

# 1 Introduction

## 1.1 Background and Problem Statement

In comparison to goods purchasing, specific characteristics of business services lead to an unclear value composition and increased problems during the purchasing process.

Services are crucial for the success of companies. In 2015, more than 73% of Swiss workers were employed in the service sector (BfS, 2016). With regard to manufacturing companies, this importance is reflected by a high proportion of externally purchased business services. Depending on the branch, a share of up to 80% of the total purchasing volume is possible. This development is significantly enhanced by two economic trends. On the one hand, companies focus on their core competencies and outsource activities to external companies. On the other hand, the procurement of goods is increasingly associated with complex service contracts. Since services are also acquired internationally, the place of their creation as well as the comparability of service quality and service costs might vary. A complexity driver in this context relates to individual tailored business services for specific purposes (Wynstra et al., 2006).

In recent years several studies and scientific analyses reveal an increased importance of externally acquired business services (Goo et al., 2009, Kotabe, 2004). Depending on branch, market constellations, or internal firm strategy, the share of outsourced operations has increased in the last two decades.

Although the importance of business services has been noticed, the majority of purchasing managers still struggle with a consistent procurement of services in comparison to goods purchasing (Grönroos, 2008). The most challenging aspects can be found in the creation of market transparency, the identification of cost saving potentials and the provision of high quality and reliable services (Axelsson and Wynstra, 2002). In summary, the below described key challenges for the purchasing of business services and management can be identified.

### **Key challenges for service purchasing**

Due to a very limited transparency of the cost structure, an objective cost-benefit comparison of different service offers is difficult. Moreover, individual modifications of the service offer, for example by fulfilling specific tasks independently, is often not possible.

**The essence of business services**

**Increased relevance of business services**

**Service vs. goods purchasing**

**Unclear value composition of services**

### Lack of service specific evaluation tools

Established evaluation tools in a practical manner primarily examine the cost structure, often neglecting the more complex quality aspects (Haensel and Hofmann, 2016b). If qualitative aspects are integrated into such tools, a rigorous and complete consideration of all relevant aspects as well as the consequent provision for ongoing purchasing processes is not guaranteed.



Perishability  
(no storage)



Intangibility  
(performance promise)



Inseparability  
(simultaneously)



Heterogeneity  
(missing standardization)

### Perishability

Services, in contrast to other goods, cannot be produced in stock nor be transported. Instead, the production, the provision as well as the evaluation of services is carried out simultaneously (Corsten and Gössinger, 2007). Challenging in this context are fluctuating capacity requirements, as missing capacity cannot be compensated by inventory. In this context, it is even more complicated to provide standardized services with a constant quality.

### External factor

Generally, the provision of services is affected by aspects that cannot be influenced by the service provider. This can for example be material or staff from a service provider's contract partner or even from the buying company. In literature, this aspect is often referred to as the external factor (Engelhardt, 1990). For the purchasing company, it is very difficult to calculate and control the different variables that determine the service performance. Particularly challenging in this connection is the assessment of the own influence a buying company has on the service provision.

### Intangibility

In comparison to goods, services are not tangible processes. Consequently, service purchases are based on a performance promise. In a practical environment, the quality of services cannot be secured by test purchases. A typical transaction is always based on experience and credence between the both interacting parties (Haller, 2002). With a view to the quality evaluation of business services, the immaterial characteristic makes this assessment much more difficult in comparison to goods.

### Heterogeneity

Due to specific interactions between a service provider and the buying company, the provision of services will always appear as a unique process. As a result, this leads to a conflicting situation. On the one hand, companies strive for a consistent realization of a service in terms of quality (Ellram et al., 2004). On the other hand, service providers often try to differentiate themselves by applying unique features to their offers. In consequence, the

purchasing as well as the consistent evaluation of qualitative and quantitative criteria appears challenging.

### **Purpose of the Study**

Although these problems are known in literature and in a practical context, research and extended studies hardly exist. Especially when focusing on Switzerland, no representative and recent study in the field of service purchasing is available. With this Performance Excellence Study, the authors hope to provide more detailed insights into the purchasing of business services revealing not only success factors but also differences regarding the acquired service type. Furthermore, the study observes trends within the service purchasing and examines specific evaluation criteria that can be used for the development of a generic evaluation procedure.

## **1.2 Trends in Service Purchasing**

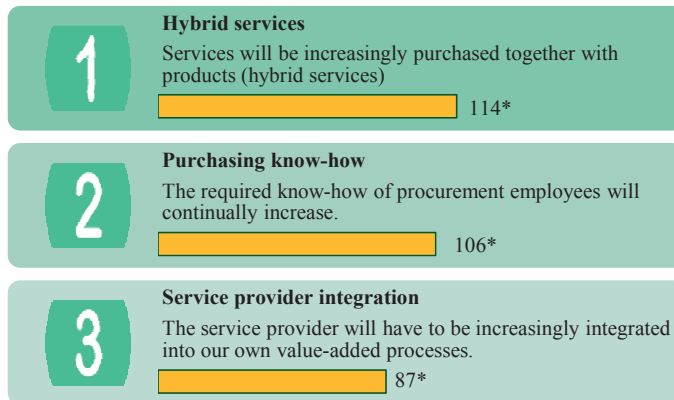
Outsourcing rates raise continuously and the economical role of service providers will further increase. As other technological developments enter the markets, several trends are expected to change the purchasing of business services.

As aforementioned, a slight increase in the service share regarding the overall purchasing volume could be revealed. But next to a growth in its importance, services are also determined by different trends. In the beginning of the study, a list of the most common and expected trends within the purchasing was selected. Typically, such trends are named recently in scientific journals or in professional magazines (Lin and Chen, 2015). However, a ranking about their current relevance or about its likelihood to appear within specific industries is not existing yet. Furthermore, prove of relevance for the service purchasing was not empirically examined so far. In accordance to the study of hand, the participants – all of them experts within procurement – are asked to rank a list of given trends and add others if required. The results show obvious differences as presented as follows.

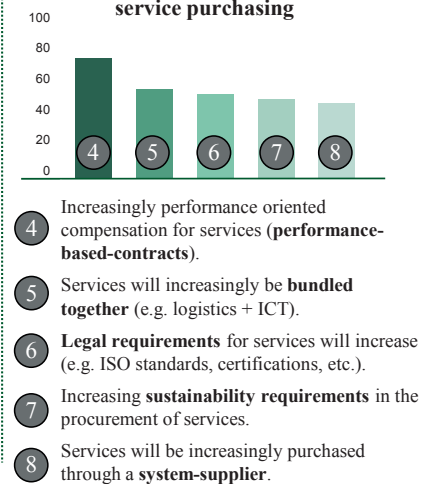
**Missing  
research on  
trends within  
the service**



## Three biggest trends in service purchasing



## Following trends in service purchasing



\* Every participant was asked to select and prioritize the three biggest trends for service purchasing.  
(First choice = 3 points, second choice = 2 points, third choice = 1 point)

**Figure 1-1: A list of anticipated trends in service purchasing**

### Increase in hybrid service purchasing

One of the most obvious developments in service purchasing is expected in the increase of hybrid services. Literature addresses this increased importance frequently (Bustinza et al., 2013, Datta and Rajkumar, 2011) referred as “servitization”. This term describes normally manufacturing companies that start to offer additional services to its customers (e.g. a maintenance or after-sale services).

### Increase of bundled services

Another combined aspect within the service purchasing relates to an increase of bundled services (e.g. logistics and ICT). As the overall amount of outsourced firm activities raises, (system supplier) appear more frequently on markets. A typical example can be found in a logistic service provider that offers additionally ICT or strategic consulting solutions for its customers.

### Increased usage of system supplier

An aforementioned aspect emphasizes with increased outsource rates as firms are willing to primarily focus on core competencies. A logical consequence leads to service providers that are capable of providing a bunch of relevant business services also referring as system supplier. This trend which is already known from goods purchasing (e.g. in the automotive sector) might also raise its importance for business services.

### Increased requirements in a buyers qualification

As digitalization and other related improvements within the information technology sector occur, bundled services are often related with ICT services. But also other combinations of services require specific knowledge of purchasing employees about different topics. This bundling and increase in

complexity requires also an increase in specific employee knowledge but also an increase in the level of education.

Another expected alteration within the service purchasing focuses on an increase of legal requirements (e.g. ISO standards, certifications, etc.). Such changes might also increase requirements regarding the buyer's qualification but will also influence the costs of specific services. An example is given by increased obligations to provide proof regarding continuous cooling chain within logistic services (e.g. food industry or pharmaceuticals) (Haensel and Hofmann, 2016b).

A trend that is present in nearly every industry relates to an increased need in sustainability (Touboulis and Walker, 2015). Within the purchasing, this development is recently noticed within the goods purchasing. However, as sustainable solutions are increasingly relevant for consumer, these demand will likely be relevant for services as well.

A fairly new approach within the purchasing focuses on performance based contracts (Selviaridis and Norrman, 2014). In this approach, business solutions are altered as firms start to sell "performance" instead of products. A very common example in this field describes a turbine manufacturer who sold turbines to airlines. Within the new performance based business model, the airlines pay not for the turbines but for the operating hours.

Another trend within the purchasing came up with decentralized supply systems discussed in combination with 3D-printing (Oettmeier and Hofmann, 2016). As 3D-printing is capable of changing a lot of different supply chains (e.g. for material, commodities, end-products, etc.), its influence on service purchasing is also expected.

As consequence of an increased demand for supplier collaboration, an ongoing step focuses on direct supplier integration within own value-added process. Accompanying elements are e.g. communication, transparency as well as shared benefit systems. For manufacturing companies, for example, several other studies reveal a major increase of outsourced activities due to more complex products (e.g. electronic and microchip components in nearly every part of a product) (Thun and Hoenig, 2011). This also leads to an increased need for an adequate supplier integration.

**Increase in  
legal  
requirements**

**Increased  
demand in  
sustainable  
services**

**Increase in  
performance  
based  
contracting**

**Increase in  
decentralized  
purchasing**

**Increased  
supplier  
integration**

## 2 Overview of the Study

### 2.1 Study Design and Questionnaire Focus

All purchasing areas address up to seven different sub-questions that needed to be answered by the participating companies. These questions were rated on a Likert-Scale between one and five.

All questionnaire sections as well as the related sub-questions were initially selected based on existing literature. Therefore questions were adopted, modified or proposed considering both related purchasing literature and inputs from practitioners. To provide more clarity, all addressed sections – visualized in *Table 2-1* – are described in more detail.



#### Questionnaire structure

The study was developed examining the interdependencies between seven items and measured with in total 37 variables.



#### Different types of services

Different types of services were outlined to observe differences regarding the service type.



#### Likert-scale

Every item was rated on Likert-scale between one and five.

#### Target achievement

On an operational level, the definition of purchasing goals for business services is essential for all ongoing operational activities. Typically, these goals address the corporate strategy and drive the overall firm performance. This section of the Performance Excellence Study focuses on the scope of set purchasing targets and their achievement within a company.

#### Service purchasing strategy

From a managerial as well as from a theoretical viewpoint, the application of a purchasing strategy within a company is proven to increase the entire purchasing performance. However, as goods and services differ from each other, both strategy and realization need to be addressed separately. This section focuses on a strategy implication for business services.