

# Service procurement in manufacturing companies: Results of three embedded case studies

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## Abstract

An increasing part of companies' purchasing expenditures is being spent on (business) services. At the same time, the interactive character of business services has so far largely been neglected in purchasing and supply management studies. The success of a service purchase is however established during the ongoing production and consumption of that service, which takes place in continuous interaction between buyer and seller.

This paper investigates these ongoing interactive processes between buyer and seller after the purchase decision has been made. The specific focus is on services buying by manufacturers, since manufacturers' services spend increasingly encompasses services that eventually become part of the final offering to customers. This is expected to pose specific challenges for manufacturing companies, who have traditionally been involved with purchasing goods.

Case studies into ongoing buyer–seller interaction are conducted at three manufacturing companies. Starting from a usage-based classification which contains four types of business services, four services are studied at each manufacturing company. The results show that indeed the different types of services can be associated with distinct patterns of ongoing interaction. Furthermore, the results provide initial support for the idea that having differentiated patterns of interaction contributes to successful ongoing service exchange.

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## 1. Introduction

The procurement of business services has become an important element of companies' acquisition of external resources (Axelsson & Wynstra, 2002; Van Weele, 2005). Murray and Kotabe (1999) point out that individual organizations are moving away from pure product buying towards services buying. As such, manufacturing companies are incorporating more and more services into their activities (Machuca, del Mar Gonzalez-Zamora, & Aguilar-Escobar et al., 2007). Whereas the procurement of business services in manufacturing sectors has traditionally mostly been limited to

Non Bill-of-Materials (Non-BOM) services, more recently, manufacturing companies are increasingly adding services to their offerings to customers. Rosen (1998) for example observed that in a typical manufacturing company, services can account for 30% to 70% of value added. Giffi, Roth, and Seal (1991) studied 759 leading manufacturing firms and showed that the majority have incorporated a significant service component in their "strategic bills of materials". Thus, manufacturers are increasingly augmenting their products with services that add value to the customer's use of the physical product and lower the customer's total life cycle cost (Hill et al., 2002).

At the same time, much of the existing knowledge in the field of Purchasing and Supply Management (PSM) has mostly been aimed at buying goods. Sheth (1996, p. 14) argues that compared to goods, academic knowledge about services is limited. Furthermore, Thomas (1978) and Nie and Kellogg (1999) point out that applying theories and techniques

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developed in the manufacturing arena directly to services is inadequate. Ellram, Tate, and Billington (2004) suggest that the inherent differences in services require specific supply chain management tools. This implies that one cannot draw on knowledge on goods procurement for services buying. Consequently, Fitzsimmons, Noh, and Thies (1998) and Stock and Zinszer (1987) found that organizational buyers deem the procurement of business services to be substantially different from or even more difficult than the procurement of goods. This may cause specific difficulties for manufacturing companies, who have traditionally been very much goods-oriented.

A key characteristic underlying these difficulties, as emphasized by services marketing scholars, is that (business and consumer) services are being produced and consumed in interactive processes between buyers and sellers (Grönroos, 2000; Zeithaml & Bitner, 1996). Indeed, Buse, Freiling, and Weissenfels (2001) argue that manufacturing companies need to understand the business as a service business rather than a product business, in which the customer is integrated into the process of providing customized solutions. Taking a supply chain management perspective, Sampson (2000) claims these chains are bi-directional. From a PSM perspective, there have been relatively few attempts to investigate these interactive processes between buyers and seller of business services in great detail (Wynstra, Axelsson, & Van der Valk, 2006). Most studies into service procurement have focused on the initial stages of the purchasing process (e.g. supplier selection Day & Barksdale, 1994) rather than on the continuous processes that take place in these bi-directional supply chains. Jackson and Cooper (1988) furthermore claim that services that become part of offerings to end customers have largely been neglected by researchers.

This paper therefore investigates the ongoing *interactive* processes between buyers and providers of various kinds of business services. Building on a classification of business services proposed by Wynstra et al. (2006), who identify four types of business services based on how the service is used by the buying company, the ongoing interactions between manufacturers and providers of both NPR and PR services are studied. Our main objective is to identify systematic variation in buyer–seller interaction for different types of business services. The insights obtained are used to develop propositions on patterns of ongoing interaction between manufacturing companies buying business services and their service providers.

The remainder of this paper is organized as follows. First, the theoretical background underlying this study is explained. After discussing the research methods, the results of three embedded case studies into the ongoing interaction between manufacturers buying business services and their service providers are presented and analyzed. The paper ends with conclusions, and a discussion of future research directions.

## 2. Customer-usage as a main determinant of ongoing interaction

One characterizing feature of (business) services is that they are produced and consumed in interactive processes between buyers and sellers. Services marketing/services management

scholars have strongly emphasized the importance of these ongoing interactions: the interactions between the customer and the service provider in specific service encounters, in which the service is simultaneously produced and consumed, rather than the mere transaction (exchange) should become the main focus point for marketing (Grönroos, 2004). It is in these encounters that buyer and suppliers co-create value (Vargo, 2006; Vargo & Lusch, 2004). As a result, buying organizations simultaneously act as customers and co-producers of the service. Sampson (2000) refers to this phenomenon as customer–supplier duality, meaning that customers are suppliers in all service businesses. He claims that consequently service supply chains are bi-directional and that the actual outcome of the buyer–seller linkage is largely dependent on the design and management of interfaces and interaction processes.

Taking a PSM perspective, Wynstra et al. (2006) argue that the customer usage-dimension is one of the main determinants of effective buyer–seller interfaces and interaction processes. Interaction is considered effective/successful when the buying company is satisfied with the process and the result of service provision during the contract period. Wynstra et al. (2006) derive their idea from extensive studies conducted by scholars belonging to the Industrial Marketing and Purchasing (IMP) Group into the ongoing dealings between buyers and sellers of industrial goods (see for example Håkansson, 1982; Håkansson & Snehota, 1995). These studies distinguished capital equipment, components and raw materials/semi-manufactured goods and demonstrated that different buyer–seller interfaces and interaction processes were most appropriate/effective for each of these types of industrial goods. Jackson and Cooper (1988) also propose a classification based on how products/services are used by an organization: as capital products (investments in for example equipment), as operation products (supplies, MRO services), or as output products (raw materials and production services like for example inspections). They state that marketers of business services need to understand that the two types of business services included in the three classes are distinct and that the approach to marketing for these two service types should differ. Similarly, Parasuraman (1998, p. 310) noted that customer–seller links differ for services used internally and services that will be sold to the next level of customers in the supply chain — either with or without being modified. Given that purchasing is the natural counterpart of marketing, these issues should be equally important to organizational buyers.

The classification of business services proposed by Wynstra et al. (2006) builds on these two classifications, and identifies four types of services: two of these remain within the buying company, whereas the other two are being passed on to the buying company's customers. Within the first group, they make a distinction between instrumental and consumption services. *Consumption services* are used up within the buying company (e.g. office cleaning at an airline). *Instrumental services* are used to modify way the buying company carries out its primary processes (e.g. management consultancy at an airline). Most NPR services can be found in these two groups. Regarding the services that are being passed on to customers (PR services), Wynstra et al. (2006) identify semi-manufactured and

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