

Customer Service

“How to Understand It, Assess It, and Use It for Competitive Advantage”

As individuals, we do business with other individuals. Whether we’re acting as mass consumers or business-to-business professionals, our perception of “customer service quality” depends on the results of one-to-one transactions with another person.

Just what is customer service? It’s “whatever the customer expects.” How your company ranks depends on how the customer perceives your performance compared to that of your competitors.

Did we receive exactly what we ordered, on time, or did we get the wrong product late? Did our problem get solved correctly and promptly, or did we have to make more calls to put things right? Did the company back up its promises with action, or did we get a run-around?

Because it’s time-consuming and difficult to evaluate the specific experiences of individual customers, too many companies rely on broad estimates of service quality. These are typically based on little more than brief mail-in postcard responses, feedback to service reps and field sales personnel, and “gut feel.” Very few companies conduct comprehensive, forward-looking surveys of customer service performance.

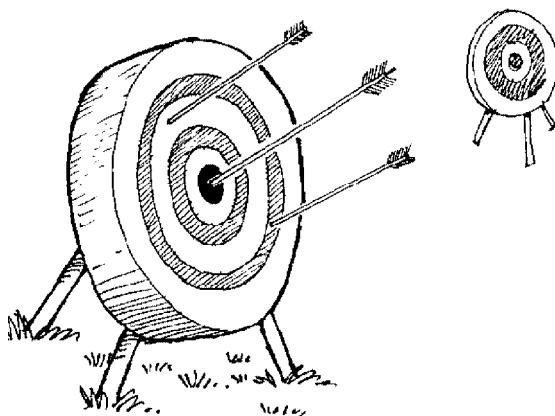
Yet customer service is becoming the competitive battleground of the 1990’s. Whereas companies once competed over product, price, and promotion, now they scramble to outdo others in providing the classic logistics definition of service as “utility of time and place.”

The Perception Gap: Why Sellers And Customers See “Service” So Differently

There is often a wide gap between how a company and its customers perceive

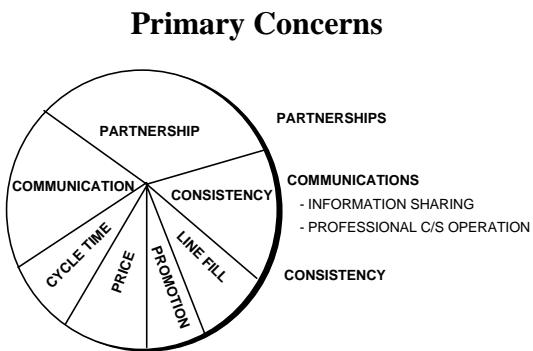
“service.” One reason for this disparity is that *companies typically define service differently from the way their customers see it*. They may very well hit their own target of service excellence (for instance, order fill rates), but may completely miss the target that is of greatest importance to their customers (say, order accuracy).

A company may consider itself as hitting the bull’s eye if it ships 95 percent of total dollar amounts on an invoice. The customer, on the other hand, may feel as if the company missed the target completely because this “bull’s eye” applies mainly to fast-moving items and not to slower-moving but equally important items.



One company in the over-the-counter pharmaceutical industry, for instance, was surprised to learn from a comprehensive, six-month survey of customers that service expectations and needs varied significantly, not only by type of account and channel of sales, but also by geographic region.

As highlighted in the pie chart below, “service” can be defined in many different ways by different kinds of customers. A company needs to understand both the industry-specific and customer-specific aspects of service.



Another gap may occur because of widely different perceptions of how well a customer service representative (CSR) performs. Industry studies show that customers almost universally agree on what makes an “excellent” CSR. It is a person who thoroughly understands not only the company’s products and its sales and shipping operations, *but also the customer’s own specific needs.*

In other words, it’s not enough to know your business – you must also know your customer’s business well enough to help solve their problems with your products and service.

Many companies tend to define customer service and the role of CSR’s merely as a set of administrative tasks or clerical functions. They measure it in terms of numbers of orders processed, invoices prepared, deliveries routed, and complaints or inquiries handled.

Customers, by contrast, may see service very differently. As more companies today are learning (sometimes to their chagrin) customers rank *service* as very important – even equal to or higher than product quality – in deciding where they do business. *In short, service has itself become a “deliverable.”*

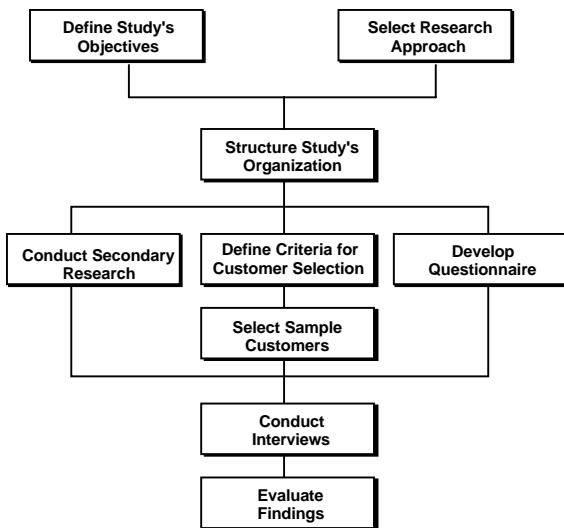
Given the rising importance of service, why is there such a wide gap today between how companies *think* they’re doing and how they are *actually* doing? The problem can be traced to a related gap in the way companies do business. *Everywhere we find the distance between the customer and the company growing wider.* As technology has allowed greater efficiency in handling routine tasks, it has also unfortunately removed much of the personal element that was a traditional hallmark of successful American business. As companies have grown larger, management too often has become distanced from customers and their actual service requirements.

Another key factor is **information**. Customers today expect a company to provide up-to-the-minute, complete, and accurate information about order status, but often this is simply not possible. The programmer’s saying “garbage in, garbage out” applies with particular force in the customer service arena. If the information available to a CSR on the computer screen is inaccurate or incomplete, the phrase “high-tech systems” rings hollow indeed.

Pragmatic Ways To Measure And Improve Service Performance

In order to bridge the perception gap, a company at some point must objectively assess its service performance as perceived in the marketplace. Whether this task is performed by internal staff or by an outside consultant, it needs to be grounded in honesty and integrity.

One effective way to organize a customer service assessment is that shown in the chart below.



The first step is to **define the company's objectives in performing the assessment**: How do our customers rate our service performance by industry group, level of sales, shipping location, and method of shipment, for instance? Another key study objective might be to find out how well we perform compared to our competition. A third objective is to find out how we can improve the customer service function to meet our customers' real needs.

The next step is to **select a research approach**. Conducting secondary research involves a straightforward review of surveys and studies already published on customer service.

More challenging is the primary research of customers themselves. Most companies have hundreds, if not thousands, of individual customers. They must determine not only which of those customers to select for their research, but also how to gather data from them.

A **questionnaire** must be developed based upon clear definition of the study objectives. This document is essential for both in-person and telephone interviews. Because the average

cost of an in-person interview for a company operating nationally may exceed \$1,000, most companies opt for using the in-person assessment only for selected major customers. Telephone interviews can also provide useful insights as long as they have been set up in advance with respect for the customer interviewee's schedule. The least expensive, but unfortunately also the least effective approach is the mailed questionnaire. (Rarely will more than ten percent of such questionnaires be completed and returned and even then not necessarily by the correct party).

For in-person and telephone interviews, it is almost essential to have an outside, professionally trained interviewer. If interviews are conducted by employees of the company, the responses may well be biased, reflecting what management expects and wants to hear rather than what the customer feels.

Using Better Service As A Competitive Tool In The Marketplace

Many customer service surveys fail because the effort ends when the findings are published. A customer service assessment is pointless unless it contributes to improved service performance. When an organization engages in a customer service assessment, by its very nature this effort heightens the customer's expectation of that organization and creates anticipation for improvement. For this reason, unless a company expects to be serious about completing the survey and using the findings for genuine improvements, it would be wise not to undertake the process at all.

The ultimate objective of outstanding service, after all, is to preserve or enhance market position and profits.

Three dimensions of service must be understood in order to achieve this goal.

DIMENSIONS OF CUSTOMER SERVICE

<u>DIMENSIONS</u>	<u>DESCRIPTION</u>	<u>MARKET SHARE IMPACT</u>
<u>Reliability</u>	<i>Daily Execution</i>	<u>Defensive</u>
<u>Resilience</u>	<i>Problem Recovery</i>	<u>Defensive</u>
<u>Innovation</u>	<i>Value Added</i>	<u>Offensive</u>

Reliability is a minimum expectation. It means consistent performance of such basics as on-time delivery, order completeness, damage-free shipments, and order cycle times. Performing reliably will, at best, merely defend one's current market share.

Resilience concerns a company's ability to recover successfully from service-related problems. Customer communications, response to customer inquiries, handling of returns and problem shipments, and meeting needs for emergency coverage all come under this heading.

Innovation while both reliability and resilience are essential for meeting minimum service requirements, it is only through innovation that service can be used as a positive tool for increasing market share and profitability. Innovative service, which today is becoming the "everyday standard" of the best companies, is made possible through creative and effective applications of electronic data interchange (EDI), flexible manufacturing to meet short order cycles, high-speed material handling, and fast response to customer needs.

Innovative ideas are, however, by no means always "high-tech." Sometimes they may result from simple common-sense applications of good management principles. Whatever they may be, the innovative approaches to service inevitably pay off by taking costs out of the supply chain, improving speed of product to the customer, or both. In fact, if experience is any guide,

what today may appear "innovative" is very likely to become "expected" in the near future.

Today, the phrase "customer service" may mean different things to different audiences. For most companies, however, service has become an increasingly important means of standing out in a crowded, me-too marketplace. And for customers – which all of us are at one time or another – service is an essential factor in deciding who we want to do business with again and again.

ABOUT THE AUTHOR

Thomas L. Freese is principal of Freese & Associates, Inc., a management and logistics consulting firm in Chagrin Falls, Ohio. Mr. Freese received his B.S. in business administration and marketing, and an M.B.A. with a concentration in business logistics from The Ohio State University. His experience spans a wide spectrum of products and industries from bulk chemicals and industrial components to consumer goods, frozen fruit, and fresh poultry. He has consulted to numerous manufacturers, wholesalers, distributors, and retailers.

Before establishing Freese & Associates, Inc., he served as Manager of Physical Distribution for Parker-Hannifin Corporation, and in numerous line and staff distribution positions for Unocal. He is past president of the Northeastern Ohio Warehousing Education and Research Council (WERC) chapter, and an active member of the Council of Logistics Management (CLM), the International Customer Service Association (ICSA), and WERC. He is a frequent speaker at professional conferences and seminars and has contributed articles to the *Journal of Business Logistics, Traffic Management, Food Business, and Distribution Center Management*. His chapter on "Warehouse Site Selection" appears in The Logistics Handbook.