

Leveraging the Internet to Add Value to Strategic Sourcing

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The Nature of Services

Services are largely intangible but tangible elements enter into the production and consumption of services in two ways: as support goods and as facilitating goods.

Support Goods are the tools and equipment used by the performer of a service in its production and delivery.

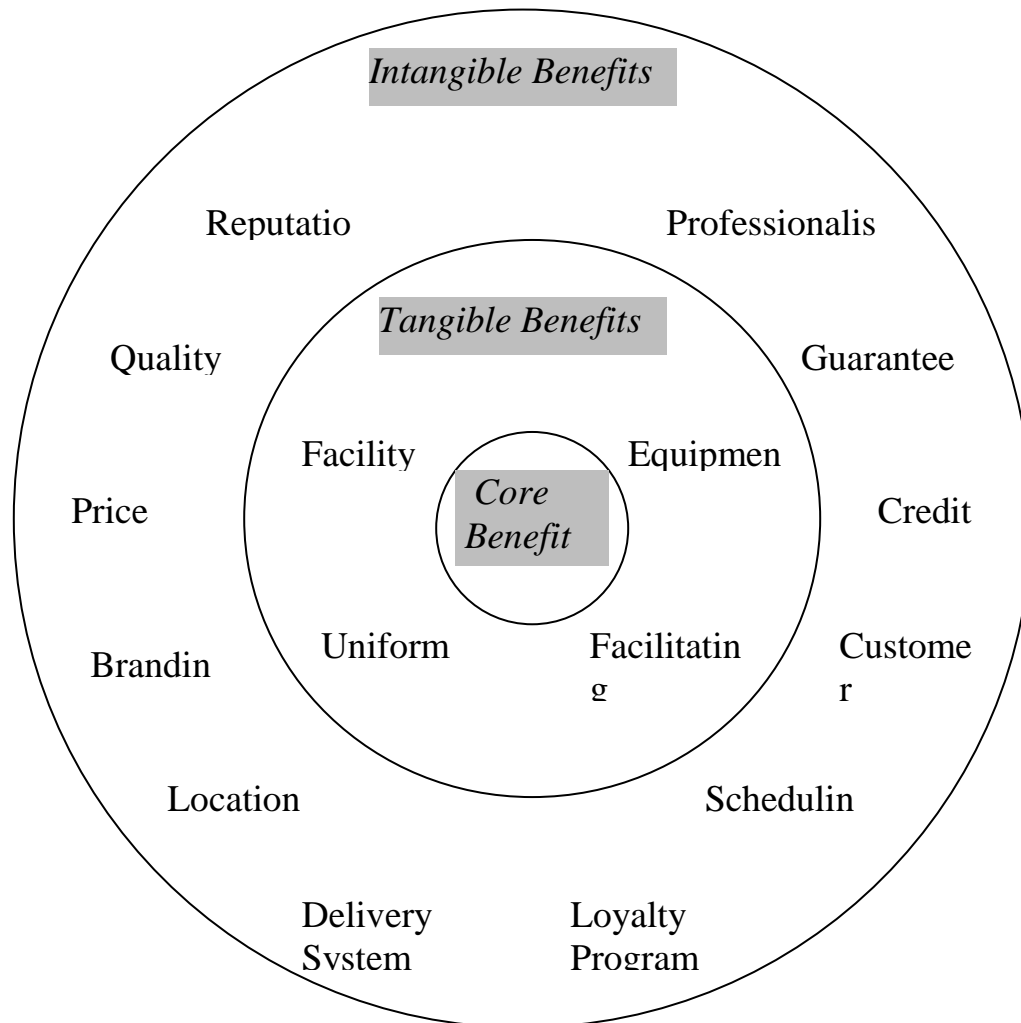
Example: A mechanic's tools or an accountant's calculator.

Facilitating Goods are tangible items used by the recipient of a service in its consumption. They may:

- need to be returned upon completion
Example: rental car
- be consumed in the process
Example: airline food
- become the property of the recipient
Example: course workbook

Together, its *support goods* and *facilitating goods* form the physical *Evidence* of a service.

The Three-Layer Concept of a Service



Unique Characteristics of Services

Intangibility

Services are largely intangible and experiential. The recipient may come away empty-handed and have nothing to show for the purchase. Because they lack physical substance, services cannot be owned and resold by distributors. Neither can they be returned or repossessed. Due to their lack of tangibility, services are difficult to describe, demonstrate, differentiate, test, and evaluate.

Inseparability

Service experiences often depend on the qualifications and/or personality of individual performers and cannot be separated from them. Customers may form personal bonds and preferences and follow performers when they change employment or start their own businesses.

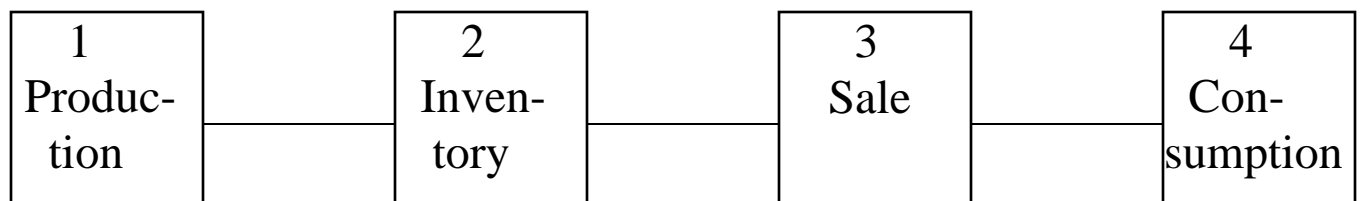
Perishability

Services go out of existence as soon as they are created and cannot be inventoried. This means that adequate capacity must be “in place” to accommodate often widely fluctuating demand levels.

Simultaneity

Services are produced and consumed simultaneously. This often means that performer and customer have to be in the same place at the same time. The customer is thus present in the “factory,” participates in the production process, and affects its outcome.

Manufacturing firms build up finished goods inventories in anticipation of demand. When demand occurs, sales are made from inventories. Production and consumption are separated in time and space.



Service organizations cannot store services. They must have capacity (and possibly supplies) in place to satisfy demand as it occurs. Services are first sold and then produced and consumed simultaneously.



Heterogeneity

The output of service providers may vary:

- (a) from one location to another
- (b) from one performer to another
- (c) for the same performer from one performance to another.

This variability can make service performances difficult to standardize and uniform quality difficult to ensure.

Heterogeneity can, however, be used strategically if different customer groups require different service levels.

Types of Services

Labor-Intensive Services are characterized by high labor content (which can range from unskilled to highly skilled); they are essentially delivered by performers and the role of equipment is limited.

Capital-Intensive Services involve a substantial investment in equipment, with a limited role of operators (if any).

Essential Services are activities, processes, or functions that must be performed to keep an organization's operations running smoothly.

Example: Information services

Non-essential or Temporary Services are not required in the ordinary operation of a service organization or needed only on a temporary basis.

Examples: Landscaping; office services

Essential Services

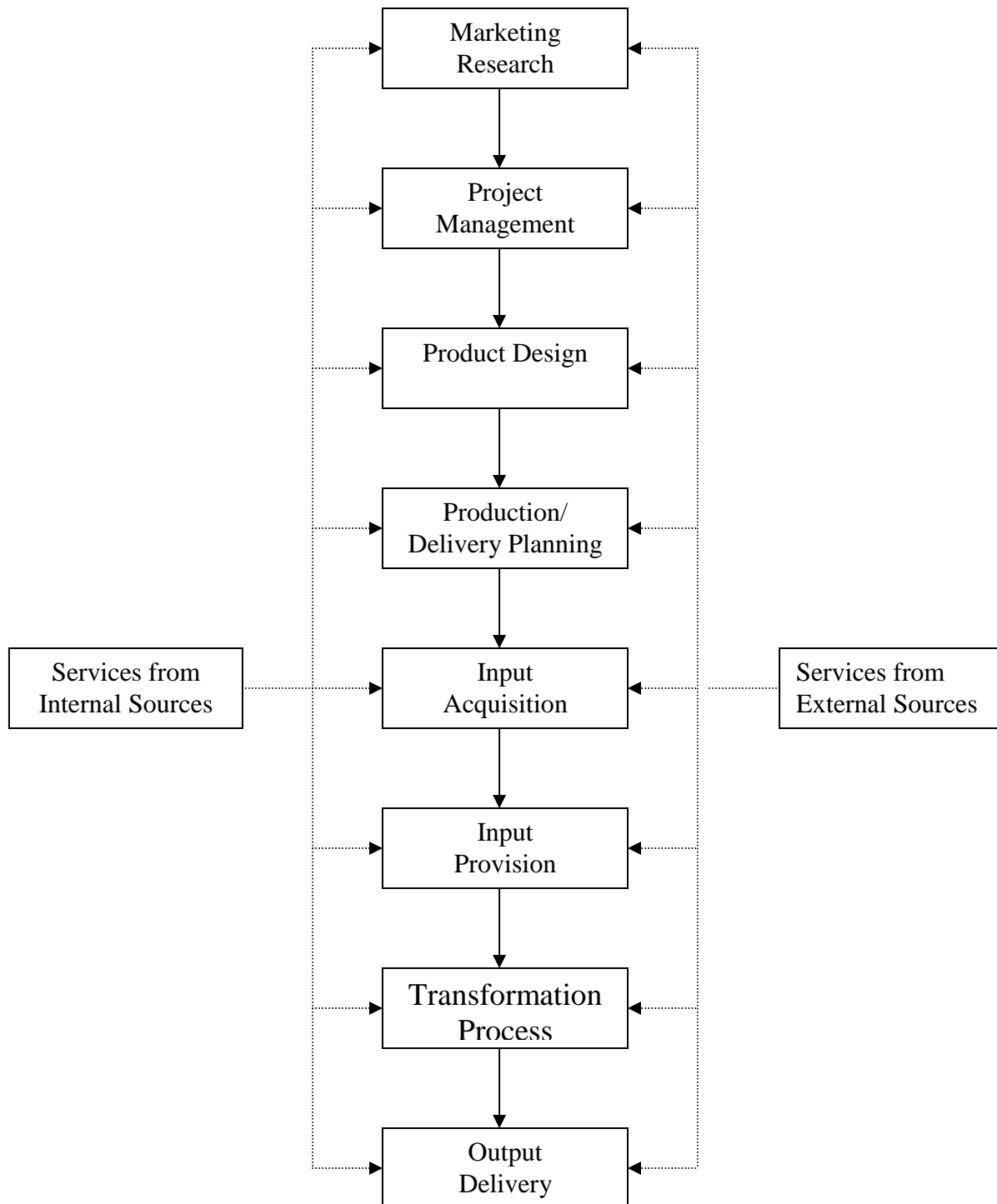
Accounting and Cash Management
Bill Paying and Payroll
Building and Property Services
Communications, Public Relations, Advertising
Customer Service
Data Entry, Processing, and Networking
Design and Research & Development
Education and Training
Food Services
Health Care and Counseling
Human Resources and Benefits
Information, Marketing Research, and Analysis
Inventory and Warehousing
Legal
Mailroom
Marketing and Sales
Production and Operations
Purchasing and Materials Management
Quality Assurance
Reproduction and Printing
Security
Shipping, Transportation, and Delivery
Systems Design and Programming

Service Sourcing Parameters

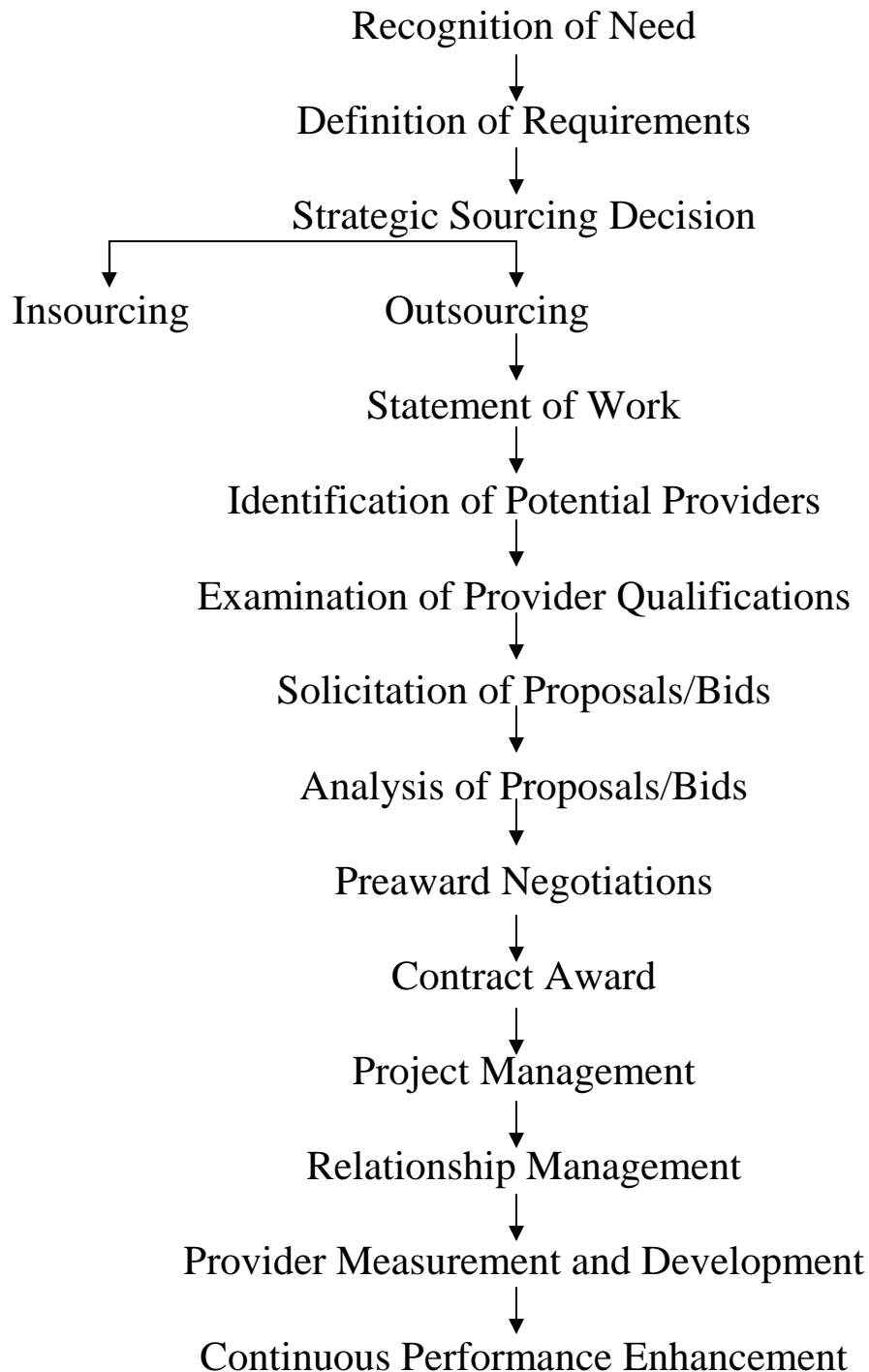
Service Sourcing Parameters include:

- Early Involvement
- Development vs. Delivery
- Statement of Work
- Service Level Agreement
- Cost Analysis
- Buying/Owning Materials
- Assurance of Performance
- Rights to Materials/Software
- Damages and Bonuses
- Deliverables
- Protection Clauses
- Guarantees

The Value Creation Process



The Service Sourcing Process



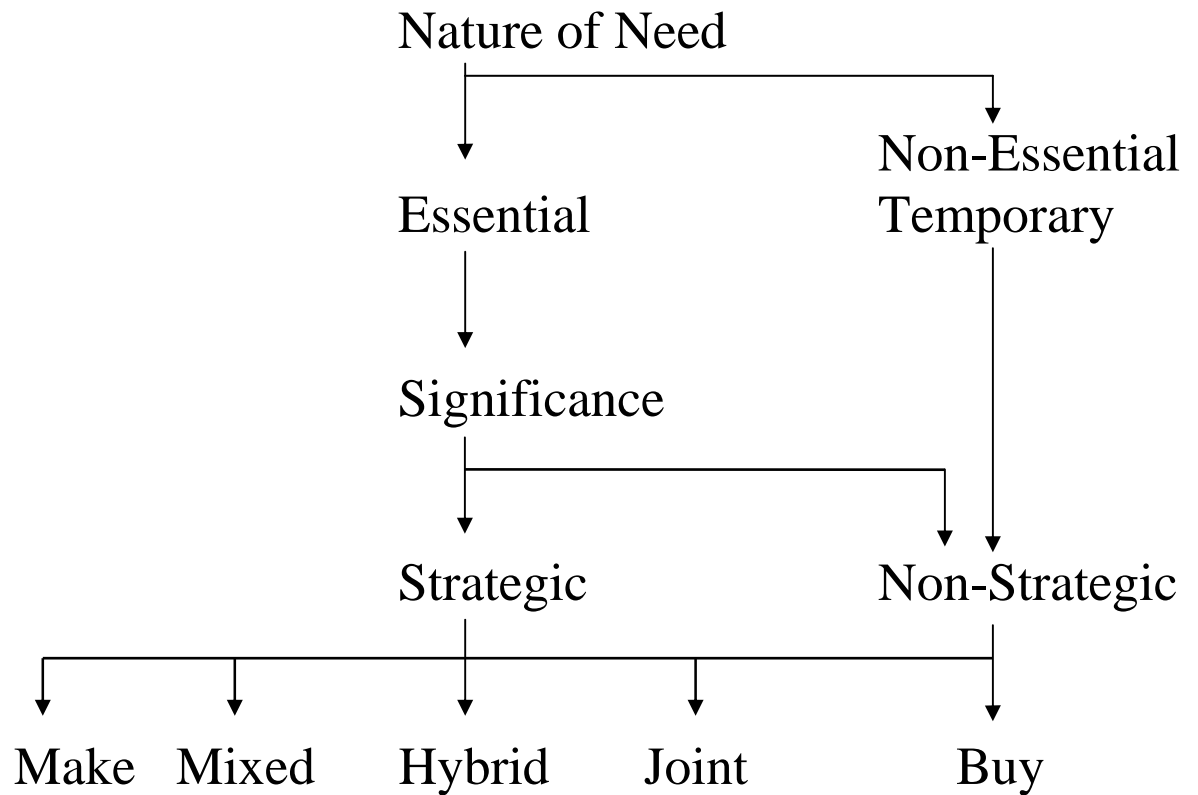
The Sourcing Continuum



Sourcing Modes:

- Make - the organization's own employees produce the product or service
- Mixed - combination of external and internal sourcing
- Hybrid - employees of external supplier produce the product or service on the organization's premises
- Shared - source is jointly owned by customer and supplier organizations
- Buy - employees of external supplier produce the product or service on its premises

The Strategic Sourcing Process



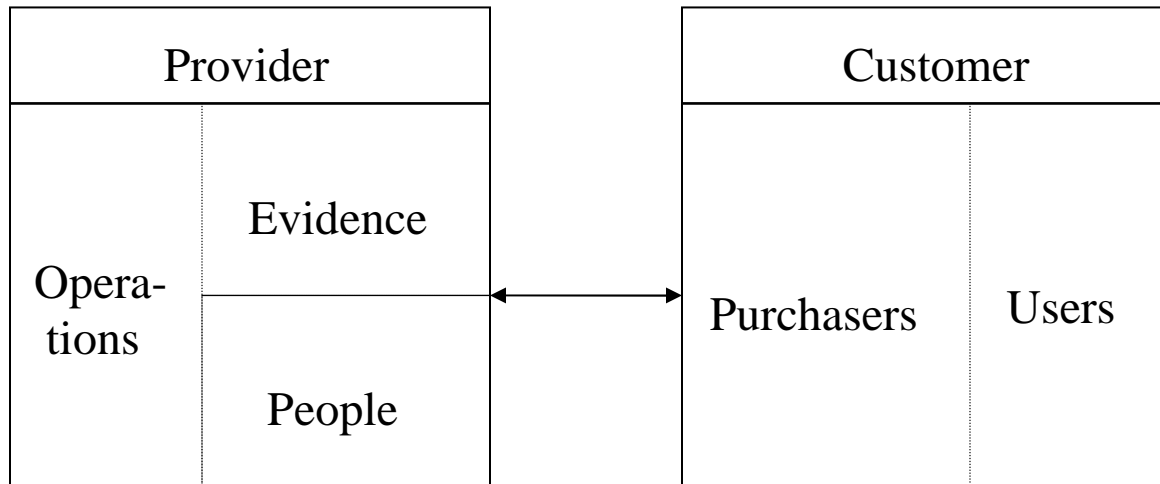
*Control
Independence*

*Capacity
Capabilities
Quality
Reliability
Response Time*

*Flexibility
Cost*

Volume

Service Delivery Systems



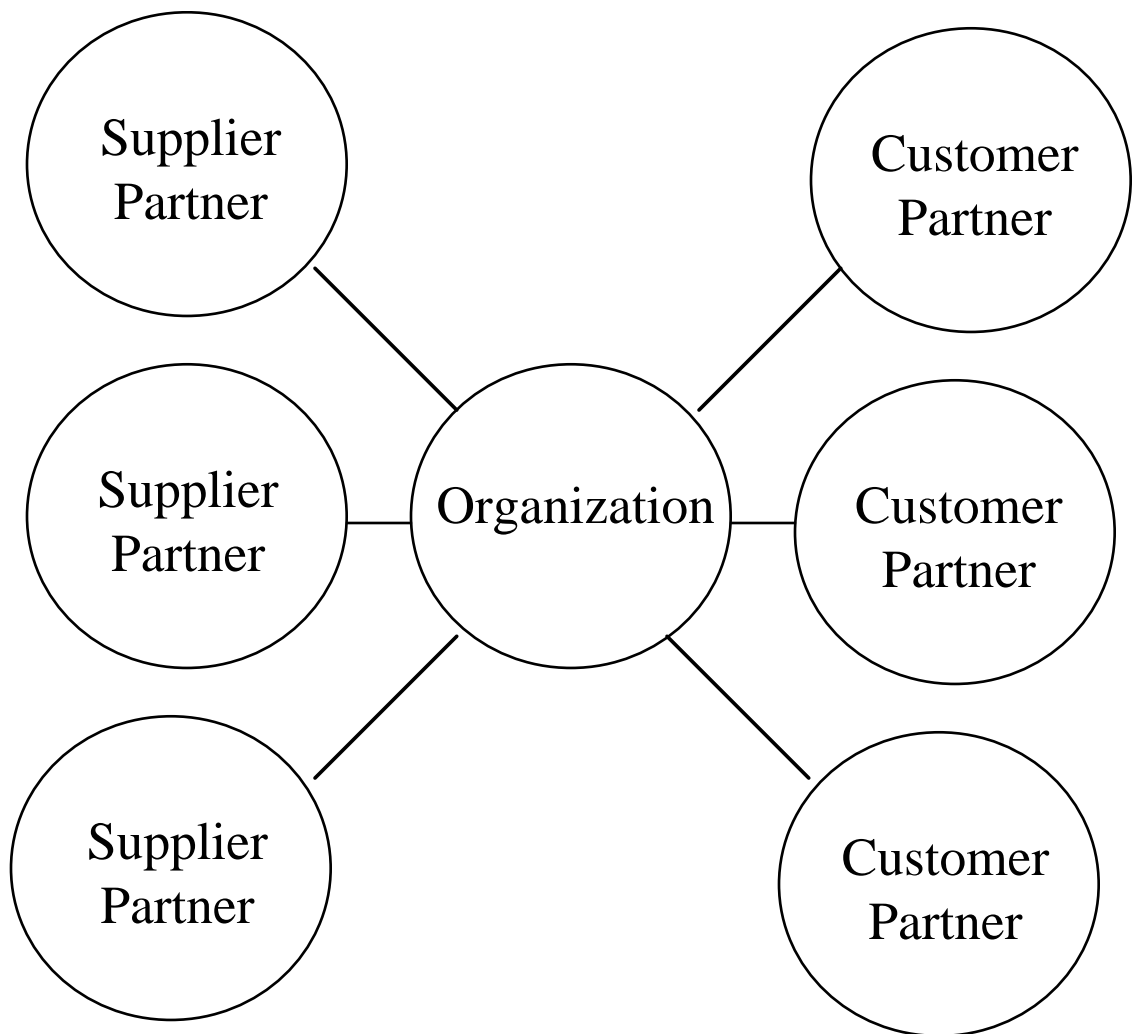
Services can be *delivered*:

- (1) on the provider's premises
- (2) on the customer's premises
- (3) at a third party site
- (4) in transit
- (5) electronically/by mail
- (6) through vending machines

Virtual Organizations

A *Virtual Organization* is a lean, flexible organization at the hub of a network of strategic alliances.

The New Organizational Paradigm



Building Service Delivery Networks

Faced by highly competitive and volatile environments, organizations are continually reexamining their markets and operations to:

- capitalize on promising opportunities
- refocus on their core competencies
- streamline processes for greater agility and efficiency
- leverage resources for maximum impact
- enhance their competitiveness and performance.

A ***Core Competency*** is a unique, strategic advantage that sets an organization apart from its competition. As they rethink the sources of process components and services, many organizations evolve from vertically integrated structures to virtual organizations.

Characteristics of Virtual Organizations

- *Advanced information technology:* They have internal and external databases, high-speed information network linkages, and electronic data interchange with partners.
- *Flexibility:* Impermanence of their own structures allows them to link with and de-link from partners as opportunities change.
- *Dependence:* No longer self-contained and autonomous, virtual organizations cannot function without their partners who contribute vital inputs to the network.
- *Borderless linkages:* National boundaries as well as traditional distinctions between suppliers, competitors, and customers lose meaning as networks synergistically combine inputs into optimum outputs.
- *Excellence:* The single most powerful force in virtual organizations is the unrelenting commitment to excellence, which orchestrates the unique competencies of several organizations for world class outputs.

Service Performance Evaluation

Issues:

- Why?
 - What?
 - How?
 - How often?
 - When?
 - Where?
 - Who?
-
- Performer vs. Provider Evaluation
 - Process vs. Outcome Evaluation
 - Qualitative vs. Quantitative Evaluation

Guidelines:

- Agree on evaluation criteria up front
- Set performance standards or goals
- Provide feedback frequently
- Link compensation to measured performance

Leveraging the Internet in Service Sourcing

Advantages of Internet Sourcing

- Speed
- Low Cost
- Global Reach
- Real-Time Linkages
- New Service Development
- Information
 - Data Access
 - Data Sharing
 - Data Mining
 - Knowledge Management
- Marketplaces
 - Supplier Web Sites
 - Catalogs
 - Public Exchanges
 - Consortium Sourcing
 - Private Exchanges
 - Internet Service Providers
- Transparency
 - Supply Market
 - Supply Chain
 - Supply Processes
 - Cost