CUSTOMER SERVICE - A FINE LINE BETWEEN LOGISTICS AND MARKETING

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1 Introduction

Customers are important to organizations, and organizations that view customers as a “nuisance” may not last very long in today’s highly competitive business environment. Moreover, a frequently cited business metric is that it costs approximately five times as much to develop a new customer as it does to retain an existing one. Regardless of the exact figure, it’s easier for an organization to keep an existing customer than it is to acquire new customers. To this end, customer service strives to keep customers happy and creates in the customer's mind the perception of an organization that is easy to do business with.

2 Understanding of Customer service in logistics and marketing

Customer service can be an excellent competitive weapon and is more difficult for competitors to imitate than other marketing mix variables such as price and promotion. Nordstrom’s (a high-end retailer) has a long-standing reputation for excellent customer service, and this customer focus often leads Nordstrom’s to do things that competitors cannot or will not match. For example, one of the authors was shopping at a local Nordstrom’s and found a belt that he liked, but the store didn't have the correct size in stock. Several days later, the author received a call from a Nordstrom’s salesperson indicating that the desired belt was available for purchase at the local store. The salesperson had located the belt at another Nordstrom’s and had the belt expedited—via air to the local store. With a retail value of approximately $45, it’s likely that the particular Nordstroms lost money on this purchase. It’s a reasonable assumption, however, that few other retailers would copy Nordstrom’s behavior in servicing the customer. Customer service is sometimes used interchangeably with customer satisfaction, but the two concepts are not synonymous; rather, customer service can be a component of customer satisfaction. See Figure 1.
Customer satisfaction compares a customer’s actual experience with the expected experience, and if the actual experience equals or exceeds the expected experience, then a customer would be satisfied. Conversely, if the actual experience does not measure up to the expected experience, then a customer would be dissatisfied. Customer service can influence both the expected and actual experience and hence influence customer satisfaction. Although many examples could be used to illustrate this point, consider that toll-free telephone numbers are a common customer service option provided by many organizations. Those without toll-free numbers could cause customer dissatisfaction because of the customers expectation that this is a service that should be offered by all organizations. (Note that we haven’t even discussed the customer’s reason(s) for telephoning an organization.) Macro environmental changes, such globalization and advances in technology, are causing organizations and individuals to demand higher levels of customer service.

As was pointed out in an earlier chapter, customer expectations continue to increase over time: if the associated performance (service) levels fail to keep up, then customer dissatisfaction is a likely outcome. In addition, as emphasized in this chapter, reliable service enables a firm to maintain a lower level of inventory, especially of safety stocks, which produces lower inventory holding costs. Third, in an increasingly automated and computerized world, the relationships between customers and vendors can become dehumanized. This situation is both frustrating and inefficient from the customer’s viewpoint. [1, 2]
The firm that can offer a high level of customer service, especially on a personal basis, will find that it has a powerful sales advantage in the marketplace. Furthermore, the increased use of vendor quality-control programs necessitates higher levels of customer service. In recent years, many firms, especially retailers and wholesalers, have become more inventory conscious. This emphasis has resulted in computer-assisted analysis to identify vendors who consistently give either good or bad levels of service. In the past, with manual systems, repeated and serious customer service errors occurred before a vendor’s activities were singled out for corrective action. Today, these factors are automatically programmed into computers, and companies are able to closely monitor the quality of service they receive from each vendor. We’ve talked at some length about customer service, but we’ve yet to offer a formal definition of it. Keeping in mind that there are myriad customer service definitions, for our purposes customer service will be defined as “the ability of logistics management to satisfy users in terms of time, dependability, communication, and convenience.” Let’s take a closer look at each of these four dimensions of customer service.

**Time**

Clearly, the order cycle is a major component of the time dimension of customer service. At the risk of sounding redundant, businesses today are looking to reduce order cycle times; longer cycle times translate into higher inventory requirements.

**Dependability**

Dependability refers to the reliability of the service encounter and consists of three elements, namely, consistent order cycles, safe delivery, and complete delivery. Our earlier discussion of the order cycle highlighted the importance of consistency (reliability/dependability)-inconsistent order cycles necessitate higher inventory requirements. And although order cycle time is important, an increasing number of companies are trading off order cycle speed for order cycle consistency.

More specifically, these companies are willing to accept a slower order cycle so long as it exhibits a high level of consistency. Safe delivery brings loss and damage considerations into play. Product can be lost or damaged for a multitude of reasons, but they are rather immaterial to a customer—a lost or damaged product can cause a variety of negative ramifications for a customer, such as out-of-stock situations. Order fill rate, or the percentage of orders that can be completely and immediately filled from existing stock, is one way of measuring the completeness of delivery. As is the case with loss and damage, incomplete deliveries result in negative customer ramifications, such as out-of-stock situations. It is unlikely that loss and damage can
ever be totally eliminated; because orders are picked and assembled, they are handled—and every time product is handled provides opportunities for loss and damage. However, the seller may be able to minimize the number of times an order is handled, perhaps by redesigning the order pick process. And, even if an organization has highly accurate demand forecasting, it’s also unlikely that it will be able to achieve a 100 percent fill rate (i.e., all incoming orders are filled completely). Consider the situation of the McDonald’s restaurant where two people walked in and placed a take-out order for 142 Egg McMuffins! Although the restaurant was successfully able to fill this order (but not before ensuring that the two customers could pay for it), the inventory needed to fill it meant that a lot of other orders for Egg McMuffins went unfilled, at least until the next scheduled delivery of foodstuffs.

**Communication**

Effective communication should be a two-way exchange between seller and customer, with the goal of keeping both parties informed. Moreover, effective communication requires that the correct parties be involved in the process; if a customer has a logistics-related question, then the customer should be communicating with someone with logistics expertise. Moreover, customer service can be enhanced if complete information is exchanged between the participants; a delivery address can be helpful, but outstanding characteristics of the delivery address would be even more helpful, as illustrated by the case of the transportation company that was responsible for delivering a $750,000 shipment of computer racks. What the transportation company didn’t find out—until it actually made the delivery—was that the customer was located on the 17th floor of an office building in the central business district of a major city. Because neither the transportation company nor the office building had the appropriate equipment to facilitate the shipment’s handling, the delivery was delayed until the proper equipment could be locate and brought to the building. “Two-way communication between seller and customer has certainly benefited from technological advances such as cell phones, personal digital assistants, and the Internet. These technological advances allow for less costly and more frequent contacts between the two parties Having said this, technology such as text messaging and the Internet can depersonalize the communication process, which is why periodic telephone interaction and even face-to-face contact between seller and customer are recommended.” (You should recognize that person: communication is an essential part of conducting business in many cultures.)
Convenience

The convenience component of customer service focuses on the ease of doing business with seller. Having said this, different customers may have different perceptions of the “ease doing business” concept. For example, for a college student the “ease of doing business” with bank might mean access to automatic teller machines, whereas for a small business owner: might mean bank tellers who specifically focus on commercial deposits and withdrawals. A such, sellers should have an understanding of their customer segments and how each signer views the “ease of doing business.” Moreover, from the seller’s perspective, certain costs may be associated with convenience for example, there may be a charge for pizza that’s delivered to your residence (or “free delivery areas” might be very small in geographic coverage). As a result, sellers must assess the extent to which their customers are willing to pay for convenience. In recent years many all lines have discovered that allowing customers to arrange their own travel via the Internet is quite cost effective for the airlines in that the costs of processing an electronic ticket are approximately $1 compared to $10 for processing a paper ticket. As a result, customers who arrange their travel by telephoning an airline’s customer service agent may now be charged fee for talking to the service agent (a service that for many years was “free” to the customer).

3 Establishing customer service objectives

Because customer service standards can significantly affect a firm’s overall sales success, establishing goals and objectives is an important senior management decision. Distribution is close related to customer service, so the outbound logistics department plays an important role in the establishment of customer service goals and objectives. Some companies distinguish goals from objectives when establishing customer service standards. Goals tend to be broad, generalize statements regarding the overall results that the firm is attempting to achieve. Unfortunately some firms’ statements of customer service goals are couched in platitudes lacking specify objectives specifying how the goals are to be achieved. This is a serious problem because if the customer service objectives or standards are not stated in specific terms, they may be ignored or be too vague to provide any real guidance to operating personnel.

Objectives, the means by which goals are to be achieved, state certain minimum requirements and are more specific than goals. Objectives should be specific, measurable, achievable, and cost effective; the latter two are extremely important because relatively small increases in the overall level of customer service objectives
can substantially increase the costs of maintaining the increased level of customer service. In other words, although it might be possible to achieve a particular objective, to do so might be cost prohibitive.

Consider, for example, an objective to reduce order picking errors from 5 to 2 percent within a 12-month time period. Let’s assume that this objective is specific and measurable. Although 12 months might be a reasonable time period in which to achieve the 3 percent reduction in order pick errors, what will it cost to achieve this reduction? Will the company be forced to hire additional personnel to check the picked orders? Will the current order picking process need to be restructured, perhaps through the addition of new technology? Can the company afford new people or new technology? If so, is the somewhat marginal improvement in customer service worth the additional costs? A central element in establishing customer service goals and objectives is determining the customer’s viewpoint. This means asking customers for their insights about customer service. What services would the customer like to receive that presently are not available from the seller? What services do customers view as the most important? How well does the seller currently provide what the customer wants? What could be improved? Because customer service is a competitive tool, it’s also important to learn how the customer evaluates the service levels of competing sellers.

Many companies evaluate their service performance through benchmarking (comparison of an organization’s performance to the performance of other organizations), and well-run organizations benchmark not only against competitors but against best-in-class organizations as well. The benchmarking should not only involve numerical comparisons of relevant metrics (e.g., fill rates) but should also learn about the processes associated with the metrics (e.g., how a best-in-class organization achieves its fill rates). The nature of the product also affects the level of the customer service that should be offered. Substitutability, which refers to the number of products from which a firm’s customers can choose to meet their needs, is one aspect. If a firm has a near monopoly on an important product (i.e., few substitutes are available), a high level of customer service is not required because a customer who needs the product will buy it under any reasonable customer service standard. However, if many products can perform the same task, then customer service standards become important from a competitive marketing point of view.

Another product-related consideration when establishing customer service goals and objectives is where the product is in its product life cycle. A product just being introduced needs a different kind of service support than one that is in a mature or declining market stage. When introducing a new product, companies want to make
sure that there is sufficient supply of it to meet potential customer demand, and so companies might use expedited transportation to protect against out-of-stock situations. It is far less likely that the same company would use expedited transportation to guard against an out-of-stock situation with a product in the decline phase of the product life cycle [4-6].

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References


Resume

This paper considers the highly topical issue which is important in an environment of logistics and marketing. Customer service is a place where it meets the requirement of the customer with offer from manufacturer. Customer service strives to keep customers happy, and the four dimensions of customer service were discussed in the paper.

Key words

Customer service, dependability, convenience

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