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The Effect of the Customer Offer on the Make-or-Buy Decision in E-Commerce - A TCE Perspective

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Abstract

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Title: The Effect of the Customer Offer on the Make-or-Buy Decision in E-Commerce – A TCE Perspective

Background and problem: Studies show a growth of outsourcing in recent years and the retailers in the relatively young industry of e-commerce have great possibilities to buy services from external companies, without it being noticed. This is why this thesis studies the make-or-buy decision for these companies. Theory of transactional cost economics (TCE) and trust is often used in order to explain the decision of make or buy and choice of governance structure in an inter-organizational relationship (IOR). In this thesis the desire to secure the customer offer is added as a factor that affects the make-or-buy decision through the dimensions of transactional cost economics.

Research questions: Does the customer offer affect the make-or-buy decision? And if the choice is to buy, how are these inter-organizational relationships (IORs) structured and controlled?

Purpose: The purpose of this thesis is to explain how the e-tailer's offer to the end consumer may influence the e-tailer's IOR from a TCE and trust perspective. In order to fulfill this purpose, we will create a model based on TCE in relation to the customer offer.

Methodology: This thesis is based on an interview survey of 11 interviews and a mini case study of 4 interviews. This was done to be able to both generalize and make comparisons to some extent, and at the same time gain a deeper understanding of the complex problem.

Analysis and conclusion: The model seems to work to some extent. It appears evident that the offer to the customer influences the three dimensions of TCE and thus the make-or-buy decision. There are also indications that the customer offer puts pressure on the dimension of uncertainty and increases its importance more than what is argued in the theory of TCE. Moreover, it is discussed that the dimensions of TCE may not alone describe the make-or-buy decision and choice of governance structure in the IORs in this setting. The empirical findings showed other variables that had an impact, which were hard to connect to frequency, asset specificity, uncertainty and trust.

Keywords: Transactional Cost Economics, Inter-organizational relationships, Trust, e-commerce, e-satisfaction

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1 Introduction

This section starts with a background and a problem discussion of the research, leading up to the key research questions. A purpose is defined and the section ends with delimitations of the research and with definitions of key terms used recurrently in the thesis.

1.1 Background

The e-commerce industry is an interesting industry that has grown rapidly in a short period of time. E-commerce companies can grow fast with relatively few employees and start to compete globally right from the start. It is not as capital-intensive as other industries, which should mean lower barriers to entry and more intense competition (Porter, 2008).

During a period of significant hype in the beginning of the 21st century retailers using e-commerce (e-tailers) struggled with profitability. Even though profitability was low it attracted a lot of capital. A representative of this is the crash of Boo.com, which was a website too advanced for its time and that quickly used up the invested capital without ever becoming profitable (Stockport, Kunnath & Sedick, 2001). Today e-commerce is more than just invested capital. Traditional retail trade in Sweden had a tough year in 2012, while retail trade over the Internet increased by 14 %. Between 2003 and 2012 online shopping in Sweden has increased by 645 % and today it accounts for 6 % of the total retail industry in Sweden (Posten, Svensk Distanshandel & HUI Research, 2013). This indicates that it is time to study this industry more seriously from a business perspective.

The development and widespread use of information technology has changed the way businesses are structured and how they operate. Globalization, liberalization, deregulation, rapid technological developments and the use of the Internet for conducting business have increased competition, both domestic and foreign. Consumers have more information. The possibilities of arbitrage have decreased and the need to compete globally has put pressure on companies to generate new competitive advantages (Gibbs et al, 2003). Now companies are more and more engaged in business process outsourcing, not only in terms of vertical business units. Companies are trying to achieve competitive advantages by creating outsourcing alliances and managing these relations has become increasingly important (Corbett, 2004). Questions on how firms are structured and how inter-firm relations are controlled are raised and the issue has gained much interest for researchers in recent years.

The increased pressure to compete globally is driving many companies in all countries and industries to adopt e-commerce and to enter into electronic networks. The pressure to reduce costs and the desire to expand to new markets are the primary drivers (Gibbs et al, 2003). Nowadays there is a possibility that the core business could be reduced down to just providing information for the consumer, meaning all other activities could be outsourced. This possibility exists for an e-tailer. This is what makes it interesting to investigate the make-or-buy decision and inter-organizational relationships of this type of companies.

That outsourcing could create competitive advantage (Corbett, 2004) makes it interesting to explore if and how consumers affect the make-or-buy decision. In that sense we add the consumers' role as a new dimension to the research on inter-organizational relationships.

Our interest in e-commerce also comes from our own experiences. We both have our own e-commerce company and one of us has also done an internship at a Swedish e-tailer in the clothing industry.

1.2 Problem discussion

The make-or-buy decision is a complex and important decision that all companies are faced with. It is not obvious what the decision will be. A theory often used to explain the make-or-buy decision is Transactional cost economics (TCE). The cost of buying also includes the cost for control of the other party (Williamson, 1991; Meer-Kooistra & Vosselman, 2000). TCE is often complemented with theories with a broader social focus, including the notion of trust, in order to describe structures and control mechanisms when the choice is to buy a service, to outsource (Dekker, 2004; Das & Teng 2001; Meer-Kooistra & Vosselman, 2000, 2006; Donada & Nogathewsky, 2006; Langfield-Smith & Smith, 2003).

The growth of outsourcing over recent decades has led to more interdependence between a company and its suppliers, which means that it has also become more important to manage these inter-organizational relationships (IORs) (Donada & Nogathewsky, 2006). These control mechanisms are usually divided into formal and informal control where formal control consists of outcome control and behavior control, while informal control consists of social controls (Das & Teng, 2001; Dekker, 2004; Speklé, 2001). As outsourcing and other inter-organizational relationships increase, Van der Meer-Kooistra & Vosselman (2006) call for more research on the subject, which makes this report obligate.

Moreover, this thesis investigates the problem in a context that differs from earlier studies. Most previous research on IOR is based on traditional industrial companies (Dekker 2004; Langfield-Smith & Smith 2003). This thesis however, takes a closer look at more modern organizations with a relatively new way of selling its products. Companies using the Internet as their sales channel have great potential in outsourcing their non-core or core activities without it even being noticed. This makes it relevant to investigate the make-or-buy decision in these companies and how the potential relationships are controlled and structured, hopefully adding further insight to the research problem of TCE in IORs, as well as the problem of trust and control.

In order to contribute even further to the research field we add the variable of the consumers' impact on the choice of make or buy. Earlier research has focused on TCE and theories with a social focus to describe the characteristics of IORs, without explaining further about variables that drive these characteristics. Our belief is that the customer offer could be one of those drivers. This means that the customers' satisfaction will influence what the companies want to offer, and to be able to secure this offer the companies may have to change the governance structure. The customer offer will be explained by factors that

Gelard and Negahdari (2011) state drive customer satisfaction in e-commerce, called e-satisfaction. We have created a model by connecting the different theories of e-satisfaction and IOR in order to explain the role of the consumers. By adding the aspect of e-satisfaction to the TCE perspective, we hope to be able to show if TCE serves to explain the make-or-buy decision in an industry that did not even exist when the theory was formulated.

1.3 Key questions

1) Does the customer offer affect the make-or-buy decision?

1a) If the choice is to buy, how are these inter-organizational relationships (IORs) structured and controlled?

1.4 Purpose

The purpose of this thesis is to explain how the e-tailer's offer to the end consumer may influence the e-tailer's IOR from a TCE and trust perspective. In order to fulfill this purpose, we will create a model based on TCE in relation to the customer offer.

1.5 Delimitations

We have limited ourselves to organizations that operate in Sweden and that have been founded as either mail-order companies or directly as e-tailers. The reason for excluding traditional companies that have added e-commerce as a sales channel later is that it would be difficult to distinguish the e-commerce from the rest of the business.

1.6 Definitions

3PL (Third-party logistics) = An external company that manages the warehousing, picking and packing and returns

Consumer = The end user of the e-tailer's product, i.e. the e-tailer's customer.

E-commerce = The buying and selling of goods and services over electronic systems such as the Internet

E-business = The use of electronic systems as a tool in a business process.

E-tailer = A retailer selling goods over the Internet

HQ = Headquarters

Inter-organizational relationships (IOR) = The relationships between an e-tailer and other companies in its value chain.

KPI = Key Performance Indicators

SCM = Supply Chain Manager

TCE = Transaction Cost Economics

2 Method

This section describes which method that has been used for this thesis. It is argued why we believe the chosen alternatives create the best results, but criticisms are also emphasized.

2.1 Research design

Studies can be classified by how much is known about the problem. When a researcher lacks knowledge of the problem an exploratory research is needed. In a situation where the researcher has some knowledge of the problem, a descriptive research is done to describe the phenomenon. When there is substantial knowledge of the problem, causalities are investigated, making it an explanatory research (Patel & Davidson, 2003; Blumberg 2011).

This study is an explanatory research. With existing theories as a base, a new model was created in order to explain the make-or-buy decision and how inter-organizational relationships are structured and controlled, and how the customer offer affects this. Furthermore, the study had a deductive approach. Theory was compiled in order to be able to make expectations of the reality (Jacobsen, 2002). In this case a deductive approach was appropriate because of the importance of being able to concretize the complexity of the structure and control in inter-organizational relationships. There were established models describing some aspects of the IORs, which made it relevant to use these models instead of collecting data without a framework. Furthermore, it could have been very difficult to open-mindedly, without a framework, understand and explain a complex relationship. Even if this could have been accomplished, there would still have been some theory or expectation influencing the researcher and thus affecting the results. A criticism of this approach is that the researcher will search for information that corresponds with the theory investigated. That limits the collected information and important observations might be ignored (Jacobsen, 2002). Other possible research approaches are the inductive approach and the abductive approach. The inductive approach is when empirical data is collected first and later worked into theory (Jacobsen, 2002), which was not suitable in this case due to the explanatory research. Abductive approach is when theory is constructed from single cases and tested on new cases, which is then developed further by the researchers (Patel & Davidson, 2003).

Because of the possibilities the e-tailers have to outsource, we had the expectation that a lot of the processes in the investigated companies would be outsourced. After we started to conduct some of the interviews we found out that this was not the case. Because of this realization our focus shifted more towards the make-or-buy decision, not only focusing on how relationships between companies are structured. According to this we also changed the visual aspects of our model. In this sense, it could be argued that our study leans towards an abductive approach. However, since the study was based on a strong theoretical base, it is still to be seen as a deductive approach.

A research could be quantitative or qualitative. A quantitative study is based on numbers and figures while a qualitative study is based on observations and

people's accounts. Qualitative research could be said to be more flexibly structured and will probably miss out on some information, but it is also more likely to find information that it was not looking for compared to quantitative research (Blumberg, 2011). The advantage of a quantitative study is that it limits the information to what the researcher is looking for. The same question is posed to a large number of respondents, making it possible to generalize. It could be said that the quantitative study aims to explain while the qualitative aims to gain an understanding. An advantage of the qualitative study is to be able to gain a deeper understanding of the problem and possibly see the big picture. It collects a lot of information about few subjects. The downside is that it is not possible to generalize (Larsen, 2007). In order to answer the research questions we have taken a mixed research approach, including both an interview survey and a mini case study. The interview survey is a quantitative research method with a qualitative data collection, while the mini case study is qualitative in both method and data collection.

2.1.1 Interview survey

Ghuri and Grønhaug (2002) argue that surveys are effective in explaining cause-and-effect relationships. In that sense a survey would be the logical research design for this thesis, in order to explain the customer offer effect on the make-or-buy decision and the potential inter-organizational relationships in the e-commerce industry. However, this is a complex problem with many variables that has not been researched in this setting before, which is why a qualitative data collection method was used. We expected there to be complex reasoning behind these decisions that we would not have been able to bring out with a quantitative method of collecting data. A questionnaire would have been too limited. Discussions with the interviewees were necessary to fully understand the problem. At the same time we needed as large an amount of respondents as possible within the time span in order to explain how the reality appears, and to be able to get a broader view and compare companies. That is why we chose a mix in the form of an interview survey. 11 interviews were conducted for the survey. In order to gain an even deeper understanding we chose to do a mini case study after the interview survey.

2.2 Mini case study

A case study views the problem in a broader sense than experiments and surveys, and allows the phenomenon to be viewed from different perspectives depending on the context. The survey can account for context but it is limited by its possible number of variables (Blumberg, 2011). Case studies are used to gain an understanding of complex entities that consist of multiple variables and regard real life situations (Merriam, 1994). Critiques against the case study as a research method often include that it lacks rigor, does not allow for generalization and that it takes too long.

The mini case study was conducted through three interviews at Adlibris and one interview at their payment solution partner Klarna. We wanted to investigate further how a single e-tailer approaches the make-or-buy decision and how it operates in IORs throughout the whole value chain. By interviewing many companies we were able to get a broader picture of the problem and make comparisons. Though, interviewing one person in a company made it difficult to

explain all the relationships in the value chain. Therefore, the mini case study helped us to better explain the 'why' behind the make-or-buy decision, and 'how' the IORs are structured and controlled.

Criticism of this mixed research design could be that we do not fully exploit the advantages of any of the research methods. However, in our opinion this design fits well with our purpose because of the above stated reasons.

2.3 Data collection

There are two different kinds of sources when it comes to collecting data. These are *primary* and *secondary* sources. A primary source is when the data is collected for the first time from the primary source. This could be by interviews, observations or questionnaires. Secondary sources are data that someone else has collected (Jacobsen, 2002). Primary sources have been used when collecting data for this thesis through interviews with the concerned companies.

2.3.1 Interviews

An interview could either be face-to-face or by telephone. Face-to-face interviews are usually deeper and more reliable. A telephone interview could be cost effective, but at the expense of a lack of personal contact. For example, it is easier for the respondent to lie when the interviewer is not physically present (Jacobsen, 2002). For this thesis, 15 interviews were conducted. 11 of them were made over telephone due to geographical, financial and availability reasons. The three interviews conducted for the mini case study with Adlibris were face-to-face, because we wanted to gain a deeper understanding of the complexity.

Jacobsen (2002) suggests that an interview could be open or structured to different degrees. An open interview does not have any type of guide and is essentially a conversation that does not follow a specified order. A completely structured interview, the other extreme, follows a predetermined plan with alternatives for answering. The interviews made for this thesis were semi-structured with predetermined questions as a guide, but with the possibility of follow-up questions. This ensured that important subjects for our thesis were discussed, but still with the ability to focus even more on the findings that were most interesting. A totally open interview would have created too much data, almost impossible to analyze, and a structured interview might not have produced the desired depth (cf. Jacobsen, 2002). The data collection for quantitative methods, such as surveys, is usually structured to be able to generalize and compare (Ghauri & Grønhaug, 2002). We felt that structured interviews were not the ultimate form of data collection for this thesis. This was because of the complexity and the lack of existing research on the problem investigated. Therefore, semi-structured interviews were made in order to create both depth and the possibility to make comparisons. The interview questions were also, to some extent, adjusted to the different companies as we researched them before the interview. This was done in order to create even more depth to the empirical results. Furthermore, the questions were improved along the way, after analyzing how they were interpreted by the interviewees.

There is a risk of being too dependent when relying on just a few respondents (Blumberg, 2011). That is a risk that needs to be taken into consideration, but we still feel confident that this is the most effective way to understand and be able to describe in-depth these inter-organizational relationships. For this thesis it was important to hear how individuals explained and understood the situation, which made it relevant to do interviews (cf. Jacobsen, 2002).

2.3.2 Theoretical framework

The theoretical framework was compiled from both qualitative and quantitative studies. Most of the theory was interpreted from different academic journals. These were found by using the databases Scopus and Web of Science. Important key words were: Inter-organizational relationships, Transaction Cost Economics, Trust, E-commerce, E-satisfaction, management control and other relative words. Theory was also interpreted from literature.

2.4 Companies interviewed

Interviews were conducted with Fashion.se (fictive name), Bygghemma, Electronics.com (fictive name), Cyberphoto, Lensway, Scandinavian Photo, Staples, Stayhard.com, Buyfromus.se (fictive name) and their logistics partner Storage AB (fictive name). A telephone interview was also conducted with the e-commerce expert Sarah Wittbom from Nordic eCommerce Knowledge. The mini case study consists of three interviews with people at Adlibris and one with one of Adlibris's contact people at their payment solution partner Klarna. Further descriptions of the companies are provided in 4.1 *Company descriptions*, p. 20. The interview guide was similar for all of the main companies in the interview survey, while the guide was adjusted for the interviews made with the companies' partners and the e-commerce expert. The interview guide is shown in *Appendix*, p. 55.

The interviewed companies are different in size and in what kind of products they sell. The reason why is that we wanted to investigate inter-organizational relationships in e-tailing in general, and not for e-tailing in a specific sector. All the e-tailers operate in Sweden, but deliver to other countries as well. They were chosen to participate in this report because they are established companies on the Swedish e-commerce market. However, the interviews from Stayhard.com and Staples are not presented in the empirical results because they did not have bearing on our research questions. It was the interview with Staples that led us to exclude from the study traditional businesses that have added e-commerce to their business. This was because we noticed that it would otherwise be difficult to distinguish the e-commerce from the rest of the business.

2.5 Validity and reliability

The quality of research is often evaluated by its validity and reliability. This is especially the case in a quantitative research, due to its view of reality. On the other hand, adjusted forms of validity and reliability can be suitable for a qualitative research (Bryman & Bell, 2011; Merriam, 1994).

Validity could be divided into internal and external validity (Bryman & Bell, 2011). Internal validity expresses if a phenomenon has been described correctly (Jacobsen, 2002). It also expresses how well the results correspond with the

reality of the phenomenon studied (Merriam, 1994). External validity defines to what extent the findings could be generalized (Bryman & Bell, 2011; Merriam, 1994). The data was conducted through interviews, which increases the internal validity, as interviews to a greater extent corresponds with reality than questionnaires. Interviews are generally used for case studies, and usually case studies have a high internal validity. However, they do not have high external validity due to the focus on depth rather width (Merriam, 1994). A deeper case study would probably have more internal validity than this study, due to its possibilities to interview more people on different levels in both the main company and its partner. Nevertheless, the fact that we also did interviews with Buyfromus.com's logistics partner and Adlibris's payment solution partner indicates that we have increased the probability that these relationships are described correctly. Interviews were also conducted with people high up in the companies' hierarchies in order to accurately depict the company's value chain. This thesis was also handed out to the people interviewed in order for them to agree on the descriptions, which is another way of increasing the internal validity (Jacobsen, 2002).

This thesis has a higher external validity than usual qualitative studies, because several different companies were investigated and compared. On the other hand, the possibility to generalize is not as high as it could have been with even more respondents and more strictly structured interviews. However, the internal validity would probably have decreased if more structured interviews had been used.

Reliability is explained as to what extent the results can be reproduced. This evaluation criterion does not suit a qualitative study very well. Because of that, it is argued that to create reliability in a qualitative research study it is important that the results serve a purpose. The results need to be consistent and the dependency of theory and methods need to be clearly described, so that the research could be used as a manual for future studies (Merriam, 1994). We believe that the reliability has increased thanks to the fact that several companies have been investigated, which is normally not the case for qualitative data collection. This thesis has helped to gain an understanding of a complex problem, which makes it easier for future researches to put the problem in an even more generalizable context. Descriptions of the problem, the purpose, the delimitations, the method and the theory are explained in detail in order to increase trustworthiness. This also increases the possibilities for future researches to use the report as a manual for their research in this field. Established theories were used as a base for the theoretical model that was created in order to give reliability to the theoretical framework. According to Jacobsen (2002) a mix between research methods could lead to a more detailed and truthful picture, and furthermore increase reliability. This could be connected to this thesis where the interview survey was complemented with a more in-depth mini case study.

3 Theoretical framework

The theoretical framework works as a foundation for this thesis; the theory described here is later used to analyze the empirical data. The section begins with an explanation of different established theories regarding inter-organizational relationships and its governance. It continues with defining satisfaction for customers buying over the Internet and ends with a model where we describe how this satisfaction may affect the governance of the relationship.

Our definition of inter-organizational relationships (IOR) comes from Levine and White's (1961) paper "Exchange as a Conceptual Framework for the Study of Inter-organizational Relationships", in which they define organizational exchange as "any voluntary activity between two organizations which has consequences, actual or anticipated, for the realization of their respected goals or objectives" (p. 583). Studies regarding IORs often use Transactional Cost Economics (TCE) complemented with a relational theory to explain when and why different types of governance structures and control are chosen or created. TCE explains a complex make-or-buy decision where the cost of buying includes more than the cost of the product/service itself. (Van der Meer-Kooistra & Vosselman, 2000; Banduchi, 2005; Das & Teng, 2001; Dekker, 2004).

3.1 Transactional cost economics

To be able to explain TCE from an IOR perspective it is important to understand the foundations of TCE. We start with defining the transaction cost.

3.1.1 Transaction cost

Williamson (1981) define a transaction as: "A transaction occurs when a good or service is transferred across a technologically separable interface" (p. 552). If the interface is working, then the transfer is completed without any friction. In the economic sense, the friction is represented by problems of misunderstanding and conflict between the parties involved in the transaction, creating transaction costs. Dahlman (1979) gives us three categories of transaction costs: (1) search and information costs, (2) bargaining and decision costs, (3) policing and enforcement costs (control). Williamson (1981) explains that transaction cost theory examines the comparative costs of planning, adapting and monitoring task completion and tries to identify different governance structures to match the transactions.

3.1.2 Neo-classical economics

Transaction cost economics could be said to be a reaction to the theory of neo-classical economics, which is argued to be self-limiting in its view that the firm is only a production function (Williamson, 1981). In neo-classical economics-theory, costs are viewed as opportunity costs. The cost of making is compared to the cost of buying and it is assumed that all relevant information can be found in the price. It is also assumed that there is full transparency of present and future market conditions and that there are no consequences to terminating a relation (Van der Meer-Kooistra & Vosselman, 2000). Gietzmann (1996) also states that the traditional model of inter-firm transactions regarding the make-or-buy

calculus is too restrictive with its mutually exclusive choice of market-based transactions or vertical integration.

The transaction cost theory (Williamson, 1979, 1981, 1991, 1993, 1998) takes into account that the costs of outsourcing should not only be based on the cost of the services supplied, but also on the costs for coordination, control and risk, all of which influence the make-or-buy decision. Additionally, TCE takes into account the effect it can have on labor relations.

Williamson goes on to explain that, unlike neo-classical economics, TCE recognizes that human beings are characterized by bounded rationality instead of hyper rationality. He calls this the "organizational man" as a response to the "economic man". The organizational man has less analytical competence, but is not for that reason irrational. Given the bounded rationality, it is not possible to deal with all the aspects of a transaction by contracting, meaning contracts will be incomplete. Another difference between TCE and neo-classical theory is the notion of opportunism. If not for opportunism then even incomplete contracting would be feasible, but seeing as agents may act in their own self-interest, they cannot simply be asked to act in good faith when unforeseen events occur (Williamson, 1981).

3.1.3 Transaction cost economics

Transaction cost economics is a mix of three different disciplines: economics, organization theory and contract law (where contracts are viewed as a governance issue) (Williamson, 1979).

The firm can save on transaction costs by matching the governance structure with the character of the specific transactional relation. According to TCE the make-or-buy decision should be based on the sum of production and transaction costs (Van der Meer-Kooistra & Vosselman, 2000).

The ability to minimize and control TCE changes depending on what type of generic form of governance the relation is characterized by. It could be forms of *market*, *hybrid* or *hierarchy*. Coordination and control mechanisms differ in the various forms of governance (Williamson, 1991). In a market structure the transactions are made on the open market and the control relies on free competition (Langfield-Smith & Smith, 2003). Hierarchy is characterized by bureaucracy and as a concept it is described in different ways. Different theories describe bureaucracy as in-house within the firm (Williamson, 1991) and/or bureaucracy in an inter-organizational relation (Langfeld-Smith & Smith, 2003; Van der Meer-Kooistra & Vosselman, 2000). In this thesis hierarchy means an in-house controlled process and bureaucracy means a bureaucracy-based IOR. Hybrid is a mixture between the extremes of market and hierarchy (Dekker, 2004; Williamson, 1991), creating arrangements with different firms (Meer-Kooistra & Vosselman, 2006), often characterized by long-term contracts (Langfield-Smith & Smith, 2003). For example joint ventures are often described as a hybrid form of governance (Williamson, 1991). In this way market, hierarchy, bureaucracy and hybrid are structures that suit different situations in the aim of creating the lowest transaction cost. Using the right structure could then be a competitive advantage for a firm. For example, market structure is

more attractive to use when the total cost to have it vertically integrated is high (Awaysheh et al, 2007).

Whether it is suitable to use the market, hierarchical, bureaucracy-based or hybrid form of governance depends on the nature of the transactions. Williamson (1979) maintains that it depends on the *frequency, uncertainty* and *asset specificity* of the transactions. Frequency explains how often transactions are made (Williamson, 1991). In this thesis this describes the frequency of transactions made between the parties involved in the specific IOR. Frequency depends on the amount of interaction as well as the size of the transaction (Everaert et al, 2010). Uncertainty refers to future contingencies and can, for instance, take the form of institutional uncertainty, market or industry uncertainty (Williamson, 1979). Gregory (2011) explains uncertainty as any unknown variables in a transaction. With particularly high use of information systems uncertainty could signify technological uncertainty (cf. Gregory, 2011). Dekker (2004) also raises the issue of task uncertainty. This could be defined as uncertainty in what type of work that is needed, how much of it that is needed and what this work will result in. When an industry matures, the level of uncertainty generally decreases and transactions tend to move towards market based (Williamson 1979). Langfield-Smith & Smith (2003) define asset specificity as “the degree to which an asset can be redeployed to alternative use without sacrifice of productive value”, which means that asset specificity is higher when specific investments are made within the relationship that have little value outside of the relationship. Transaction costs also depend on what it is that characterizes human behavior, such as opportunism (Dekker, 2004).

Williamson (1991) suggests that out of the three dimensions (asset specificity, uncertainty, and frequency), it is asset specificity that holds the most importance. The degree of the other two dimensions will only affect the governance structure when the asset specificity is high, because when asset specificity is low, Williamson (1991) claims, market transactions are always feasible.

TCE explains a more complex make-or-buy decision, where the governance structure is dependent on the characteristics of the specific transactional relation and that the choice of governance structure can save on transaction costs. The decision to make-or-buy is about more than the pros and cons of outsourcing itself. Outsourcing could be done out of strategic decisions, such as access to specific materials or knowledge, and increased flexibility in the workforce. However, the cost for outsourcing, other than the cost for the service supplied, consists of added costs for coordination, control and the risk of poor performance. When deciding to outsource, the company risks poor performance due to lack of skill or opportunistic behavior (Van der Meer-Kooistra & Vosselman, 2000). The risk that the other party will not act appropriately could also be seen as uncertainty (Rousseau et al, 1998). This should be taken into consideration when estimating the costs for carrying out the activities in-house and the costs of outsourcing. Outsourcing may also affect the number of jobs in the existing organization, thus possibly resulting in negative effects on internal labor relations (Van der Meer-Kooistra & Vosselman, 2000).

Though TCE is often used to explain the make-or-buy decision, criticism has been made that TCE is incomplete in describing the structure of governance and control when it comes to inter-organizational relationships. It has been said that controlling opportunistic behavior is not a main purpose for control (Dekker, 2004) and that the social context influences the structure of the control mechanisms, and should therefore be remarked (Dekker, 2004; van der Meer-Kooistra & Vosselman, 2000, 2006; Langfeld-Smith & Smith, 2003). A couple of different social and relational views have been described as complements to TCE, but this thesis will combine TCE with the theory of trust as the mechanism describing the social context. That is because it is widely used (Dekker, 2004; van der Meer-Kooistra & Vosselman, 2000; Das & Teng, 2001; Langfeld-Smith & Smith, 2003). Trust is explained to reduce opportunistic behavior and work as a solution to control problems (van der Meer-Kooistra & Vosselman, 2000).

3.2 Trust-based mechanisms

The notion of trust as a control mechanism of IOR has gained increased attention during the past decades and various researchers incorporate it in their models (e.g. Van der Meer-Kooistra and Vosselman, 2000; Langfield-Smith and Smith, 2003; Dekker, 2004; Donada & Nogatchewsky, 2006).

Van der Meer-Kooistra and Vosselman (2000) build their model on the TCE theory explaining inter-organizational relationships, relating to market and hierarchy forms of governance. They add the dimension of trust to create a model consisting of three patterns of control: a market based pattern, a bureaucracy based pattern and a trust-based pattern. All three of these patterns explain transactions in outsourcing relations. The paper puts a lot of emphasis on trust as a factor and explains that it is especially important in situations of high uncertainty and asset specificity as well as strong dependency between the parties, making switching costs high. (Van der Meer-Kooistra & Vosselman, 2000, 2006). In the theory of TCE, outsourcing relationships characterized by high asset specificity and high uncertainty cannot exist. These relationships do exist, however, and the trust-based pattern explains that contractual and goodwill trust can mitigate opportunistic behavior (Langfield-Smith & Smith, 2003).

Williamson (1993) claims that TCE is able to deal with several of the essential issues of social embeddedness as it is part of the institutional environment of the transactions. Van der Meer-Kooistra and Vosselman (2000) argue that by including social embeddedness in the institutional environment, trust is not seen as a potential means to reduce opportunism. Trust can be used to strengthen the transactional relationship (Van der Meer-Kooistra & Vosselman, 2000). Dekker (2004) also suggests that trust can reduce the need for formal governance and control.

Donada & Nogatchewsky (2006) also emphasize the importance of trust in transactional relationships, but they call it relationship exchange view. Their paper discusses relationships with asymmetric dependence. They explain that social-based control can be effective in both the situation of lordship (the buyer is not very dependent on its supplier) and vassalage (the buyer is highly dependent on its supplier) to mitigate opportunistic behavior. It could also be used as a strategy to exit a situation of vassalage.

Trust can be divided into three categories: contractual trust, competence trust and goodwill trust (Sako, 1992). Contractual trust refers to moral standards learned through socialization and education and the expectation that the other party will honor the agreement and keep his word. Competence trust refers to the expectation that the other party has the necessary competencies. Previous experience of reliable quality enhances the competency trust, but competence trust can also be gained during the relationship. Goodwill trust refers to the expectation that the other party is committed and ready to do more than what is formally expected. Activities will be carried out because they are beneficial for the relationship even if there is a benefit in not doing so. In contrast to contractual trust there are no explicit criteria to be met, nor are there any predetermined professional standards as with competence trust. In order for goodwill trust to be created, there is a need for shared values and norms. Adoption of these three dimensions of trust is often used in discussions about control in an IOR.

3.3 Control mechanisms in inter-organizational relationships

Theory of management control usually focuses on control within an organization and not on firms in relationships (Kraus & Lind, 2007). As outsourcing increases and other organizations control important parts in a company's value chain, it also changes how management control systems are constructed (Van der Meer-Kooistra & Vosselman, 2000; Kraus & Lind, 2007). It is important to control the IOR to be able to prevent opportunistic behavior and make sure that the parties have the same expectations of the relationship. Das & Teng (2001) argue that companies, when forming IORs, often have different hidden agendas, which can create future conflicts. It is important to control the relationship to prevent those risks (Das & Teng, 2001). This thesis will use the definitions *outcome control*, *behavioral control* and *social control* when trying to describe the control in different governance structures.

Outcome control is an indirect form of control and uses goals and measures to evaluate results (Das & Teng, 2001; Merchant & Van der Stede, 2012). Rewards and incentive systems are also connected to the performance targets (Dekker, 2004). Outcome controls are often based on accounting measures, but they can either be financial or non-financial. Looking at outcome control from an IOR perspective, it can be hard in an early stage of an IOR to know what the desired outcomes are and to identify what measures to use (Kraus & Lind, 2007).

Behavioral control is the most direct form of control where control mechanisms are used to monitor and control specific behaviors. These are pre-specified and could be programs, rules and standard operating procedures (Dekker, 2004). These mechanisms help to ensure that the processes are carried out in a certain way, but this can also hinder creativity (Das & Teng, 2001; Merchant & Van der Stede, 2012). Kraus and Lind (2007) argue that it is important that the companies who are connected in an IOR have discussions and regular meetings to clarify the rules and routines.

Social control refers to use of social mechanisms in order to influence people to behave in the best interest of the firm, or in this case the IOR. Such influences could be shared norms, culture and values (Das & Teng, 2001). When referring

to social control in an IOR, trust becomes important. Trust and social control are closely related, and it is argued that trust is essential for social control mechanisms to work (Dekker, 2004). The need for outcome and behavioral control could also decrease when relying on trust. With a high level of trust it is also easier to come up with measures and rules that all parties feel confident and comfortable with (Kraus & Lind, 2007). To receive this high level of trust, it is important to use social mechanisms, such as joint decision-making and the use of communication channels that make the different parties feel important (Kraus & Lind, 2007; Dekker 2004). It is also important to solve conflicts and displeasure as quickly as possible. Developing personal relationships with important people in each organization is another way of building trust (Kraus & Lind, 2007).

Usually, the control package is a mixture of the three different types of control mechanisms. Kraus and Lind (2007) also express that, when it comes to control in an IOR, it is important to find the right combination between outcome, behavior and social control in order to be successful.

3.4 The make-or-buy decision

This segment links all the earlier described theories together and defines the characteristics of when it is suitable with a make or a buy decision. Starting with explaining the make decision, which Williamson (1991) refers to as 'hierarchy'. The characteristics of the governance structures will be described referring to the TCE variables frequency, uncertainty and asset specificity. In the structures of a buy decision, it will also be defined through trust, output measurability and the aforementioned control mechanisms.

3.4.1 The make decision

According to TCE, hierarchy is characterized by high asset specificity, high uncertainty, and medium to high frequency, meaning that these factors create high transaction costs through risk of poor performance and opportunistic behavior, thus increasing the need for control. The transaction costs under these circumstances become too high and in order to gain control of the transaction a make decision is motivated. This means that the total cost for making is lower, even though the production cost for making may be higher than for buying (Williamson, 1991).

3.4.2 The buy decision

The possible governance structures of a buy decision, that are used in this thesis, are 'market-based', 'bureaucracy-based' and 'hybrid-based' structures.

3.4.2.1 Market

Market transactions are characterized by many actors competing for the same contract with price as the ultimate divider. The most important feature is that asset specificity is low, leaving less significance to the other two variables. However, uncertainty of the future is also normally low. There is no need for control mechanisms to manage these kinds of transactions and the cost of switching to another supplier is relatively low (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007). The role of trust is minimal, because new relationships can

easily be created and dependency between parties is low (Langfield-Smith & Smith, 2003).

3.4.2.2 Bureaucracy

According to Langfield-Smith and Smith (2003), high output measurability and moderate asset specificity characterize bureaucratic transactions of an IOR, or what they call the 'bureaucracy-based pattern'. Uncertainty is medium and frequency is high (Van der Meer-Kooistra & Vosselman, 2000). These kinds of transactions are controlled by rules and performance targets, which means a combination of behavioral and outcome control (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007). Contractual and competence trust is important in the early stages of a bureaucratic relationship (Langfield-Smith & Smith, 2003).

3.4.2.3 Hybrid

It has been common to use the structures market, hierarchy and trust when describing how IORs can be controlled (Van der Meer-Kooistra & Vosselman, 2000; Langfield-Smith & Smith, 2003). The trust-based structure is in this thesis called 'hybrid'. Speklé (2001) explains a similar structure, which he calls "hybrid exploratory control". Hybrid exploratory control is characterized by close interaction, joint responsibility, and knowledge and information sharing (Speklé, 2001). Langfield-Smith and Smith (2003) also describe trust and hybrid as quite similar, but still choose to separate the two concepts. We have chosen not separate them, but to instead consider them as the same concept. This is mostly due to illustrative reasons. The different types of trust influence the type of governance structure in an IOR (market, bureaucracy and hybrid), as already discussed. Our aim of calling it a hybrid is to make it easier for the reader and thus decrease the risk of confusion of concepts.

Measurability of the output in the hybrid structure is low and the asset specificity is moderate to high. The uncertainty is high and market risk is high, increasing the importance of trust in order to achieve control in the future of the relationship (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007). According to TCE, this type of relation would not be feasible due to the high risk of opportunistic behavior. Trust, however, especially in the form of contractual and goodwill trust, can reduce opportunistic behavior. Trust is also very important when choosing a partner (Langfield-Smith & Smith, 2003).

It is harder to measure the output in these kinds of transactions, which makes outcome controls a less efficient tool. On the other hand, trust can help create social control and also outcome control over time (Langfield-Smith & Smith, 2003). Kraus and Lind (2007) argue that both personal consultation and coordination are important, which means there is a need, not only for social control, but for outcome control as well. All three kinds of trust are important in a hybrid structure, but competence and goodwill trust are especially important (Van der Meer-Kooistra & Vosselman, 2000; Langfield-Smith & Smith, 2003). Personal contact helps create and develop competence and goodwill trust.

3.5 E-satisfaction

The satisfaction a customer feels when shopping at an e-commerce site (e-satisfaction) is in this thesis used to explain the effect that the customer offer

has on the governance structure. This seems appropriate because an e-tailer wants to adjust its offer to focus on what drives satisfaction for the customers. The thesis will use Gelard and Negahdari's (2011) model of what drives satisfaction in e-commerce. There are more cited frameworks in this field, such as Szymanski and Hise (2000), but they are not used due to the changes of e-commerce in the last decade. Furthermore, this model is developed from earlier models by Szymanski and Hise (2000), Turban, Lee, King and Chung (2000), Bauer, Leach and Grether (2002) (Gelard & Negahdari, 2011). The Gelard & Negahdari model:

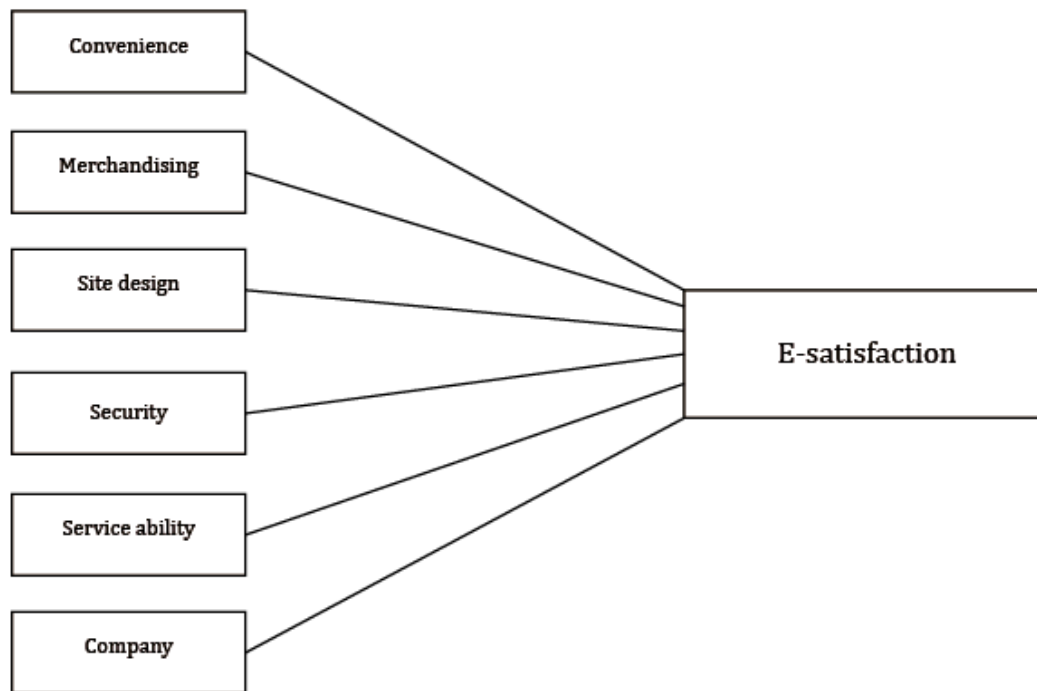


Figure 1. Source: Gelard & Negahdari, 2011, p. 1958

Convenience

This describes how easy it is to shop at the web shop and also the enjoyment of doing it. Convenience could be increased by shortening shopping time and by making it easier to checkout and buy.

Merchandising

Gelard and Negahdari (2011) define this as how the e-tailer satisfies the customers' needs with its supply. This is characterized by the amount and variety of products that are offered. It is easier for e-tailers to carry a high variety of goods than for normal physical stores, which in this model is supposed to increase consumer satisfaction. This is exemplified in the article by showing that a large physical bookstore carries about 150,000 titles, compared to amazon.com, which carries millions. How much information is given and the quality of that information is also a part of how merchandising impacts e-satisfaction, because better and more information will probably lead to better buying decisions and therefore higher satisfaction.

Site design

Site design has some similarities with convenience. It covers the characteristics

of the web site. This could refer to the speed of the web site, how easy it is to navigate, whether the information is up to date or how well the search function works. This could essentially be described as: the more efficient the site is in its ease to use, the higher the e-satisfaction.

Serviceability

E-satisfaction increases with the quality and amount of services that the web shop offers. Logistics (packaging and delivery times), customer support and how refunds and complaints are treated are examples of what is included in serviceability.

Security

Gelard and Negahdari (2011) explain that lack of trust for security and privacy is a common reason for not buying online. People are afraid to give away their credit card details and other personal information.

Company

The size, reputation and history of the company influence e-satisfaction. Consumers usually buy from well-known firms.

Sum-up

The results of Gelard and Negahdari's (2011) study indicated that merchandising had the greatest impact on e-satisfaction. This was followed by security in second place, serviceability in third, site design in fourth and convenience in fifth. Company had the least impact on e-satisfaction, but still every category affect e-satisfaction positively.

3.6 E-business technology in inter-organizational relations

Boone and Ganeshan (2007) define e-business as "the use of the Internet or any digitally enabled inter- or intra-organizational information technology to accomplish business processes". E-business technologies can take many shapes and forms such as information sharing, electronic linkage with suppliers, online purchase order systems, electronic payment and Internet invoicing (Boone & Ganeshan, 2007; Bunduchi, 2005; Awaysheh et al, 2007). Using the e-business technology of an integrated information system could also be seen as a form of outcome control mechanism (Kraus & Lind, 2007). Nowadays, many companies use the Internet as an auxiliary means to make their supply chain the most effective to the lowest cost. Some examples of potential benefits to be gained by using e-business, as described in theory, are lower prices from suppliers, lower transaction cost and higher speed and flexibility (Bunduchi, 2005). However, this is not universally accepted. For instance, Awaysheh et al (2007) describe that the direct benefits of using these Internet technologies are still limited.

As described, transaction costs usually decrease when using e-business technologies due to faster and cheaper communication and coordination. However, depending on what type of technology is used, switching costs could increase if the companies need to make investments in different information systems and databases. This could create better bargaining power for one party and change the dependency within the IOR. The lack of face-to-face interaction when using e-business technologies also decreases the personal trust, which is a part of goodwill trust (Bunduchi, 2005). Trust is essential in order to achieve a

successful e-business (Srinivasan, 2004). To create goodwill trust in an IOR, focus could be given to creating organizational level of trust. An example of increasing organizational trust is to be transparent in information sharing, creating forums for discussion and increasing the communication (Bunduchi, 2005). Another way to increase organizational trust could be to do gift exchanges, which for example could be to offer education to the other party in the technology used, without expecting any return. Trust could also be gained by focusing on increasing contractual and/or competence trust by formalizing contracts and specifying procedures (Sako, 1997).

3.7 The framework

It is described in earlier sections how researchers have found in what way the make-or-buy decision and the governance structure are affected by the TCE dimensions uncertainty, frequency and asset specificity. It is also described how the different kinds of trust can influence. For example, a hybrid form is preferred when uncertainty in the market is high, asset specificity is moderate to high, and the importance of goodwill, competence and contractual trust is high because the ability to measure and control is low. Earlier theories describe this linkage between TCE, trust and structure. We add e-satisfaction as a variable that indirectly affects the structure through the TCE dimensions. We have created a model (figure 2) in order to explain this connection.

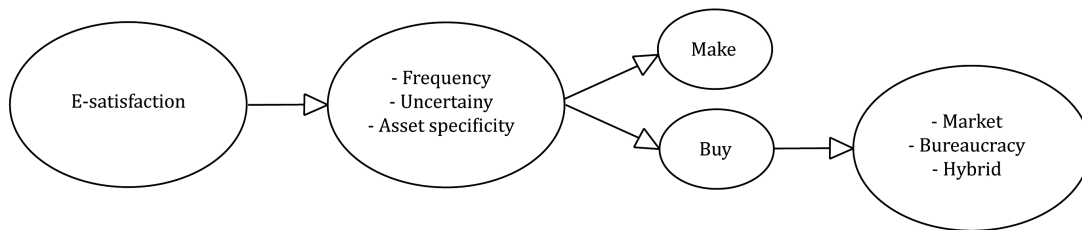


Figure 2.

The factors of e-satisfaction should be seen as important factors in order to secure a customer offer with high quality. Furthermore, the expectation is that these factors affect the make-or-buy decision and choice of governance structure through the TCE dimensions of frequency, uncertainty and asset specificity. Williamson (1991) states that when all of these dimensions are high, a make-decision would be the most suitable. It is more complex to explain the possible affect that e-satisfaction has on the governance structure in a buy decision. Therefore, Figure 3 and a following example will try to clarify this.

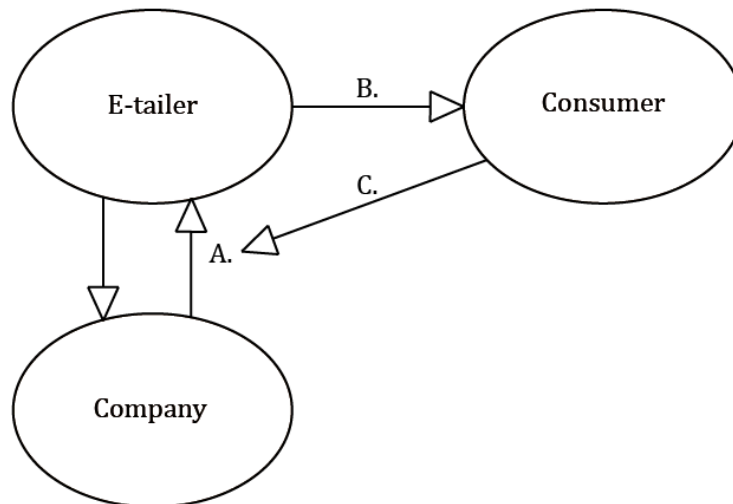


Figure 3.

A. describes an IOR between an e-tailer and another company. B. is what the e-tailer offers to the consumers depending on what is decided in the IOR in A. The satisfaction the consumer then feels for the offer in B. is explained in C (e-satisfaction). The theory, explained by Gelard and Negahdari (2011), defined how and what kind of offer from the e-tailer has an impact on e-satisfaction. The more important the offer is for the consumers' e-satisfaction, the more probable it is that it will influence how the relationship in A is structured and controlled. We expect that it changes the need for interaction, asset specificity and the role of uncertainty in the transaction. In that sense, the companies' ability to deliver what they have promised is reflected in the satisfaction the consumer feels, which in turn affects the relationship.

We clarify this with an example. An e-tailer offers delivery of products in 3-5 days (B.). The e-tailer has outsourced its warehouse, which is controlled by another company. The e-tailer and that company now have an IOR (A.) and both parties are important in completing the offer of delivery in 3-5 days (B.). In Gelard & Negahdari's (2011) model it is explained that logistics, e.g. packaging and on-time delivery, are part of *serviceability*, which in turn impacts e-satisfaction (C.). We expect that this could influence the IOR in such a way that the e-tailer wants to invest more in relational assets, such as information systems, and have more frequent interaction with the other company to be able to ensure that the offer is executed correctly. The importance of the offer, due to its impact on e-satisfaction, could also increase the level of uncertainty in the transaction. More uncertainty is expected to lead to a higher need for control. In that sense, e-satisfaction could affect the structure and control of the IOR (C.).

4 Empirical data

In the following section empirical data will be presented collected through interviews with people working at different e-tailers, at partner companies to the e-tailers and one interview with an expert on e-commerce. It starts with a description of the companies interviewed and continues with explanations of how they work in sections affecting e-satisfaction. This is followed up by a case study of the e-tailer Adlibris. The data presented is later connected to the theoretical framework in the next section, Analysis.

4.1 Company descriptions

Scandinavian Photo is, since its beginning in the early 1980's, a mail-order company selling photography equipment. They started with e-tailing in 1995 and were one of the pioneers in Sweden. Nowadays, Scandinavian Photo has four physical stores and sees itself as an omni-channel retailers where e-tailing, mail-ordering and physical stores are interdependent. Scandinavian Photo employs around 130 people and the turnover for 2012 was just over 700m SEK. An interview was conducted with Niclas Larsson who is IT and e-commerce manager at Scandinavian Photo.

Cyberphoto is a Swedish e-tailer that also primarily sells photography equipment online. The company started in 1995 and today it employs 36 people with revenue of over 200m SEK. An interview was conducted with the CEO of Cyberphoto, Patrick Ohlsson.

Buyfromus.com (fictive name) is a Swedish e-tailer that employs just over 30 people, but is part of a large Swedish corporate group that employs hundreds of people. Interviews were conducted with the Supply Chain Manager (SCM) at Buyfromus.com and with her contact person at the company that operates as both Buyfromus.com's 3PL (third-party logistics) and wholesaler. This company is hereafter referred to as **Storage AB** (fictive name).

Bygghemma is a Swedish e-tailer that sells construction material online to end consumers. It has divisions in Norway and Finland, but everything is governed centrally from the HQ in Sweden. The company started in 2005 and today it employs 60 people with revenue of over 200m SEK. An interview was conducted with Patrik Rees who founded Bygghemma, but today works as Business Developer.

Electronics.com (fictive name) is a Swedish e-tailer that among other things sells home electronics online. It employs hundreds of people. An interview was conducted with the Business Development Director.

Fashion.se (fictive name) is a Swedish e-tailer that sells fashion exclusively over the Internet. The company employs almost 100 people. Fashion.se outsources its warehouse and an interview has been conducted with a logistician at Fashion.se responsible for the running of this process.

Lensway is a Swedish e-tailer that sells glasses and contact lenses online. It was founded in 2002 and today has 140 employees and revenue of over 300m SEK.

An interview was conducted with Andreas Eriksson, Production and Logistics Coordinator.

4.2 Convenience

E-satisfaction in the form of convenience refers to how easy it is to shop and the enjoyment of doing it. Patrik Rees at **Bygghemma** describes this as important. Bygghemma is contracting a company called Wisbywebbmedia to produce product videos and instruction videos that are posted on the Bygghemma web site in order to have as high convenience as possible. Wisbywebbmedia was originally part of Bygghemma, but the founder Patrik Rees says he realized that videos would be one of the key success factors and that Bygghemma would not be able to do it well enough themselves. They allowed Wisbywebbmedia to start their own business and work with other companies in order to learn more and become experts in the field. Today, Bygghemma works closely with Wisbywebbmedia, but Rees explains that they exert control over them by monitoring the production and approving every video made and following up on its success. He says it is important to work closely with all the suppliers in the value chain, to go into detail and monitor that it is working to be able to assure the quality. He says they cannot simply trust that the supplier will perform; they have to work closely together. Rees explains that there are no specific investments made in this relationship.

4.3 Merchandising

Merchandising is characterized by the amount and variety of products offered, but also the quality of the product information. In order to be able to offer a wide range of products, the companies' purchases become important.

Scandinavian Photo explains that it is important for them to be able to offer a good quality and service to their customers. They do not want to compete with price. Their merchandise is wide ranging with more than just standardized products. Customers are able to buy special spare parts and high end products that Scandinavian Photo does not have in stock. To make this possible Scandinavian Photo has close contact with its suppliers. If they, for example, want to buy a product from Canon, then they make the purchase at Canon Sweden. They do not buy from European spot markets as many others do to get a cheaper price. They value their relationships with their suppliers more than cutting costs. Larsson explains that it is important for them to have a close and honest relationship with their suppliers. They have agreements with their suppliers and he explains that it is important that they trust each other to be able to have a good long-term relationship. It would not be possible to offer their wide range of special products otherwise, which is critical in order to sustain their customer base of professional photographers and hobby photographers.

Buyfromus.com also only keep a limited number of items in stock. This makes it possible to offer the wide range of products that they do. Buyfromus.com's SCM explains that they try to establish a good relationship with all their suppliers. She continues by explaining that negotiations with their larger suppliers are about more than just price. For example, how the products should be displayed in the webshop is often described in the contracts. Buyfromus.com cannot choose all of its suppliers due to the fact that the products are based on rights.

This also makes it harder to choose based on price and it increases the importance of maintaining good relationship with the suppliers.

Bygghemmas product videos, described in the earlier section, do not just increase convenience but also improve merchandising. The quality of the product information is improved and helps the consumers in their decision when buying construction material.

4.4 Site design

Site design is similar to convenience but focuses more on the underlying facts such as how fast the web site is, the ease of navigation and the web site's search function.

Electronics.com has cooperated for many years with a company responsible for the search optimization of Electronics.com's web site, in order to make it more efficient and make it easier for the customer to find exactly what he/she is looking for. The interviewee explains that this company has the technology to best serve Electronics.com and its customers, and to make sure that the consumers find what they are searching for in the web shop. The IOR is continuously evaluated in terms of achievements compared to goals set in accordance with this company. The interviewee would say that this relation is less tightly controlled than the ones regarding logistics, but he argues that this is not due to differences in importance. They are both very important parts, but they are different processes that take different amounts of time. The relation with the IT-provider is evaluated over a longer period of time because the process takes longer to complete. On the other hand, if something malfunctions, Electronic.com evaluates how long it takes for them to send a technician and how long it takes to fix the problem.

Niklas Larsson, IT-manager at **Scandinavian Photo**, explains that the interface seen by the customer when ordering online is all operated in-house. This includes the development of the web page. The active choice of having IT in-house is explained by a history of being pioneers in e-commerce. It was hard to find consultants with the right competence when they started as an e-tailer in 1995. Larsson argues that they have a history of doing things themselves and that the organization was created so that they have the competence within the company. Larsson argues that control and flexibility are two important factors of having it in-house, but he explains that one downside could be that it might be harder to keep up with the developments in technology. Larsson also believes that it is easier to outsource IT for companies starting today.

4.5 Serviceability

Serviceability describes quality and amount of services such as logistics handling, fast delivery to consumers and customer service. This section is divided into 'warehouse logistics', 'delivery' and 'customer service', because of the difference in the types of services.

4.5.1 Warehouse logistics

4.5.1.1 Outsourced

As explained in 4.3 *Merchandising*, p. 21, **Buyfromus.com** do not keep all their products in stock. At the same time as they offer a wide range of products, they want to be able to deliver the products quickly to the end consumer. The SCM at Buyfromus.com believes that this is one reason why Buyfromus.com has outsourced its warehouse to Storage AB. Storage AB is one of Buyfromus.com's biggest suppliers, but also its 3PL. The location of the warehouse also makes it possible to receive over-night transports from other major suppliers. This means that the lead-time to the end consumer is the same as if Buyfromus.com would have had the products in stock. The lead-times from suppliers are monitored manually and by supporting systems that discover deviations.

Storage AB also handles the logistics for other companies within the corporate group that Buyfromus.com belongs to. When Storage AB and the corporate group started their collaboration a couple of years ago the corporate group received a seat on the board and a symbolic block of shares. None of the interviewees were involved in the procurement or the decision of the cooperation. However, the interviewee from Storage AB believes that Buyfromus.com chose them because of their experience, market knowledge, competitive prices and the fact that they already handled similar activities for other companies. The SCM at Buyfromus.com justifies the choice to outsource their logistics by claiming that their logistics will be most effective this way and that they will receive products over night instead of keeping stock.

Buyfromus.com and Storage AB have weekly meetings where improvements and production are discussed. They also have monthly meetings for reviews and overall questions such as future developments. All meetings are recorded. Both the supply chain manager at Buyfromus.com and the interviewee at Storage AB feel that these meetings to discuss and manage the relationship work well.

Buyfromus.com receives statistics from the information system each day. The SCM at Buyfromus.com explains that she knows when an order is placed, when it reaches the warehouse and when it leaves, and with which method it will be delivered. The interviewee at Storage AB explains that a great number of files go through the information system. The goal is to have as little personal contact as possible regarding daily issues and problems. The personal contact they have is more about discussing important issues and planning for the future. This is what the earlier described meetings are used for. The daily work is measured by 25 KPIs such as limits for picking orders, delivery precision, and different kinds of flaws in quality, damaged goods etc. These KPIs are connected to the detailed contracts in order to make it possible to follow up the performance for each month. It is built in to the KPI templates that there is a red light when performance is bad and a green light when it is good. If it is bad then the companies go over why, and if it is good they look at what the key success factors were. This happens on the monthly reviews. There are some cases where there are penalties for not performing. The SCM at Buyfromus.com describes the control of the daily work as tight, while the meetings are more informal. She says that problems are also noticed when customers start complaining.

Storage AB confirms that Buyfromus.com are very concerned with KPIs and measurements, and that there are clear directives of what is expected. There is a service level agreement (SLA) that states exactly what services are to be performed, how they are to be performed and what delivery times that are expected for these services. However, the interviewee at Storage AB would not say that they feel controlled by Buyfromus.com, as Storage AB was part of setting the goals and creating the SLA. He says that it is imperative that they deliver what is promised and agreed upon in the contract.

The interviewee from Storage AB says that, in his opinion, the relationship is based quite a lot on trust. Buyfromus.com presents prognoses on what it expects to sell and Storage AB employs based on these numbers. They have a close dialog and trust that both parties are accurate in their information. They work closely together, proactively, in order to improve the business. This is something that cannot be done by trying to improve each on its own, according to the interviewee. In many cases both companies have to agree on a decision in an attempt to increase efficiency, because both parties will be affected by the decision. The interviewee at Storage AB explains though that Buyfromus.com is more into KPIs than other clients that are based more on trust, probably due to the fact that Storage AB worked with these clients for a longer period of time. The interviewee also argues that Buyfromus.com is a larger company than many of Storage AB's clients and that Buyfromus.com comes from an environment where KPIs are common. He notes, however, that he likes the way they work with Buyfromus.com.

The SCM at Buyfromus.com explains that it takes a long time to get processes to work as they should. She argues that this could hinder a switch and that it is not as easy as it looks to get things flowing smoothly. There are a lot of costs involved and it is not possible to switch warehouses every now and again. Investments are also made in integrating the systems with each other. The interviewee at Storage AB also explains that they have invested in shelves and packing stations, but that these could be used for other clients as well if Buyfromus.com wish to end the relationship. If that is the case, they still need to find a new client; otherwise the shelves would be a wasted investment.

Fashion.se also uses a 3PL, which in this case means that an external company manages the warehousing, pick and packing and returns. Fashion.se's own logistics department consists of one manager and one logistician, who was the one interviewed. Their responsibility is to control the relationship with the 3PL and also with the different transport companies.

When a consumer creates an order at Fashion.se, it is registered in their underlying vendor management system (VMS). This system is connected to their 3PL's VMS. The 3PL then packs the order and a transport company picks it up on determined hours every day. The IOR between Fashion.se and the 3PL company is quite new. Fashion.se had another partner before. The interviewee describes this change of partner and warehouse as more complex and time consuming than Fashion.se had anticipated. This was because of the complexity of the systems involved; the fact that hundreds of thousands of products needed to change place and that new procurements with the transport companies were

unavoidable. The transporter's systems were connected with the old warehouse's system, and when the change of system and supplier of logistics was made, Fashion.se had to invest to transfer these connections with the transport companies' systems.

The IOR is continuously evaluated with monthly meetings where improvements and whether the expectations set in the contract have been met are discussed. Different KPIs are used in this evaluation process. The interviewee has one personal contact at the logistics company whom he has a close relationship with. But there are also four other people in other departments that he has contact with depending on the issue. The interviewee describes the control as tight from both parties and that this promotes a good relationship, in his opinion. Both sides are well aware of what is expected of them. He says that it is not that Fashion.se does not trust its logistics partner, but they want tight control because it is a critical process of their business:

"It will affect us and our customers if our products do not leave the warehouse in time and the handling is done wrong, which in the end will hurt us economically."
Interviewee, Fashion.se.

The start of this relationship has not been as smooth as Fashion.se had hoped. This is mostly due to the complexity of changing 3PL, as described earlier. The logistician at Fashion.se explains that both parties strive to create an even closer relationship in the future. He also hopes to be able to have more influence and tighter control of the process. That is one of the cons with outsourcing the process, he argues. But he also explains that their partner is an expert in logistics and that Fashion.se's core competence is sales, not logistics. He believes that it would have been worse and probably more expensive to have the logistics in-house.

Electronics.com has, according to the interviewee, a unique product portfolio in the Nordic market, which leads them to keep several different warehouses simultaneously in order to be able to deliver their products to the customers as quickly as possible. The product portfolio is constantly changing and Electronics.com needs to be flexible and continuously evaluate its logistic options, the interviewee explains. Electronics.com owns some of its warehouses and contracts some 3PLs. It has a model for control that has been designed together with their partner. This is followed up daily. According to the interviewee, Electronics.com evaluates the logistics process by all the KPIs possible. The interviewee considered this to be a tight control. The purpose of this tight control is to be able to assure that the deliveries reach the consumers in a correct way. The interviewee also states that a tight control is necessary in the e-commerce business today. It is necessary to actively manage and control the IORs to successfully run an e-commerce company. He says they have made relation specific investments to optimize process flows, but that he does not see this as a problem for switching partners. He states, however, that when entering into a relationship, investments are made in both the short and the long run.

Bygghemma has entered into cooperation with one of the leading wholesale chains of construction material, XL-Bygg, with 115 stores throughout Sweden. The goods going out to Bygghemma's customers are sent from XL's warehouses

or picked up on site by the customer. Some items are sent to customers through drop shipping, which means that the supplier delivers directly to the end consumer. At the start of the relationship Bygghemma bought shares in the company owning XL-Bygg. Patrik Rees, the founder of Bygghemma, explains that they evaluate the cooperation frequently and that they have regular meetings. He describes the control as tight. Bygghemma monitor every delivery and make calls to the customer to see that they are satisfied with the service. Rees also declares that the control of the drop shipping is equally tight as the control of XL-Bygg. Bygghemma and XL-Bygg work closely together with a shared interest, but Rees argues that one of the biggest challenges is to make sure that the products are delivered as they are supposed to. On-time delivery is very important to the consumers, which is why Bygghemma work very hard to make sure the products are delivered on time. Rees expresses that the key to success is to go into detail about everything, i.e. they cannot simply trust that the suppliers will perform as they want them to. When asked why they do not handle the deliveries themselves Rees answers that XL-Bygg is very good at what they do. They are well situated geographically with many locations across the country. Many of their products would not be profitable if shipped over longer distances. This relationship has led to investments in integrated systems, but they are not very relation-specific. They could be adjusted without greater effort if they wanted to switch to another partner. Rees says, however, that they do not operate that way. They have made a commitment to the relationship and they are working together in order for both companies to grow.

4.5.1.2 In-house

Cyberphoto keeps the warehouse in-house. Patrik Ohlsson, CEO, explains that this is due to their pursuit of quality throughout the value chain. If they were to outsource the warehouse, they would lose the possibility to be able to serve the customer by, for instance, going to check instantly if a product has a certain feature that the customer is asking about. They would also lose the ability to say that they have personally packed the product and can guarantee its quality when it left the warehouse. As it stands now, they can guarantee that everything in the value chain has been done correctly. He says that they cannot ensure the quality of someone else's deliveries.

Lensway believes that the logistics will be better with them handling it themselves. This is based on tradition and an interest in logistics. They feel it is an advantage to have everything at the same place. The interviewee maintains that the proximity increases efficiency and Lensway does not feel any rush to outsource it from a cost perspective. The company considers it a competitive advantage to keep it in-house, to be able to control it and because it makes them more flexible, allowing changes to be made quickly.

Scandinavian Photo was started as a mail-order company, which Larsson explains has created a sort of expertise in logistics. They believe they do it well, and they also want to control the process.

4.5.2 Delivery

All of the interviewed e-tailers have daily outgoing deliveries and all of them have chosen to cooperate with one or several external transport companies.

Cyberphoto uses Posten (the Swedish Postal Service) to deliver its products to its customers. It is a cooperation that has grown very strong, and something that Cyberphoto values. Cyberphoto was chosen as a pilot project for Posten at the start, and the companies have worked closely together since then. Posten has adjusted to feedback given by Cyberphoto, and the relationship is more about quality than price, according to Ohlsson. He says that they could find cheaper transports, but that they want everything to work smoothly. They want to be able to call their contact at Posten and trust that it will be done. He explains that Posten cares about Cyberphoto. The relationship is evaluated by recurring follow-ups. They have a contact person at Posten with whom they have contact several times a week. Ohlsson says that they do not do major follow-ups; he would rather call it checking in, to discuss what could be done better. As long as they do not hear anything, it means that it is working. Nevertheless, Cyberphoto do follow up on freight costs and the amount of deliveries made. They also perform random checks of delivery times. If the costs have gone up, they have a discussion about it, to see why that is, and then they try to find a solution. As of yet they have not had to terminate any agreements, or even threaten to. Ohlsson declares that Cyberphoto has made investments in the relationship with Posten, and it would take some time to adjust to a new partner if they were to change, but he does not see it as difficult. He expresses that he may have viewed it differently if they did not have their own IT-department, because a switch would entail a lot of changes to integrated systems.

Lensway also uses Posten for its deliveries. The relationship is evaluated by calling customers to ask when the product was delivered and what the package looked like when it arrived in order to get some statistics on how Posten is performing.

Fashion.se sends all its products from its outsourced warehouse, even if the delivery is to another country. Contracts with the transport partners are now up to date through the new procurements with the transporters, as described earlier. For example, it is specified what lead-times are acceptable, and this is something that is evaluated on a daily basis. Fashion.se's customer service is also a helping tool when evaluating the relationships with the transporters, thanks to feedback from consumers calling in. The interviewee explains that they also try to work proactively, on a monthly basis, with the transport partners in order to make everything as efficient as possible.

Storage AB manages **Buyfromus.com's** deliveries and the interaction with the transport companies. As described in earlier sections, Buyfromus.com evaluates this IOR on many variables. One of their most important KPIs is delivery precision. Buyfromus.com receives statistics through the information system. They know how long it takes, from the time the order is placed, for the item to go in to the warehouse and out again, and in what way it will be delivered to the customer. They also know through customer service if something is not working. **Bygghemma** works very much in the same way, where they outsource the whole distribution with warehousing and delivery. As described earlier, Rees says that they monitor this closely by for instance calling customers to ask about their experience.

4.5.3 Customer service

Buyfromus.com is one of the few companies investigated that has chosen to outsource its customer service. The other companies describe it as too essential to outsource. Buyfromus.com states that the relationship with the company supplying the customer service is close. This is because it is very important that the customer service performs correctly, otherwise it will reflect badly on Buyfromus.com. Buyfromus.com has one person who is responsible for everything concerning this relationship. It consists of contracts, standards, manuscripts and service agreements. These are followed up by KPIs and other quality assurances. Compared to Buyfromus.com's relationship with the logistics partner, this cooperation is characterized by more personal contact. Someone from Buyfromus.com visits the customer service company approximately once a week. This is not possible for Buyfromus.com to do with the logistics partner due to geographical reasons.

4.6 Security

This section regarding payment security, is focused on the solutions the e-tailers have for invoice payments. This is because relationships with card payment distributors are almost completely automated. All the companies use either Svea Finans or Klarna for managing the invoices. Svea and Klarna automatically perform a micro credit record of the consumer when an order is placed. After the consumer is approved, an invoice of the order is made automatically, for which Svea and Klarna assume all the risk.

4.6.1 Klarna

Today, **Scandinavian Photo** uses Klarna for invoicing, after switching from Handelsbanken Finans. This is, according to IT-manager Niklas Larsson, because Klarna has a suited and better product. IT-manager Niklas Larsson describes Klarna as renowned, and that they have extremely good service. As Klarna's product is embedded in the e-tailer's system, the relationship is mostly automatic, but Scandinavian Photo also has daily contact with Klarna's customer service, e.g. when consumers want to change their orders. Larsson also has a contact person, whom he discusses with sporadically when things need to be changed. Larsson explains that they do not evaluate Klarna continuously, except for reviewing the payment statistics. Both parties trust each other, he says. Larsson admits that it could be expensive and problematic to change providers of the payment solutions, because it is integrated in their system.

Electronics.com also uses Klarna for invoicing because they are a renowned actor on the Nordic market, and because Electronics.com has used them for a long time. The interviewee states that Klarna's services are well-known amongst consumers in the Nordic countries, which in turn increases the trustworthiness of Electronics.com. The relationship is close with daily contact, especially with Klarna's customer service.

4.6.2 SVEA Finans

Cyberphoto used to work with several companies for their different payment solutions, but today they only work with one supplier offering all of these solutions in one, and at less total cost. Because Cyberphoto has its own IT-department, the CEO Patrick Ohlsson does not see it as a problem that they have

invested in integrated systems with Svea. He argues that they could adapt these systems to another supplier if necessary. The relationship is evaluated through continuous dialog and instant feedback from consumers. Cyberphoto has a contact person at Svea, and Ohlsson says that he wants a personal contact (with someone he has met in person) with all of Cyberphoto's suppliers, in all areas of the value chain. Ohlsson explains that working with established companies for payment solutions, such as Svea, is one of several important aspects of making sure that the customers feel safe when shopping. In that sense it also affects Cyberphoto's reputation.

Previously **Bygghemma** worked with Klarna, but have now switched to Svea because they did not feel that Klarna delivered the results they wanted. The main reason was that Klarna declined too many customers.

4.7 Company

All of the companies work actively and in a similar fashion when it comes to portraying to the customers that their web site is trustworthy and has a good reputation. They explain that it is important to display certificates, awards and consumer opinions, and to show that they cooperate with renowned companies when it comes to transporting and payment solutions. One of the certificates all of the e-tailers display is 'Trygg E-handel' (Secure e-commerce). This is given out by a company that performs tests to see if the e-tailers are dependable. There are some requirements the e-tailers need to fulfill in order to be allowed to display the 'Trygg E-handel' logo. The company Trygg E-handel also makes continuous tests on the e-tailers in order to make sure that the requirements are being followed.

4.8 An expert's opinion

Nordic eCommerce Knowledge is an independent Swedish organization which purpose is to gather and spread knowledge about e-commerce. They provide courses where they educate companies about e-commerce. They also host a summit once a year, and they offer a mystery shopper service as well. An interview has been conducted with the CEO, Sarah Wittbom.

Sarah Wittbom says that e-commerce can be seen as impersonal, and if the customer service, for example, is outsourced, then this could make it even more impersonal. She says that many e-tailers have tried to outsource customer service, but that they have brought it back in-house because they did not know their own customers, something that she states is needed in order to succeed. She also says that many companies try to outsource different parts of their value chain in an attempt to cut costs, but that they often bring it back because of lack of control. Wittbom believes that the business is moving more towards doing things in-house, if they have the possibility. Her understanding is that large companies with plenty of resources are trying to do as much as possible themselves because it gives them better margins, flexibility and control. She maintains that the e-tailers that have the possibility will even keep the invoicing in-house, due to the high margins. However, that requires the e-tailer to be relatively large, she says. She argues that Amazon.com is the role model in e-commerce, and they do everything themselves, according to Wittbom. She also

believes that e-tailers in general are going back to basics, trying to optimize their logistics flows and focusing on great customer service.

4.9 Mini-case study – Adlibris

As a complement to the interview survey, a mini-case study was conducted. This was done in order to gain deeper knowledge of the complex problem. The company chosen for this case study was Adlibris, that is a large e-tailer in Swedish e-commerce. Adlibris exclusively sells books and operates in Sweden, Norway, Finland and Denmark. It has revenues of approximately 1, 2 billion SEK and employs 70 people at the headquarters, and over 100 people in its warehouse during high season. The company was started in 1997 by four colleagues at the consulting firm Accenture (at that time Andersen Consulting). Today, Adlibris is part of the corporate group Bonnier AB.

Interviews were conducted with Anna Christensen, Linda Blank and Isabel Rodrigo. Anna Christensen is product owner at IT, but has worked in customer service, purchase, logistics and human resources. Linda Blank is the manager of customer service and Isabel Rodrigo is the manager of site and customer communications. An additional interview was also conducted with Adlibris's contact person, Louise Dahlborn, at the payment solution company Klarna.

4.9.1 Convenience

Adlibris is in a process of implementing Klarna's product "Klarna checkout". This is a new, secure way of paying for a product by just filling out the e-mail address and postal code by which Klarna will collect the rest of the information from their databases. The payment method is chosen after the purchase is done. If no choice is made, or if a credit card is denied, then the consumer will receive an invoice. This checkout will shorten shopping time and make it easier to complete the purchase. It will increase the convenience and at the same time it will probably increase Adlibris's conversion rate. Christensen states that this will also strengthen Adlibris's relationship with Klarna. Instead of having different payment suppliers for different solution, Adlibris will use Klarna as its only supplier. During the implementation of this service there has been a lot of personal contact between IT at Adlibris, and employees at Klarna. How they normally work in the partnership is further explained in the section 4.9.5 *Security*, p. 34.

4.9.2 Merchandising

Adlibris has over 10 million items in their store, but except for some bestsellers, they do not keep anything in stock. Still they are able to deliver most of the books in 1-5 days. They order from publishers from all over the world, both large and small. For example, they receive one shipment from a wholesaler in USA each day. All of the items always go through Adlibris's own warehouse where they are packed. This is because Adlibris want to be able to control the process. Their largest suppliers have their own individual time, at wich they receive their order files from Adlibris. This is done so that they can pack and send the books the same day. To ensure that Adlibris receives the books from the publishers in time, they negotiate contracts, keep an open dialog and set up routines for how it should work. All orders are generated automatically and calculations of arrival are made. The order most likely has a tracking number

from which Adlibris can follow the delivery. If an order is not on time, Adlibris calls the supplier immediately. If Adlibris has not sent the order file to their supplier, a warning signal in the information system will go off. Adlibris also has a group of people working exclusively with monitoring the deliveries coming in to the warehouse. The IT product owner, Anna Christensen, describes them as very quick to discover if anything is wrong. Because Adlibris is an important customer, and because of the tight time schedule, it is as important to the supplier as it is to Adlibris that everything works. Christensen exemplifies this by explaining that if their partner in England has not received the order file at the agreed time, they will call within 5 minutes to ask where it is. The process is surveilled from both sides, and Adlibris put a lot of pressure on their suppliers. They do not have explicit penalties for not performing, but there are contracts that have to be fulfilled. Adlibris have tight control of this to avoid a situation where the book is delayed, and the consumer calls and finds out it has not even been sent yet. The manager for customer service, Linda Blank, expresses that Adlibris probably gain in the long run by doing this, even though it may be expensive. Christensen argues that the key success factors for selling books online are: a wide range of products, fast deliveries, at good prices. Christensen also states that the ability to offer a wide range of products and the ability to deliver them quickly is a crucial process from a customer satisfaction perspective. In this sense the process affects both merchandising and serviceability in the discussion of e-satisfaction.

Adlibris has a system that chooses the supplier with the lowest price, if it also fulfills the earlier described requirements. When the supplier with the lowest price does not have the item in stock, the system chooses the supplier with the second best price.

Isabel Rodrigo, communication manager, explains that Adlibris has a very close relationship with the publishers. They have contracts with over 1000 publishers, but a closer relation with approximately 50 of these. These publishers have a specific contact person who Adlibris meets with at least four times a year. Lists of titles are presented before each season begins, and plans for these titles are drawn up together. Then the parties are in continuous contact during the year, sometimes daily.

In the contracts Adlibris has with the publishers, there is a scale of discounts outlined, and in return for these discounts Adlibris will market their books. Rodrigo explains that the suppliers have got used to the way Adlibris does business now, that they put a lot of pressure on the suppliers by not keeping stock. She believes that the traditional stores still get their discounts by ordering large volumes, but Adlibris does not operate like that.

4.9.3 Site Design

Adlibris has its IT department in-house. Christensen explains that it is because it has always been like that, but that it is also because they value the flexibility of having IT close.

Christensen explains that the evaluation of the people working in IT differs from the evaluation of the people working in the warehouse and customer service. This is due to the difference in work tasks and the ability to measure these. The

people in IT have more individual responsibility. However, they also work in teams, where deadlines are created and their work evaluated. The teams work in cycles of three weeks and every team has an “owner” that reports to the management group. This is a way to make sure that the IT department is effective and prioritizes the right things.

4.9.4 Serviceability

4.9.4.1 Warehouse logistics

Since Adlibris does not keep many products in stock, as described earlier, the purchase process becomes crucial in order to deliver books quickly to the consumers. In that sense it is also vital for offering high serviceability. How Adlibris control this process is explained further in 4.9.2 *merchandising*, p. 30.

Adlibris has chosen to keep its warehouse in-house, located approximately 120 kilometers from the HQ. Christensen describes the logistics as the heart of Adlibris’s business. If this does not work they would not have a business at all, she says. She continues by explaining that the reason they have it in-house is also because they are extremely good and effective in the warehouse processes. Their history also plays a significant role. The people who started the business in 1997 wanted to build their own logistic process. Adlibris has made a lot of investments in this warehouse, such as in information systems and an advanced system of conveyor belts. Christensen explains that 3PL companies call Adlibris all the time asking if they want to outsource their warehouse. However, the only benefit she sees with outsourcing is that someone else takes over the problem of finding the right competences, and replacements if employees are sick. Christensen says that after having investigated some alternatives they are now even more confident that they should keep it in-house. She explains that they have had staff from a temporary work agency during Christmas time once, but the outcome was not as good as they had hoped. Christensen states that many of Adlibris’s employees felt that they lost control of the situation.

“It is hard to say if it gets cheaper to outsource. I mean, what happens if something goes wrong or if they do not work the way we want them to.” Anna Christensen, Adlibris.

Adlibris’s control of the warehouse processes is tight, even if they do not outsource. The warehouse is organized in different zones, which has the effect that an employee does not have to walk longer than 80 meters for a product. The employees have guidelines for what to do. There are people responsible for different areas to make sure that everything works. At the same time as Adlibris’s information system monitors the work. Adlibris also has different KPIs that they evaluate the employees on. The most important KPI is order per worked hour. Christensen explains that they also try and empower their employees as much as possible so that they feel belonging. The employees also rotate from different stations to receive variation.

4.9.4.2 Delivery

Adlibris uses Posten and Schenker to transport books to the customers. Posten was Adlibris’s first provider of transport services. The relationship with Schenker started in 2006, because Schenker was able to offer the service at a

lower cost. The cooperation with Schenker did not work at all in the beginning. Adlibris gave them an ultimatum saying that Schenker needed to adapt its services to Adlibris. Schenker received a list of improvements from Adlibris, and Christensen explains that Schenker has adapted and that the cooperation works well today. As the competitors to Posten started to improve, Posten began to develop their services as well. Christensen explains that both companies have adapted themselves to Adlibris and she thinks that Adlibris's size is an important factor. Adlibris has operated as a pilot company for new services for both Schenker and Posten. It is important for Adlibris that the transport companies perform in order for them to be able to offer high quality of service. Christensen also explains that their former logistics manager had personal contacts at Posten, which has been a big part in making the IOR as successful as possible.

Christensen explains that the agreements on price structures that Adlibris has with its transport companies are negotiated continuously, because freight is a major cost for them. Adlibris also compares the invoices with what their system shows that they should pay according to the agreements. Christensen maintains that it would be possible to change transport partners, but it would need some technical adjustments in the logistics processes and on the web page. One crucial part is to make tags and barcodes work with Adlibris's system. It is also important to make it work with Adlibris's time schedule and processes in the warehouse. She estimates that they would have it up and running in two weeks if 2-3 people worked full time with the implementation. Adlibris continuously review the options of transport partners, but it is hard to find suppliers that can offer as good a mix of quality, geographical range and low cost as Posten and Schenker. Christensen also raises the question of what would happen to the prices they have with Posten and Schenker if they cut 1/3 of their volume to another actor.

4.9.4.3 Customer service

Adlibris's customer service department consists of 35 people, 11 of which work out of the location of the warehouse, and the rest at HQ. Manager for customer service, Linda Blank, says that the advantage of being divided is that they work different hours. She explains that it is a benefit to have people on site that can have a physical look in the warehouse if the customers call with specific questions. This way they do not have to call someone up at the warehouse to try to explain what they are looking for. The two groups meet a couple of times a year to socialize.

Regarding evaluation, Blank says that they do not measure at all as much as they would have had it been outsourced. She explains that they have looked at these solutions and that it involves a lot more detail on how to work, e.g. a phone call should take a maximum of two minutes, but we do not do that here, she says. They do measure the amount of email the employees send and the number of calls received, but it is very individual, and Adlibris allows it to be. Manuals do exist, but the employees are not required to read from them, it is more learning by doing. Every new employee at customer service receives a mentor who they work closely with. Blank argues that Adlibris would have measured more if customer service had been outsourced, because it is not possible to have the

same control as with the own staff. It would mean losing the advantage of being able to overview the work if they were not located in the same place. However, Blank explains that it is expensive to have customer service in-house, but that it is too important to them and that Adlibris are worried that they would not be able to sustain the high level of serviceability if outsourced. Blank also explains that service has always been a priority at Adlibris. Just last year they received an award from Market Magazine for best customer service. She says they want to be able to deliver that something extra that is not possible to buy. It may not be the cheapest way to have it in-house, but Adlibris sees it as something very positive.

4.9.5 Security

Adlibris uses Klarna for its payment solutions. Klarna has been managing Adlibris's invoices since 2010. The systems are set up to work automatically, but Adlibris is in contact with Klarna's customer service several times a day regarding specific customer issues and returns. Adlibris has a contact person at Klarna for when something is not working and for general questions, but they also have a contact person for technical issues. Louise Dahlborn is Adlibris's contact person for technical issues and she confirms that Klarna and Adlibris work very closely together. Her contact with Adlibris varies from several times a day to no contact at all during some weeks. During the first integration Dahlborn was on site at Adlibris four days a week, focusing solely on Adlibris. Today, the parties are in a process together for launching Klarna's new product, Klarna checkout. This new launch is earlier described in 4.9.1 *convenience*, p. 30.

Adlibris's manager for customer service, Linda Blank, describes Klarna as flexible and easy to work with, both towards Adlibris and towards the consumers. Dahlborn explains that Adlibris chose Klarna because, to Adlibris, customer service is extremely important and that Klarna is also very good at customer service. The visions of the two companies match well. Klarna also offer payment solutions that the consumers request, according to Blank.

Before Klarna, Adlibris handled all their invoices themselves, but sold them to another factoring company. Personally Linda Blank felt that the transition was a bit difficult because it meant that she lost control. As it was before, Adlibris were able to credit their own invoices and make judgments on consumers themselves. That is not possible now with Klarna. Blank describes that it is hard to change routines, but that they got into it rather quickly. Blank declares that Adlibris do not do any customer surveys, or similar actions, to find out what the customers think of Klarna, but she says that customers tend to like Klarna.

"It was a bit scary in the beginning, but now Klarna rather invokes trust, it has become a sense of security." Linda Blank, customer service manager, Adlibris

Otherwise, Dahlborn at Klarna explains, customer surveys or mystery shoppers are common when evaluating Klarna. A measure that Dahlborn states as important to all their clients is to what degree Klarna is willing to accept consumers, the level of acceptance. It does not matter if Klarna assumes the risk, if consumer acceptance is low, says Dahlborn. The e-tailers also value system availability, that Klarna is running and accepting purchases. Aside from that, different companies are concerned with different types of measurements. There

are also cultural differences. Dahlborn describes that international clients are not as flexible and often demand a detailed integration guide that describes exactly what is to be done, something that would never work in Sweden.

Blank at Adlibris maintains that the relationship is based on trust rather than statistics or other measures. Nevertheless, she explains that Adlibris is the customer in this case and that they are therefore able to make demands. For example, the contracts state that Klarna needs to keep certain opening hours in order to guarantee that nothing malfunctions during important hours of the day. Blank says that communication, going in both ways, has been important and Adlibris has also been a pilot customer when Klarna has been testing new products. Dahlborn at Klarna confirms that the IOR is built on trust and that it is a strong relationship due to its focus on the end consumer, Adlibris's customers. The parties agreed in 2010 to commit to a long-term relationship, which has created a strong bond. Dahlborn explains that when Adlibris describes something as important, Klarna knows it is important for real.

“The relationship is based on mutual trust that enables us to work very well together. It makes us more efficient, because we focus on the right things. This means we can deliver more quickly and our customers will be more satisfied in the long run, because we make the right priorities.” Louise Dahlborn, Klarna

Blank at Adlibris does not think it would be difficult to switch to another partner. On the other hand, Adlibris have built a system that fits with Klarna's model, which took some work. However, Blank believes that the next transition would probably be easier than the first one. Dahlborn at Klarna explains that Klarna does not try to lock in their clients with advanced technical solutions, but that Adlibris for example has automated a lot of its processes and that would of course lead to a lot of work to integrate with another supplier. The initial integration took about a month, and then there is a learning period. Dahlborn also says that Klarna normally do not adapt to their clients.

4.9.6 Company

Adlibris is the largest online bookstore in Sweden. Their size does not just create a reputation of being a trustworthy e-tailer. Communication manager Isabel Rodrigo also argues that Adlibris's size increases their bargaining power. Adlibris can negotiate extra discounts with the publishers. This means that the consumers will receive a better price as well, which in turn creates an even better reputation.

As for the companies in the interview survey, it is important for Adlibris to work with well-known companies and display certificates and awards. For example, customer service manager Linda Blank explains that the consumers view Klarna as a security, a mark of quality. Klarna also evaluate its partners in order to keep this mark of security. As an example, Klarna monitors closely that the e-tailers are following guidelines regarding returns. If Adlibris were to fall behind on their returns, that would reflect badly on Klarna. That would mean that they would send out reminders on their invoices when they should not. This makes communication important, and an open dialog is often used to work out problems. Klarna also has ethical guidelines in order to not be associated with illegal activity for example.

5 Analysis

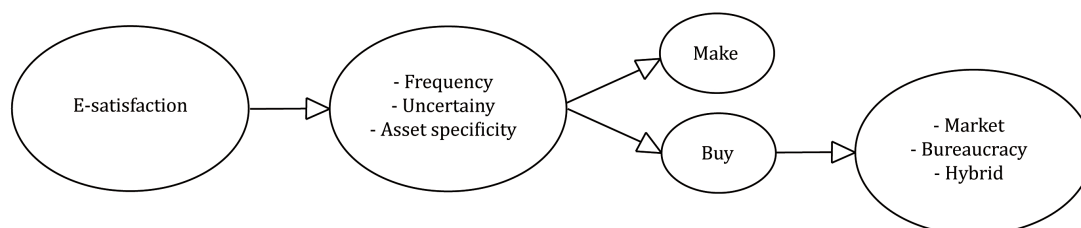
This section contains a comparison between the empirical findings and the theoretical framework. Our own developed model functions as a base for the analysis. The e-satisfaction factors will be analyzed first, followed by a deeper discussion about how frequency, uncertainty and asset specificity are affected.

5.1 E-satisfaction

Gelard and Negahdari (2011), as described in the theoretical framework, explain how different factors drive e-satisfaction. These factors are convenience, merchandising, site design, serviceability, security and company. The purpose with this thesis is to find out if these factors, in the form of e-satisfaction, affect the choice to make or buy and the governance structure if the choice is to buy. After gathering the empirical data it seemed suitable to merge the two factors “convenience” and “site design” because of their similarities. The dimension “company” has been excluded as a title in the analysis because its effect on e-satisfaction was found to be linked with the other dimensions of e-satisfaction. For example, the e-tailers try to cooperate with well-known companies, such as Klarna, for different kinds of services, which Gelard and Negahdari (2011) argue to be included in “company”. However, the IOR with Klarna is better analyzed through the dimension of “security”.

When the empirical data was collected, the most suitable approach to explain the different dimensions of e-satisfaction, and their effect on transaction costs, was to research the different functions of the companies. Therefore, the different dimensions of e-satisfaction are analyzed through the functions that affect them. In some cases a function can be linked to more than one form of e-satisfaction. In that case it is analyzed from the dimension of e-satisfaction that it is connected to the most.

The findings will be analyzed based on our model:



5.1.1 Convenience & site design

Convenience is described as the enjoyment of shopping on the web site, shortening shopping time and easiness to check out. Site design reflects the ease of navigation, if information is up-to-date and how well the search function works (Gelard & Negahdari, 2011). The empirical data shows similarities between these two, because both factors could be connected to IT-related processes. Gelard and Negahdari (2011) also argue that the two e-satisfaction factors in themselves are comparable.

Bygghemma indicates that convenience is important for their customer offer. In order to achieve convenience through high quality product videos they have decided to outsource this process. They state that they work closely together

with this partner, but through the empirical data it is hard to distinguish the amount of interaction between the parties, and thus the level of frequency. They state that there are no specific investments between the companies in this IOR, which means that asset specificity is low (Langfield-Smith & Smith, 2003). According to TCE, when asset specificity is low, a buy decision in the form of a market structure would result in the lowest transaction cost (Williamson, 1991). A buy decision is also what Bygghemma has made in this case. However, it differs from a market structure. Bygghemma explains that these production videos are a key success factor to be able to sell construction products over the Internet. The empirical data indicates that Bygghemma are uncertain of how this service should be performed and that they need Wisbywebbmedia's expertise, and a close relationship with them, in order to secure high quality results. This kind of uncertainty is what Dekker (2004) would refer to as task uncertainty. This indicates that the desire for Bygghemma to produce high quality videos, in order to increase convenience, has also increased uncertainty. As convenience has created uncertainty, the IOR has taken a form that mostly resembles a hybrid structure, characterized by a high degree of trust in knowledge (competence trust) and shared values and norms (goodwill trust) (Sako, 1992). This is in line with the definition given by Langfield-Smith & Smith (2003).

The IOR seems to be based primarily on trust, but Bygghemma also evaluates the IOR using some outcome controls. This is something that Kraus and Lind (2007) also argue could be necessary when evaluating hybrid relationships, even though hybrid structures are normally characterized by low output measurability (Langfield-Smith & Smith, 2003). This IOR has similarities with the IOR Electronics.com has for the search function on their website, which is argued by Gelard and Negahdari (2011) to increase site design. Electronics.com also expresses a need for their partner's knowledge and technical capability, which indicates competence trust in the IOR (Sako, 1992). The low measurability also seems to increase the importance of trust in this relationship, which supports what Langfield-Smith and Smith (2003) state in their article.

Another function that is argued to have an impact on site design and convenience is the IT-departments. It is described that both Adlibris and Scandinavian Photo have chosen to keep IT in-house (a make decision). Both stress the need for control and flexibility in order to adapt quickly. This indicates that the companies feel uncertainty about handling future contingencies if IT would be outsourced (Gregory, 2011). The desire for flexibility could also be regarded as a sign that transactions occur often, meaning frequency is high (Everaert et al, 2010). The asset specificity is assumed to be high as the IT-departments manage systems with connections throughout the companies' value chains, affecting more dimensions of e-satisfaction than just site design and convenience. For example, having IT in-house facilitates outsourcing of other functions that affect, for instance, serviceability and security where integrated systems managed by IT are important. According to TCE, these characteristics implicate a make decision (Williamson, 1991), which is also the case.

5.1.2 Merchandising

Merchandising is described to increase e-satisfaction by providing a wide variety of products, as well as more and better information about the products Gelard & Negahdari (2011). Scandinavian Photo, Buyfromus.com and Adlibris all express the importance of offering a wide range of products, and in order to do this they have to go to external companies. The e-tailers also describe that it would be too expensive to keep all of the products in stock. The relationships with the e-tailers' suppliers become important in order to offer a wide range of products and have high serviceability through quick deliveries to the end consumers. As seen in the empirical data, high serviceability increases the level of interaction between the e-tailer and its suppliers, which could be seen as high frequency (Evereart et al, 2010). For instance, Adlibris receives a delivery from a supplier in the USA once a day. This high level of frequency would not be necessary if they had chosen to buy large volumes of products and keep them in stock.

It is also described how Adlibris monitor and control all the incoming deliveries through integrated systems. These information systems could be seen as invested assets to make these kinds of relationships work. Even if the investments in information systems are not specific to certain companies in this case, they are specific to the certain processes where the transactions take place. This means that the investments have less value outside of these transactions, which is why it is regarded to increase asset specificity as per the definition used by Langfield-Smith and Smith (2003). Since the information systems are somewhat standardized, and used for several suppliers, this does not imply high asset specificity, but not low either. It could be described as a moderate form of asset specificity. This differs from the level of asset specificity in the IORs that Scandinavian Photo has with its suppliers, which in that case is lower. However, Larsson at Scandinavian Photo gave the impression of a higher level of uncertainty than what Christensen at Adlibris did. This could be exemplified by the fact that Scandinavian Photo has the opportunity to scan the European spot markets and buy large quantities to a lower price, but that they do not do this because they would rather pay more in order to get access to all of their largest suppliers' products, and create lasting relationships. They are worried about what will happen with their own supply if they just search the market for the lowest price, which can be seen as uncertainty for the future (Gregory, 2011). For that reason the uncertainty is regarded to be high in the case of Scandinavian Photo, and moderate in the case of Adlibris. According to TCE, a market structure would be the most suitable for Scandinavian Photo's IORs with their suppliers, as asset specificity is low (Langfield-Smith and Smith, 2003). However, in order to secure the variety of products, they lean towards a hybrid structure characterized by social control, personal contacts and different aspects of trust (Langfield-Smith & Smith, 2003). This indicates that the desire to secure a high level of the e-satisfaction factor merchandising, has increased uncertainty. This has led to a change in the structure of the buy choice in another direction than what TCE finds the most suitable.

Adlibris's IORs with its suppliers are characterized by high frequency, moderate uncertainty and moderate asset specificity. This would, according to TCE, indicate a bureaucracy-based structure (Langfield-Smith and Smith, 2003). It is

described that all incoming deliveries go through Adlibris's own warehouse in order to control and monitor the process. The monitoring and use of pre-specified rules is characteristic of behavioral control, which together with outcome control is included in bureaucracy-based structures (Das & Teng, 2001; Kraus & Lind, 2007). Bunduchi (2005) argues that the lack of personal contact, as shown in Adlibris's IORs compared to Scandinavian Photo, could be due to the automation of processes using information systems. Considering the characteristics of a bureaucracy-based structure, as described above, the theory seems to serve well to explain this IOR. It also appears that e-satisfaction has affected asset specificity through the need for integrated systems in order to secure the customer offer.

5.1.3 Serviceability

Gelard & Negahdari (2011) defines serviceability as logistics, customer support and how refunds and complaints are treated. The empirical findings showed that there were different processes that affected serviceability, which is why this section is divided into *warehouse logistics*, *delivery* and *customer service*.

5.1.3.1 Warehouse logistics

All of the interviewed companies described logistics as a critical part of the value chain. The correct order needs to go to the correct customer as quickly as possible. Adlibris even explains it as the heart of their business, and that the whole store will fail if logistics is not working. The e-tailers indicate that they have tight control of this process. It could be argued that the level of frequency becomes higher because the e-tailers want to offer a high quality of service, such as fast deliveries to the consumers. In order to do so it puts pressure on fast handling in the warehousing process. To make sure that the process works efficiently it increases the need for interaction. This could be exemplified by that Buyfromus.com explain that they receive statistics each day and that they, even if they outsource, know when an order is placed, when it reaches the warehouse and when it leaves. This amount of interaction could be described as high level of frequency (Everaert et al, 2010).

Since the e-tailers indicate high importance of the process and its effect on the customer offer, this suggests that the e-tailers feel uncertainty about outsourcing this process to another company. Fashion.se expresses that it would hurt them economically if the logistics fails to perform as agreed, which is why it is so important for them to have control of the process. The interviewee even expresses that he would like even more control of their 3PL if it were possible. He also maintains that this is not due to a lack of trust in their partner, but rather that they want to guarantee that nothing fails. This indicates that it is the importance of serviceability that creates uncertainty in this case. Adlibris also suggests that there is uncertainty about the actions of a potential partner, because of the severe consequences if something went wrong. This indicates that the importance of serviceability has led to uncertainty of poor performance and opportunistic behavior (Rousseau et al, 1998). Buyfromus.com in their IOR with Storage AB also display what Dekker (2004) would describe as task uncertainty. This is seen in that Storage AB employs based on prognoses made by Buyfromus.com, meaning that there is uncertainty of how much is to be produced and what the result will be. A higher level of uncertainty increases the

need for a closer relationship, or to make it in-house (Williamson, 1991; Van der Meer-Kooistra & Vosselman, 2000).

All of the e-tailers express the need for control of the process, as it is so important for the customer offer. It is shown in the empirical data that many investments in specific assets are made in order for the e-tailers to control and monitor this process. For the companies that outsource their warehouse to a 3PL, these investments are exemplified by integrated information systems, routines and high switching costs. The systems are developed for these certain IORs and switching costs are high, which means that asset specificity is high (Langfield-Smith and Smith, 2003; Van der Meer-Koistra & Vosselman, 2000). The problems Fashion.se had when changing 3PLs confirm that it is expensive and difficult to adjust to a new partner. This is also argued by Bunduchi (2005) who states that investments in e-business technology could increase switching costs. Bygghemma on the other hand expresses that it would not be too complicated to switch partners. However, Fashion.se explain that they also anticipated that a switch would be easier than it was, and they are the only ones with actual experience.

Williamson (1991) states that when asset specificity, frequency and uncertainty are all high, a make decision is warranted. This is also the case for Adlibris, Lensway, Cyberphoto and Scandinavian Photo, and to some extent Electronics.com, which has a mixture of in-house and outsourcing. Langfield-Smith and Smith (2003), however, argue that the choice of buying the service could still be feasible with a high level of contractual and goodwill trust to reduce the risk of opportunistic behavior. In that sense, a hybrid structure would be the most suitable according to the theory, but a hybrid structure is characterized by low output measurability (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007). In the case of Buyfromus.com, Fashion.se and Electronics.com it is explained that they control with KPIs and that they monitor the process closely, which signifies output and behavioral control (Das & Teng, 2001). The use of integrated systems could also be seen as a form of outcome control (Kraus & Lind, 2007). Because of this, output measurability could be seen as high, which decreases the uncertainty about the partner acting opportunistically (Langfield-Smith & Smith, 2003). In this type of IOR, where the output measurability is high, a bureaucratic-based relationship is the most suitable according to the theory (Langfield-Smith and Smith, 2003; Van der Meer-Kooistra & Vosselman, 2000). This also seems to be the case for Buyfromus.com, Fashion.se and electronics in their IORs with 3PLs. The empirical findings also indicate that these IORs are complemented with some social control mechanisms, such as regular meetings where they evaluate, discuss and develop the IOR. This is what Sako (1992) suggests will increase competence trust. Sako (1992) also explains that detailed contracts and specified rules, which these e-tailers use, are an expression of contractual trust. This is also argued to be important in a bureaucratic structure, especially in the early stages (Langfield-Smith and Smith, 2003). However, the empirical findings differ from the theory in that the asset specificity is high in these companies whereas it is described in the theory to be moderate in a bureaucratic structure (Langfield-Smith and Smith, 2003).

Regarding the function of warehouse logistics, the theory serves well to explain the make-or-buy decision and how the IORs are structured. According to the theory, the decision should in this case be made, which many of the interviewed companies have done (Williamson, 1991). There is also evidence of IORs with bureaucratic structures. According to Williamson (1991), the bureaucratic structure is not the governance structure with the lowest transaction cost when asset specificity is high. However, this could be explained by wanting to access specific knowledge, but at the possible cost of a higher transaction cost due to opportunistic behavior or poor performance (Van der Meer-Kooistra & Vosselman, 2000). The interviewees have indicated that e-satisfaction, in the form of serviceability, has had an influence on the dimensions of TCE. It could also be argued that serviceability increases the need for specific knowledge in a partner.

Bygghemma's IOR with XL-bygg differs from the others described in this section. Bygghemma explains that many of its products become unprofitable when shipped over longer distances. This could be seen as an even higher uncertainty in how the service should be executed, which is what Dekker (2004) explains as task uncertainty. In order to be able to meet customer demands Bygghemma has chosen to cooperate with XL-bygg, that stock some of the products in their 115 wholesale stores. Even though Bygghemma states that they use some outcome control; they unconsciously describe characteristics of a hybrid structure as well, with social mechanisms, long-term commitment and competence trust (Langfield-Smith & Smith, 2003). This relationship is difficult to define. There is evidence of both hybrid and bureaucratic structures. Either the theoretical framework is not fully suitable to explain this IOR, or a deeper analysis of this specific relationship is needed to define it. However, it could be argued that the e-satisfaction factor of serviceability in this case has increased uncertainty, and has had an impact on the governance structure.

Adlibris and Lensway also mention a tradition of doing it themselves as a contributing factor for doing it in-house. It is difficult to say how much influence this has had on the make-or-buy decision, and may therefore call for further research. Another factor that might have an impact on the differences in the characteristics of the IORs might be the level of dependence, which Donada and Nogatchewsky (2006) discuss in their article. By reviewing the empirical data it can be imagined that Bygghemma does not have the same lordship position over XL-Bygg as, for instance, Buyfromus.com seems to have over their 3PL, Storage AB. This is not a variable that is deeply discussed in this thesis's theoretical framework, but the relevance of the discussion of lordship and vassalage's impact might also be something for further researchers to investigate in this setting.

5.1.3.2 Delivery

Delivery is also a process that the interviewees considered to be essential in order to offer fast deliveries and high serviceability. All of the companies interviewed have chosen to buy the service of delivery from external transport companies. This is most likely due to the amount of resources needed to be able to deliver across the country as quickly and as inexpensively as the transport companies can. This does not seem possible for the e-tailers to do themselves.

Still, the e-tailers stress the importance of the deliveries being correct, in order to achieve the offer promised to the consumer.

The frequency of the IORs connected to delivery seems to be high where the companies have daily outgoing deliveries (Everaert, 2010). Because fast deliveries increase e-satisfaction through serviceability (Gelard & Negahdari, 2011), it could be argued that this has increased the need for interaction with the transport companies, meaning frequency has increased.

In the case of the e-tailers, it appears as if they feel a high level of uncertainty about how the service should be executed, as they are not able to do it themselves. This is similar to what Dekker (2004) defines as task uncertainty. The empirical data indicates that the choice to outsource to renowned transport companies decreases the uncertainty. This might be due to that the e-tailers state a high level of trust towards the transport companies, which is argued to be important in order to control high uncertainty (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007).

The IORs are characterized by integrated information systems connected to the specific relationships, as explained by Cyberphoto. Adlibris also raises the question about integrated tags and barcodes that would need to be changed if they were to switch transport partners. This could be regarded as specific investments in the relationship, which is the definition used for asset specificity (Langfield-Smith & Smith, 2003). Adlibris also stresses the problem of making it work with time schedules and routines with a new transporter. This is an example of problems they had when entering into the IOR with Schenker. Even though this indicates high asset specificity, the interviewees gave the impression that it would be possible to switch partners without too much complication. They also gave the impression that asset specificity is lower in this function than in warehouse logistics. Therefore, the asset specificity is in this case regarded to be medium to high.

According to TCE, the choice is supposed to be 'make' when asset specificity is high, uncertainty high and frequency high (Williamson, 1991). Even though delivery is close to the characteristics of a make decision, this decision does not seem to be possible in this case, as described earlier. The service would probably not be as good and it would not be economically defensible. It could be argued that a buy choice, with a hybrid structure, would be suitable in these cases. This is because these IORs seem to be based on trust as a means to achieve control, which is characteristic of a hybrid structure (Langfield-Smith and Smith, 2003; Kraus & Lind, 2007). Trust seems to be the most important factor for these IORs. All the companies describe these relationships as long-term, and that they value and rely on the transport partner. Cyberphoto for example, explain that there are cheaper alternatives, but that they value their relationship with Posten and the quality of their services. Trust is argued by Langfield-Smith & Smith (2003) to affect the choice of partner, and Sako (1992) also argue that competence trust is increased over time. Both these statements seem to hold true in this case. Most of the IORs between the interviewed companies and Posten are long-term relations that are influenced by competence trust. This becomes clear when looking at Adlibris's IOR with Schenker. In the beginning the control was tight,

but today when everything works well, the relationship is built more on competence trust than on tight control. The empirical data shows more aspects of social control than just trust. There is a high degree of personal contact and the parties keep an open dialog. Generally the companies expect to hear from customers if something is not working. However, there are also signs of outcome control. Lensway for example, call their customers to evaluate the transport company's performance. Cyberphoto and Adlibris both match the invoices for the price agreed and the amount of deliveries made. Relative to the IORs described in 5.1.3.1 *Warehouse logistics*, p. 39, the outcome control and behavioral control are low. This seems to support the theory that the need for behavioral and outcome control decreases with a high level of trust (Kraus & Lind, 2007).

The theory seems to serve well to explain the governance structure and control of these IORs. It is also indicated that e-satisfaction in the form of serviceability, has affected frequency, asset specificity and uncertainty by creating a need for increased interaction, increased investments in integrated systems, and a high degree of competence trust.

5.1.3.3 *Customer service*

Gelard and Negahdari (2011) mention customer service as essential in order to create serviceability and e-satisfaction. This was also the impression given by the interviewees. Adlibris expresses that customers often become even more satisfied when they receive good help after a problem has occurred, than if there would never have been a problem in the first place.

Buyfromus.com, as the only of the interviewed companies that outsources its customer service, states that the relationship is characterized by a lot of personal contact and high interaction. This would indicate that the frequency of the transactions in the IOR is high (Everaert et al, 2010). Buyfromus.com expresses that they use KPIs and behavioral controls to evaluate their partner, which suggests that there is some output measurability. However, Adlibris maintains that the nature of customer service makes it hard to measure the value of what is produced, which means that the output measurability is low, and increases the need for social control mechanisms as well as personal contact (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007).

All the e-tailers, except for Buyfromus.com, express that they need to keep customer service in-house in order to secure the quality of the service. This is in line with what Sarah Wittbom at Nordic eCommerce Knowledge argues is the trend in e-commerce today. This also indicates that they feel high uncertainty in that an external company will act inappropriately (Rousseau et al, 1998). They feel that the risk of poor performance is too high. Adlibris even expresses that it might not be the cheapest alternative to have the customer service in-house, but that it is important to own the process in order to offer the best service. TCE includes the risk of poor performance as a part of the transactional cost (Van der Meer-Koistra & Vosselman, 2000). This would mean that the transaction costs for outsourcing increase because the performance in customer service is important for e-satisfaction.

The interviewee at Buyfromus.com did not give any examples of specific investments in the relationship, which could indicate that the asset specificity is low, but on the other hand she was not the one responsible for customer service. She did mention the use of behavior and social control mechanisms necessary to make sure the job is done the way they want it to. This could be seen as some sort of specific investment, possibly including a learning period. Nevertheless, asset specificity in this case could still be considered to be relatively low compared to previous examples where it has been defined as high. TCE describes asset specificity as the dimension with the most importance in the choice to make or buy (Williamson, 1991). Williamson (1979) argues that the governance structure should be chosen to minimize transaction costs. If the asset specificity is low, then the heavy hierarchical structure becomes too expensive, meaning that 'make' is not the best option. Nevertheless, all the e-tailers, except Buyfromus.com, seem to feel too uncertain about outsourcing. This suggests that they would rather pay a higher production cost in order to keep it in-house, as the cost of risk of poor performance appears too high. This seems to give more importance to uncertainty as an influencing dimension than what the theory argues. It is also indicated that this increase in importance is due to the need for serviceability in the customer offer.

In the case of Buyfromus.com, e-satisfaction has influenced the governance structure and control of the IOR by driving it towards a bureaucratic structure. Buyfromus.com uses a mixture of outcome and behavior control in this IOR, which characterizes a bureaucratic structure (Langfield-Smith and Smith, 2003; Kraus & Lind, 2007). Theory would argue that when asset specificity is low, a market structure would be the most suitable (Williamson, 1991). Instead, it appears as if the importance to secure the quality of the service has increased uncertainty, as well as frequency, thus creating a need for a closer relationship and a desire for tighter control, even though it could be argued that output measurability is relatively low.

Existing theory of TCE does not seem to be the most suitable in trying to explain the choice of governance structure. Customer service is an additional service which, due to the low asset specificity, TCE argues to outsource (Williamson, 1979). It could be debated that the TCE theory is not adapted to this kind of relationship, where the customer value is in focus, and not the efficiency of a supply chain. On the other hand, Van der Meer-Kooistra & Vosselman (2000) argue that outsourcing also could be seen as a strategic decision, and that the risk of poor performance is included in the transaction cost. This would mean that the transaction costs for outsourcing increase, because the performance in customer service is important for e-satisfaction, thus justifying a make decision.

5.1.4 Security

All of the interviewed companies have chosen to outsource their payment of invoices, which is interesting because it is not as obvious why as it is with outsourcing transports. It is not that the companies do not have the resources to deal with invoices, but rather that they want someone else to assume the risk.

From the empirical findings it was evident that invoicing corresponds with security. The interviewees express that the payment systems are important for

customers to feel secure when shopping online, and invoicing seems to be a payment method that invokes a sense of security. There are integrated systems necessary to make these IORs function. Adlibris explains that the first integration of Klarna's system was an extensive process. However, they also express that it would probably be possible to switch partners without too much complication, something that Bygghemma has already done. It is also explained by Cyberphoto that the complexity to switch decreases if the IT-department is located in-house. Scandinavian Photo, however, still sees it as expensive and problematic to change, because of the relational investments. Langfield-Smith & Smith (2003) defines asset specificity as the value the investment has outside of the relationship, and because the different payment solution providers use different systems that need to be integrated, the asset specificity could be considered to be at least moderate. This is because the different e-tailers view the level of inter-connection differently.

Even if most of the transactions between the e-tailer and the payment solution company are made automatically, there is a significant amount of contact daily between the parties. For instance, Klarna and Adlibris are in contact several times a day regarding specific customer issues and changes in orders. This indicates that the frequency in this IOR is high (Everaert et al, 2010). Scandinavian Photo explains the same thing about high frequency of interaction.

Gregory (2011) describes uncertainty as any unknown variable in a transaction. It is difficult to connect this kind of IOR to the other definitions of uncertainty in the theoretical framework. Some e-tailers explained that they used to handle the invoices themselves, but now all of them are willing to outsource. This implies that they do not feel uncertainty of poor performance (Roussau et al, 1998). The uncertainty that can be analyzed through the empirical findings is the uncertainty of receiving payments, but also the uncertainty of how secure the e-tailers are perceived by the consumers. As Gelard and Negahdari (2011) explain, e-satisfaction increases when the customers feel a sense of security. This means that it is important for the e-tailers to appear secure and thus the uncertainty increases. As Adlibris explains, working with renowned companies, such as Klarna, invokes trust for the consumer. There is a demand from the consumers for this service. The outsourcing of this function seems to decrease the level of uncertainty, both in perceived security and in receiving payments. Because this function exhibits a different type of uncertainty than what is explained in the theoretical framework it is difficult to define the level of uncertainty. However, the empirical data shows that there is uncertainty present, which is why it is considered to be at least moderate in this case.

Most of the IORs with the payment solution companies seem to rely on social aspects of control. The amount of personal contact is high, as described earlier. Adlibris even have different contact persons for different kinds of issues. Louise Dahlborn at Klarna also talks about shared values in their relationship with Adlibris, which is a typical description of social control (Merchant & Van der Stede, 2012), and what Sako (1992) argues create goodwill trust. Dahlborn says that the two companies' visions match and that both companies value the end consumer. Adlibris even have the possibility to measure the outcome more than they do, but choose not to because they trust Klarna. It is also explained in the

theory that social control in an IOR decreases the necessity of behavioral and outcome control (Kraus & Lind, 2007). However, it is described that the level of acceptance, as an outcome measure, is important for e-tailers in their ability to evaluate the payment solution companies. This was also the reason why Bygghemma chose to switch from Klarna to Svea Finans. Bygghemma also gave the impression that they rely on outcome control to a greater extent than the other e-tailers. The other e-tailers' descriptions of the IORs have more similarities with relationships based on trust, especially competence trust, which is expressed through their confidence in the payment solution companies' competence (Sako, 1992). Through the empirical data it appears as if the consumers' knowledge of Svea and Klarna as well-known companies increases the e-tailers' degree of trust in the relationship. High amounts of personal relationships, as earlier described, is also a way of building trust, as Kraus & Lind (2007) explain. The moderate asset specificity, moderate uncertainty, high frequency and high degree of trust indicate that a hybrid structure would be most suitable (Langfield-Smith & Smith, 2003; Kraus & Lind, 2007). This also seems to be the case in these IORs.

The theory seems to serve well to explain these IORs in shapes of hybrid structures. On the other hand there seems to be other variables in play in these transactions. The dimensions of uncertainty, frequency and asset specificity are possibly not enough to explain this make-or-buy decision. As using well-known external providers for payment solutions, such as Klarna, increases e-satisfaction it seems as the e-tailers are pushed to outsource, even if TCE would not require it. None of the e-tailers even seem to consider keeping this function in-house. Certainly, the characteristics of the transaction do not seem to motivate a make decision (Williamson, 1991). However, according to TCE, the make-or-buy decision should be based on the sum of production cost and transaction cost (Van der Meer-Kooistra & Vosselman, 2000). Sarah Wittbom, at Nordic eCommerce Knowledge, states that the cost for the e-tailers to buy the service is rather high, and that larger e-tailers, e.g. Amazon.com, keep this function in-house to increase profitability. This could be translated to low production costs, which could mean lower total cost of having it internally and thus justifying a make-decision (Van der Meer-Kooistra & Vosselman, 2000). Still, none of the e-tailers choose the make decision. One possible factor could be that the uncertainty of not getting paid is too high. Another contributing factor could be that the consumers' demand for a cooperation with a well-known payment solution company is too high. That the e-tailers gain legitimacy through the use of external companies also provides evidence for Gelard and Negahdari's (2011) factor company, which states the importance of reputation and being well-known.

5.2 Frequency

It is discussed in the earlier sections of the analysis that some of the e-satisfaction factors have an impact on frequency. However, frequency itself does not seem to have as much impact on the make-or-buy decision, or on the choice of governance structure, as uncertainty and asset specificity. TCE explains that, when asset specificity is high, and frequency leans towards a higher level, it is better to keep the process in-house (Williamson, 1991). However, IORs with high levels of frequency, and moderate to high asset specificity, are found in

warehouse logistics, delivery and security. They seem to be able to manage the high level of frequency in the IORs thanks to integrated systems. Thus, high frequency is managed through specific invested assets, giving importance to asset specificity instead of frequency, which is also argued by Williamson (1991), who states that asset specificity has more importance than frequency in the choice of governance structure.

On the other hand, it could be argued that frequency played an important part in 5.1.2 *Merchandising*, p. 38. Because the e-tailers cannot keep all of the products in stock in order to supply a large amount of products. This resulted in a need for closer relationships and higher frequency with the suppliers. Thereby changing a possible market-based structure to a hybrid structure. Still, frequency does not seem to be more important than uncertainty and asset specificity in explaining this.

5.3 Uncertainty

Williamson (1979) states that when an industry matures, the level of uncertainty generally decreases, and transactions then tend towards a market-based structure. As explained in the introduction, the e-commerce industry is relatively young. Barriers to entry are to be seen as low and competition as intense (Porter, 2008). The interviews implied this as well. Many companies wanted to be anonymous and seemed afraid of revealing corporate secrets. Thus, it could be imagined that it is not especially hard to copy winning concepts, showing evidence of low barriers to entry. Furthermore, the e-commerce industry should not be seen as mature. Reversely, this should increase uncertainty of future contingencies (Williamson, 1979). Uncertainty should therefore be seen as higher than what it is in older mature industries. According to TCE, this would mean that more processes are to be done in-house (Williamson, 1991). This is also described to be the case for some functions in the investigated companies. One fascinating finding about uncertainty is shown in the section 5.1.4 *Security*, p. 45. According to the discussion in that section, it would be likely that at least one e-tailer handled invoices internally. However, all of the e-tailers buy the service. Cooperation with well-known payment solution companies seems to decrease the level of uncertainty in the transaction. Gelard and Negahdari (2011) argue that people are afraid to give away their credit card details and other personal information. By cooperating with, in the consumers' eyes, trustworthy companies the e-tailers borrow legitimacy from external companies in order to be viewed as a serious actor. It becomes a trademark for safety. Maybe the dimensions of uncertainty, frequency and asset specificity are not enough to describe why the choice is to make or buy in this setting. For example, to increase trustworthiness towards consumers, appears to be an important variable in the decision to make or buy. Similar findings with decreased uncertainty when outsourcing could be seen in 5.1.3.2 *Delivery*, p. 42, but with a different kind of uncertainty that was easier to link to the theoretical framework.

In this thesis, and in this setting, it could be argued that the dimension of uncertainty has a greater impact than what has earlier been described by TCE. It is argued that asset specificity is the dimension with the greatest impact on the choice of governance structure (Williamson, 1991). Nevertheless, in many cases

it seems as if the e-satisfaction factors have put pressure on uncertainty, and thus increasing its importance. For example, TCE calls for a market based structure in 5.1.2 *Merchandising*, p. 38, but the uncertainty Scandinavian Photo feel about securing their own product supply, in order to create e-satisfaction through merchandising, change the governance structure to a hybrid. A similar finding is shown in 5.1.1 *Convenience and site design*, p. 37, in Bygghemma's IOR with Wisbywebbmedia. Uncertainty to secure the best service appears to be a reason why most e-tailers keep customer service in-house, 5.1.3.3. *Customer service*, p. 43. The findings indicate that services that increase customer value also increase the importance that the dimension uncertainty has for the make-or-buy decision and the structure of IORs. It is important for the e-tailers to secure that uncertainty is not too high, which for different functions could be done through either make or buy.

5.4 Asset specificity

It could be argued that asset specificity is relatively low in the described transactions compared to, for instance, an IOR where two production companies buy a factory together. However, relative the e-tailers' size, the relation specific investment could still be high. Also, the intension during the interviews was to gain an understanding of how locked in the e-tailers felt in the IORs.

E-satisfaction appears to increase the asset specificity in functions concerning warehouse logistics, delivery and security. In order to receive and secure e-satisfaction in these functions there is a need for specific investments, especially through integrated systems. This also seemed to affect the make-or-buy decision and the type of governance structure. For instance in 5.1.3.1 *Warehouse logistics*, p. 39, the e-tailers describe the need for control in order to secure the customer offer, which increased the need for specific investments. Asset specificity also seemed to play an important role in why e-tailers chose to have IT internally, as it is shown that IT affects control and flexibility in other functions as well. If the service of the IT-function would be bought instead, it would probably increase the specific investments needed throughout the whole value chain, thus creating a need for a large amount of relational specific assets.

The empirical data and the analysis show evidence of that asset specificity has a major impact on the governance structure, which corresponds to what Williamson (1991) states. For these investigated companies, however, uncertainty also seems to have great importance. As described earlier, it is shown that the uncertainty about securing the customer offer could affect the choice of governance structure. This could be exemplified by customer service and convenience, where asset specificity is described as low. In this setting a market-based structure would be most suitable, according to Williamson (1991). Instead, the importance of high quality in order to secure the customer offer seems to increase the uncertainty, which also changes the governance structure. With that in mind, it appears as if both uncertainty and asset specificity, and the effect that e-satisfaction has on these variables, influence the make-or-buy decision for these e-tailers.

6 Conclusion

This section includes our conclusion of the study and suggestions for future research.

This thesis is based on an interview survey including 11 interviews and a mini case study consisting of 4 interviews. This research method made it possible for us to generalize and make comparisons to some extent, at the same time as it helped us gain a deeper understanding of the complex problem. The purpose of this thesis was to explain how the e-tailer's offer to the end consumer might influence the e-tailer's IOR from a TCE and trust perspective. In order to fulfill this purpose, we created a model based on TCE in relation to the customer offer. To explain this we posed the following research questions: Does the customer offer affect the make-or-buy decision and if choice is to buy, how are these IORs structured and controlled?

In order to answer these questions we needed to understand the important factors in the customer offer. We found it most suitable to use Gelard and Negahdari's (2011) study of the factors that drive e-satisfaction as a base for what the e-tailers want to offer. We created a model that suggests that these e-satisfaction factors have an impact on the dimensions of TCE, which in turn affect the make-or-buy decision, and the governance structure if the choice is to buy.

It appeared as if the e-tailers felt that the factors, that according to Gelard and Negahdari (2011) drive e-satisfaction, were important in order to secure high quality in the customer offer, and that this had an impact on the make-or-buy decision. E-satisfaction seemed to have affected at least one of the dimensions of TCE for every e-satisfaction factor, creating positive evidence for the model. It is shown that most of the e-satisfaction factors increase the need for frequency, but that the frequency itself does not seem to have a great impact on the make-or-buy decision. The e-tailers seem to be able to handle a high level of interaction even if the choice is buy, because of technology such as integrated systems.

The desire to secure the quality of the customer offer in functions such as warehouse logistics, delivery and security seems to increase the asset specificity in order to achieve control. According to Williamson (1991), asset specificity is the most important dimension in the make-or-buy decision and the choice of governance structure. However, this thesis shows that the desire to secure the customer offer gives more importance to the dimension of uncertainty than what has been argued in the theoretical framework. For instance, TCE would argue a different type of decision in the case of customer service and merchandising, because of the level of asset specificity. However, because the e-tailers express uncertainty about outsourcing, this increases the transaction costs to the degree where they have chosen to have the function internally, or to have closer relationship than what TCE would argue to be the most appropriate under these circumstances (cf. Williamson, 1991).

The theory of TCE does not always seem to be fully capable of explaining the make-or-buy decision and choice of governance structure in this setting. For example, in the e-satisfaction factors of security it appears as if the importance to secure the customer offer puts pressure on other variables than just the three dimensions of TCE. In security, the e-tailers express importance to work with renowned companies in order to make the consumers feel secure when shopping. This contributed to making all the e-tailers buy the service, and thus borrow legitimacy from external companies. The structures appeared as hybrids with focus on social mechanisms and trust. Even if this was argued to be suitable by theory (Langfield-Smith & Smith, 2003), it did not appear to be the levels of frequency, uncertainty and asset specificity that alone lead to the buy-decision.

In the choice of buying a service, it seemed as if the control of the IORs was mostly according to theory, even if the pressure on uncertainty appeared to change the governance structure. When the output measurability was low the e-tailers seemed to rely more on social mechanisms and trust in the IORs, than when the output measurability was high, which is according to theory (Langfield-Smith & Smith, 2003). The only exception seemed to be Buyfromus.com's IOR in customer service, which seemed to be based on more formal metrics even if the output measurability appeared as quite low.

Other than the findings, this thesis contributes to existing research by adding the variable of the customer offer and examining the make-or-buy decision and the structures of IORs in a new setting.

6.1 Further research

Further research on this subject is needed since this study did not show undisputable evidence of what variables that exactly affect the make-or-buy decision in this setting. As this thesis just scratches the surface, and the problem is complex, it would have been interesting with a larger case study for deeper understanding of the connection between the factors. A suggestion could be to study only one of the e-satisfaction factors, with a deeper research into the different dimensions and variables affecting the make-or-buy decision.

As the desire to secure the customer offer seemed to affect the make-or-buy decision in this setting, it would be interesting to add customer value as a variable in researches of TCE in other settings and industries.

From our empirical findings we found that uncertainty seemed be more important than what Williamson (1991) argues. One suggestion for further research is to investigate if this is true. This could be done through a more generalizable quantitative study where our findings could be used as hypotheses in a similar or a different setting.

In the analysis we mentioned that the position of dependence might be of importance in order to explain the governance structures in the IORs. An interesting approach could be to investigate relationships in a similar setting as this study through Donada and Nogatchewsky's (2006) theory of lordship and vassalage. As previously mentioned in the analysis, another variable that could be included in future research is the history and tradition of the company, which Van der Meer-Kooistra and Vosselman (2000) also suggests.

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Appendix

Interview guide¹

- Could you tell us about yourself and your role at the company?
- Could you tell us more about the company? Structure? Amount of departments? Amount of employees?
- What do you consider as key success factors in order to sell your type of products through Internet?
- Have you chosen to outsource any process of your value chain? Why/why not?
- What happens from the moment I order a product on your web site till I receive the product? What processes are affected? What external companies are involved in these processes?
- How does the company operate in the purchase process? Could you explain about the relationships with your suppliers?
- How does the company work with warehousing and logistics?
- How does the company operate with deliveries? What do the relationships with the transport companies look like?
- What payment solutions do the companies have? What do these relationships look like?
- How does the company work with IT? How does it work with underlying systems?
- How does the company work with marketing?
- How does the company work with the finance department?
- Does the company have any other relationships with companies that we have missed to ask about?
- Common follow-up questions were about: Specific investments made, control, interaction, trust and other characteristics of the relationships. The different types of control were also put relatively to one another in order to get a better picture of the control package.

¹ This guide was used as a base for the interview survey and was complemented with follow-up questions for deeper understanding. The questions have been translated from Swedish.