



Customer Service in Logistics

Unit 6

Customer Service

Customer service is generally presumed to be a means by which companies attempt to differentiate their product, keep customers loyal, increase sales, and improve profits.

Its elements are:

- **Price**
- **Product quality**
- **Service**

It is an integral part of the marketing mix of:

- **Price**
- **Product**
- **Promotion**
- **Physical Distribution**





Customer Service


Customer service is a process for providing significant value added benefits to the supply chain in a cost-effective way.



CUSTOMER SERVICE CAN BE DEFINED AS:

- An activity or function to be managed such as order processing or handling of customer complaints,
- Actual performance on particular parameters, such as ability to ship complete orders for 98 percent of orders received within a 24-hour period,
- Part of an overall corporate philosophy, rather than simply an activity or performance measures.



CUSTOMER SERVICE

- The level of customer service provided to customers determines whether the organization will retain existing customers and how many customers it will attract.
 - The customer service level that an organization provides has a direct impact on its market share, its total logistics costs and , ultimately , its overall profitability.
- 

- 
- Customer service is the measure of how well the logistics system is performing in providing time and place utility for a product or a service. This include activities such as :
 - *The ease of checking stock,*
 - *Placing an order, and*
 - *Post sale support of the item*
- 



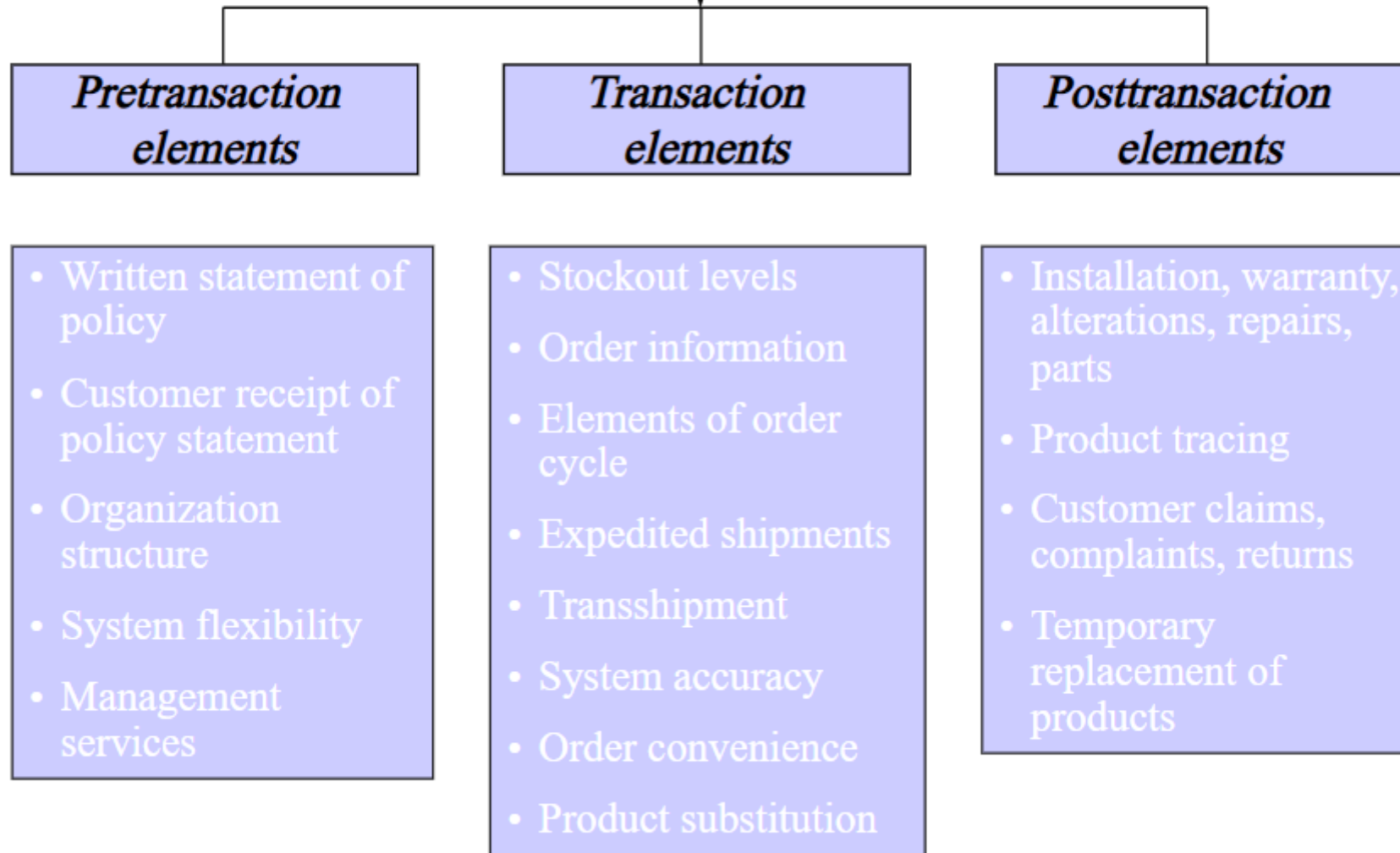
Customer service is often confused with the concept of customer satisfaction

“customer satisfaction represents the customer’s overall assessment of all elements of the marketing mix: product, price, promotion, and place”

Customer Service

- **MARKETING SIDE**
- **LOGISTICS SIDE**


Elements of Customer Service




Kano's Classification

expected type of service

- The expected type of service does not create much satisfaction, and mostly remains unnoticed; however, lack of it causes considerable dissatisfaction.
- It is important to recognize the **minimum acceptable level of expected service**, because a lower level increases dissatisfaction rapidly, and a higher service level rises costs without corresponding compensation to the customer value.



As an example of an expected service element for all these customer types is the availability of exceptional order information, which is considered as necessary service in case of delivery delays or other exceptional occurrences.



Attractive type of service

The attractive type of service is offered by the supplier specially planned to exceed the customer expectations. The value attributes under this dimension of the Kano model, are neither explicitly demanded nor expected by the customer but are latent.

These service elements can create satisfaction, but the absence of them does not cause dissatisfaction, because customers are not used to getting them. Attractive service elements can effectively be used as means of differentiating service offering.



One-dimensional service elements

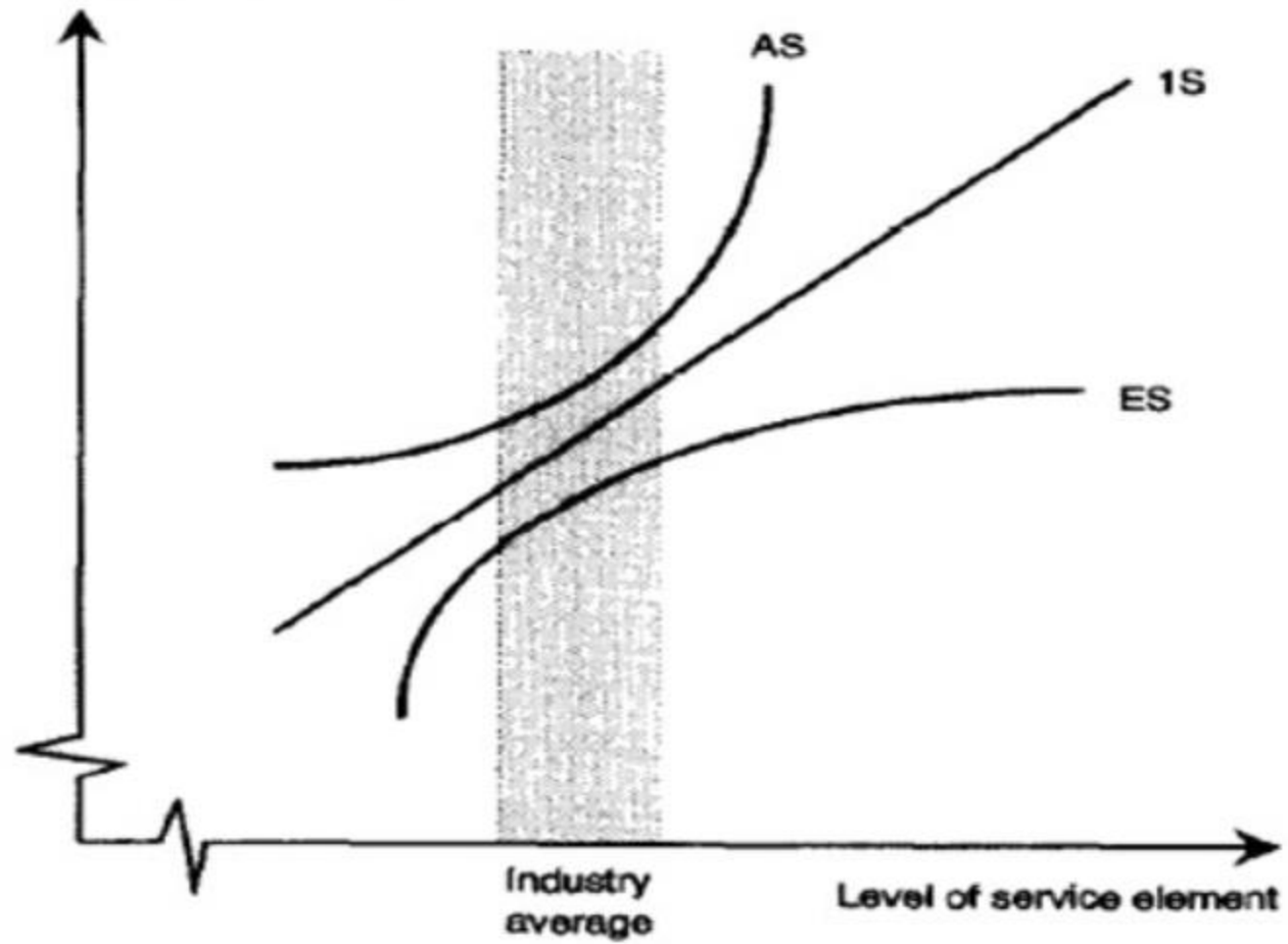
In the case of one-dimensional service elements, both satisfaction and dissatisfaction are possible customer reaction depends more or less linearly on the level of the service offered.

Order fill rate

The better the order fill rate the more satisfied the customer, and vice versa.



Level of customer satisfaction

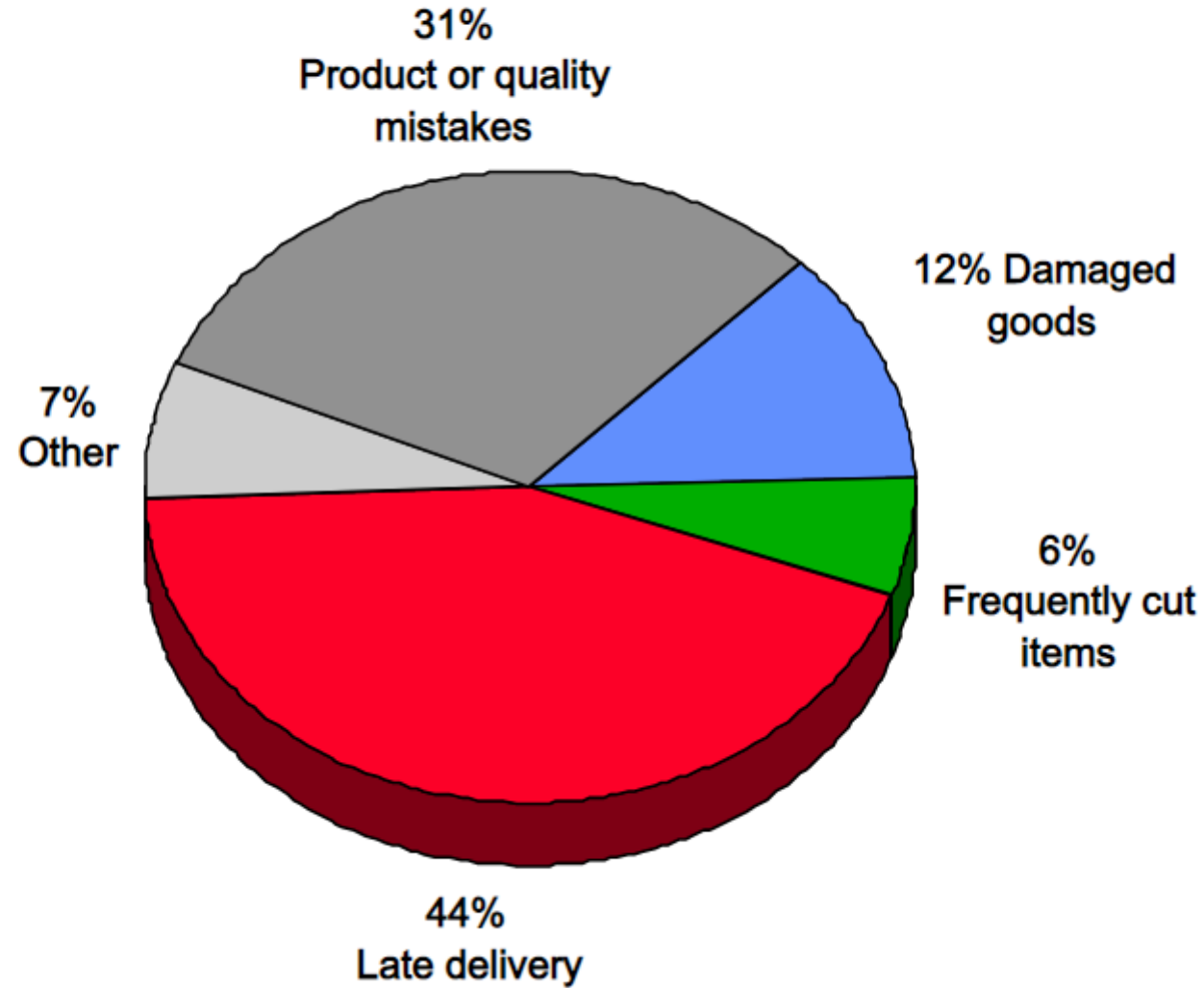


AS = Attractive service element
1S = One-dimensional service element
ES = Expected service element

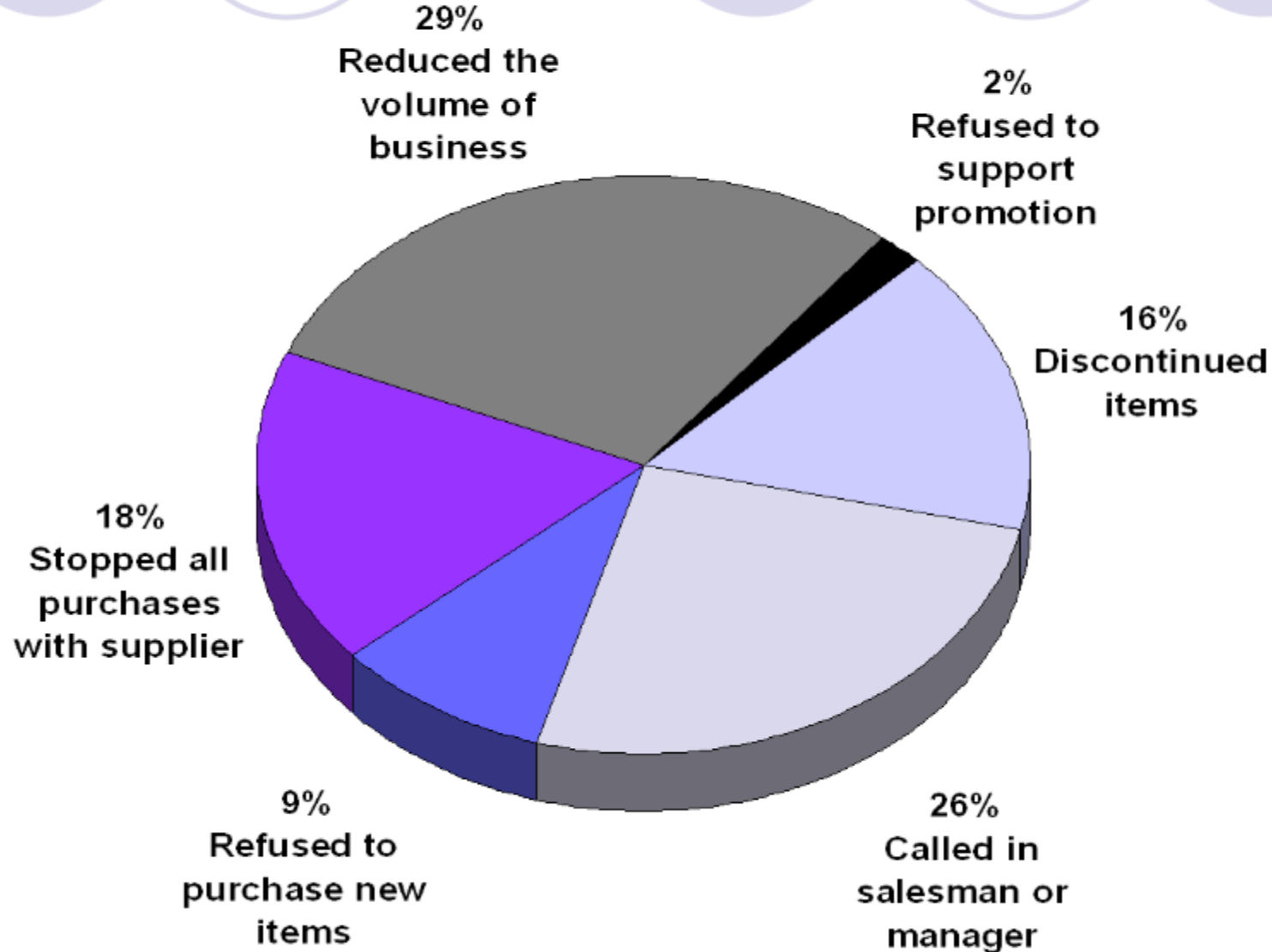
Service Failures

Service failure is a term associated with the problematic occasions that a customer has during the service processes the number and the extent of the problems that the customers encounter in order to get the products or services and the recovery options offered by the company can be performance indicators.

Common Customer Service Complaints



Penalties for Customer Service Failures B2B

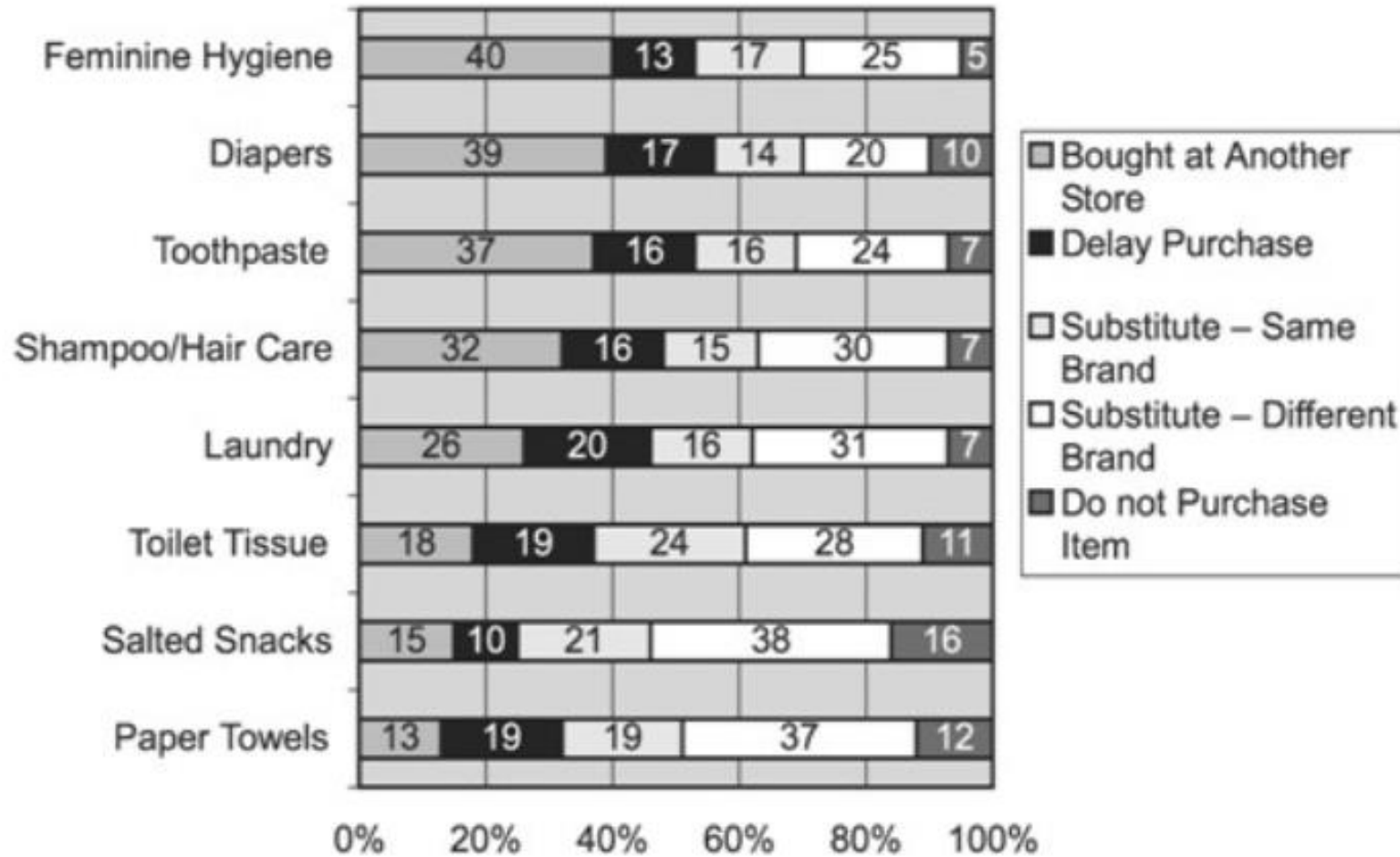


Penalties for Customer Service Failures B2C



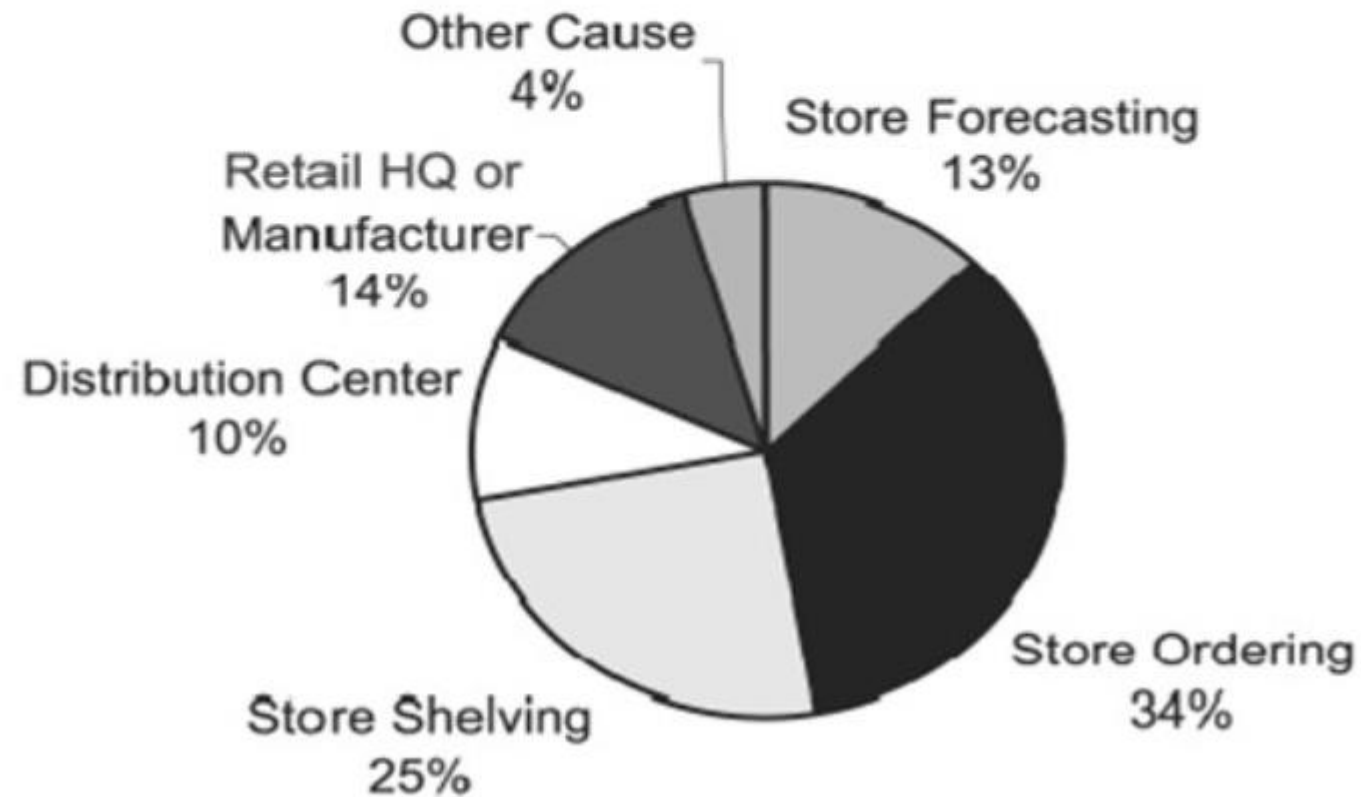
- 71,000 consumers in 29 countries to learn how they react to stock-outs
- 11 categories ranging from personal hygiene products to snack foods

Average Worldwide Consumer Responses by Category



Reasons for stockout

Summary of Findings of OOS Causes Worldwide Average



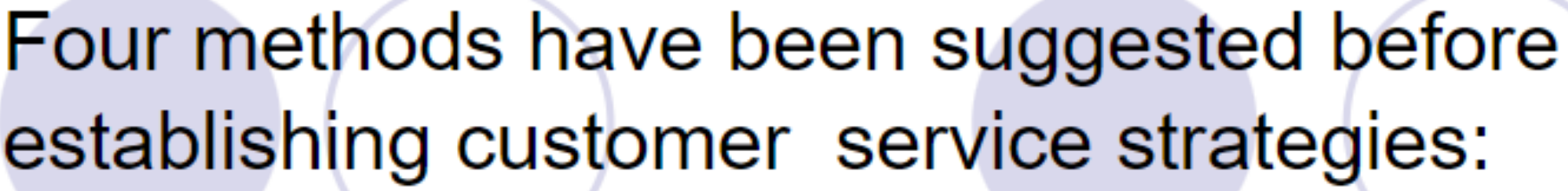
Complaining Behavior

Complaining behavior may be viewed in terms of a set of possible customer responses to dissatisfying purchase experiences. In general, complaint options include: seeking redress (i.e., a refund, exchange, repair, or apology, etc.), engaging in negative word-of-mouth (i.e., telling other people about one's dissatisfaction), exiting (i.e., vowing never to repatronize the seller), contacting third parties (e.g., writing a letter to a newspaper, taking legal action, etc.).




Before Establishing a Customer Service Strategy;

Service policies that are based on customer requirements are essential and they are supportive of the overall marketing strategy. Competitive benchmarking.



Four methods have been suggested before establishing customer service strategies:

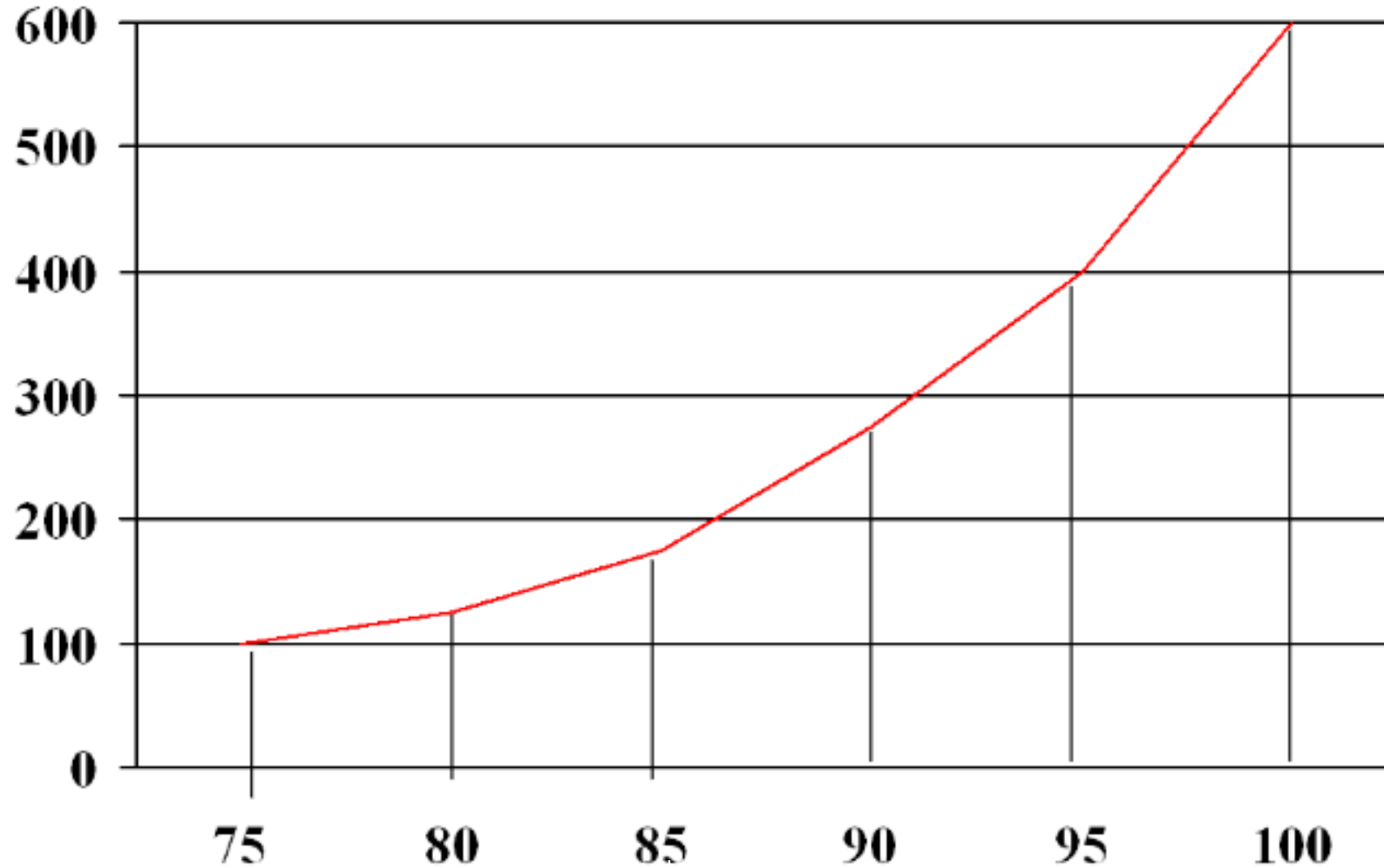
1. Determining customer service levels based on customer reactions to stock outs at the retail level
 2. Cost/revenue trade-offs
 3. ABC analysis of customer service
 4. Customer service audits
- 

Cost/revenue trade-offs ABC analysis of customer service

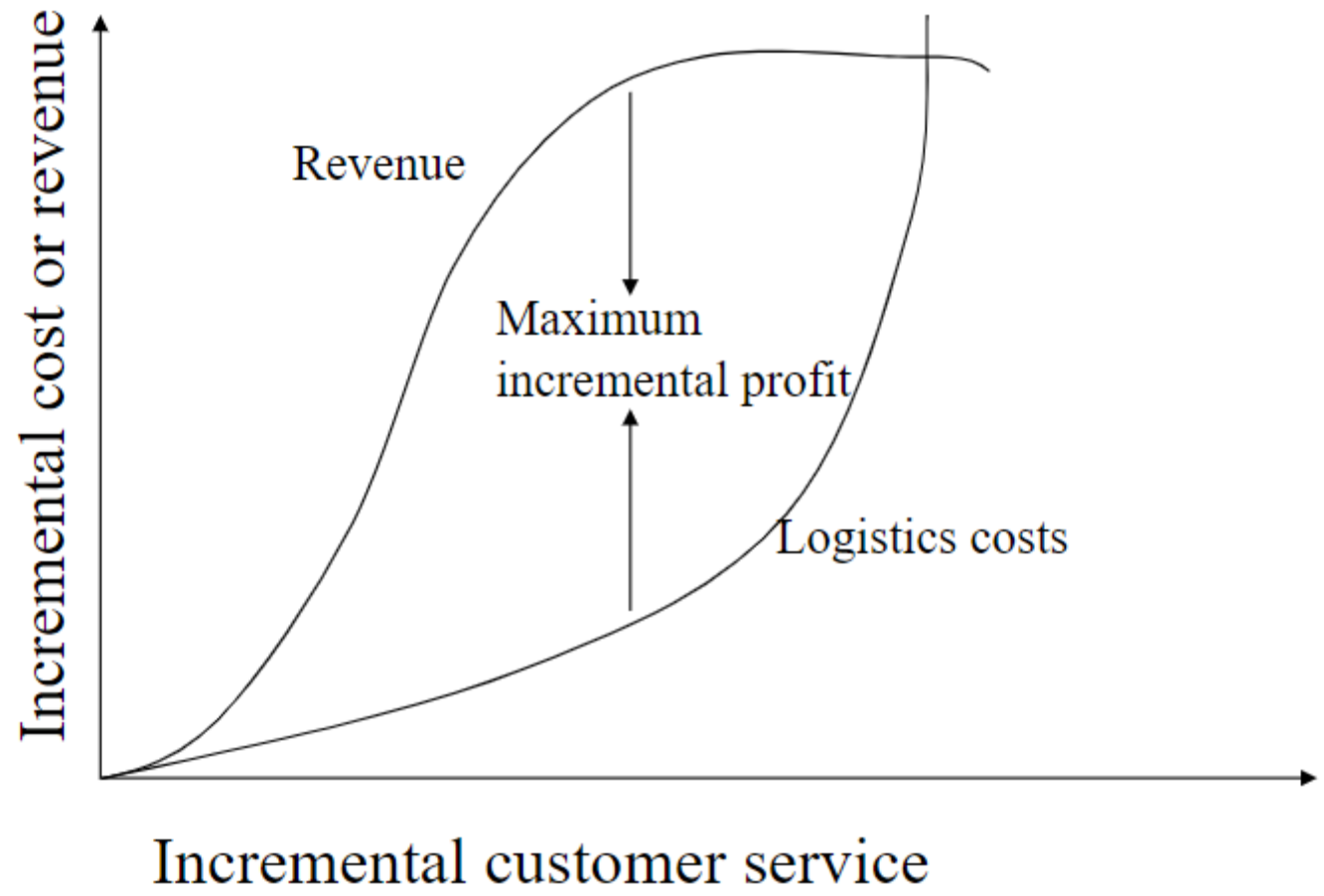
Four methods have been suggested before establishing customer service strategies: Determining customer service levels based on customer reactions to stock outs at the retail level
Cost/revenue trade-offs ABC analysis of customer service
Customer service audits.

Service and Inventory Investment


Inventory investment (\$000)




Impact of incremental customer service levels on revenues, logistics costs and profits



PARETO's RULE

A decorative header area featuring the title 'PARETO's RULE' in a large, black, sans-serif font. To the right of the text are three circles: a solid light purple circle, an outlined light purple circle, and another solid light purple circle. Further to the right, there are several teal-colored dashes and a small teal dot, arranged in a curved pattern.

- In 1906, Italian economist Vilfredo Pareto created a mathematical formula to describe the **unequal distribution of wealth in his country**, observing that **20 percent of the people owned 80 percent of the wealth.**
 - In the late 1940s, Dr. Joseph M. Juran inaccurately attributed the 80/20 Rule to Pareto, calling it Pareto's Principle.
- 
- A solid purple circle located in the bottom left corner of the slide.

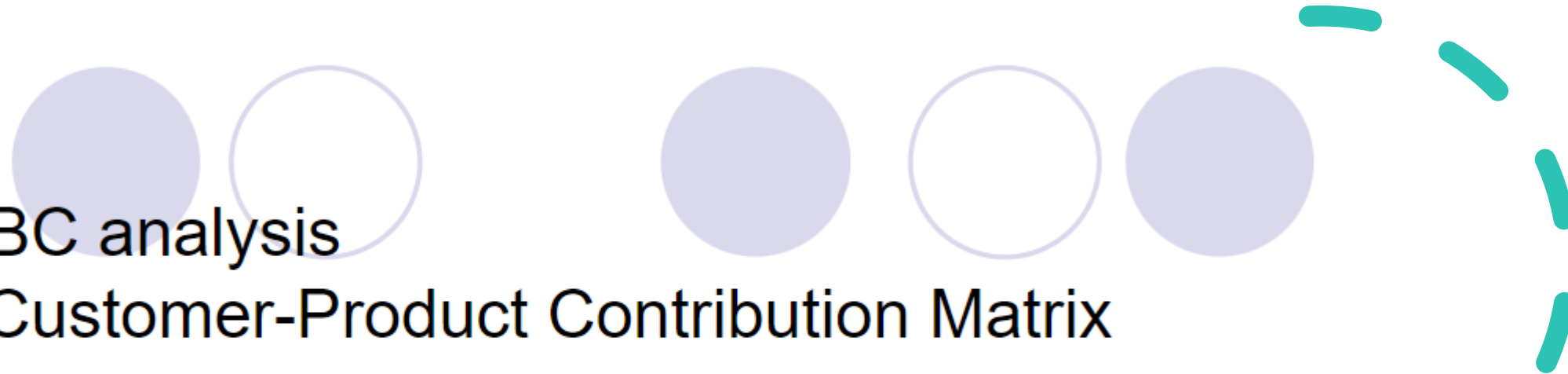
Adaptation of Pareto's Rule into Logistics : ABC Analysis

- The logic behind ABC classification is that **some customers and products are more beneficial to a firm than others ...**
- Beneficial in terms of **profitability, sales revenues, segment growth rates** or other factors deemed important by corporate management.



Cost/revenue trade-offs ABC analysis of customer service


Importance of customers can be combined with the importance of products to establish customer service levels.



ABC analysis

A Customer-Product Contribution Matrix

Customer Category	PRODUCT CATEGORY			
	A	B	C	D
I	1	2	6	10
II	3	4	7	12
III	5	8	13	16
IV	9	14	15	19
V	11	17	18	20



ABC analysis

Making the Customer-Product Contribution Matrix Operational

Priority Range	In-Stock Standard	Delivery Standard	Order Completeness Standard
1-5	100.0%	48 hours	99%
6-10	97.5	72 hours	97
11-15	95.0	96 hours	95
16-20	90.0	120 hours	93


Pareto's Rule-ABC Classification (Example for Inventory Management)

ABC classification is a method for determining level of control and frequency of review of inventory items

- **A Items** – typically 20% of the items accounting for 80% of the inventory value
- **B Items** – typically an additional 30% of the items accounting for 15% of the inventory value
- **C Items** – Typically the remaining 50% of the items accounting for only 5% of the inventory value-

ABC Analysis

A decorative header consisting of five circles in a row. The first, third, and fifth circles are filled with a light purple color, while the second and fourth are hollow with a light purple outline. To the right of these circles are several teal-colored curved lines of varying lengths and orientations.

- ◆ **Divides inventory into three classes based on annual dollar volume**
 - ◆ **Class A - high annual dollar volume**
 - ◆ **Class B - medium annual dollar volume**
 - ◆ **Class C - low annual dollar volume**
 - ◆ **Used to establish policies that focus on the few critical parts and not the many trivial ones**
- 
- A solid purple circle located in the bottom left corner of the slide.

Customer Service Audit

- The objective of the audit are to :
 - Identify critical customer service elements,
 - Identify how performance of those elements is controlled, and
 - Assess the quality and capabilities of the internal information system
- The audit include 4 stages :
 - External customer service audit
 - Internal customer service audit
 - Identifying opportunities and methods for improvements,
 - Establishing customer service levels,

Stages of the Customer Service Audit

Internal Audit

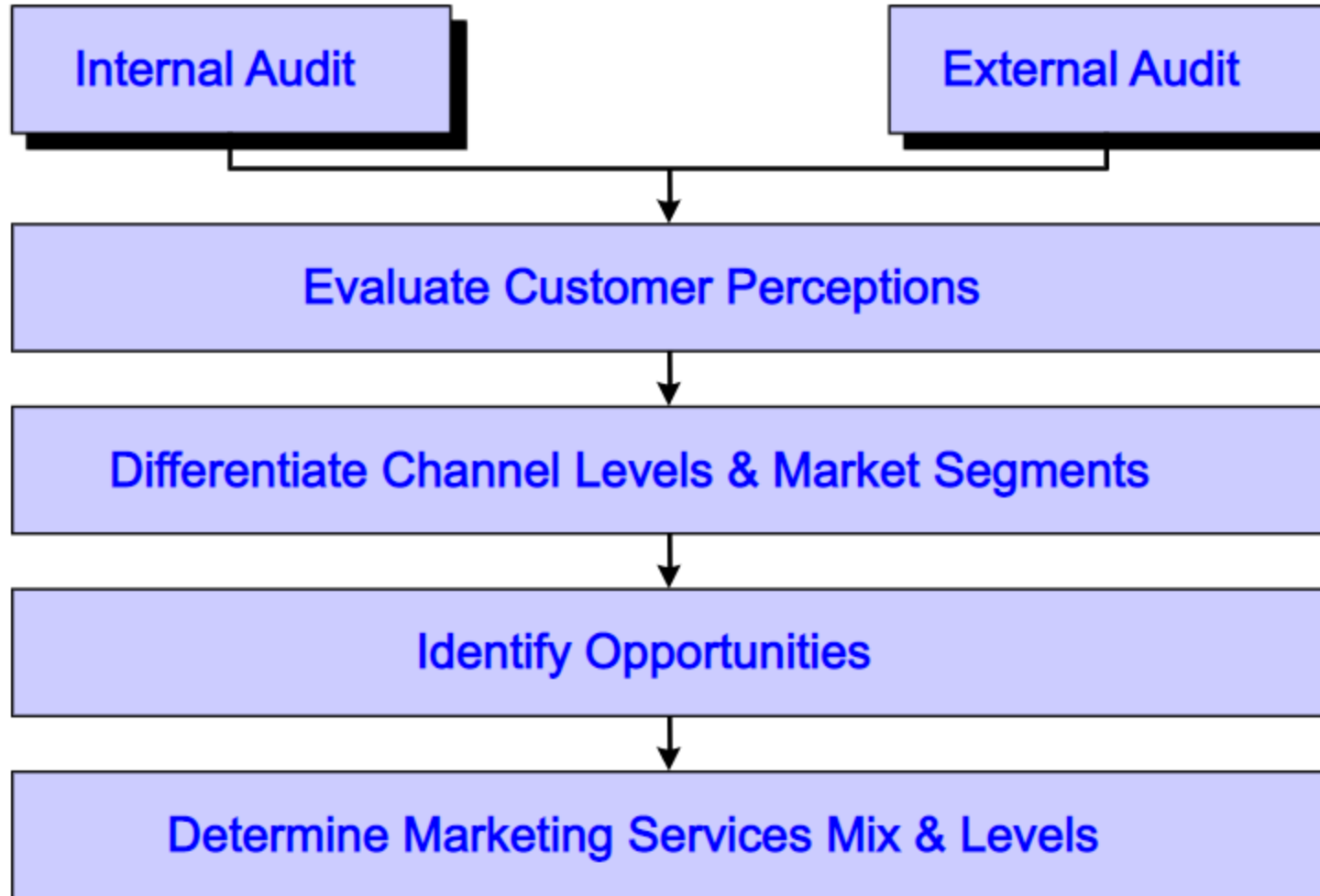
External Audit

Evaluate Customer Perceptions

Differentiate Channel Levels & Market Segments

Identify Opportunities

Determine Marketing Services Mix & Levels



How to measure customer service?

- Perceptual Measures: Importance and satisfaction measures

“How important service element is order cycle time?”

How valuable for your own operations or customer service would a 24 h order cycle time be?(Grades from 1 - not valuable to 5 - very valuable).

- Service levels are unique to individual firms and product lines of each firm.

Very few firms have formulated specific, quantifiable objectives for handling returns at the retail level (to pick up all damaged goods within five days, or to issue credit for returned goods within 20 days.)

- Utility measures allow a manager to evaluate the tradeoffs between several customer services even when the services are expressed in different units (such as dollars,time or hours).

Customer Service Standards

- Reflect the customer's point of view.
- Provide an operational and objective measure of service performance.
- Provide management with cues for corrective action.

Expected Performance Levels: Key Measurements

- Frequency - Sales Calls
- Response Time From Sales Rep.
- Advance Notice - Price Changes
- Methods Used to Submit Orders
- Frequency - Order Transmission
- Normal Lead-time Requirements
- Acceptable Range - Lead-time
- Fill Rate - Required %
- Policy on Stock-outs

THANK YOU

