

# From products to services and back again: Towards a new service procurement logic

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## Abstract

This paper explores patterns in the process of buying complex services. While there is currently hype about a service-dominant logic, there are also indications of a diametrically opposed logic implying the objectification of services; a goods-dominant logic. This paper investigates how buyers of different kinds of services relate to these logics and how the degree of objectification of services varies during different stages of the procurement process. By highlighting the buyers' perspectives and how services are transformed over time, the paper expands on the current knowledge of service-dominant logic. The paper is based on individual and focus group interviews with buyers at eighteen large industrial firms. © 2007 Elsevier Inc. All rights reserved.

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## 1. Introduction

It is widely recognized that more and more firms move from manufacturing goods to providing services or integrating products and services into solutions or functions. This “servitization” (Vandermerwe & Rada, 1988) of many industries has evoked a new interest in services and service marketing. It has even been proposed that all organizations, markets, and society are fundamentally centered on the exchange of service. According to this service-dominant logic, the focus of marketing, in theory and practice, should be shifted from the exchange of goods to the exchange of intangible resources (Vargo & Lusch, 2004).

There are also indications of a movement in an opposite direction, towards a more goods-dominant logic of services. In this view, the aim is to *objectify* services, which means reducing them to the status of simple objects. Mass customization (Davis, 1987; Duray, Ward, Milligan & Berry, 2000) and lean services (Bowen & Youngdahl, 1998; Åhlström, 2004), 2004) are ex-

amples of approaches in which many of the principles underlying the production-line approach to services (Levitt, 1972, 1976) have been revitalized. IBM, for example, seem to have renounced parts of their servitization strategies and are now focusing of objectifying services, i.e. turning services into “clearly defined offerings that can be marketed and delivered in much the same way that new mainframe computers are” (Waters, 2006).

Whereas the service-dominant logic essentially presumes or even stipulates customized solutions developed in close buyer–supplier interaction, the objectification approaches aim at introducing manufacturing principles to services by materializing, standardizing, specifying or packaging services and making them more tangible. Both these movements influence not only the way processes such as production and marketing of services are designed but also the buying behavior of the firm, i.e. how buyers handle different aspects of the procurement process.

It may appear as if the two movements of servitization and objectification are mutually exclusive alternatives for buyers, but two things have, however, been suggested previously: First, that the two logics exist in tandem and that contemporary firms combine elements of the two logics by separating between different products, services and processes (cf. Nordin, 2005; Sundbo, 2002). Second, it has been accentuated that every

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product or service, no matter how complex or intangible it is, is objectified at some point in time in order to be exchangeable (Araujo & Spring, 2006; Callon, Méadel & Rabeharisoa, 2002). In other words, the properties of services are temporarily agreed upon and specified during the procurement process. Otherwise they cannot be traded.

Accordingly, it may be insufficient to point to general and static explanatory factors of services, such as their intangibility or perishability, if buying behavior is to be understood. The properties of a service are not only inherently depending on the service category but will also change during the procurement process, i.e. its degree of objectification will vary over time. Such a transformation of services has, however, not been empirically examined before (Rust, Kohli, Gummesson & Arnould, 2006). Thus, the aim of this paper is to contribute to the ongoing marketing discourse on service-dominant logic by highlighting the perspectives on the industrial buyers, and to show how servitization and objectification may work in practice over different stages of the procurement process.

Several kinds of services are included, with the main focus on relatively complex ones, i.e. services that are relatively intangible and heterogeneous in their nature; e.g., customized and integrated packages of goods/products and services (so called integrated solutions), research and development services, and management consulting. Such services are more difficult to comprehend, they are infrequently purchased and are often customized for each assignment (Mitchell, 1994; Vroomen, Donkers, Verhoef & Franses, 2005). Thus, they would seem to require a procurement approach in line with the service-dominant logic. As this paper will show, however, procurement practices are often more complex than what would be assumed.

The paper is organized as follows: In the next section, a theoretical framework is presented, focusing first on different logics and how they relate to service procurement. The specific research objectives of this study are then presented. Thereafter, the methodology is presented, followed by the research findings. At the end of the paper, an alternative logic to service procurement is introduced, gleaned from the empirical findings of this study and the theories put forth by Callon et al. (2002, 2005) and Araujo and Spring (2006).

## 2. Theoretical framework: Alternative views on service procurement

### 2.1. The goods-dominant logic and procurement

According to Levitt (1972, 1976), the way to improve service production is technocratic, not humanistic, thinking. Only by introducing manufacturing principles to services, for instance by materializing, standardizing, specifying or packaging services, will the quality and efficiency of services be improved, he argues. This view has been highly criticized, however. For instance, it has been argued that the inseparability of production and consumption makes it unfeasible to transfer manufacturing-oriented principles to services (Da Silveira, Borenstein & Fogliatto, 2001). Such efforts will imply a limited flexibility in meeting individual customer's demands and may

lead to a high employee turnover (Schlesinger & Heskett, 1991).

Nevertheless, the basic ideas of Levitt have been adopted by many companies and further developed into what has been labelled "lean service" (Åhlström, 2004; Bowen & Youngdahl, 1998), as well as the more generic concept "mass customization", which focuses on production of goods as well as services (Davis, 1987; Duray et al., 2000). These are approaches to production that combine elements of efficiency and customer responsiveness. The key to achieving a successful balance between the two, it is argued, is modularity (Pine, 1993). Modularization involves identifying standardized or interchangeable denominator units that may be combined to satisfy a variety of functions (Bi & Zhang, 2001) and markets (Sanchez, 1999). Professional service firms, for instance, commonly offer and deliver customized solutions that are based on repeatable pre-produced modules or standardized processes (Sundbo, 2002).

The ideas described by Levitt are frequently adopted by procurement in terms of so called transactional buying (Axelsson & Wynstra, 2002). This means that, for instance, very detailed requirement specifications are included in the request for quotation sent to the suppliers (Agndal, Axelsson, Lindberg & Nordin, 2007). On the basis of the specifications, the product or service, or the quotation from the supplier, may then be measured and evaluated. Buyers of services may benefit from standardization of services and processes because they obtain greater predictability of what they receive from the supplier. For instance, they may receive products or services in a predetermined quantity in line with the precise specifications made by the supplier (cf. Ritzer, 1993). The standardization also facilitates comparisons between alternative suppliers and makes it possible to apply competitive tendering.

Thus, in the service economy, we may be witnessing a movement towards servitization of products, but an equally obvious movement towards objectification of services. Perhaps it is no longer productive to define the various offerings as either services or products, as tangibles or intangibles, since to an increasing degree they are composed of both.

To summarize, the goods-dominant logic implies that the properties of the service are standardized and described in detailed specifications. It also implies that, during the procurement process, buyers and sellers have a relatively distant relationship and suppliers may easily be substituted.

### 2.2. The service-dominant logic and procurement

In conventional service marketing literature, services have been treated as those things that are not a product (Grönroos, 1998), or as something that, because of their intangible, heterogeneous, inseparable and perishable (IHIP) characteristics must be marketed differently from products (Lovelock, 1983). For instance, the entire field of service marketing has built its *raison d'être* on the conceptual difference between products and services (cf. Schneider, 2000). Following this line of argument, procurement scholars have argued that the procurement of services is different from that of products (Axelsson & Wynstra, 2002; Fitzsimmons, Noh & Thies, 1998; Wittreich, 1966).

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