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Exploring the Dimensions of Contract Manufacturing Service Quality for the F&B Industry

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Abstract

Researchers to date have paid less attention to the issue of the dimension of service quality among manufacturing enterprises. Service quality is a multidimensional construct and there is no general agreement on its content. This study explored the underlying dimensions of contract manufacturing service quality in the business-to-business service context, particularly the Food and Beverage (F&B) industry in Malaysia. The research design is a combination of literature review and focus group interviews. Four focus group interviews (28 participants) were held using a semi-structured guide and they comprised 12 contract manufacturers and 16 business customers. The participants were key personnel, representing the organizations, who were actively engaged in contract manufacturing services. Interviews were digitally recorded, transcribed and coded. The study found that contract manufacturing service quality could be classified into seven dimensions; Halalness, product development, tangibles, reliability, responsiveness, assurance and empathy. The findings provide empirical evidence that service quality is an industry-specific matter. Three stages of how customers evaluate the service quality of a contract manufacturer were identified; pre-engagement, post-engagement and after sales service. Contrary to previous studies, these were not emphasized. The outcomes of the interviews revealed that the issue of 'Halalness' and the ability of contract manufacturers to come up with the right sample were the prerequisites for the customer to engage the business with the manufacturer. Hence, it is critical for the contract manufacturer to adopt Halal practices in their manufacturing besides the need to provide excellent product development service to serve their customers. Technical quality was also found to be crucial. The outcome quality that was emphasized were timely delivery, delivery as per ordered and product consistency. These findings significantly contribute to service marketing literature with regard to contract manufacturing service quality. Hence, contract manufacturing service quality will provide a basis that can be extended to other related fields. In addition, practitioners would have a basis to improve their current service quality practice and customers' management that would lead to a long term relationship.

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1. Introduction

Contract manufacturing is becoming common as a mode of doing business among Malaysian food and beverage (F&B) business enterprises for various reasons. The issue of capacity, capability and the capital requirements appear to be the main reason for the relevancy of contract manufacturing (Koss, 2005). In the F&B industry, the manufacturer or the service provider is also known as contract manufacturer (CM), contract packer or bottler if the product is packed in glass bottle, for example drinks. The trend of CMSs is shown increasing globally (Mason, Cole, Ulrey & Yan, 2002). In Malaysia, more and more products are packed or manufactured through such kind of services. However, most consumers are unaware of it, because the status of contract manufacturing is not clearly stated at the label (Koss, 2005). They thought the product is manufactured or packed by the brand owner.

CMSs benefited both parties; the manufacturers and the customer (Koss, 2005). CM or the packer should take great advantage of this relationship since it generates higher profitability to the business enterprises. However, such relationship is said to be short-term due to strategic myopia (Koss, 2005; Liu, Liu, & Lin, 2008; Sodhi & Tang, 2013). Manufacturers are at risk if they are highly dependent on contract manufacturing mode of business as a sole source of profitability. This possibility happens if the customers were to switch-over to other competitor or quit the business and the manufacturer has invested heavily on their facilities. A longer time is needed to replace the customer since it demands thorough evaluation process before the establishment of a new relationship. Marketing literature has reported that such relationship could be prolonged by adding values to their services. By providing superior service quality which includes process delivery and outcome quality, manufacturers are able to differentiate themselves from their competitors. Hence, it will be able to seal-off any intention to switch-over to other manufacturer (Grönroos, 2001). Previous studies focused on CMSs as a strategy to move out from low cost-suppliers to higher value-adding markets (Liu et al., 2008; Sodhi & Tang, 2013) rather than emphasize on long-term relationship. However, such strategy would require high investment and high transaction cost (Lee-Kelley, Davies & Kangis, 2002). The success of a business enterprise depends on the ability to satisfy and retain customers (Narayandas, 2005). This claim has prompted the idea to explore the dimension of CMSQ in the F&B industry in Malaysia and the fact that the industry is to become larger, more complex and more challenging in the future (Koss, 2005).

2. Literature review

Contract manufacturing services (CMSs) is a mode of doing business, whereby the manufacturers attributed by their high-quality and low-cost manufacturing, offer their resources to manufacture customer's product (Sodhi & Tang, 2013), under contractual agreements (Plambeck & Taylor, 2005) and the product bears the buyer's brand. CMSs is synonymous with original equipment manufacturing (OEM). In discussing this topic, the author will describe the customer of F&B contract manufacturer as contract manufacturer customers (CMCs) instead of OEM for non F&B industries. Business-to-business research related to service quality is largely dominated by service industry rather than manufacturing industry. In reviewing CMSs there were fewer literatures with regard to F&B industry as compared to other industries.. In lieu of such limitation, the author will cross check with other industries in discussing the topic.

2.1. *Contract manufacturing services (CMSs)*

Contract manufacturing services (CMSs) is growing globally in a wide range of industries, including electronics, pharmaceuticals, automotive, and food and beverage production (Carbone, 2000). In non-F&B industries, instead of manufacturing the products, the OEMs outsource some of the parts or activities to the vendor and focus on designing the products. There is a growing trend whereby OEMs completely outsource the products whilst retaining research & development and marketing activities (Carbone, 2000). In contrast to the F&B industry, the contract manufacturer customers (CMCs) contracted out bundle of services to the CM except marketing activities. CMCs need to have a sound knowledge before they could offer CMSs to the customers as F&B products are sensitive.

There are several reasons why manufacturers decide to offer CMSs and the bottom line is profit maximization. For a manufacturer, whose production is experiencing underutilization, contract manufacturing is the best alternative

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