Evaluation of business services from a buyer's perspective: The place of consumption as distinctive feature

Martin Haensel*
Erik Hofmann**

*) University of St.Gallen, Chair of Logistics Management, Dufourstrasse 40a, 9000 St. Gallen, Switzerland, martin.haensel@unisg.ch, Tel.: + 41 (0) 71 224 7288, Fax: + 41 (0) 71 224 7315

**) University of St.Gallen, Chair of Logistics Management, Dufourstrasse 40a, 9000 St. Gallen, Switzerland, erik.hofmann@unisg.ch, Tel.: + 41 (0) 71 224 7295, Fax: + 41 (0) 71 224 7315

Abstract

Due to increasing market competition, the purchasing performance as well as the quality measurement of goods and services can be considered as an essential task within a company. Whereas goods purchasing is a well-known process, the acquisition and evaluation of business services is still underachieved. Although the importance of service quality aspects seems obvious, existing approaches mainly consider monetary evaluation criteria. The following work provides a systematic approach to increase the understanding of business service evaluation, using case study research from five Swiss multinational companies. In addition, a literature review provides insights into existing evaluation procedure. A contingency approach is conducted as a theoretical basis to address differences in the evaluation procedure regarding the service type and the point of a service consumption. Research results provide insights into existing evaluation methods revealing different requirements as well as varying accuracy depending on service type and on evaluation responsible. Conclusively, results as well as limitations are discussed concerning their managerial and theoretical contribution.

***Keywords**: business service evaluation, purchasing performance, contingency theory, point of consumption, service quality, evaluation criteria*

Purchased business services can be considered as a crucial factor in the value creation of companies. With a view to manufacturing companies, the importance is reflected by the high amount of externally purchased services (van der Valk, 2008, Sonmez, 2010). If business services are acquired internationally, the place of their creation as well as the comparability of service quality and the service costs may vary. Even though, the importance of business services within a company is noticed, the majority of purchasers still struggle with efficient procurement and evaluation (Smeltzer, 2002). Typical challenges are seen in the creation of market transparency, the identification of cost saving potentials as well as the acquisition of high quality and reliable services (Bruhn, 2003).

From a buyer's perspective, business services can be differentiated into four basic types: (1) consumption, (2) instrumental, (3) semi-manufactured, and (4) component services (van der Valk et al., 2009). Apparently, depending on the type of business services, evaluation processes may vary as importance as well as quality expectations of acquired services differ. Consequently, the place a business service is used and evaluated in a supply chain – in the following named point of consumption (POC) – is highly contingent upon the type of service.

Despite the enormous potential an efficient business service evaluation would have on a company's purchasing and overall firm performance, there is a lack of research about well-performing evaluation approaches (Fredendall, 2005). Furthermore, existing attempts neglect differentiations of business services as well as the place of their consumption. In order to fill this research gap, this paper explores evaluation methods from practitioners using case studies from five Swiss multinational companies. The following research questions are examined in more detail:

- **RQ1:** In which way do buying companies evaluate business services and which factors influence this process?
- **RQ2:** From a buyer's perspective, is the type of services and the POC related to the perception of a business service evaluation?

Initially, section 2 provides a structured literature review on existing purchasing evaluation approaches as well as on established evaluation variables. Whereas section 3 represents the pursued methodology, section 4 provides empirical research results and discusses the outcomes in the context of its theoretical and managerial contribution. This section also indicates limitations and proposed future research areas.

Literature review

This section presents an excerpt of consolidated findings of the conducted literature review on business service evaluation. In this context, the literature review identifies existing approaches, appoints influencing variables during the evaluation process, and reveals the current research gap.

Evaluation of business services

In recent years, research dealt with the increasing importance of business services and its evaluation (Zimmermann and Foerstl, 2014, Jayawardhena, 2010, Pressey et al., 2009). Depending on branch and on industry affiliation – up to 40 percent of the total purchasing volume is assigned to services (Cox et al., 2005, Axelsson and Wynstra, 2002). Although the importance of service evaluation seems obvious, existing approaches primarily consider monetary evaluation criteria, neglecting the quality dimension. Consequently, an effective evaluation of both the value creation process as well as the service quality is significantly more difficult in comparison to goods (Rönnbäck and Witell, 2008, Inklaar, 2007). Several research attributes this shortcoming to specific characteristics of services (van der Valk, 2009, Parasuraman, 1988, Carr, 2007).

Furthermore, existing publications mainly observe the seller’s perspective, whereas a buyer’s perspective is mostly neglected (Ellram et al., 2007). However, a sample of existing literature reveals the importance of business service evaluation and its contribution to the purchasing or firm performance (González-Benito, 2007, Cousins, 2008, Narasimhan and Das, 2001).

However, from an economic standpoint, the evaluation procedure for purchased business services can be described using the concept of diminishing marginal utility (cf. Barford et al., 2001). This means, a marginal increase of effort to evaluate business services yields more outcome than a subsequent one would. This theory makes it clear that firms are not willing to put the same kind of effort into evaluation procedures, if the same utility cannot to be expected. This theory is applicable to an existing classification of services presented by Wynstra et al. (2006), summarized in Table 1. Additionally, the POC as well as the type of business services is added, as their consideration appears supportive for later argumentations.

Based on this classification, Holschbach and Hofmann (2011) reveal, for instance, that not many buying companies have implemented quality management processes for consumption services due to an expected low impact on customer satisfaction.

Type of service	*Description*	*POC*	*Example*
Consumption business services	Typically used within the own company and not part of the final offer to the end customer.	Internal evaluation by essential user of acquired business services	▪ Facility services ▪ Travel services ▪ Car rental service
Instrumental business services	A business service that is required for production processes and where the value of produced goods increases.	Internal evaluation by producer; External evaluation by end-customer	▪ Assembly services ▪ Logistics services
Semi-manu-factured business services	Business services that are also offered to end customers, but are changed beforehand by the buying company.	Internal evaluation by essential user; External evaluation by customer and service provider	▪ Marketing services ▪ ICT services
Component business service	Services that become an unaltered part of firm's final offer to end customers.	External evaluation by end-customer	▪ After sale services ▪ Maintenance services

Table 1: Classification of business services ***Source: (Wynstra et al., 2006)***

Value creation of business services and purchasing performance

The acquisition as well as the performance of business services is strongly dependent on external factors that cannot or just barely be influenced by the service provider (Hallikas, 2014). Grönroos (2008) addresses the aspect of service co-creation stating that a service provider and

a buying company are both responsible for a service value creation. This makes it clear that a business service evaluation from a buyer's perspective must always consider influencing factors from within a company.

In order to assess the reasoning of extensive business service evaluation an important aspect deals with the cost and value structure of acquired services. While methods for a cost-breakdown already exist – especially for physical goods – a similar application for business services (incl. qualitative and quantitative factors) is rarely described (McNair, 2001). Another aspect deals with the capability of business service evaluation that might be related with the internal knowledge about specific business services. In general, a company's decision to buy or outsource a business service is typically based on two facts: the missing capability to provide the service more cost-efficient or with a required quality (Bhagat et al., 2010). If a company lacks the specific knowledge about the provision of an acquired business service, its ability to adequately assess the cost and value structure in the service evaluation process might also be influenced. In this context, Gotzamani (2010) states that specialized 3PL logistic service providers are considerably more advanced in terms of quality programs and assessment tools than logistic departments from potential customers. As the evaluation of business services occurs as important topic during the purchasing activities, several authors examine the dimensions of service performance and its evaluation (e.g. Gounaris, 2005, Parasuraman, 1988, Pan and Kuo, 2010). However, a combined and generalized approach – addressing qualitative and quantitative aspects – has not yet been developed and is therefore a major objective for research in the field of business services.

In the broader research area of purchasing performance and its assessment – regarding purchasing of both goods and services – literature differentiates between qualitative and quantitative approaches (Song et al., 2012, Chin-Chun et al., 2008, Ittner et al., 1999). In this context, Fredendall (2005) describes a company purchaser as an internal service provider; assessed by performance expectations and influenced by internal and external determinants. It seems quite obvious that a selected or implemented evaluation procedure effects the perception

of the acquired quality of business services tremendously. Even though a clear distinction between services is addressed in recent research, none of the existing literature considers the type of service as contingent factor for the choice of evaluation procedure neither its impact to the assessment of a firms purchasing performance.

Resume of the literature review and research gaps

As a resume, several key challenges in purchasing and evaluating business services – also identified as research gaps – are summarized in the following:

- *No consideration of service type and POC:* Even though differences occur regarding service type and POC, this aspect is completely neglected in existing evaluation approaches.
- *Unclear value composition regarding the service type:* Due to very limited transparency on costs and value structure, the evaluation as well as the comparison of different business services appears to be difficult.
- *Lack of service-specific analysis and management tools:* The small number of existing evaluation approaches primarily examine the cost structure, neglecting qualitative aspects of acquired business services.

Methodology

In order to fill the observed research gap and to answer the related research questions, a case study methodology is used. According to Eisenhardt (1989) and Yin (2003), this procedure seems appropriate since our research is of explorative nature aiming to reveal a new theory. Additionally, a contingency approach is used as a theoretical foundation (Kohli, 1989, Neu, 2005).

Study design and conceptual framework

As our conducted research questions focus on business service evaluation from a buyer's perspective, the same single-view perspective was chosen for the conceptual framework. Hence, the scope of analyzed cases is limited to buying companies rather than service providers.

Interviews were conducted with a firm's purchaser of business services but also with the heads of global or indirect purchasing. Altogether, ten in-depth interviews with a duration between three and five hours were conducted, as stated in Table 2.

In order to explore differences in business service evaluation depending on the service type or the POC, our analysis focuses on how evaluation criteria might change. It is assumed that both factors can be described as exogenous contingency factors. Due to their influence on the evaluation procedure (e.g. determining the use of qualitative and quantitative evaluation criteria), an impact on the purchasing performance is expected. The conceptual framework of the study is visualized in Figure 1.

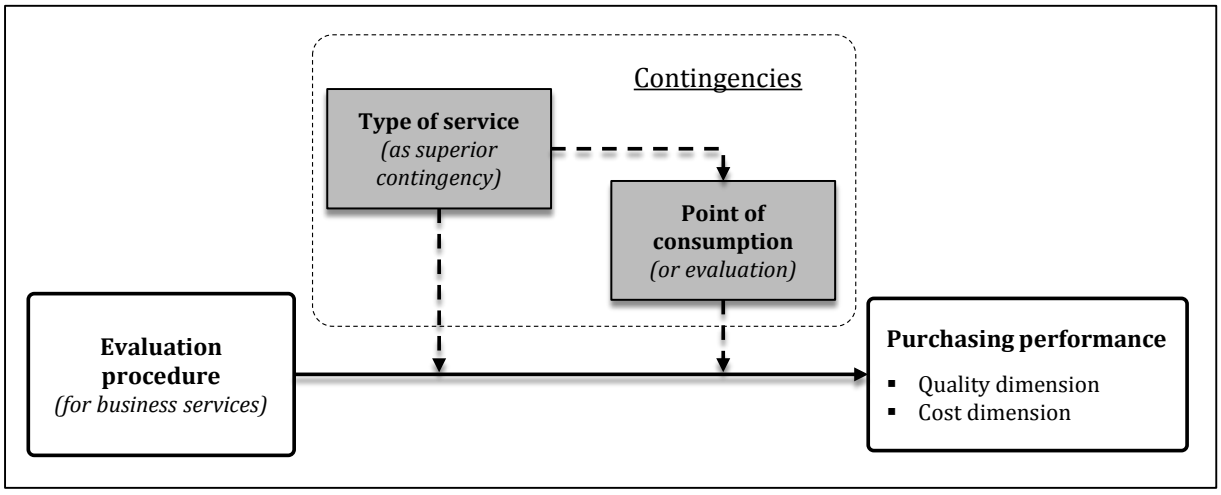


Figure 1: Conceptual framework of the study

Case selection and sampling

In order to analyze these aspects and to allow a wide variety of observed cases, firms from (1) different industry sectors and (2) from different sizes where chosen. Therefore, not only domestic but also trans-European and worldwide operating companies were considered. With this diverse case selection, the external validity increases as research results become more generalizable (Eisenhardt, 1989, Yin, 2003).

In accordance with the recommendation from Seawright and Gerring (2008), a two-step analytical sampling approach was used. Initially, a relatively homogenous sample with regard to origin and firm size was identified. This is necessary to ensure a similar legal and competitive

market environment. Furthermore, it is assumed that – depending on industry and company size – differences regarding the extent of addressed evaluation criteria might occur. For that reason, exclusively medium and large scale companies are chosen, whereas small firm case examples are neglected.

In a second step, firms with a different maturity level regarding the evaluation of business services were chosen. It is suspected that not the firm's size but rather the service type and the POC affect the maturity level of a firm's business service evaluation. An overview of selected cases is made available in Table 2. As anonymity is mandatory, abbreviations are used for firm identification.

Study perspective		**Case characteristic**			**Number of interviews**	
Case	***Selection criteria***	***Size***	***Origin***	***Industry***	***Interview partner***	***Total***
L1	Large scale, domestic turnover and service purchasing	Large	Switzer-land	Postal service	Head of global purchasing; head of service purchasing	2
L2	Large scale, worldwide turnover and service purchasing, mass production	Large	Switzer-land	Pharma-ceuticals	Head of global sourcing; head of global warehousing & distribution	2
L3	Large scale, worldwide turnover and service purchasing, customized production	Large	Switzer-land	Machine engin-eering	Head of global purchasing; logistic purchasing manager	2
M1	Medium scale, trans-European turnover and service purchasing	Medium	Switzer-land	Sanitation technic	Head of global purchasing; head of indirect purchasing	2
M2	Medium scale, trans-European turnover and worldwide service purchasing	Medium	Switzer-land	Tobacco industry	Head of global operations; director corporate procure-ment and services	2

Table 2: Case overview

Data analysis

In order to allow a structured analysis of the collected data, a qualitative data analysis approach – proposed by Corbin and Strauss (1990) – was used. Initially, a within-case analysis was

conducted to allow for a better understanding of both a firm's service evaluation method and the embedded evaluation criteria. In this context, a data triangulation was applied considering insights from interviews, from official company documents (e.g. evaluation spreadsheets and process instructions), and from several site visits. Secondly, a cross-case analysis was performed in order to identify similarities among the cases. Finally, evaluation methods, evaluation criteria as well as potential influential factors that need to be considered in future research were collected.

Research results and discussion

This last section presents observations from the explorative and empirical analysis on business service evaluation providing three propositions, in order to provide answers for the pre-defined research questions and to ensure managerial implications.

Research results

Generally, research reveals that the type of business service as well as the related POC affect a company's evaluation approach for business services. This is also related to a company's expectations about service quality. Company L1, for instance, is highly effective regarding its acquisition of high-quality logistic services. As logistic services can be considered their core business (logistic services occur as semi-manufactured or component service), competencies as well as requirements are indispensable. In contrast, company L1 puts very little effort into its procurement and evaluation of marketing services (= instrumental service). The head of global purchasing pointed out, *"As market leader, the acquisition and evaluation of marketing services is not trivial but – in comparison with logistic services – of minor relevance regarding the applied evaluation procedure."* Similarities can be found when observing company L3. ICT-services, for instance, are purchased for different purposes within the company, covering all of the described service types. Consequently, the head of global purchasing described the business service evaluation as "*[…] a highly efficient procedure […], due to the fact that it is absolutely necessary to know the market, the providers, and the service costs."* Therefore, it is proposed:

<u>Proposition 1:</u> While developing a generalized evaluation approach for business services, it is absolutely necessary to differentiate between service types in regard to a designated purpose.

Another aspect of the conducted research deals with differences of the POC. Company M2 has been selected to highlight these facts. It is shown that inbound logistic services from production locations in Central America to distribution centers in Switzerland are less reliable than acquired outbound logistic service. In this context, the director of corporate procurement stated, *"Of course, both a highly efficient inbound and outbound logistic service would be desirable. But with few financial opportunities, it is much more important to ensure an in-time delivery for end-customers rather than for our distribution sites."* With view to company M1, this point becomes even more explicit. In comparison with the large-scale case-companies, applied evaluation procedures are much more vestigial. However, expectations of service quality are generally met as the head of indirect purchasing notes, *"Evaluation of business services or service providers will never be 100% accurate. The question is always what management is willing to pay for a slight reduction of uncertainty."* In order to provide some more insight regarding the addressed trade-off between accuracy and cost-efficiency, it is proposed:

<u>Proposition 2</u>: According to the theory of diminishing utility in the context of business service purchasing, a value composition of services needs to be considered during the evaluation procedure – addressing qualitative and quantitative criteria.

In accordance with different POCs, case study research reveals notable distinctions between the examined firms. Due to legal requirements in the pharmaceutical market, for instance, company L2 is obliged to track and trace the entire supply chain ensuring a continuous cooling of raw materials and end-products. Consequently, the used evaluation procedure – with regard to logistics services (transportation and warehousing) – appears as the most advanced business services assessed during the research. The head of global sourcing stated, *"Every material supplier, service provider, and vendor in our supply chain is capable of an end-to-end*

verification concerning legal requirements." Furthermore, he addressed the *"[…] absolute necessity of information sharing between parties in the supply chain."* Altogether, research reveals a clear correlation between purchasing performance and scope of evaluation; addressing different users of acquired business services in the evaluation procedure. The head of global warehousing and distribution concluded, *"Without correspondence between the global purchasing department and, for example, the guys in warehouse, local improvements are hard to achieve."* Therefore, the last proposition is stated as follows:

***Proposition 3*: In consequence of different POCs and evaluation responsible, a purchaser's collaboration with internal departments but also with end-customers is significant for a holistic evaluation procedure.**

Conclusion and research limitations

Due to the relatively small sample size, the explanatory impact of this research is to some extent limited. However, the widespread focus allows cross-industrial insights and reveals distinctive patterns occurring in five different industries. Hence, the authors assume that findings are generalizable to other industries. Future research on business service evaluation from a buyer's perspective should therefore always differ between service types and the opposed POC. With the intention to develop and implement business service evaluation procedures for buying companies, the qualitative and quantitative value a service creates is deemed to be one of the most important differentiation criteria.

References

AXELSSON, B. & WYNSTRA, F. 2002. *Buying business services,* John Wiley.

BARFORD, P., BESTAVROS, A., BYERS, J. & CROVELLA, M. On the marginal utility of network topology measurements. Proceedings of the 1st ACM SIGCOMM Workshop on Internet Measurement, 2001. ACM, 5-17.

BHAGAT, P., FRAMARZ, B. & TAIANI, V. 2010. A framework of total value orientation for strategic outsourcing decisions. *Competitiveness Review,* 20**,** 305-321.

BRUHN, M. 2003. Internal service barometers: Conceptualization and empirical results of a pilot study in Switzerland. *European Journal of Marketing,* 37**,** 1187-1204.

CARR, C. L. 2007. The FAIRSERV Model: Consumer Reactions to Services Based on a Multidimensional Evaluation of Service Fairness. *Decision Sciences,* 38**,** 107-130.

CHIN-CHUN, H., KANNAN, V. R., TAN, K.-C. & LEONG, G. K. 2008. Information sharing, buyer-supplier relationships, and firm performance. *International Journal of Physical Distribution & Logistics Management,* 38**,** 296-310.

CORBIN, J. M. & STRAUSS, A. 1990. Grounded theory research: Procedures, canons, and evaluative criteria. *Qualitative sociology,* 13**,** 3-21.

COUSINS, P. D. L., BENN; SQUIRE, BRIAN 2008. Performance measurement in strategic buyer-supplier relationships. *International Journal of Operations & Production Management,* 28**,** 238-258.

COX, A., CHICKSAND, D., IRELAND, P. & DAVIES, T. 2005. Sourcing indirect spend: a survey of current internal and external strategies for non-revenue-generating goods and services. *Journal of Supply Chain Management,* 41**,** 39-51.

EISENHARDT, K. M. 1989. Building theories from case study research. *Academy of management review,* 14**,** 532-550.

ELLRAM, L. M., TATE, W. L. & BILLINGTON, C. 2007. Services supply management: The next frontier for improved organizational performance. *California Management Review,* 49**,** 44-66.

FREDENDALL, L. D. H., CHRISTOPHER D.; BHONSLE, AMIT 2005. Purchasing's Internal Service Performance: Critical External and Internal Determinants. *Journal of Supply Chain Management,* 41**,** 26-38.

GONZÁLEZ-BENITO, J. 2007. A theory of purchasing's contribution to business performance. *Journal of Operations Management,* 25**,** 901-917.

GOTZAMANI, K. L., PANTELIS; VOUZAS, FOTIS 2010. The logistics services outsourcing dilemma: quality management and financial performance perspectives. *Supply Chain Management,* 15**,** 438-453.

GOUNARIS, S. 2005. Measuring service quality in b2b services: an evaluation of the SERVQUAL scale vis-à-vis the INDSERV scale. *The Journal of Services Marketing,* 19**,** 421-435.

GRÖNROOS, C. 2008. Service logic revisited: Who creates value? And who co-creates? *European Business Review,* 20**,** 298-314.

HALLIKAS, J. I., MIKA; PYNNÖNEN, MIKKO; MIKKONEN, KARRI 2014. Service purchasing and value creation: Towards systemic purchases. *International Journal of Production Economics,* 147**,** 53-61.

HOLSCHBACH, E. & HOFMANN, E. 2011. Exploring quality management for business services from a buyer's perspective using multiple case study evidence. *International Journal of Operations & Production Management,* 31**,** 648-685.

INKLAAR, R. T., MARCEL P.; VAN ARK, BART 2007. Mind the Gap! International Comparisons of Productivity in Services and Goods Production. *German Economic Review,* 8**,** 281-307.

ITTNER, C. D., LARCKER, D. F., NAGAR, V. & RAJAN, M. V. 1999. Supplier selection, monitoring practices, and firm performance. *Journal of Accounting and Public Policy,* 18**,** 253-281.

JAYAWARDHENA, C. 2010. The impact of service encounter quality in service evaluation: evidence from a business-to-business context. *The Journal of Business & Industrial Marketing,* 25**,** 338-348.

KOHLI, A. 1989. Determinants of influence in organizational buying: a contingency approach. *The Journal of Marketing***,** 50-65.

MCNAIR, C. J. P., LIDIJA; SILVI, RICCARDO 2001. Cost management and value creation: the missing link. *European Accounting Review,* 10**,** 33-50.

NARASIMHAN, R. & DAS, A. 2001. The impact of purchasing integration and practices on manufacturing performance. *Journal of Operations Management,* 19**,** 593-609.

NEU, W. A. B., STEPHEN W. 2005. Forming Successful Business-to-Business Services in Goods-Dominant Firms. *Journal of Service Research,* 8**,** 3-17.

PAN, J. N. & KUO, T. C. 2010. Developing a new key performance index for measuring service quality. *Industrial Management & Data Systems,* 110**,** 823-840.

PARASURAMAN, A. Z., VALARIE A.; BERRY, LEONARD L. 1988. SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. *Journal of Retailing,* 64**,** 12-40.

PRESSEY, A. D., WINKLHOFER, H. M. & TZOKAS, N. X. 2009. Purchasing practices in small- to medium-sized enterprises: An examination of strategic purchasing adoption, supplier evaluation and supplier capabilities. *Journal of Purchasing and Supply Management,* 15**,** 214-226.

RÖNNBÄCK, Å. & WITELL, L. 2008. A review of empirical investigations comparing quality initiatives in manufacturing and service organizations. *Managing Service Quality: An International Journal,* 18**,** 577-593.

SEAWRIGHT, J. & GERRING, J. 2008. Case selection techniques in case study research a menu of qualitative and quantitative options. *Political Research Quarterly,* 61**,** 294-308.

SMELTZER, L. R. O., JEFFREY A. 2002. Purchasing professionals' perceived differences between purchasing materials and purchasing services. *Journal of Supply Chain Management,* 38**,** 54-70.

SONG, Y., SU, Q., LIU, Q. & WANG, T. 2012. Impact of business relationship functions on relationship quality and buyer's performance. *Journal of Business & Industrial Marketing,* 27**,** 286-298.

SONMEZ, M. M., ANDY 2010. Purchasing professional services: which decision criteria? *Management Decision,* 48**,** 189-206.

VAN DER VALK, W. 2008. Service procurement in manufacturing companies: Results of three embedded case studies. *Industrial Marketing Management,* 37**,** 301-315.

VAN DER VALK, W., WYNSTRA, F. & AXELSSON, B. 2009. Effective buyer-supplier interaction patterns in ongoing service exchange. *International Journal of Operations & Production Management,* 29**,** 807-833.

VAN DER VALK, W. R., FRANK 2009. Buying business services: towards a structured service purchasing process. *The Journal of Services Marketing,* 23**,** 3-10.

WYNSTRA, F., AXELSSON, B. & VAN DER VALK, W. 2006. An application-based classification to understand buyer-supplier interaction in business services. *International Journal of Service Industry Management,* 17**,** 474-496.

YIN, R. K. 2003. Case study research design and methods third edition. *Applied social research methods series,* 5.

ZIMMERMANN, F. & FOERSTL, K. 2014. A meta-analysis of the purchasing and supply management practice-performance-link. *Journal of Supply Chain Management,* 50**,** 37-54.