

6 Service Purchasing at the Sunny Hotel¹

Company Background

The Sunny Hotel/Spa & Wellness Resort is well known in Izmir, Turkey. Founded in 1995, it started as a family-owned business and has dramatically expanded especially during the recent five-year period. It has grown at the rate of 200% during the period of 2000-2006. Mr. and Mrs. Gunes, owners of the hotel, stated during an interview in 2006 that the secret of their success is:

We believe that we have a different point of view than that of our competitors. Our focus is on our core competency in providing hotel management services. Although it can be difficult to determine one's core competencies and boundaries of a company in the tourism sector, success of the business enterprise depends on this point. Functions that are not in one's core competencies should be examined for outsourcing to other firms. Recently the Sunny Hotel's owners have thought about outsourcing critical services. The tourism sector has been rapidly expanding the flow of hotel management services; this flow has become more significant than the materials flow management for us.

Mr. Gunes has remarked that purchasing has turned into more of a strategic function for the organization, especially in recent years. Although traditionally materials flow is accepted as the core flow that should be managed effectively along the supply chain, the reverse—i.e., that of the management services flow—has become a more logical benchmark for many service companies in the current environment. Services firms that are being managed as members of services-oriented supply chains are ones that are successful. Therefore, the services flow is treated as a focal point, i.e., the main flow that should be properly managed by service companies, whereas the flow of materials supports service management for the tourism services sector. Such an aspect and point of view has been embraced by the company since the arrival of the new purchasing manager, Mr. Murat Var, to work at the hotel.

Purchasing Manager—Murat Var

Mr. Var holds an undergraduate business degree and a master's degree from well-known business schools. Upon graduation, he worked for the first year as a purchasing expert for a multinational hotel chain, and he soon advanced to the purchasing management responsibility and continued to work there for the next five years. In 2005, he started work at the Sunny Hotel/Spa & Wellness Resort; soon after they became the market leader at a time when rival hotels faced significant problems and bottlenecks in the services being offered.

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Murat initiated organizational changes for the purchasing department of the hotel. With an emphasis on the separation and individuality of the differences between the purchases of materials and of services, he stated his belief that “The opportunity to increase profits in an organization through more effective purchasing and supply management is greater in the acquisition of services than in goods.”

When he first started his work at the hotel, he observed the purchasing department was only focusing on the supply of goods. Few services were being purchased (outsourced) in these early years, and the management of services purchases (outsourced work) was managed by the related department directly receiving the services. For instance: insurance and software support services were contracted for by the Accounting & Finance Department, whereas the staff-training services contract was arranged by the Human Resources Department. Murat’s approach was “consolidation of these responsibilities by the purchasing department,” so that both materials and services purchases would be managed here.

As a result, the company currently purchases and contracts for the outsourcing of the following services:

- Security
- Cleaning
- Animation
- Insurance
- Software support
- Staff training
- Food storage & delivery services

Materials and Services Purchase

The purchasing department is not a new services organization. However, after Murat hired on as purchasing manager, responsibilities and authorities of the organization was changed. Currently, eight purchasing experts are working for Var, and their responsibilities are divided amongst the commodity groups and services.

Until two years ago, materials purchasing activities at the hotel had been centralized. However, service purchasing activities were not included, and each functional department remained responsible for arranging its own outside-supplied services. Var was moved over to take control of a newly centralized purchasing function that was to include the commitment of company’s funds for procurement of the materials and services for the hotel.

Today the functional department managers believe that the new consolidated purchasing organization and its implications are logical. However, in spite of potential advantages (such as improved levels of customer services and a 30% decrease in the total cost of purchasing), there are some adaptation problems. Complaints from the other department managers include:

- Some supplier selection and evaluation processes are being used for materials and services, leading to wrong or bad selections.
- Purchasing department personnel do not engage the department heads in the source selection process.

Discussion Questions

1. What makes the procurement of services different from that of the purchase of goods and materials?
2. Define alternative services, or additional ones, that could be purchased by the hotel.
3. Do you think a centralized purchasing department is a logical way to increase purchasing efficiencies? Is it an advantage to have the purchasing department manage service purchases?
4. In Table 1, the Supplier Selection and Evaluation Matrix for “purchasing goods” is illustrated. The same criteria and techniques are being used to purchase services at the Sunny Hotel. Do you think that some other distinctive criteria for the supplier selection and evaluation of service purchases are needed? If yes, please briefly define them. How would you present them to the company as a consultant?

Table 1		Sample Supplier Selection and Evaluation Matrix		
CRITERIA	WEIGHT	A	B	C
Past performance	20%	1	5	3
Price	25%	5	2	4
Flexibility	15%	2	3	5
Lead time	10%	1	2	3
Reputation	5%	5	4	2
Trust	5%	3	5	1
Payment Requirements	10%	2	4	3
Technical support	10%	5	2	2
Total	100%	1.95	2.30	3.30

Where 1 = Least positive, 5 = Most positive

