customers of Premium level: Is there willingness to move forward fourth party logistics and is there characteristics of 4PL at Premium level? CSCMP determines that 4PL company manages customer's entire supply chain and acts as a single interface between customer and other logistics

service providers. At Premium level there could be possibility to change the relationship toward 4PL solutions but it would not be necessary. On the other hand, customer and HUB logistics could commit to research these kind of 4PL arrangements, and it could help to recognize the unnecessary costs in value chain and optimize the whole value network. However, not every customer is willing to reduce amount of providers as they want to maintain competition and possibility to use second source.

These kind of value added offerings in logistics solution business are not widely researched. Therefore more research of how the use of the offering portfolio progresses would be needed and it would be interesting to study how to develop the model further. Thus, further empiric research is needed to develop the Care model further. As the limitations of this thesis, relatively few customers are interviewed. To get more accurate data wider sample of the customers of logistics service providers is required. Also the service provider's perspective to the value elements and benefits need to be investigated.

Further research could also investigate value networks and how these networks could reduce unnecessary costs in value chain. There could exist the functions that can be done more efficiently and these functions need to be recognized. Through these cost cuts advantages could be brought for all parties of network. This is what collaboration at Premium level should be aimed at.

6 CONCLUSIONS

The objective of this study is to create service offering model, in the field of logistics services, which creates added value for customers. The research problem is approached by literature review regarding solution business in the field of logistics, creation of service offerings or business model, customer value creation and relevant pricing methods. Then, customer interviews are conducted and at the end, innovation workshop is organized to gather professional knowledge of case company. Starting point is to find out which the customer value elements are and therefore, for what value customers could pay and what the value proposition is. Aim is to create service offering that creates superior value and enables competitive advantage. The objective is also to evaluate the cost structures of service offerings and consider how the price of HUB Care model should be dictated.

The Care concept is decided to classify into three offerings, to respond the needs of different customer segments, and therefore to be a dynamic portfolio that is adaptive to changing customer needs. The levels are HUB Care Standard, HUB Care Plus and HUB Care Premium and the level reflects the deepness of customer relationship. Each level includes their own offering and value proposition to respond customer segment specific needs and expectations. The final result of HUB Care model is a fusion of customers', experts', university's researchers' and thesis worker's reflection.

The added value that customers are ready to pay for in logistics services is related to the improvements in core service purchased. Customers are ready to pay for the customer value elements in logistics service environment, but only if the value added service helps achieve cost savings or somehow make operations more effective. However, customers are not willing to pay for customer service or communications but these are taken for granted when purchasing this kind of solutions. Responsibility aspects, trust and references are valued but should not have a price although these value elements may affect to the service provider selection decision. However, if the value added service improves reliability or flexibility, and therefore produce cost savings or cost efficiency, then there could

be a price for the service. But how it can be promised for sure that there will be cost savings? This is where the expertise of HUB logistics is needed. The value elements that are found out, are mainly consistent with literature, where especially operational and also relational aspects are highlighted in logistics service environment. In the final result, service categories emphasize the customer value elements that are found out in interviews.

There are multiple challenges when creating this kind of value added offerings in logistics solution business, and despite the challenges, company should create superior value with its offerings. Challenges are mostly related to the price competition because logistics functions are generally considered as the target of cost reduction. Logistics functions are outsourced to gain better efficiency and concrete cost savings as logistics service providers are expected to operate efficiently. It is challenging to find things that customers are ready to pay any extra as they want to keep costs of logistics as minimum as possible. Another challenge is customer specific needs, processes and customer specific expectations of relationship. Offering should be adaptive to changing customer needs, but also it needs to adaptive when the nature of relationship changes, in other words, when the collaboration deepens or reduces. For this reasons HUB Care model has three separate offering levels. In the field of logistics services there are specific features that fare in competition. For example the quality is considered as positive basic attribute and therefore expected from all the service providers. The challenge is to determine which features could be energizing attributes that decide the competition. The superior value and energizing features in logistics services seems to be the continuous operational development and innovativeness which lead to sustainable cost efficiency. Also being forerunner in providing deep collaboration towards value partnership and value networks could be energizing feature. These all affect to the image of service provider and might settle the competition. Therefore these aspects need to be included in value proposition.

There are plenty to do for improving logistics functions and therefore the demand and potential for value added services that provide operational development exist.

According to customers there are functions that can be done more efficiently and cut unnecessary costs. The results of customer interviews indicate that the projects and tools which promote the sustainable development of logistic efficiency, are valued by customers and customers could pay for them. However, benefits and potential future advantages should be indicated.

When mutual development collaboration is deeper and also customer uses plenty of resources, customers should receive sufficiently benefits. Customers need to be promised to achieve benefits in long-run. As the HUB Care model aims to optimize the benefits-sacrifices relation and the total value should be highest at Premium level, the development collaboration should get all parties' investments' worth. In situation, where customer plays remarkable role in development, there need to be, for example, profit sharing or other corresponding practices. If customer participates in developing a new tool that HUB logistics can benefit in future with other customers gaining profits, according to value partnership, also customer should get its inputs' worth.

As the solutions provided to customers are tailored and complex, the costs need to be evaluated case specific. Especially, when it is question of development activities and OpEx-tools the accurate costs are challenging to determine. Most important costs generators in the cost structures of Care levels are development activities including consultant type work and possible investments. There is price for each HUB Care level, but the prices are not fixed as the costs vary, and the prices need to be defined customer specific. The issues that affect to the price are: service level, nature of customer relationship, location, how tailored the processes and tools need to be, selected OpEx-tools, investments, to name a few. Value-based and performance-based pricing methods are recommended to be used. For instance, at Premium level, the profit sharing or bonus-penalty agreements are appropriate. In logistics solution business, value-based pricing should be applied although it causes case specific pricing and it is challenging to realize as value assessment and customer acceptation are considered to be a challenge. The solution that benefits all parties should be found.

As employing of value-based pricing methods is recommended, it is vital to communicate the benefits and sacrifices to customer. As in value-based pricing, the price is validated by the value that customer receives, the benefits are in key role to illustrate the value that customer pays for. Customers need to understand that developments and innovativeness require work and resources, and not everything is already ready to use. There still is a lot to research and develop in the field of logistics solution business and for example, how to take advantage the whole value network. For this reason it is extremely important that customers are informed for what the Care concept is striving and what benefits customer and the whole network could get from the common development of logistics.

Results suggest that there is an interest to take advantage from networks. Some of the interviewed customers are interested in the benefits that a large and global logistic service provider could bring and for example, synergy benefits and learning from other customers' processes interest. The Relationships and networks category is included in HUB Care model, but the subject of how to further develop the benefitting of networks needs closer inspection.

HUB Care model needs improvements and first, it should be tested with customers. According to experiences and feedback of usage, the model should be developed further. For example, new value added services can be included under the value categories and continual follow-up keeps the model up-to-date. The pricing practices are clarified also after the implementation. In future it is interesting to inspect how this kind of value added offering portfolio in logistics services works out in practice and what are the usage experiences and will the expected benefits be fulfilled.

REFERENCES

Ali-Marttila, M., Tynninen, L., Marttonen, S., Kärri, T. (2013) Solving the Value Puzzle of the Customer and Service Provider in Industrial Maintenance Services. Proceedings, MPMM 2013 (Maintenance Performance Measurement and Management), Lappeenranta, pp. 20–34.

Berglund, M. Van Laarhoven, P., Sharman, G., Wandel, S. (1999) Third-Party Logistics: Is There a Future? *The International Journal of Logistics Management,* Vol. 10, No. 1, pp. 59–70.

Bonnemeier, S., Burianek, F., Reichwald, R. (2010) Revenue models for integrated customer solutions: Concept and organizational implementation. *Journal of Revenue and Pricing Management,* Vol. 9, No. 3, pp. 228–238.

Chesbrough, H. (2010) Business Model Innovation: Opportunities and Barriers. *Long Range Planning,* Vol. 43, pp. 354–363.

Chesbrough, H., Rosenbloom, R. S. (2002) The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies. *Industrial and Corporate Change,* Vol. 11, No. 3, pp. 529–555.

CSCMP (2013) [PDF document] [Referred: 22.4.2014] Available <http://cscmp.org/sites/default/files/user_uploads/resources/downloads/glossary-2013.pdf>

Dagger, T. S., David, M. E., Ng, S. (2011) Do relationship benefits and maintenance drive commitment and loyalty? *Journal of Services Marketing,* Vol. 25, No. 4, pp. 273–281.

Ford, D., Gadde, L-E., Håkansson, H., Lundgren, A., Snehota, I., Turnbull, P., Wilson, D. (1998) Managing business relationships. Chichester, John Wiley & Sons Ltd, 292 p.

Grönroos, C. (2000) Service management and marketing: A customer relationship management approach. Wiley, West Sussex. 404 p.

Grönroos, C. (2011) Value co-creation in service logic: A critical analysis. *Marketing Theory*, Vol. 11, No. 3, pp. 279–301.

Grönroos, C., Voima, P. (2013) Critical service-logic: making sense of value creation and co-creation. *Journal of the Academy Marketing Science*, Vol. 41, pp. 133–150.

Gwinner, K., Gremler, D., Bitner, M. (1998) Relational benefits in services industries: the customer's perspective. *Journal of the Academy of Marketing Science*, Vol. 26 No. 2, pp. 101–114.

Hinterhuber, A. (2008) Customer value-based pricing strategies: why companies resist. *Journal of Business Strategy*, Vol. 29, no. 4, pp. 41–50.

Hinterhuber, A. (2004) Towards value-based pricing–An integrative framework for decision making. *Industrial Marketing Management*, Vol. 33, pp. 765–778.

HUB logistics (2014) [Website] [Referred: 10.3.2014] Available: < http://www.hublogistics.fi/>

Ingenbleek, P., Debruyne, M., Frambach, R. and Verhallen, T. (2003) Successful new product pricing practices: a contingency approach. *Marketing Letters*, Vol. 14 No. 4, pp. 289–305.

Jaakkola, E., Hakanen T. (2013) Value co-creation in solution networks. *Industrial Marketing Management*, Vol. 42, pp. 47–58.

Kindström, D. (2010) Towards a service-based business model – Key aspects for future competitive advantage. *European Management Journal*, Vol. 28, pp. 479–490.

Klanac, N. G. (2013) An Integrated Approach to Customer Value: A Comprehensive-Practical Approach. *Journal of Business Market Management*, Vol. 6, No 1, pp. 22–37.

Kasanen, E., Lukka, K. & Siitonen A. (1991) Konstruktiivinen tutkimusote liiketaloustieteessä, Liiketaloudellinen Aikakauskirja, No. 3, pp. 301–329.

Landroguez, S. M., Castro, C. B., Cepeda-Carrión, G. (2013) Developing an integrated vision of customer value. *Journal of Services Marketing*, Vol. 27, No. 3, pp. 234–244.

Lapierre, J. (2000) Customer-perceived value in industrial contexts. *Journal of Business & Industrial Marketing*, Vol. 15, No 2/3, pp. 122–140.

Lehtinen, U., Niinimäki, S. (2005) Asiantuntijapalvelut tuotteistamisen ja markkinoinnin suunnittelu. Werner Söderström, Porvoo. 282 p.

Li, L. (2011) Assessing the relational benefits of logistics services perceived by manufacturers in supply chain. *Int. J. Production Economics*, Vol. 132, p. 58–67.

Lusch, R. F., Vargo, S. L., O'Brien, M. (2007) Competing through service: Insights from service-dominant logic. *Journal of Retailing*, Vol. 83, No. 1, pp. 5–18.

Marquardt, A. J., Golicic, S. L., Davis, D. F. (2011) B2B services branding in the logistics services industry. *Journal of Services Marketing*, Vol. 25, No. 1, pp. 47–57.

Moeller, S. (2008) Customer Integration–A Key to an Implementation Perspective of Service Provision. *Journal of Service Research,* Vol. 11, No. 2, pp. 197–210.

Moeller, S., Ciuchita, R., Mahr, D., Odekerken-Schröder, G., Fassnacht, M. (2013) Uncovering Collaborative Value Creation Patterns and Establishing Corresponding Customer Roles. *Journal of Service Research*, Vol. 16, No. 4, pp. 471–487.

Muller, E., Doloreux, D. (2009) What we should know about knowledge-intensive business services. *Technology in Society,* Vol. 31, pp. 64–72.

Ojasalo, J., Ojasalo, K. (2010) B-to-B-palvelujen markkinointi. Helsinki, WSOYpro Oy, 260p.

Ojasalo, J., Ojasalo, K. (2008) Kehitä teollisuuspalveluja. Helsinki, Talentum Media, 326p.

Ojasalo, J. (2003) How to Prioritise Customers and Adjust Offering in Key Account Management. *International Journal of Customer Relationship Management,* Vol. Dec/Jan, pp. 259–270.

Osterwalder, A., Pigneur, Y. (2010) Business Model Generation. New Jersey, John Wiley & Sons Inc., 278 p.

Pekkarinen, O. (2013) Industrial Solution Business – Transition from Product to Solution Offering. Lappeenranta University of Technology, Doctoral thesis, 81 p.

Pekkarinen, O., Salminen, R. T. (2013) Developing industrial solution offerings: a framework and management guidelines. *Journal of Business Market Management,* Vol. 3, pp. 143–170.

Rajahonka, M., Bask, A., Lipponen, M. (2013) Modularity and customisation in LSPs' service strategies. *Int. J. Services and Operations Management*, Vol. 16, No. 2, pp. 174–204.

Salminen, A. 2011. Mikä kirjallisuuskatsaus? Johdatus kirjallisuuskatsauksen tyyppeihin ja hallintotieteellisiin sovelluksiin. University of Vaasa, Teaching publications 62, pp. 44.

Selviaridis, K. and Spring, M. (2007) Third party logistics: a literature review and research agenda. *The International Journal of Logistics Management*, Vol. 18, No. 1, pp. 125–150.

Sink, H.L. and Langley, C.J. (1997), "A managerial framework for the acquisition of third-party logistics services", Journal of Business Logistics, Vol. 18 No. 2, pp. 163-189.

Sipilä, J. (1999) Asiantuntijapalvelujen tuotteistaminen. 2nd edition, Porvoo, WSOY, 151 p.

Storbacka, K. (2011) A solution business model: Capabilities and management practices for integrated solutions. *Industrial Marketing Management*, Vol. 40, pp. 699–711.

Torkkeli, M., Salmi, P., Ojanen, V., Länkinen, H., Laaksolahti, A., Hänninen, S. and Hallikas, J. (2005) Asiantuntijapalvelujen johtamisen haasteet: Opas sunnittelu- ja konsultointiyritysten liiketoimintayritysten liiketoimintaosaamisen kehittämiseen, Department of Industrial Engineering and Management, Research Report 168, Lappeenranta University of Technology, Lappeenranta.

Tuli, K. R., Kohli, A. K., Bharadwaj, S. G. (2007) Rethinking Customer Solutions: From Product Bundles to Relational Processes. *Journal of Marketing*, Vol. 71, p. 1–17.

Tuulemäki, A. (2012) Lupa toimia eri tavalla. 2nd edition, Helsinki, Sanoma Pro Oy, 191 p.

Tynninen, L., Sinkkonen, T., Marttonen, S. and Ojanen, V. (2012) 'Framework for the value elements of maintenance services', *The 2nd International congress on Maintenance Performance Measurement & Management,* September 12-13, 2012, Sunderland, UK.

Ukko, J., Pekkola S., Valtonen, J., Saunila, M. and Rantanen, H. (2011) 'Productising expert services of performance management', *Int. J. Business Excellence*, Vol. 4, No. 2, pp. 125–141.

Vargo, S. L., Lusch, R. F. (2008) Why "service"? *Journal of the Academy of Marketing Science*, Vol. 36, p. 25–38.

Vargo, S. L., Lusch, R. F. (2004) Evolving to a New Dominant Logic for Marketing. *Journal of Marketing*, Vol. 68, No. January, pp. 1–17.

Woodruff, R. B. (1997) Customer Value: The Next Source for Competitive Advantage. *Journal of the Academy of Marketing Science,* Vol. 25, No. 2, pp. 139–153.

Zeithaml, V. A. (1988) Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing*, Vol. 52, No. 3, July, pp. 2–22.

Appendix 1. Value element questionnaire (in Finnish)

Arvoelementit

1. Arvioi seuraavien palveluntarjoajaan ja palveluihin liittyvien asioiden tärkeyttä logistiikkapalvelujen asiakkaana.

	Erittäin tärkeä	Tärkeä	Melko tärkeä	Ei kovin tärkeä	Ei tärkeä
Palvelujen monipuolisuus	○	○	○	○	○
Palvelukokonaisuuden räätälöitävyys	○	○	○	○	○
Joustavuus	○	○	○	○	○
Osaaminen	○	○	○	○	○
Asiantuntijuus, pätevyys	○	○	○	○	○
Vastuullisuus	○	○	○	○	○
Henkilöstövastuu	○	○	○	○	○
Turvallisuusvastuu	○	○	○	○	○
Ympäristövastuu	○	○	○	○	○
Toimintavarmuus	○	○	○	○	○
Suorituskyky/tehokkuus	○	○	○	○	○
Palvelun laatu	○	○	○	○	○
Avoimuus, tiedon jako	○	○	○	○	○
Luottamus	○	○	○	○	○
Tunnettavuus	○	○	○	○	○
Muiden suositukset ja kokemukset	○	○	○	○	○
Jatkuva kehittäminen	○	○	○	○	○
Aktiivinen yhteistyö	○	○	○	○	○
Sujuva kommunikointi	○	○	○	○	○
Edullinen hinta	○	○	○	○	○
Aiheutuvat säästöt	○	○	○	○	○
Yhteistyöhön palveluntarjoajan kanssa käytetään paljon aikaa ja voimavaroja	○	○	○	○	○
Vältetään ristiriitoja	○	○	○	○	○
Ristiriidat voidaan selvittää	○	○	○	○	○

2. Yritys (kyselyyn vastaaja) *

Appendix 2. Questions of second part of customer interviews

Second part of the interview: semi-structured interview (45-60 minutes)

- Questions about value element questionnaire: How do you understand the element (flexibility, responsibility etc.)? What do you expect from service provider regarding the element?
- What is the most important characteristic or feature that you expect from logistics service provider? What benefits you expect?
- Criterions of the service provider's selection. Strengths and weaknesses of HUB logistics if compared to others?
- What is good about the services of HUB logistics, what is not, and what would you want more?
- List of value-added services (meetings, reporting, service time, examples of OpEx-tools etc.) are presented and asked, if customer needs, is interested or do not need the services. Then, can there be a price for the service?
- At which level (Standard, Plus, Premium) would you place your company as a customer of HUB logistics?
- What could be the difference between three service levels? What is expected from the levels?

Appendix 3. Care model canvas of Standard level by thesis worker

<table>
<tr>
<td>

Key activities

Standard level only the service bought is delivered. Nothing extra is possible to get without extra charge, and not everything is available even with extra charge.

Activities: contracts, service delivery, minumum customer relationship management, adequate customer service, standard reporting and follow-up

Minimum time and attention need to be directed to these customers.

Basic services must be at good level so they can prove to customer that LSP is professional. This may lead to new and wider contracts in future.

This might be the first step to the customer of LSP. First impression must be immaculate to enable later collaboration.

Customer need to be informed that it is possible to get more if upgraded at higher levels. But also edellytykset oltava myös asiakkaan puolelta

</td>
<td>

Value proposition

Value elements at this level: low-priced services, service quality, reliability

The problem we are solving is: customer wants to change fixed costs to variable costs. This is because varying demand and logistics is the potential target of cost reduction or it just is not the core business.

Still the quality of service is important, bad service cannot be delivered because otherwise it may be harmful to the business and image.
Quality of service and reliability must be at high level even though minimum effort is used to this customership.

Value proposition to network, can there be?

Service quality, no reclamations, this might bring value also for customer's customer.

</td>
<td>

Customer relationship

Customer service concerns the provided service, not all the customers problems need to solved which are not directly related to the provided service.

Standard reporting is delivered to customer but customer could produce the data or even measure some of the meters by themselves.

Contact person takes care of the relationship and is the main contact. Not particularly customer specific service but customer needs to served appropriately.

</td>
</tr>
<tr>
<td>

Cost Structure

Most expensive activities: service provided (usually workforce)
Most expensive resources: employees at operative level
Materials need to be purhased if packaging services.
Minimum costs.
Costs of Services must be easily determined, thus not complex solutions but basic standardized services

</td>
<td>

Revenue Streams

Customers want to pay only for the basic services that they buy;
They do not even actually need value-added services as they cannot provide desired value;
Pricing is transaction-based pricing (usually volume), costs need to be analyzed when planning this pricing;

</td>
<td>

Energizing features

LSP provides basic services with low price and provided quality and efficiency are high level; Good image and references; Customer of innovative LSP; Possibility to deepen relationship in future.

</td>
</tr>
</table>

Appendix 4. Care model canvas of Plus level by thesis worker

<table>
<tr>
<td>Key activities

Core activities to fullfil value proposition: Find out customer specific processes and needs; Utilize know-how to make a plan to solve the problem; Implement plan efficiently exploiting earlier experience, cooperation with customer; Measure, follow-up and develop; Continual challenge to existing methods; Effective human resources management; Communication – internal and external; Training and continous learning; Customer relationship management; Prove for customer "what we can do"; Prepare customer for upgrading (if there is potential); communicate what has been done and develped.

Personnel must acknowlegde the win-win-win promise and understand the shared goals and objectives of operations. They must know where their salaries come in the end. Also willingness to be of service is vital when it is a question of LSP.
Seminars could be offered also Plus level to present "what we can do", to develop customer relations and to create a path to Premium level. Not every customer has the potential to become Premium level, the potential must be identified. The need of discuss properly the aims of each party and develop shared objectives.
Not everything that customer needs has to be put into action.
Possibility to implement new services with extra charge.

It is possible to start with Plus level.</td>
<td>Value proposition
Value elements: Flexibility, Reliability, Responsiveness, Performance (inc. service quality) and Trust
Most expected things: cost efficiency, operational efficiency

Logistic know-how to solve customers problems efficiently by realising sustainable development and win-win-win-promise.
The need of flexibility to variations in demand and reduction in costs. Customers wants to concentrate into own core business and seek efficiency from LSP.
According to win-win-win-promise also the needs of end customers are fullfilled through value proposition.

Plus customer expect the proof that what HUB is capable to do: especially developing activities, innovative attitude, things must get developed.

Is network involved?
Customers want to benefit from other customers, knowledge and best practices must be shared among LSP's customers
This is reason why they want to be a customer of LSP.
These best practices could be the proof of what HUB is capable to do, these could be introduced and therefore benefit from other customers.</td>
<td>Customer relationships

KAM is in significant role when trying to deepen customer relationship and creating path to the Premium level. Plus level is like a path or trial to the Premium level.

There must be a clear goal that boht parties are aiming at: deepen the relationship. These issues need to be discussed regularly.

Customer service level is define beforehand, not everything needs to be done that customer asks. Also the prices can be discussed.

Regularly face-to-face meetings. Management level meeting one a year to clear the aims of partnership. At other time operative meetings are</td>
</tr>
<tr>
<td>Cost Structure
Planning the solution and needed operations and implementation of solution are the most expensive activities. Also operational development projects are costly and costs are challenging to divide.
Most important costs: salaries, equipments, IT support, materials (packaging) but also procurements
Must: some IT systems or licences, needed materials and equipments, warehouse space?
Operational and development level generate costs, development of customer realations might cause costs but there must be a limit.
Additional sevices can be bought with extra charge.</td>
<td>Revenue Streams
Value- and performance based pricing can be utilized when pricing value-added services that improve efficiency, reliability, flexibility or bring cost savings.
Meetings, customer service cannot be priced basing to value as customer are not willing to pay that value.
The benefits and cost saving must be openly discuss with customer, they should understand the meaning of development projects, also the need of revenue streams for LSP. Development projects and implementing tools costs, therefore value needs to be assess and pricing method decided. Additional sevices can be bought with extra charge.</td>
<td>Energizing features
Partner aiming the same goals;
Shared knowledge and best practices;
Volume benefits?;
Good image and references</td>
</tr>
</table>

Appendix 5. Care model canvas of Premium level by thesis worker

<table>
<tr>
<td>

Key activities

Core activities to fulfill value proposition:
Find out customer specific processes and needs;
Find out customer motivation and future planning;
Utilize know-how to make a plan to solve the problem;
Make a plan and time table how the value proposition is fulfilled;
Implement plan efficiently exploiting earlier experience, networks, cooperation with customer;
Measure, follow-up and develop;
Continual challenge to existing methods;
Effective human resources management;
Communication – internal and external;
Training and continous learning;
Customer relationship management, maintain relationship.

Personnel must acknowlegde the win-win-win promise and understand the shared goals and objectives of operations. They must know where their salaries come in the end. Also willingness to be of service is vital when it is a question of LSP. But what activitie does this need? How we define the common goals at network level as everyone wants to benefit as much as possible? Do we need seminars to develop and maintain network and customer relations? Sense the customer needs and desires.

</td>
<td>

Value proposition

Value elements: Flexibility, Reliability, Responsiveness, Performance (inc. service quality) and Trust.
Also network benefits and innovative solutions.
Logistic know-how to solve customers problems efficiently by realising sustainable development and win-win-win-promise.
Proactive touch and contnuous developing.
The need of flexibility to variations in demand and reduction in costs. Customers wants to concentrate into own core business and seek efficiency from LSP.
According to win-win-win-promise also the needs of end customers are fullfilled through value proposition.

Network approach to value proposition

What do network value and they get?
4PL approach: Network parties also have less interfaces when they trade only with LSPs, not separately with each customer.
LSPs has understanding about supply chain management.
Trading is centred and purchase amounts more stable and predictable: volume benefits.
Networks can also expand with other parties and with their help. Research collaboration facilitates benefitting networks.
Networks should benefit all parties and knowledge should be shared.

</td>
<td>

Customer relationships

How to maintain customer relationships?

KAM is responsible for maintaining the customer relationship and is the main contact. Almost unlimited resources to serve customer.
Actively recognize development needs and ask if customer has noticed problems.
If bigger investments or developments are implemented, more management level meetings needed. Also regular development and operational level meetings needed.

Customer participation is also needed: time, knowledge of processes, data

</td>
</tr>
<tr>
<td>

Cost Structure

Most expensive activities are planning and implementing development projects, also network development projects and research are costly.
Most important costs are: salaries/wages, investments, information systems, travelling costs, equipments, materials, procurements

Possibilities: IT integrations, new buildings/warehouses, machinery

To maintain the customer or network relations might cause costs (seminars, visits). Therefore there must be also benefits, not only costs if this kind of arrangement are made.

</td>
<td>

Revenue Streams

Value- and Performance-based pricing models: i.e. performance bonus and penalty, shared benefits/profits. Additional services could be hourly-billed but at Premium level, should everything be included without extra fee? Other streams: loans.
Value that customer are ready to pay for: efficiency, quality, reliability, flexibility.. Not ready to pay: customer service, responsibility, trust, communication (these are taken for granted and expected automatically)
Customer are ready to pay for cost savings (volume benefits, development project) At Premium level is not possible to get trial;
Premium is deeper and more involved collaboration in the long run.
Is it possible that network pays a part of the costs?

</td>
<td>

Energizing features

Reduced interfaces;
Partner aiming the same goals;
Shared knowledge;
Volume benefits?;
Customer tailored offering inc. value-added services;
Good image and references

</td>
</tr>
</table>

Appendix 6. Care model canvas of Standard level as a result of innovation workshop

Key Activities	Value Proposition	Customer Relationship / customer's activities
Ability to respond to changes with "reasonable response" System know-how Tools to improve the efficiency of work, also measuring the efficiency and improvements Competence matrix Operational person in charge	Sustainable cost efficiency Quality (certificates) Daily/routine problems are solved Measures/tools to prove Following laws and meeting norms and standards Professional outlook Need to highlight that the Standard customer is important among all the customers	Customer relays the needs and desires to Hub "Grieving alone in silence improve nothing" Competence needs of staff need to be informed by customer Participates in developing "Hub cannot influence everything alone" (IT, capital management)
	Is network involved? Keeping up-to-date (not a warehouse in the 60s) Certification	
Cost Structure	Revenue Streams	Energizing Attributes Uniform quality Operational efficiency Developing ideas and project proposals Added value (not particular)

Appendix 7. Care model canvas of Plus level as a result of innovation workshop

Key Activities	Value Proposition	Customer Relationships / Customer's activities
Improvements in quality Internal training organization Strategic management meetings KAM Contract lenght Development roadmapping	Development organization Develpoment scheme and resources x-days Process description, recognizing bottlenecks Observed problems are solved Investment mapping (i.e. equipments) Flexibility in resources (i.e. 3 days order time) KPIs and follow-up Reliability, quality and efficiency are quaranteed Network approach to value proposition Is network involved?	Some measures require customer's activitities and effort to bring data Named contact person from customer's side, also Developing resources – also from customer's side a process developer is needed Customer's own measuring
Cost Structure	Revenue Streams	Energizing Attributes Process development have effects on customers activities, new ideas Advantages (savings, benefits) can be noticed also by customer's customer (win-win-win)

Appendix 8. Care model canvas of Premium level as a result of innovation workshop

Key Activities	Value Proposition	Customer Relationships
Workshops (customer's organization involved) Advanced OpEx-tools (case-specific selection) To get at Premium level 2 years earlier relationship is required Active follow-up	Bonus/penalty agreements Improvement of response times Guaranteeing the service level Development team **Network approach to value proposition** Benefitting of mutual logictics chain	Service manager on the spot At least 15 meetings every year Strategic management meetings
Cost Structure	**Revenue Streams**	**Energizing Attributes**