

Building Customer Equity with Best-in-Class Customer Service

RICHARD CARMAN AND BENJAMIN BALL



Excellent customer service is a key component of the relationship between vendors and customers. Failing to meet customers' expectations can negate the impact of other investments in products, programs and people.

To aid our clients in avoiding this trap, Dechert-Hampe & Co. fielded a groundbreaking CPG industry survey. *The Customer Service Benchmarking Study* (see sidebar) allowed us to identify the critical elements required to build customer equity with best-in-class customer service.

Two central themes emerged – measurement and collaboration – both external and internal. From the external view, suppliers must identify the customer service metrics critical to their key customers and measure them relentlessly, collaborating with those customers to both identify the metrics and to improve them. Internally, suppliers must recognize that best-in-class customer service is invariably a product of collaboration across multiple functions and process owners. The key process metrics that drive customer service performance need to be broken down into a “waterfall” of integrated functional metrics that are linked to the process outputs.

To understand the impact of customer service on customer equity we first need to define what customer equity is. The short version is: “customer equity is to the supplier/customer relationship as brand equity is to the brand/consumer relationship.” A more complete and graphic view is offered in the DHC Customer Equity Model (See Figure 1).

The four key components of Customer Equity are:

- 1. Brand Strength**
- 2. Customer Service**
- 3. Innovative Tools and Programs**
- 4. Thought Leadership**

Each component is critical to the relationship in its own way, but they can be looked at as building blocks. Without a strong brand franchise to offer (either the supplier's own brand or the customer's private label) there is no compelling reason for a customer to afford a supplier very much equity at all. Even with a strong brand, customers are still looking for innovative programs and tools that allow them to differentiate themselves from competitors with the way they merchandise the brand. Customer service is the measure of a supplier's reliability and a key driver of efficiency in the relationship. Thought leadership is the final component that can definitely differentiate two otherwise equal suppliers, but it is also irrelevant without the first three.

The focus here is on customer service and the operating framework required for companies to excel in providing this component of customer equity. Excellence in customer service drives increased customer equity. The more equity a company establishes with their customer, the more valuable they become.

ABOUT THE AUTHORS Rick Carman is a Managing Director in our Northbrook, Illinois office. Rick works with clients on process engineering and customer service projects. Prior to joining Dechert-Hampe, Rick held senior supply chain management and customer service positions with Corning Glass. Ben Ball is Senior Vice President of Dechert-Hampe & Company, based in our Northbrook, Illinois office. Ben works with clients on integrated customer and market development projects, including customer relationship management. Prior to joining Dechert-Hampe, Ben was Vice President, Marketing PepsiCo Foods International.

Getting to Best-in-Class Customer Service

Customer service performance is as much a differentiator for CPG companies today as product, price, or programs. As a key building block of customer equity, the customer service performance of CPG companies often separates suppliers as retailers decide on promotions, new product placement, and facings.

Poor customer service costs suppliers lots of internal activity time, lost sales due to stock outs, and increased deductions at a minimum. In the worst case, systemic service issues cause loss of promotional opportunities, de-listing of SKUs, and reduction of “customer equity.”

Collaboration begins with a customer centric view. This view is recognized as a key operating component of best-in-class performance by leading CPG companies. This means having an intimate knowledge of not only the requirements for doing business with their customers but, more importantly, the drivers of success within those customers.

Leading companies have customer segmentations that pinpoint the key requirements for doing business with their customers and also determine the relationship they desire with each customer. This becomes a foundation for the external collaborative strategy. Most leading consumer product companies understand that all customers are not equal as it relates to the execution of strategies at retail, profitability, and partnership. However, customers are equal in their demands for quality product and excellent customer service from their suppliers.

One method that leading consumer goods companies use to improve service levels is Collaborative Planning Forecasting & Replenishment (CPFR).

FIGURE 1.
CUSTOMER EQUITY MODEL



For the manufacturer, CPFR is a huge investment with big returns in customer equity. Other processes with somewhat lower investments that manufacturers use include Vendor Managed Inventory (VMI) and Continuous Requirements Planning (CRP). Manufacturers do not want to invest in these processes with every customer. The Study showed that less than 19% of the respondents' customer base is using these methods. However, 28% of the total sales of the responding companies were generated via customers using these collaborative planning methods.

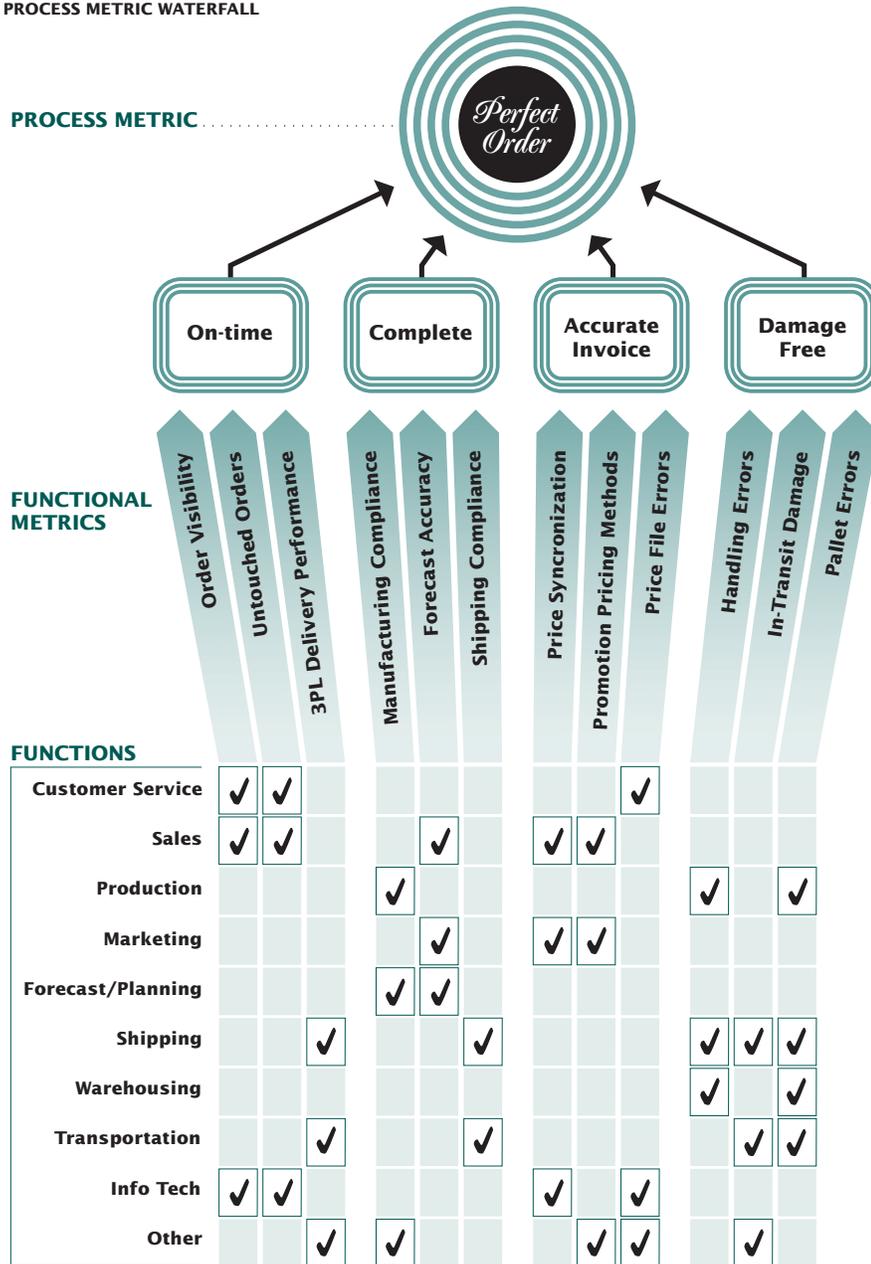
A key finding from the Study reinforces the need for extensive collaboration to fulfill customers' on-time shipment requirements. With over 70% of the responding companies' using multiple methodologies to align their front line Customer Service Representatives (CSR) to the market, there is an increased need for cross-functional collaboration to fulfill customers' needs. This typically includes a collection of internal and external collaborative processes.

Interestingly, over 44% of the 540 CSR's within the study are “customer aligned.” This alignment is a primary touch-point of collaboration between the trading partners. With 42% of the CSR's time dedicated to order management and another 36% to customer inquiry responses, the bulk of a CSR's time is dedicated to collaborative interfaces. This must occur directly with the customer and with the internal operation responsible for the delivery function. The customer service group is often on-point for both external collaboration with the customer and the internal collaboration required to deliver great customer service.

Metrics are a key component for attaining customer service performance that builds customer equity. The need for internal/external collaboration and the requirement to be customer centric come together via the application of metrics. That is, metrics need to focus on assuring the needs of the customer are met, while accommodating the fact that many metrics require the contribution of multiple functions within the manufacturing organization to be fulfilled.

Building Customer Equity with Best-in-Class Customer Service

FIGURE 2.
PROCESS METRIC WATERFALL



The demand by the customer for excellent service is characterized by specific metrics. For example, the Study clearly indicates that the retail customers of food, HBC, and general merchandise companies want “on-time” shipments. Over 90% of the companies in the Study track on-time. In fact, 67% of the companies track on-time in more than one way. When asked to identify the most important of twenty-four metrics to their customers, 87% of the respondents identified “on-time delivery.” This was over two times the level of the leading non on-time metrics which were response time (36%), perfect orders (36%) or out-of-stock (33%).

Of the twenty-four metrics studied, the average company tracks thirteen, but they may not always track the most important measures. We found that some metrics that scored very high in importance had a very low overall tracking rate. For example, invoice accuracy was second only to On-Time & Complete (OTC) in importance but was tracked by only 50% of the participating companies.

To achieve best-in-class performance, companies need to purposefully integrate their metrics across the organization. Some metrics are very functional in nature while others are more process oriented. One CPG Customer Service Director noted, “goals (metrics) that are process oriented get everyone to focus on that process, not their function.” One of the most demanding metrics in the study, Perfect Order, is an example of a process metric. This metric requires excellent execution across several functional departments to achieve success. The “Process Metric Waterfall” diagram, Figure 2, shows some of the functional level metrics and the functional areas that would support the Perfect Order process metric.

The use of process or integrated metrics provides the manufacturing company with a rallying point that crosses functional lines. As demonstrated in Figure 2, functional metrics contribute to the ultimate performance of higher-level process metrics. For example, the data tables within the ERP system that support the invoicing business process need to be synchronized with both the order entry and the customer to generate an “accurate” invoice. Therefore, tracking of the pricing synchronization function contributes directly to the performance of the company’s “invoice accuracy” measure.

Another example of a metric with many functional contributors is Deductions. Deductions are tracked by most CPG companies and, for many, are a significant revenue and resource drain. Our work in deductions across numerous clients indicates that the root causes of deductions occur at several functional levels. A goal to “reduce deductions” via use of a deduction metric in the customer service or accounts receivable group may provide additional insight into the magnitude and segmentation of the deduction issue, but will do little to reduce deductions without functional level metrics. Manufacturers who track promotional pricing accuracy, for example, will reduce the associated deductions.

Managing deductions is one of the business processes with cross-functional ownership. Manufacturers need to be aware of and manage the ambiguity of functional contribution to deductions. The functional areas within CPG companies must collaborate because the processes that deliver excellent customer service do cross functional lines.

Dechert-Hampe & Co. Customer Service Benchmarking Study

The DHC Customer Service Benchmarking Study provides consumer packaged goods (CPG) companies with an in-depth view of current practices in customer service organization structure, metrics, and the order management processes currently employed.

Over 50 CPG companies or divisions, representing over \$200 billion in sales and a broad cross-section of categories, participated in the Study. The majority (66%) of survey respondents holds a director or senior management position and represents a wide variety of functional areas, including customer service (38%), supply chain (23%) or senior management, sales, and operations (33%).

The Study was very encompassing and DHC was able to do a “deep dive” in a number of areas. For example, the survey established the relative importance of 24 common metrics via an examination of the usage (Number of companies that track) and the value assigned by the participating companies.

On-time & complete [OTC], for example, is the most important metric garnering both the highest tracking percentage and value. Invoice accuracy, on the other hand, had the 2nd highest value but has less than 50% of the respondents tracking the metric.

*If you would like additional information on the Customer Service Benchmarking Study, please visit our website's Resource Center - **Research/White Papers** where a synopsis of the study is available. If you would like to participate in the 2006 Study, please contact the author at rcarman@dechert-hampe.com. Participants in the Study receive detailed results that are not available to the public in the synopsis.*



METRIC	Companies Tracking	Value [sort]
On-Time & Complete (OTC)	93%	3.9
On-Time Delivery [req. appt.]	56%	3.8
Invoice Accuracy	49%	3.8
On-Time Delivery [cust. date]	60%	3.7
On-Time Ship [req. ship date]	86%	3.6
Damages/Returns	86%	3.5
Orders Shipped Complete	72%	3.5
OOS – Distribution Center	63%	3.5
MFG Compliance to Schedule	61%	3.5
Customer In-Stock Position	42%	3.5
Perfect Orders	34%	3.5
Order Lead Time	74%	3.4
Cust. Inquiry Response Time	40%	3.4
Number of Backorders	80%	3.3
Order Entry Errors	48%	3.3
Case Fill Rate	41%	3.3
Order Cycle Time	67%	3.2
On-Time Pickup of Order	41%	3.2
Line Item Fill Rate	56%	3.1
CSR – Non-Order Activity	12%	2.6
Order Volume Variability	44%	2.5
Sales Volume per CSR	42%	2.5
Orders per Day per CSR	42%	2.5
Cost to Process an Order	30%	2.5

Conclusion

Your customers demand excellent customer service, and insist that it be in place before the innovation and thought leadership components of the Customer Equity model can be fully realized. Excellence in customer service starts with effective internal and external collaboration and is further enabled by the proper selection and alignment of metrics, through a process like the “Process Metric Waterfall”

methodology. In this way people across the organization, and at all levels, can better understand exactly how they contribute to customer service performance.

Understanding your customer, becoming knowledgeable about their business and strategy, and providing best-in-class customer service, differentiates your company and makes it a valuable partner in your customers’ business. **v**