

## OPTIMIZATION OF MANAGEMENT DECIZIONS FOR PURCHASING OF BUSINESS SERVICES

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**Abstract:** The strategic importance of the services has increased recently because many countries have turned into real service economy. This article aims to help managers to optimize their decision regarding the purchasing process of business services. The article starts with describing the business services and their importance. We concentrate our attention also to the important role that purchasing department has in the procurement process of the business services.

Next, we present some findings from practice regarding to the implication of the purchasing department in the procurement of business services. Furthermore, the paper presents a conceptual framework that we developed for the optimization of the purchasing process of business services. At the end of the paper we present some recommendations for managers about how the way that they can optimize their decision regarding the purchasing process of business services.

**Key words:** purchasing management, business services, optimization, management decision

JEL Codes: L8, O32

### Introduction

Until recently, purchasing was very manufacturing oriented with an emphasis on production buying. The purchasing of business services has only gained limited attention from management and researchers [4], [7], [17]. Because of the current developments, the importance of the business services has increased. In this article we tried to find solutions for the optimization of management decisions for the purchasing of business services.

The article begins with the definition of the business services. Based on the findings from the literature review we categorized them in five main categories. Next, we describe the role of the purchasing department in the procurement process of business services and the values added that purchasing department can provide to the organizations.

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Furthermore, we present the empirical findings regarding the implication of the purchasing department in the procurement process of business services obtained through a questionnaire. We sent the questionnaire to one hundred companies from the Maramures county and we received information from fifty five companies.

Based on the empirical data and on the literature findings we developed a conceptual framework for the optimization of the purchasing process of business services. At the end of the paper we present some recommendations for managers about how the way that they can optimize their decision regarding the purchasing process of business services.

### **Literature review**

Services begin to play an important role in the social and economical progress of the knowledge based economies. Also in the literature, researchers have noted the important role of the services sector at the economical progress [1,10,11].

Many definitions of services can be found in the literature. We choose to focus our attention on the following definition: “a service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problem” [1].

Companies have to buy every day many business services. They are purchasing the following business services: accounting services, catering services, cleaning services, insurance services, banking services, advertising services, transport services, training services, logistics services, legal services, etc.

We have chosen to classify business services into the following categories:

- administrative services (cleaning, catering, security, utilities);
- professional services (consultancy, banking, legal services, accounting, insurance);
- information and communication technology services (all services regarding ICT issues such as hardware implementation, maintenance, telecommunication services);
- sales related services (exhibitions, marketing research, sales promotion)

- transportation and distribution services (warehousing, logistics, transportation services).

The role of the Purchasing Department in the purchasing process varies from company to company and from situation to situation. In general, the Purchasing Department's involvement is highest in purchasing of goods [17], [18]. The involvement of the Purchasing Department is smaller or absent in the purchase of business services, such as: facility services (cleaning, catering, security), transportation and distribution services, etc.

A number of previous studies [6,17] indicate that the role of the Purchasing Department is much smaller in the purchase of business services than commonly believed. For example, the Center for Advanced Purchasing Studies (CAPS) in a study [6] found that in a surprisingly large percentage of firms, the Purchasing Department had no input to the purchase of services (e.g. in 39% of the firms, there was no involvement in the purchasing of services, in 55% of the firms there was no involvement in the purchasing of utilities).

Similarly, in another study [7], Center for Advanced Purchasing Studies (CAPS) found that from the total of \$ 140.3 billion purchased by the 116 organizations, only 41 percent was spent by the purchasing department, 59 percent was spent outside of the purchasing department. The purchasing department apparently had very little input in the purchase of the majority of services.

### **Findings from practice**

In the attempt to discover how are things in practice regarding to the purchasing process of business services we applied a questionnaire to 100 companies from Maramures county. The questionnaire had three parts. In the first part of the questionnaire were questions about the general data of the companies. The second part contained questions about the purchasing department regarding of its role, its status in the organization, the competencies of the purchasing specialists and the main values added to the organization. The last part of the questionnaire was about the role and the implication of the purchasing department in the procurement process of the business services and the respondents had to provide the following information:

- the amount of money spent by the organization for each category of business services
- the percentage from this amount that was spent by the purchasing department
- the other departments that participated to the purchasing process of business services

- the number of suppliers for each category of business service

From the total number of questionnaires sent we received back fifty five questionnaires. Based on the received information we summarized the results about the implication of the purchasing department in the procurement process of the business services in table 1.

In the case of sales related services and information & communication technology services the implication of the purchasing department is very low. There also cases when the buyer of some business services is unknown. Anyway, the percentage of the business services bought without the implication of the purchasing department is quite high in all the companies studied. In these cases, the procurement of the business services is done without the benefits and the value added that could be provided by the purchasing department and its specialists.

<b>Business service category</b>	<b>Purchasing Department</b>	<b>Other Departments</b>	<b>Unknown</b>
<b>Administrative services</b>	<b>65%</b>	<b>24%</b>	<b>14%</b>
<b>Professional services</b>	<b>49%</b>	<b>45%</b>	<b>6%</b>
<b>Information and communication technology services</b>	<b>23%</b>	<b>77%</b>	<b>-</b>
<b>Sales related services</b>	<b>38%</b>	<b>62%</b>	<b>-</b>
<b>Transportation and distribution</b>	<b>57%</b>	<b>30%</b>	<b>13%</b>

services			
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**Table 1: The implication of the purchasing department in the procurement process of business services**

### **The conceptual framework**

The purchasing department has to reconsider its strategy regarding to the procurement of business services. Based on a carefully analysis of its knowledge and capabilities, purchasing department must decide on what kind of business services it will purchase and what is more appropriate to be purchase by the other departments from the organization. Only in this way, the professional buyers from the purchasing department will be able to be more efficient in the procurement process of the business services.

In addition, when the management of the organization assures the conditions for collaboration, the purchasing department has to be open to collaborate with the other departments during the procurement process of business services.

Nowadays, changing is a way of life in our contemporary society and this affects the capacities and knowledge of the purchasing department and of the other departments from the organizations. That is why the purchasing department has to review periodically its capabilities and knowledge and has to adapt its purchasing strategy according to them.

In figure 1 we present the conceptual framework of purchasing process of business services which can be used by the purchasing department. The framework that we developed is based on a close collaboration between the purchasing department and the management of the organization. Thus, the framework allows the organization objectives and politics to recognize in the objectives set by the purchasing department for the procurement of business services.

#### ***The development of plans and objectives for purchasing of business services***

At the top of the framework you can see the first process: the development of plans and objectives for purchasing of business services which should be in accordance with the business plan of the organization. The purchasing policies for business services should be the result of and should be closely related with the business plan. In this way, the organization will have specific objectives for the purchasing of business services that will describe the way in which purchasing process will take place and how can be this process improved.

### *Strategic purchasing*

At the next level of the framework we can see the strategic purchasing. This consists in the development of specific purchasing strategy for each category of business services. These purchasing strategies have to be based on a profound analysis of the clients needs, of the market and suppliers characteristics. These strategies are based on two main processes:

- the development of a portfolio for each category of business services
- the development of a portfolio for the suppliers.

In the case of the portfolio for each category of business services, all the services from one category are positioned according to the following characteristics:

- the amount of money involved
- their complexity
- the number of bills, etc.

The same thing happens in the case of the suppliers' portfolio, but this one has to describe also the relations with the suppliers (partners, preferred suppliers and commercial suppliers) . From the combination of these two portfolios will result the purchasing strategies for each category of business services.

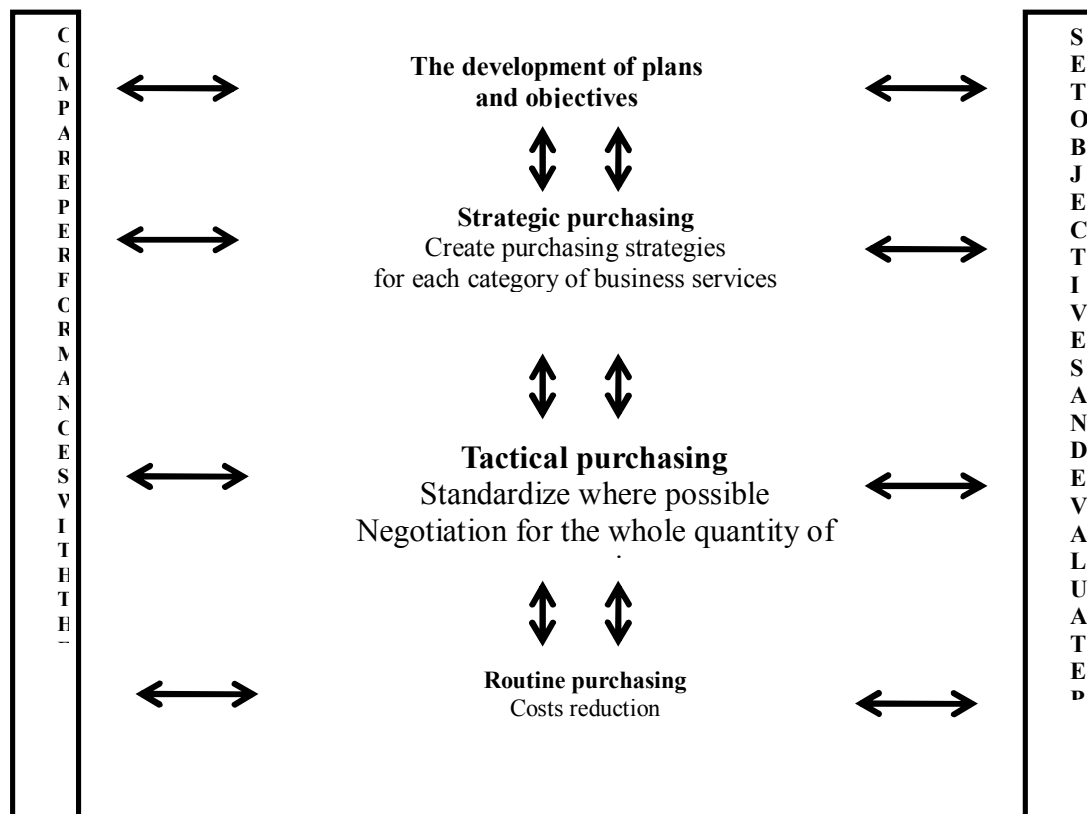


Figure 1: The conceptual framework for purchasing process of business services

### *Tactical purchasing*

At the next level of our conceptual framework you can see the tactical purchasing, the phase in which the strategies that have been defined earlier have to be developed further. Two processes are dominant in this phase:

- the standardization of business services where this thing is possible
- the negotiation for a whole quantity of a business service needed in the organization in order to obtain a better price.

### *Routine purchasing*

In the phase of routine purchasing the main objective is the reduction of the operational costs as much as possible.

This objective can be achieved through the utilization of the following methods:

- the authorization procedures
- the techniques used to control the inventories level

Apart from these four phases of the purchasing process of the business services, we introduced two supporting processes which are also important:

- the setting of the objectives and the evaluation of the performances
- the comparison of the performances with the results of the leaders on the market.

These two processes have to be performed in parallel with the phases of the purchasing process of business services for each organization. The setting of the objectives and of the performance indicators for the purchasing process of business services can contribute to the improvement of the services purchasing process. Also, the comparison with the results of the market leaders can offer the possibility to find out and use the newest and most efficient purchasing methods.

### **Recommendations for managers**

The idea of a purchasing department in charge of the procurement of all business services can not be applied due to the organizational problems and therefore such an approach should not be encouraged from the beginning.

Managers should refrain from statements like “who and how to do the purchasing” and find a logical paradigm or a model that allows splitting the purchasing activities for business services between the purchasing department and the other departments from the organization.

The model should allow the internal clients and/or the other departments from the organization to purchase themselves some of the business services or to ask for the experts’ advice from the purchasing department.

The purchasing department should collaborate with the other departments from the organization during the procurement process of the business services if this is beneficial for the organization.

Also, some changes regarding the evaluation tools used for measuring the performance of the purchasing department and the other departments must be done. Thus, cost reduction is no longer an appropriate evaluation indicator. Purchasing department could be evaluated based on the achievement of the previously set objectives:

- objectives regarding to the purchasing process of business services



- objectives regarding to the satisfaction of the internal clients needs.

In order to improve the efficiency of the purchasing process of the business services we suggest managers to take the following measures:

*A. To determine who buys what in the organization regarding to the business services*

In order to achieve this it is necessary to know the following information:

- What types of business services are purchased?
- What are their characteristics?
- In which quantity are they purchased?
- From which supplier?

*B. To develop a system for monitoring and controlling the purchasing process of business services through specifying clear the purchasing needs and setting strict authorization procedures, etc.*

This requires the following measures:

- authorize of a limited number of employers from the organization for the purchasing of business services;
- define the purchasing procedures for each type of business services
- control the effectiveness of the current authorization procedures

*C. To establish exactly the implication of the purchasing department in the procurement process of business services*

Using specialists from the purchasing department will reduce costs and improve efficiency of the purchasing of business services. They have the expertise, so that they will use the best methods with the suppliers and they will coordinate the entire purchasing process in order to obtain the best results.

*D. To reduce the suppliers base*

This requires the identification of all suppliers for each category of business services and their classification into:

- partner supplier
- preferential supplier
- commercial supplier

Based on this classification and on the assessment of delivery process characteristics (total time of the delivery, providing maintenance, repairs, distance to the supplier, etc.) a reduction plan of the suppliers can be done.

*E. To select and use an E-procurement system for the purchasing of business services*

Regarding to E-procurement, organizations face the following questions:

- If they should apply the E-procurement?
- What form of E-procurement to choose?

In order to answer these questions management has to know the impact that the E-procurement forms would have on the organization. There are four main types of impact that managers should focus their attention on:

- structural impact
- impact on the IT system
- cultural impact

After assessing these impacts, the costs that must be done to implement a form of E-procurement and the savings that can be achieved managers can decide on the adoption of an E-procurement form.

For taking all these measures that we suggested for the improvement of the purchasing process of the business services, organizations must have competitive employees in the purchasing department and an appropriate IT system.

The purchasing process of business services is sometime more complex than the procurements of goods and that is why the employers working in this field have to be competitive. The most important features that they need to possess are: negotiation skills, creativity, analytical skills, desire to change and adapt to technological novelties, IT knowledge, communication abilities, etc.

The specialists from the purchasing department have usually these characteristics and this is why they should be directly involved in the purchasing process of business services. They can be involved in the purchasing process of business services as follow:

- as multifunctional team members in charge of purchasing of business services;
- as consultants for purchasing process of business services;
- as purchasers for business services.

In any of these cases the role of the specialists from the purchasing department is vital for the efficiency of the procurement process of the business services.

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#### OPTIMALIZACJA DECYZJI MENEDŻERÓW DOTYCZĄCYCH ZAKUPU USŁUG BIZNESOWYCH

**Abstrakt:** Strategiczne znaczenie usług wzrosło w ostatnim czasie, ponieważ wiele krajów zwróciło się ku realnej gospodarce usługowej. Celem tego artykułu jest wspomnienie menedżerów w optymalizacji ich decyzji dotyczących procesu zakupu usług biznesowych. Artykuł rozpoczyna się od opisu usług biznesowych i ich znaczenia. Koncentrujemy naszą uwagę na znaczeniu roli jaką pełni dział zakupów w procesie składania zamówień na usługi biznesowe. Następnie, prezentujemy niektóre wnioski płynące z praktyk dotyczących następstw mających miejsce w wyniku działań działu zakupów w zamawianiu usług biznesowych. Ponadto, artykuł prezentuje ramy koncepcyjne, które zostały opracowane w celu optymalizacji procesu zakupu usług biznesowych. Na zakończenie artykułu, prezentujemy kilka zaleceń dla menedżerów, dotyczących w jaki sposób mogą oni zoptymalizować swoje decyzje dotyczące procesu zakupu usług biznesowych.

#### 关于商业服务购买的优化管理决策

**摘要:** 服务的战略重要性近来有增加的趋势,因为许多国家已经变成了真正的服务经济。本

文旨在帮助管理者在采购商业服务业过程中优化决策。本文首先描述商业服务以及其重要

性。然后文章着重介绍采购部门在采购商业服务过程中的重要作用。

接下来，我们提出一些从实践中关于采购部门在采购业务服务的发现。此外，本文给出了

一个用于优化业务服务的采购流程的概念框架。在文章的结尾，我们为管理者提出一些如

何在有关业务服务的采购过程优化决策的建议。