



Service purchasing and value creation: Towards systemic purchases



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ABSTRACT

The aim of this paper is to clarify the problematic issues of the procurement of service bundles and their value potential for business customers. Creating customer value is an essential aspect of service provision given the need to find new strategic options with value potential in supply chains and networks. In the paper we review the results of a recent survey on value creation in service bundles. We address two research questions concerning the characteristics of value creation in service purchasing, and the correlation between procurement strategies and the creation of value for customers. In order to find answers we carried out a survey among customers of the case company. From the responses we identified various customer segments. In order to explore the buying behavior of the different customer groups we conducted analyses of statistical variance between the clusters. According to the results, there was significant variation in almost all the selected variables. In the following we focus on the study design and the results, and discuss the findings.

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1. Introduction

Services and products nowadays are becoming increasingly intertwined and the competition increasingly global, and thus delivering customer value is not as simple as it used to be. The common denominator here is that delivering value through products and services tends to involve more attributes than first meet the eye. This emerging complexity in production reflects the *systemic nature of customer value*, and there is as yet no empirical research on its influence on procurement policies in firms. The basic premise is that the value delivered to the customer is dependent on more than one attribute, and possibly on more than one firm. In other words, companies operating in the world of systemic value creation find it hard to succeed on the basis of traditional management theories and methods (Lusch et al., 2010; Pynnönen et al., 2011).

The aim of this paper is to clarify the problematic issues involved in the procurement of integrated services and in assessing the value potential of these bundles. We explore empirical evidence supporting fundamental claims regarding customer value in the service business. First, value arises from the system rather than individual elements of the offering. Second, customers employ multiple parallel strategies in their service purchasing.

Third, the perceived value of the service is dependent on the choice of purchasing strategy, and thus correlates with the depth of co-operation between the customer and the service provider. In short, we review the results of the recent survey, addressing the issues of value creation in service bundles. The research questions we address are: “What characterizes value creation in service purchasing?” and “How do procurement strategies correlate with the creation of value for customers?” The research explores manifestations of value in infrastructure networks in telecom and energy distribution, in which the outsourcing of network building and maintenance has been gaining ground since the early 2000s. The research set-up enables us to demonstrate that some value-creating mechanisms in service provision are not directly linked to operative resources, but are rather embedded in interconnected networks of activities.

We adopted a two-stage research design. First we conducted a case study in order to map and analyze the service offering and functions of an industrial service firm. The second stage comprised a customer survey exploring value creation from the purchasing perspective in buyer–supplier cooperation. The general survey instrument included measures for background information (e.g., respondent profile, relationship structure), a systemic purchasing orientation (the willingness to integrate purchasing activities), and information sharing and collaboration with customers.

The paper is structured as follows. In Section 2 we describe how systemic value influences the management of infrastructure services. We then review the literature on service management

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and service purchasing (Sections 3 and 4). In the fifth section we describe the methods we used in the study and introduce the case firm, and report the results in Section 6. The findings are discussed in Section 7, and Section 8 concludes the paper.

2. Infrastructure services

A provider of infrastructure services needs to master both cost efficiency and service quality in order to outperform its rivals (Fließ and Kleinaltenkamp, 2004; Parasuraman et al., 1988). Developing a service concept – including network planning, construction, and maintenance – is a plausible alternative for delivering value to customers in these markets. The need for adopting a concept approach amongst operators of telecom and energy networks arises from the fact that infrastructure-related quality requirements significantly increase the importance of effectively managing the interdependence among service activities in the future. However, systemic thinking with regard to network-related activities is not yet an established routine among network operators. Therefore, providers of infrastructure services would have potential value to operators if there were a credible system for managing the construction and maintenance of infrastructure networks as a whole. The following two issues must be taken into account in developing such a service concept: (1) the definition and content of each individual operation included should be considered from a customer-requirement perspective, which also incorporates assessment of the interdependence among the activities; (2) analysis of the systemic features of the offering should enhance understanding of the value-creation mechanisms in network-related operations, and highlight potentially distinctive preferences among the customer segments. This paper bridges the gap between the theory of systemic value creation and its application in service management. In practice, many faults and fault-management failures in infrastructure service companies are attributed to lacking or false information among actors in value networks, and more specifically among employees in different firms and the different systems in use (Mikkonen, 2011; Lancastre and Lages, 2006). The customer–supplier relationship is deeper in this kind of service provision (Davies et al., 2007), and the contractual relationship is closer to partnership than service purchasing (Caldwell et al., 2009; Morgan and Hunt, 1994).

3. Conceptual background

3.1. Service research and service-dominant logic

The debate on the role of services has been lively amongst scholars and practitioners in the last decade. Manufacturing-centered ideology is facing challenges in the form of business models driven by the requirements of B-to-B customers for more complex product–service systems. Some scholars even claim that the shift toward a service orientation has led the change from a goods-dominant logic to the new service-dominant paradigm (Jacob and Ulaga, 2008). Service-dominant (SD) logic offers an alternative approach to evaluating a firm's strategic positioning, encouraging management to consider its operations from a network-oriented perspective that would facilitate the exploration of new value-creation mechanisms in an industrial context. This paper contributes to the recent research in clarifying the concept of services, outlining the fundamentals of service management, and justifying the systemic approach to service provision.

In an industrial context, a service is a process of doing something for another party in collaboration by integrating internal and external capabilities in order to co-create value (Vargo and Lusch, 2008; Ulaga and Chacour, 2001). The process varies depending on the situation and the customer's problem: it could be (1) specialized or hierarchical, (2) parallel or series, and (3) the diagnosis of the problem may be bottom-up or top-down (Buzacott, 2000).

Thus, competing through services is much more than including value-adding features in products. In this sense the competition is in the customer's willingness to pay for the integrative capabilities of the firm (Lusch et al., 2007). S–D logic is based on the following rules (Vargo et al., 2008):

- i. Service is a fundamental basis of exchange.
- ii. Products are distribution mechanisms for service provision.
- iii. Value is delivered through co-creation between the firm, the customer and various networks.
- iv. Intangible capabilities, skills and knowledge are the primary source of competitive advantage.

S–D logic inevitably creates links between operations management and network analysis on the business-model level. Services represent the unified business model of a network in which several actors produce value for the customer and each other within an architecture that is defined in accordance with product, service, and information streams between actors (Normann and Ramírez, 1993). Thus, service-driven business models advocate the merging of activities that could be carried out by external actors. This network orientation, however, has implications concerning the control of the service provision if numerous distinct operations and partners are connected to the model and there are no responsible actors. According to S–D logic, some prime service integrators must be included in the provision networks in order to create a functioning system. These prime integrators should be capable of defining attractive customer offerings, and have an awareness of the role of each partner in value creation. The literature suggests that such integrators should avoid high rates of investment in manufacturing processes in order to retain responsiveness, and should have direct links to the market place and customers (Lusch et al., 2007).

3.2. Finding a concept for services

There are various definitions of the service concept. In general it is assumed to comprise interaction between customer and supplier, and the exchange of intangible value elements in particular (Norman, 2002; Vargo and Lusch, 2008), and functions as the foundation upon which the components of the service-delivery system are built (Goldstein et al., 2002). It also demonstrates how customers are integrated into the process of delivering service value, offering ex-ante and providing ex-post feedback on gains. Indeed, the integration and bundling of the service function is one of the central themes in the literature on systemic value creation and service purchasing. It has been pointed out that current theory and understanding are inadequate, despite the number of established services and the development of new ones (Menor and Roth, 2007). Furthermore, the literature on service integration and the systemic development of the service concept is limited, relating mainly to how the different parts of the system deliver value to the customer when they are integrated, and thereby create a systemic customer experience. Managers have tended to consider the bundling of services a negative issue in the belief that it destroys the transparency of the offering and its costs. This is the case in the normal situation in which the supplier bundles the services in order to increase sales.

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