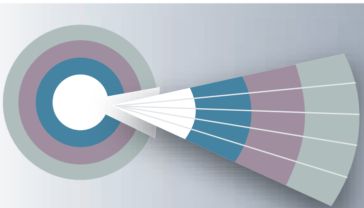
CUSTOMER SERVICE:
the risk/reward barometer



The Performance Manager Series

INTRODUCTION

The new business book, ***The Performance Manager***, can help you turn the growing information-intensity of your job from a challenge to a competitive advantage. Its thesis is simple—rather than sifting through all the data your organization may produce, if you pay attention to certain sweet spots, you will make better decisions, create better goals, and set better plans about issues that truly drive your company. We're pleased to offer you this chapter on **Customer Service** drawn from the book.

The Performance Manager, *Proven Strategies for Turning Information into Higher Business Performance* looks at the partnership between decision-makers and the people who provide the information that drives better decisions. It offers suggestions for 42 decisions areas, or information sweet spots, taking into account your need to not only understand data, but also plan and monitor your performance. These decision areas are organized by the eight major functions of a company: Customer Service, Finance, Marketing, Sales, Product Development, Operations, Human Resources, Information Technology, plus an over-arching section for Executive Management. You will find four of these decision areas in this paper.

Each chapter introduces key challenges and opportunities companies face in the specific function. ***The Performance Manager*** then dives into each decision area, illustrating the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions that allow you to look at the information from a variety of vantage points.

Each decision area then offers advice on who beyond the specific function would benefit from seeing the information (e.g., Marketing should see Sales pipeline targets) to make better performance a truly cross-organizational exercise. We hope you see the value in this white paper and investigate other functional areas and their decision areas, or take our offer for the whole book, ***The Performance Manager***.

We acknowledge and thank the great thinkers at Business Intelligence International, PMSI, and the IBM Cognos® staff and customers who offered their insights to make this publication possible.

The Risk/Reward Barometer of the Company's Value Proposition

> *There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.*
> Sam Walton

The rewards of good customer experience are straightforward: a satisfied customer is more likely to be loyal and generate more repeat business. There are related benefits:

- Customer retention is far cheaper than customer acquisition.
- A loyal customer is a strong competitive advantage.
- A satisfied customer can become "part of the team", helping to sell your value internally and even identify cross-sell and up-sell opportunities, as well as generate word-of-mouth referrals.
- Such customers are also a great source of new product ideas, competitive intelligence, and industry credibility.

Taken as a whole, the benefits of achieving great customer satisfaction are like a multi-tiered annuity stream. Wall Street rewards annuities because they reduce uncertainty and volatility.

The risks of poor customer service are greater and more insidious because they are less visible. For every unhappy customer you hear from, there are countless more. Negative word of mouth can damage years of good reputation and ripple through countless prospects who never become customers. Ultimately, unhappy customers become lower sales for you and higher market share for your competitor.

Customer Service is both an advocate for the customer within the company, and an advocate for the company with the customer. It generates unique insight into the customer experience, providing an outside view on the company value proposition.

However, many companies pay little more than lip service to customer relationships. They view Customer Service as a necessary expense, as opposed to a critical barometer of the company's sustainable value.

Three significant barriers must be overcome to change this view.

Barrier 1: ***Insufficient visibility of the risks to customer loyalty uncovered by Customer Service***

Customer service can be thankless and hectic. Picture a room full of service representatives juggling calls from frustrated customers, often in outsourced and offshore call centers. In such a volume-driven environment, it is difficult to determine the context and pattern of the calls received.

Some companies have made major investments in customer relationship management, specifically in call center software. While these technologies make call centers more efficient, they generate vast amounts of transaction detail that can obscure meaningful patterns and root causes.

Finding patterns in problems such as delivery delays, information requests, complaints, and claims can lead to proactive solutions. Categorizing the types of complaints by quality, order error, response time, and resolution time can reduce service costs and identify the causes of dissatisfaction. Informed companies can address problems at the source and understand the pattern and context of the calls they receive.

Even when you can't eliminate the root cause, better categorization of issues can speed up the time taken to resolve problems. Timely responsiveness can salvage many frustrated customer relationships. As one executive of a major airline said: "Customers don't expect you to be perfect. They do expect you to fix things when they go wrong." Achieving this requires that problems and their causes be grouped and studied so that effective action can be taken.

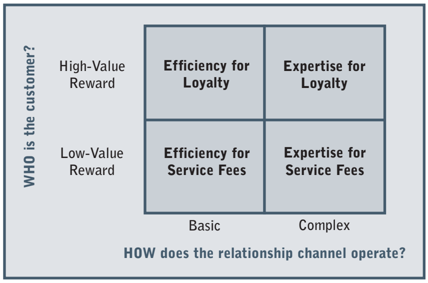
Barrier 2: ***Poor visibility of the benefits of a good customer experience, especially when grouped by who and how***

While many companies know how much they save by reducing customer service, few can project the cost of lower service levels. In particular, you need to understand how customer service levels affect your key and most profitable customer segments. If you don't, you may understate—or overstate—the risk. Overstating the risk leads to an inefficient allocation of resources, which reinforces the view that Customer Service is an expense. Understating the risk can be even worse, leading to the loss of your most valuable customers—the ones your strategy counts on—and the marketing impact of negative word of mouth on other customers.

Good Customer Service departments take into account the absolute and relative lifetime revenue of customer segments, and prioritize service efforts for high-reward customers. Beyond direct future benefits, you may also segment strategic customers that represent new markets or product champions. The key is to segment Customer Service issues by *who*—the customers that matter most to your current and future bottom line.

Once companies understand which customer segments are most important, they must gain insight into how the relationship works. In complex customer-company interactions (for example, with your doctor, or with technology and software vendors) the relationship depends on expertise. This is a clear market differentiator. If the customer-company interaction is more basic (for example, with a department store), then the day-to-day efficiency of the relationship becomes more important for both parties.

Segmenting customer relationship channel interaction helps to clearly define the relative value of great service. When you include the relative value of the customer, you have a useful framework to maximize the rewards of service for you and the customer. For example, if your expertise in complex channels is a differentiator, you may want to offer it free to high-value customers in return for greater loyalty. At the same time, you may want to charge low-value customers extra for this service.



Whatever metrics you choose, you must align them with what the customer perceives as important. *Does the customer value quality above price? Is order accuracy more important than speed in delivery? What are acceptable lead times? Customers may always want delivery yesterday, but are shorter lead times worth a premium?* Understanding the relative importance of such elements will make customer service monitoring more relevant.

Barrier 3: ***The absence of a customer advocate and direct accountability***

Ideally, your entire organization has common customer service performance goals. You should back up this alignment with accountability and incentives, especially when the different drivers of those goals span different functions. The lack of these is a barrier to achieving better customer service.

Overcoming this barrier requires clear, credible, and aligned customer service metrics—and the political will and organizational culture to rely on them for tough decisions. *Do you incur higher costs in the short term to secure long-term customer loyalty?* Only companies that understand the risks and rewards of customer service can make informed decisions on such questions.

Customer Service has a key role in generating and sharing this information. Beyond being the handling agent, it can become an effective customer advocate to other departments, and an expert on customer performance metrics and their drivers. It has to understand the problems and the operational solutions. Most important, Customer Service must effectively communicate these metrics to the rest of the organization so that other departments can resolve the root causes of customer experience issues.

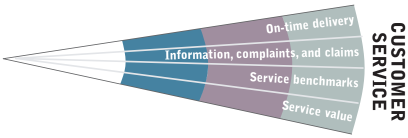
This works both ways. Not only must Customer Service bring in other functions to resolve problems, it should offer useful information in return. For example, trends in the type of complaints or problems can suggest quality improvements and operational efficiencies in production. Forewarning a sales rep about service issues before that rep meets with the customer allows Sales to craft an appropriate message and offer assistance. Mutual cooperation like this demonstrates the responsiveness of the organization and can salvage troubled relationships.

Excellence in Customer Experience

The four decision areas described below equip Customer Service with the critical risk and reward information they need to be more effective customer advocates, bringing excellence to the customer experience.

Decision areas in Customer Service:

- **On-time delivery** ➔ What is driving delivery performance?
- **Information, complaints, and claims** ➔ What is driving responsiveness?
- **Service benchmarks** ➔ What is driving service levels?
- **Service value** ➔ What is driving the service cost and benefit?



The sequence of these decision areas provides a logical flow of analysis and action, starting with understanding the primary drivers of risk. First and foremost, did you deliver on time what the customer purchased? Customers do not easily forgive failures in this area; such mistakes therefore carry the greatest risk.

Beyond this fundamental contract with the customer, there are many issues that customers prefer to have resolved quickly. These include simple requests for information, complaints, and major claims on the product or service the customer acquired.

The next two decision areas shift the focus to the benefits of retaining key customers. You start by benchmarking your company against industry standards. *What criteria are you measured against, and how good is your performance compared with the competition?* The last decision area brings everything together into a relative cost/benefit analysis of each customer relationship. *Are you reaping the rewards of Customer Service, what are they, and how much has it cost?*

On-Time Delivery

One of the biggest obligations a seller has to a buyer is to deliver on time what was purchased. Customers negotiate a due date and expect that it will be met, without exception. This is why delivery is a key performance criterion. Reducing time-related bottlenecks is critical in a just-in-time economy. Monitoring on-time delivery and order fill rate percentages can flag negative trends and enable faster customer service responses. It also provides Sales with information to solve potential issues before going on customer calls. Unfulfilled delivery expectations can also be important information for Accounts Receivable when checking on late payments from customers. This decision area can also uncover root causes of supply chain problems.

Tracking delivery timeliness by product, plant, and carrier will highlight potential deficiencies in key hand-off steps in the supply chain process. With better information, you can categorize different levels of timeliness and compare them to different customer delivery thresholds for a more detailed view of risk and recommended action.

GOALS	METRICS	DIMENSIONS
Average Lead-Time Days (#) Order Fill Rate (%) On-Time Unit Delivery (%)	Avg. Quoted Lead Days (#) Avg. Sales per Order ($) Avg. Shipment Miles (#) Sales Order Count (#) Shipments On-Time (#) Units Delivered On-Time (#) Units Shipped (#)	Billing Customer Industry Group Industry Category Customer Name Carrier/Distributor Distributor/Carrier Type Carrier Cust. Delivery On-Target Range Range Fiscal Week Fiscal Year Quarter Month Week Lead-Time Range Range On-Time Shipment Range Range Plants Plant Product SKU Product Line Brand SKU Shipment Type/Bill of Lading (#) Shipment Type Shipment Bill of Lading (#) Ship-To Location Region State/Province County City Zip Code/Postal Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Distribution				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Operations / Production				
	Executives			•
	Analysts		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	

In logistics, delivery times play an important role. For example, it is possible to determine, at any time, what percentage of orders a customer has received in the period X. It is also possible to identify which products are affected by a delayed delivery and also the reason for the delay. This is an important piece of information for customer support purposes, and it also helps trace the causes of processing problems or difficulties in the procurement chain. Another benefit is the detailed monitoring and control of warehousing, which is even more important when dealing with foodstuffs.

Andreas Speck, Head of Information Management, Kotányi GmbH

Information, Complaints, and Claims

Every complaint is also a proactive customer statement that you are not meeting expectations. It is an opportunity to listen to your customer, whether to a simple request for information, a complaint about product quality, or even a financial claim on returned goods. Experience shows that each call can be the tip of an iceberg—the one frustrated customer who calls may represent many more who don't bother. By tracking and categorizing these calls, you can gauge the severity of various risks and prevent them in the future.

There are three dimensions to monitoring the customer voice: frequency, coverage across customer segments, and type of issue. Simply counting complaints will not adequately reflect the nature or risk of a problem. For example, you may receive many complaints about paperwork and order identification errors, but these represent lower risk than a few product quality complaints that may lead to production delays for one or two large customers. In this example, a count of complaint frequency will not adequately reflect the risk of losing critical customers.

Claims are complaints that have been monetized. Perhaps goods have been damaged and the customer now needs compensation or replacement. Claims are a direct cost to the business, have a direct impact on customer profitability and, if poorly handled, lessen customer loyalty.

> ***We have even made it possible to distribute calls in the Customer Contact Center using Skill Based Routing. In particular, this routes specific types of inquiries to those of our employees best able to deal with them effectively and efficiently.***
>
> Ton van den Dungen, Manager, Business Intelligence and Control, ENECO Energie

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INFORMATION, COMPLAINTS, AND CLAIMS

GOALS	METRICS	DIMENSIONS	

Complaint Count (#)
Failed Orders (#)
Returned Units (#)
	Canceled Order Count (#)
	Claim Payments ($)
	Claim Payments (#)
	Claim Settlement ($)
	Claims (#)
	Claims ($)
	Customer Recommendations (#)
	Damaged Units (#)
	Failed Orders ($)
	Returned Product ($/%)
	Service Call Count (#)
		Billing Customer
		  Industry Group
		  Industry
		  Category
		  Customer Name
		Carrier/Distributor
		  Distributor/Carrier
		  Type
		  Carrier
		Claim Status
		  Claims Received
		Claim Type
		  Type
		  Identification (#)
		Complaint
		  Type
		  Identification (#)
			Complaint Status
			  Complaint Received
			Customer Location
			  Region
			  State/Province
			  County
			  Zip Code/Postal Code
			End-Customer by Type
			  Type
			  Group
			  Customer ID
			Fiscal Month
			  Year
			  Quarter
			  Month

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Distribution				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Operations / Production				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Finance				
	Executives	•		
	Analysts	•		

Service Benchmarks

Service benchmarks help evaluate how your customer service stacks up against industry standards. They measure response times and gaps affecting customer satisfaction.

Understanding the link between service benchmarks and customer sales/profitability is a key goal. For example, we may find that many small orders lead to complaints about incorrect order fulfillments and product returns. The high proportional cost of delivery for small orders, combined with the order errors, should make us question our value proposition. Perhaps by increasing the minimum order value we would solve two problems. First, there would be a reduction in per dollar workload, an improvement in order performance, and a reduction in returns. Second, the customer's perception of value may improve since delivery costs would be proportionally lower.

Internal metrics may include number of orders, sales order amount, number of service calls, and units shipped. External performance metrics may include delivery performance, problem resolution, customer satisfaction, response time, claims, and returns. Using standard industry criteria allows managers to compare external information from third-party assessments with internally driven customer surveys. Gaps in external information can uncover risks not picked up by internal monitoring. Such information can also identify the need for better external communications.

Combined with skilled analysis, service benchmarks can be used to adjust the business and customer proposition. You can summarize customer benchmarks by region and customer segment, and thereby offer a high-level overview or drill down into Customer Service performance.

> *Our customers are increasingly requiring immediate, direct access to their health transaction data in order to reduce healthcare costs while maintaining a high level of quality of care for their members. They also want to compare their actual experience to benchmark data that will add meaning and relevance to their own scores. Our ability to deliver that type of solution through a variety of Web-based reports and cubes has become a key differentiator between us and our competition. This capability is now a major tool in acquiring new business and retaining existing accounts and has also allowed us to reach our information management goal of becoming the pre-eminent healthcare information broker in the State of Tennessee.*
>
> Frank Brooks, Blue Cross Blue Shield, Tennessee

SERVICE BENCHMARKS

GOALS	METRICS	DIMENSIONS

Average Resolution Response Time (#)
Customer Satisfaction Scorecard
Service Effectiveness Index
	Damaged Units (#)
	Failed Orders (#)
	Lost Customer Count (#)
	Outstanding Service Issues (#)
	Returned Product ($/%)
	Service Call Count (#)
		Billing Customer
		    Industry Group
		    Industry
		    Category
		    Customer Name
		Customer Location
		    Region
		    State/Province
		    County
		    Zip Code/Postal Code
		End-Customer Location
		    Region
		    State/Province
		    County
		    Zip Code/Postal Code
		Product Brand
		    Product Line
		    Brand
		Service Relationship Perspective
		    Service Relationship Perspective

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance				
	Executives			•
Marketing				
	Executives			•
Product Development				
	Executives			•
Purchasing				
	Executives			•
Sales				
	Executives			•
	Analysts		•	

Service Value

This decision area combines costs and benefits to evaluate the value of the customer relationship. It segments customers by *who* they are and performance by how the company provides the service.

Quantifying customer risk issues and the efforts required to resolve them provides the cost overview. Some issues can be financially quantified, such as the number of calls received, cost per call, and dollar value of claims processed. Others, such as late deliveries or complaints, can be categorized through a service level index.

When determining cost, it is also important to understand how the relationship operates. *Does the customer communicate with you through efficient electronic means and direct access to internal support systems, or use less efficient means such as phone or fax?* Customer conversations that can be captured as data (i.e., electronic means) tend to indicate more efficient relationships. You can define sub-categories of complexity based on customer and transaction knowledge: for instance, by tagging relationships based on how many separate steps and hand-offs are required to complete the transaction.

At the same time, you need to categorize the benefits: for example, using a lifetime revenue metric or strategic value index based on expected revenue.

When Customer Service can analyze value and cost, it can avoid trading one for the other by setting more accurate priorities for use of resources. Poor service performance in simple channels implies that Customer Service should invest more in process automation and improved efficiency. Performance issues in complex channels point to increasing investment in skills, expertise, and decision-making support when analysis shows that the investment is worth it.

> ***As an organization, we needed a solution that allowed us to report on KPIs in relation to key areas including customers. The index allows us to benchmark and report on performance in the customer service area.***
>
> Alex Mongard, MIS Analyst, Suncorp Metway

SERVICE VALUE

GOALS	METRICS	DIMENSIONS

Lifetime Profit ($)
Service Cost (%)
Service Effectiveness Index
	Claims (#)
	Claims ($)
	Complaint Count (#)
	Customer Retention Cost ($)
	Customer Service Cost ($)
	Customer Visits (#)
	Customers (#)
	Lost Customer Count (#)
	Net Profit ($/%)
	Outstanding Service Issues (#)
	Receivables ($)
		Aging Brackets
		    Range
		Billing Customer
		    Industry Group
		    Industry
		    Category
		    Customer Name
		Contracted Pay't Time
		    Range
		End-Customer by Type
		    Type
		    Group
		    Customer ID
		Fiscal Month
		    Year
		    Quarter
		    Month
		Product SKU
		    Product Line
		    Brand
		    SKU

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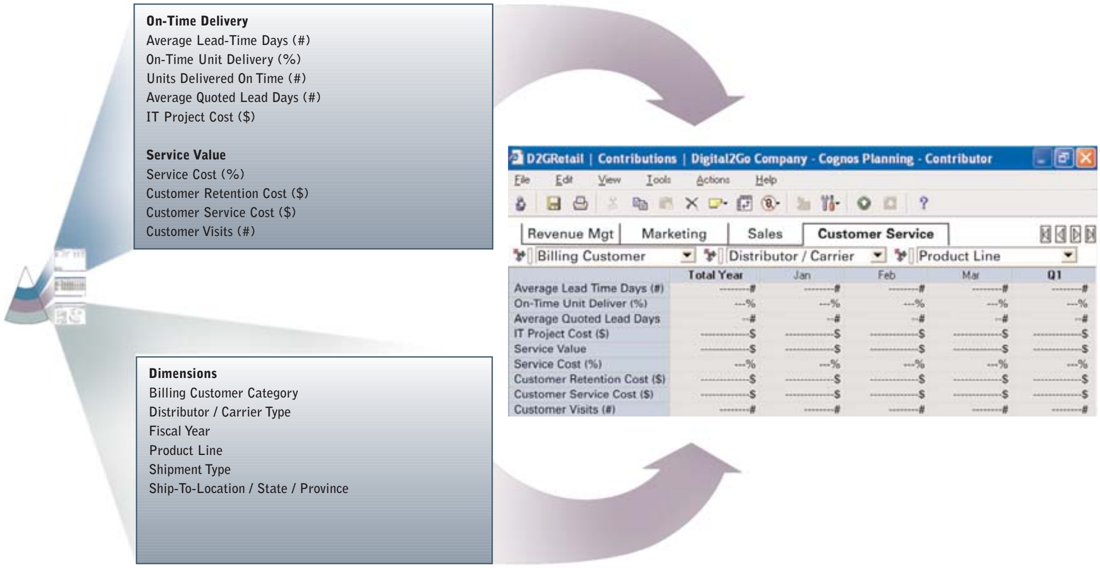
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Marketing				
	Executives			•
	Analysts		•	



The On-Time Delivery and Service Value decision areas illustrate how the Customer Service function can monitor its performance, allocate resources, and set plans for future financial targets.

ABOUT THE PERFORMANCE MANAGER

The book, ***The Performance Manager***, is authored by:

Roland P. Mosimann *Chief Executive Officer, BI International*
As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also a co-author of the Multidimensional Manager and the Multidimensional Organization. He holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics.

Patrick Mosimann *Founding & Joint Managing Director, PMSI Consulting*
As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors. Patrick Mosimann also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

Meg Dussault *IBM Software Group, Information Management Corporate Positioning*
Meg started her marketing in 1990, beginning with campaign management for the national telecommunications carrier of Canada. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos (now part of IBM). Since joining the company, Meg has worked extensively with executives and decision makers within the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of the company's performance management solutions and to communicate the message to key influencers.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

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