

CONDITIONS, PRESUPPOSING CREATION OF CONSUMPTION VALUE OF LOGISTICS SERVICES IN AGRARIAN SECTOR

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Abstract

With increasing competition between companies providing logistics services, a need for new services occurs, entire service packages are formed in order to retain customers. Logistics companies frequently have similar machinery and equipment, employees with similar professional qualifications; they also work in essentially identical economic environment. Investments to technical base are not enough in order to attract new users of logistics services or to retain existing users. In order to be profitable, companies providing logistics services try not only to satisfy the needs of users, but also to provide value for the services that would totally meet implied expectations of the users. When using the same service, different users may assess it completely differently. Therefore, one of the most important aspects in business activity of the companies providing logistics services is the creation of consumption value without the need for significant financial investments ensuring high-end performance. The objective of the research is to determine conditions presupposing the creation of consumption value of logistics services in agrarian sector upon analyzing theoretical assumptions of the creation of consumption value. The research was conducted in the Republic of Lithuania by interviewing executives of the companies providing different logistics services and operating in different regions. Main logistics service groups specific to agrarian sector are defined in the article, and conditions presupposing the creation of consumption value of logistics services are determined.

Key words: consumption value, logistics services, agrarian sector.

Introduction

Logistics companies operate under conditions of fierce competition. New companies providing similar services are being established, range of services is being expanded, and new addition services are being offered as well as service packages are being formed. Logistics companies frequently have similar machinery and equipment, employees with similar professional qualifications; they also work in essentially identical economic environment. Investments to technical base are not enough in order to attract new users of logistics services or retain existing users. Users expect to receive services that would satisfy their needs to maximum, which is not always possible to be measured using only technical parameters. Fisk P. (2007) aptly defines a modern user: "Today's users are more diverse and individualistic, they distinguish themselves and are more demanding. They are more intelligent and scrupulous and have higher expectations."

In order to be profitable, companies providing logistics services try not only to satisfy the needs of users, but also to provide value for the services that would totally satisfy implied expectations of the users. A notion that the value of goods or services consists of exchangeable value and consumption value prevails in scientific literature. Exchangeable value defines monetary aspect, while the consumption value is considered to be dependent from the subjective assessment of the buyer. When using the same service, different users may assess it completely differently. Some users shall be totally satisfied with it, however, others shall deem it to be of a lower quality, or on the contrary, their expectations shall be satisfied over and

above. Therefore, it is quite difficult to determine the value of the service unambiguously. "In some cases, it can be difficult to assess the service even after using it." (Barksdale and Day, 2003) Thus, sometimes it is hard for the user to decide whether the service provided the benefit expected, or maybe he expected to get a better service in other company for the same price. Therefore, one of the most important aspects in business activity of the companies providing logistics services is the creation of consumption value without the need for significant financial investments ensuring high-end performance.

Research object was creation of consumption value.

Objective of the research was to determine conditions presupposing the creation of consumption value of logistics services in the agrarian sector upon analyzing theoretical assumptions of the creation of consumption value.

Goals of the research are the following:

- to reveal theoretical assumptions of the creation of consumption value;
- to define main groups of logistics services specific to agrarian sector;
- to determine conditions presupposing the creation of consumption value of logistics services in agrarian sector.

Research methodology. In order to reveal theoretical aspects of creation of consumption value, general research methods were applied – comparative analysis of scientific literature, generalization and interpretation methods. A semi-structured interview method was applied when analyzing the possibilities for creation of consumption value in companies

providing logistics services in agrarian sector. The research was conducted by interviewing authorized employees of the companies providing different logistics services and operating in different regions of Lithuania.

Materials and Methods

Concept of consumption value was formed by developing the notion of the value for the user, as well as by analyzing possibilities for increasing the value the user of the service receives. According to Paulraj, A. and Chen, I. J. (2007), an effective management and development of the organization are directly related to the management of logistics processes. Distribution of goods and determination of stock level, storage and transportation, order handling and satisfaction of the needs of the customer are an integral part of the sale of products and logistics servicing of the customers. With an increasing competition, logistics companies are motivated to improve customer service policy in order to satisfy the needs of the customers and develop long-term profitable relationships in this way (Grant, 2005). In order to remain in the market, companies providing logistics services use more than economic leverage. Increasing needs of the customers and increasing levels of the quality of logistics services force logistics companies to look for additional elements of services provided that would provide additional value of the service to the customer without significant financial investments.

The aspect of increasing the value for the user becomes more relevant to the companies providing logistics services. Customer satisfaction is one of the principal elements of objectives and success of the company (Naik et al., 2010). According to Piskoti I. and Nagy S. (2009), maintaining the relationships with customers and creation of maximum value in different ways is the orientation of each company, and this increases the success of the business. It is important to understand the benefit the customer expects to receive when planning to acquire the service. It is the value for the customer that is a prerequisite for all other values (Khalifa, 2004).

In the opinion of Christopher, M. and others (2003), the creation of value for the user is a set of certain activities orientated to physical process "for the production and sale of the product" in the context of one-time interaction with the user. Veloutsou C., Saren M., and Tzokas N. (2002) analyze the processes of creation of value for the user that are orientated to the creation of higher value for the user instead of orientation to the product by distinguishing fundamental stages of this process: establishing the value, its creation, communication and assessment. A statement by Khalifa A. S. (2004) that the benefit received by the user can be expressed by tangible

or intangible properties of goods and (or) services being offered may be presented as a summary. This author believes that the perception of the value for the user can be referred to as constantly developing and dynamic concept.

When analyzing the possibilities for increasing final value received by the user based on intangible properties of services, a concept of consumption value formed in scientific literature is considered to be dependent from subjective assessment of the buyer, and this assessment depends on the extent to which this need for the user is significant and the degree of necessity for the satisfaction of this need. It is a subjective perception of the buyer that provides a unique value to the value of goods or services that is defined as consumption value by combining functional, conditional, epistemic, emotional, and social values (Sheth et al., 1991).

Potential user of logistics services selects service provider on the basis of subjective assessment of desired service. Barksdale H.C. and Day E. (2003) distinguish four dimensions significant for the selection of service provider:

- Perceived experience, expertise, and competence of service provider.
- Service provider's understanding of customers needs and interests.
- Service provider's interaction, relationship, and communication skills.
- Likelihood of service provider's adaptability to contractual and administrative requirements.

Based on these dimensions, a statement that relationships and competences are most important aspects in the creation of consumption value can be made. The notion is confirmed by the scientist Moller, K. (2006) who argues that certain competences and skills are necessary for the creation of value. Similar ideas are expressed by a scientist analyzing professionalism of services. These authors state that only professional services are adapted to individual needs of the user (Wemmerlov, 1992; Peterson and Sharma, 1999, and others). According to Laing A.W. and Lian P.C.S. (2007), a high degree of interaction between service provider and the customer is specific to professional services created by employees of high competences. These services are of advisory nature and are focused to problem solving and involve tasks given by customers (Cohel, 2006). Creation of consumption value in the context of relationships (interaction) is analyzed in works by scientists Lapierre, J. (1997) and Gronroos, Ch. (2006).

Configuration of value is described as organization of use of activity and resources, which is necessary in order to create value for users, also in order for the business model to function (Osterwalder, 2009). Consumption value in logistics is a new concept as

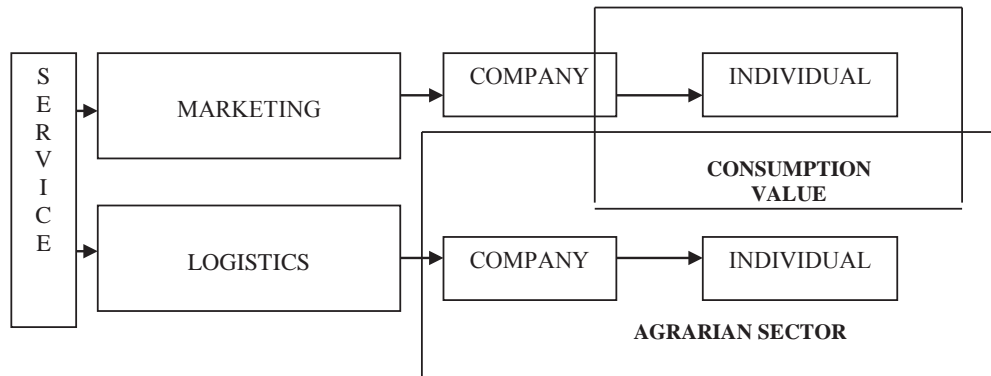


Figure 1. The concept of a user from the perspective of logistics and marketing.

it is commonly believed that logistics services are limited by the chain “production company – wholesale company – retail company”. Naturally, the analysis of creation of consumption value is omitted in the chain “company – company”. This is the area for future research.

However, the agrarian sector is unique in a way that the majority of users of logistics services are not only companies or organizations, but also natural persons participating in the production of agricultural products and using technical maintenance, transportation, storage, production buying up, and other services. Therefore, one of the most significant aspects of logistics services provided for agrarian sector is the fact that for the most part a farmer or a producer of agricultural products operating under certificate of individual activity instead of a company is the user of the service (Figure 1).

Thus, it can be said that the concept of the user in agrarian sector is almost identical from the perspective of both logistics and marketing. It presupposes the assumption for the analysis of the creation and possibility of increasing consumption value.

Results and Discussion

The objective of the research conducted was to determine conditions motivating to create a higher consumption value of services in logistics companies servicing agrarian sector.

The research was conducted throughout the territory of the Republic of Lithuania, in all geographical regions. Received data shows that logistics services, like buying up fish, storage and transportation of it more often are provided in western regions. Such services, like buying up of mushrooms and berries, freight forwarding most often are provided in the southern regions of Lithuania. Buying up of grain, storage, cleaning and processing of it, supply of chemicals, buying up of root vegetables services are demand in the middle of Lithuania. Other logistic services in agrarian sector are provided equally across Lithuania.

In order to obtain objective data, companies providing different logistics services and operating in different regions of Lithuania were randomly selected and executives or employees responsible of these companies were interviewed. Geographical distribution of the companies selected for the research is presented in Figure 2.

A semi-structured interview method was applied when conducting the survey with the most important question groups being introduced in advance by supplementing or adjusting them during the interview. Three main question groups were formed defining the following: the nature of services provided by the company; peculiarities of the region the company operates in; concentration of companies providing similar services in research region. The nature of logistics services in different companies is presented in Table 1.

According to the survey conducted, following main groups of logistics services generally provided in agrarian sector were identified: supply, buying up, storage, transportation and selling.

Combinations of logistics services prevailing in agrarian sector were formed in accordance with research data:

- supply, buying up, storage, selling;
- supply, buying up, transportation, selling;
- supply, storage, selling;
- transportation, provision;
- transportation, buying up;
- transportation, storage.

According to theoretical assumptions of the creation of consumption value, it can be said that companies providing services of buying up and storage of raw milk, mushrooms and berries have lower opportunity for the creation of consumption value. In these cases, the vector of service provision is directed towards the direction “recipient – company”. The aspect of creation of consumption value is important to companies providing logistics services with a farmer or producer of agricultural products being the end-user.

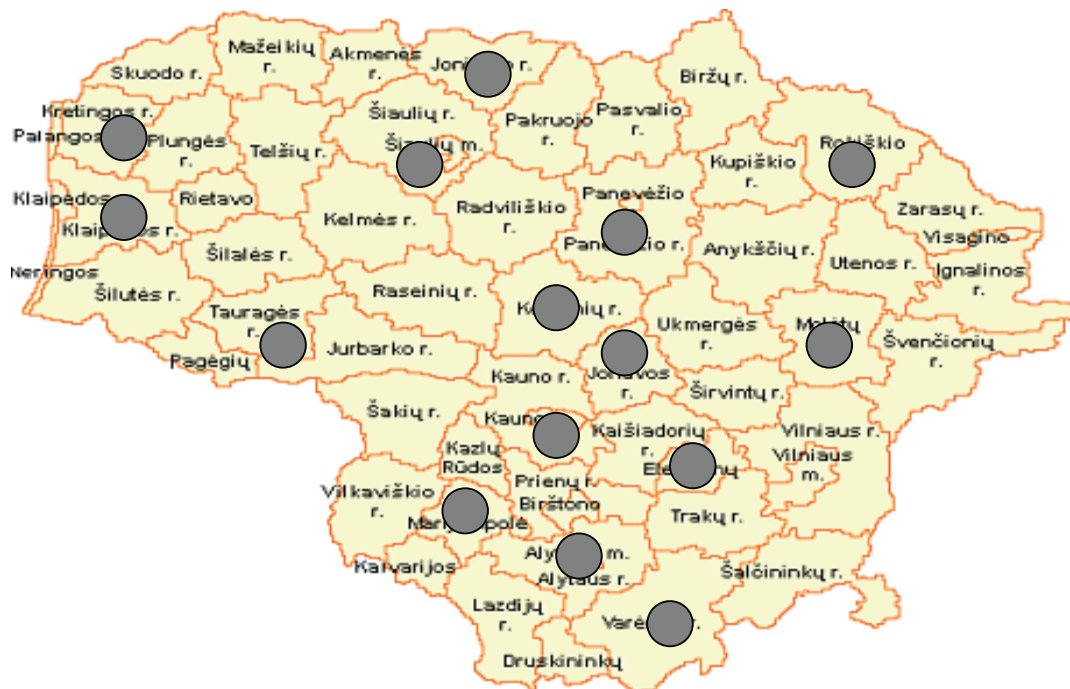


Figure 2. Geographical distribution of companies being researched.

When analyzing conditions presupposing the creation of consumption value in agrarian sector, companies providing logistics services are divided into three groups:

- according to the nature of product;
- according to geographical region;
- according to combination of logistics services.

Production of different agricultural products prevails in different regions. This leads to the demand of different logistics services.

Logistics service group according to the nature of the product includes companies engaged in buying up mushrooms, berries, raw milk, fish, and grain, also providing technical maintenance and transportation services.

When dividing according to geographical region, logistics companies engaged in buying up mushrooms, berries, fish, and grain (Southern, Western, Northern, and central Lithuania) and companies providing general storage and transportation services can be defined.

When taking into consideration the combination of logistics services provided, a zone in central Lithuania reveals itself, where a concentration of logistics companies engaged in buying up grain and providing storage, drying, cleaning services, also supplying necessary materials for packing, chemical and energetic materials is observed. Higher land productivity score as compared to other regions is the main condition for the establishment of the companies providing logistics services of this nature resulting in active involvement of organizations growing crops and

individual farmers. The number of companies buying up grain and providing storage and selling services in southern districts of Lithuania with a lower land productivity score is significantly lower; here, buying up of mushrooms and berries, also transportation, servicing wood preparation companies, and freight forwarding services are provided more often. If there is no stronger demand for predominant logistics service group, the number of companies providing homogenous services is not great. They work under conditions of low competition and are not interested in increasing the level of consumption value of services provided.

Thus, research results demonstrate that land productivity score and competitive conditions of companies providing similar services in the region are the main conditions motivating the creation of consumption value of logistics services in agrarian sector (Figure 3).

Competition is the main condition presupposing the creation of consumption value. The greater the concentration of companies providing similar logistics services, the more relevant the issue of customer loyalty and service quality. Specifics of the region the company providing logistics services operate in is an equally important factor. Land productivity score is the most important condition in agrarian sector determining the nature of desired logistics services.

It is worth to consider the application of classical attributes of components of consumption value to the agrarian sector when analyzing possibilities for increasing consumption value of logistics services.

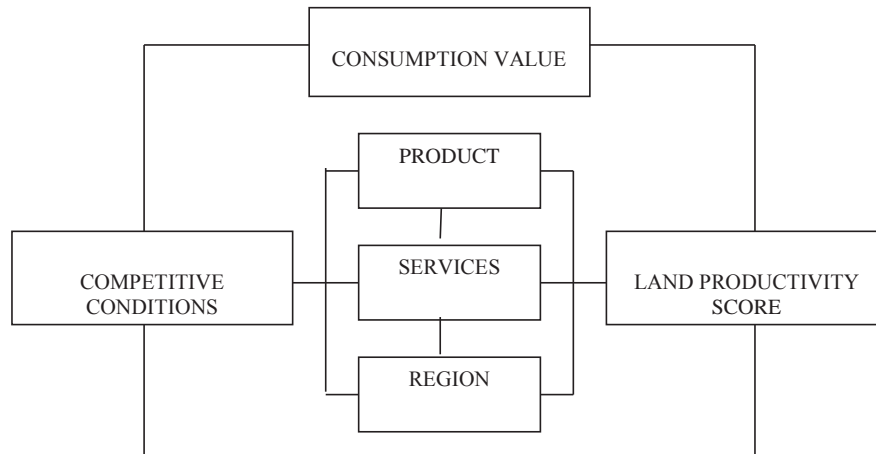


Figure 3. Conditions motivating the creation of consumption value of logistics services.

Possible groups of attributes of components of consumption value of logistics services specific to agrarian sector are presented in Table 2.

According to the research conducted, it can be said that attributes of components of consumption value of different logistics services provided in agrarian sector may overlap. This is related to the multiplicity of attributes of value being created. For example, time attribute in agrarian sector carries different value in the context of the duration of transportation and production realization period during season. It is likely that emotional and social component of consumption value for the users of logistics services in agrarian sector shall have minimum value, while functional, conditional, and epistemic components shall be of greater significance. Functional component of value is related to technical measures. If consumption value is increased using this component, significant investments for the improvement of equipment and control measures are necessary. Epistemic component in this context reflects the quality of information management, while conditional component reflects settlement form and possibility for provision of

additional services. In order to create a greater consumption value with minimum investment, it is appropriate to aim for the improvement of attributes of components of conditional and epistemic value by using classical management measures: information about price changes, possibility of additional services provided operatively; implementation of more diverse and flexible settlement forms; coordination of delivery schedules.

Conclusions

A concept of consumption value formed in scientific literature is considered to be dependent from subjective assessment of the buyer, and this assessment depends on the extent to which this need for the user is significant and the degree of necessity for the satisfaction of this need. It is a subjective perception of the buyer that provides a unique value to the value of goods or services that is defined as consumption value. Agrarian sector is unique in a way that the majority of users of logistics services are not only companies or organizations, but also natural persons participating in the production of agricultural products and using

Table 2

Components of consumption value

Classic components of consumption value	Components of consumption value specific to agrarian sector
FUNCTIONAL VALUE: rationality, physical properties, price	FUNCTIONAL: time, settlement, safety, reliability, technical specifications
CONDITIONAL VALUE: situation, context, circumstances	CONDITIONAL: time, quality, settlement, control, technical specifications
EPISTEMIC VALUE: curiosity, innovations, knowledge	EPISTEMIC: price, settlement, information, control, technical specifications
EMOTIONAL VALUE: religions, feelings, childhood memories	EMOTIONAL: settlement, technical specifications
SOCIAL VALUE: traditions. Demographic, socioeconomic, ethnical stereotypes	SOCIAL: settlement, technical specifications

technical maintenance, transportation, storage, production buying up, and other services. Therefore, one of the most significant aspects of logistic services provided for agrarian sector is the fact that for the most part a farmer or a producer of agricultural products operating under a certificate of individual activity instead of a company is the user of service. It can be said that the concept of the user in agrarian sector is almost identical from the perspective of both logistics and marketing. It presupposes the assumption for the analysis of the creation and possibility for increasing consumption value.

Supply, buying up, storage, transportation, and selling are main logistics service groups generally provided in agrarian sector. Combinations of logistics services prevailing in agrarian sector usually include provision, transportation, and buying up. The aspect of creation of consumption value is important to

companies providing logistics services with a farmer or producer of agricultural products being the end-user.

Companies providing logistics services may be divided into three groups: according to the nature of product, according to geographical region and according to combination of logistics services. Production of different agricultural products prevails in different regions. This leads to the demand of different logistics services. Competition is the main condition presupposing the creation of consumption value. The greater the concentration of companies providing similar logistics services, the more relevant the issue of customer loyalty and service quality. Land productivity score is the most important condition in agrarian sector determining the nature of the most desired logistics services.

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