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Towards a managerially useful approach to classifying services

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ABSTRACT

The topic of service classification has received extensive scholarly attention. The efforts put in have resulted in a wide array of service classifications. At the same time, there has been little discussion of similarities and differences between classifications. Furthermore, use of individual classifications in practice, like for example in service procurement training programs, usually demonstrates that single classifications do not sufficiently capture all relevant aspects of service procurement.

We conducted a systematic review of 88 articles on service classification published between 1964 and 2013, with the objective of developing a comprehensive, managerially useful service classification. Careful analysis of 50 identified classifications suggest that in particular the following four service classification attributes provide meaningful insights: (1) the way the service is used; (2) the extent of customer contact; (3) the degree of participation/interaction; and (4) the degree of customization. As a first attempt at validating the resulting classification scheme, we compared it with classification schemes emerging from training sessions with over 300 purchasing managers. These purchasing managers indicate that starting from how the service is being used already provides them with useful insights over their current classifications, based on for example the portfolio of Kraljic. According to them, adding the other segmentation attributes provides an even deeper understanding of the type of activity patterns involved, boundary-spanning roles, et cetera. We conclude that purchasing managers that collectively use the four service segmentation attributes mentioned here may obtain a more complete overview of key managerial issues in the procurement and subsequent management of business services.

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1. Introduction

Business services are taking up an increasingly larger share of organizations' purchasing expenditures (Axelsson and Wynstra, 2002). At the same time, most of the literature in the field of purchasing and supply management has traditionally focused on manufactured goods (Ellram et al., 2004). As a result, scholars and organizations alike have tried to apply or adapt goods-based best practices to services. Unfortunately, applying theories and techniques developed in the manufacturing arena directly to services is argued to be inadequate (Thomas, 1978; Wittreich, 1966). Indeed, Ellram et al. (2004) argue that the characteristics of services warrant the development of specific tools and frameworks.

One of the areas which would benefit from tool development is the area of service classification (Nordin and Agndal, 2008). Organizations usually classify services with regard to the technical content of the service (e.g., ICT, facilities), the service providers (e.g., professional

services providers, logistics service providers) or the stakeholders involved (e.g., finance, IT) (Agndal et al., 2007). While category management has typically been introduced as a means to deal with groups of business services which are "technically" similar (e.g. marketing, consultancy), technical content alone is usually insufficient for determining suitable sourcing strategies (Wynstra et al., 2006).

Amore strategic approach to segmenting services was developed by Wynstra et al. (2006), who identified four types of services with respect to how these services are being used by the buying company. This classification was built on a limited number of existing classifications: classifications of industrial goods (Håkansson, 1982; Hutt and Speh, 1985; Kotler, 1984), which do not cover services in great detail, and Jackson and Cooper's (1988) classification of industrial goods and services. Wynstra et al.'s (2006) classification has been empirically validated, and we have used it extensively in various discussions with practitioners. Among others, we used it as part of a service procurement training program for about 300 Swedish purchasing managers in the period 2006–2011. Although the purchasing professionals usually saw substantial merits to this classification of business services relative to their traditional segmentation approaches, they also felt that this one classification did not sufficiently capture all aspects that are relevant in service procurement. For example: the

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classification indicates important functional features of the service, as well as what kind of people (i.e., role-based specializations) should be involved, but it does not provide suggestions with regard to the expected intensity of interactions. All in all, the question that remains is: how to segment services in such a way that the most important aspects of the complete sourcing process are captured? Participants in the training sessions indicated to be in need of a segmentation approach, which would help them identify groups of services involving similar challenges and requirements with regard to managing the procurement operations, on a more fine-grained level than they would by means of the usage-based classification only.

This experience from practice serves as our first motivation to develop a study into the topic of service classification, as the combination of a limited number of valuable classifications that could result in the more fine-grained and more useful segmentations professionals desire when sourcing certain “families” of business services. This notion of combining existing service classifications stems from Lovelock (1980), who points out that valuable marketing insights may be obtained when combining two or more classification schemes in a matrix. Nineteen years after date, Cook et al. (1999) still call for work that integrates marketing and operations management perspectives in services. To date however, these opportunities for interdisciplinary services research seem to have been largely neglected. Furthermore, Cook et al. (1999) identify 39 service classifications that draw on a variety of attributes; these classifications seem more different than similar. Hence, the authors point out the need for building on existing literature when developing service classification schemes. Also Nordin and Agndal (2008) point out that in general, there has been little discussion of similarities and differences between classifications. This constitutes our second motivation for conducting this study.

We conduct a systematic literature review with the objective of developing a comprehensive, managerially useful service classification. In doing so, we also consolidate the existing body of knowledge on service classifications. The review by Cook et al. (1999) is considered a valuable starting point. Whereas Cook et al. (1999) in their overview of existing classifications limited themselves to listing the attributes used for segmenting services and commenting on the classifications, we also identify the reasons for segmenting services in this way (i.e., intended implications of the segmentation). As such, we provide a more detailed overview of the service classification literature. In addition, we systematically review the service classification literature between 1997 and 2013, since that period was not included in Cook et al. (1999) research. We then consolidate this literature by investigating similarities and differences, and theoretically analyze whether and how existing classifications can be usefully combined. We subsequently provide two types of reflections: first, a comparison between the combination of classifications obtained in this study and the results of the debates with the 300 Swedish purchasing managers; and second, the feedback obtained on the combined classification scheme from a group of twenty Dutch purchasing managers.

The outline of this paper is as follows. First, we elaborate on the need to study service classifications, both from a scholarly and a professional point-of-view. Then, after explaining our research methods, we present an overview of our findings. This is followed by a discussion on whether and how existing classifications can be usefully combined. The intended end result of this exercise is a more fine-grained approach to segmenting services. Finally, we present our conclusions, limitations, and directions for future research.

2. The need to investigate service classifications

Classifications are categorizations of objects based on one or more attributes of that object (Hambrick, 1984). In a way, verifying

whether these attributes are present or not can be considered a decision rule, based on which to allocate phenomena to one of multiple mutually exclusive and exhaustive categories (Doty and Glick, 1994). It is important to note that such categorization efforts could result in classifications or taxonomies. Although these terms are frequently used interchangeably, we distinguish between the two using Doty and Glick's (1994) guidelines that taxonomies draw on hierarchical decision rules for allocating phenomena to categories, whereas classifications usually rely on multiple characteristics that apply at the same hierarchical level. As we are mostly interested in identifying attributes for segmentation (i.e., the decision rules/characteristics as such), and not so much in the order in which they are being applied, we include in our study both taxonomies and classifications.

Another related concept is the typology, which in turn is fundamentally different from classifications or taxonomies. Classifications or taxonomies allocate phenomena to categories using certain decision rules; typologies in contrast “identify multiple effective types, which represent unique combinations of the organizational attributes that are believed to determine the relevant outcome(s)” (Doty and Glick, 1994, p. 232). Mintzberg (1980) in this respect discusses organizational configurations, which refer to some type of logical clustering of elements in search for harmony in the organization's internal processes and with its environment. While typologies can be considered theory (Doty and Glick, 1994), classifications and taxonomies cannot. In this view, developing a classification should not in itself be considered a theoretical contribution; rather, classifications and taxonomies aid in building theory, since they are the primary means for organizing phenomena under study (Hunt, 1999, p. 189). Also, when put to the test, many typologies are actually classifications, like for example Woodward's (1965), which identifies three (ordinal) categories of organizations, but does not specify ‘ideal’ types of organizations. For the purpose of our study, we are only interested in classifications and taxonomies, hereafter referred to as classifications. As there is usually a classification underlying a typology, service typologies will also be included in our study.

The motivations for this study are twofold. First, the issue of classifying services has received extensive scholarly attention, with substantial contributions made by both marketing scholars (in the seventies and eighties) and by operations management scholars (late eighties, early nineties). Well-known examples include Lovelock (1983), who claims that different marketing efforts are appropriate for services involving differing degrees of customization (high, low) and of judgment performed by the service provider (high, low), or in operations management, Chase's (1978, 1981) customer contact approach, which proposes to differentiate service system designs for services involving high, medium and low interaction between the customer and the service facility. These two examples hold strong positions in their respective literatures. At the same time, a large number of service classifications have been developed since these early works. As Nordin and Agndal (2008) note, the similarities and differences between these classifications have only limitedly been discussed. Without challenging in general the value of service classifications developed recently or in a further past, the question does rise what we actually know about classifying services. How many classifications are out there, and what are their similarities and differences? Why is there a need (if there is one) to develop new classifications and what value do they add? Can we usefully combine classifications and what insights would we obtain? Cook et al. (1999) conducted the first comprehensive review of existing service classification literature, with the aim of stimulating discussion on the topic of service classification. The resulting overview provides insights into which attributes are most commonly used (though not in absolute numbers) and the issues the identified classifications address. At the same time, Cook et al.

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