Management Development in Customer Service



MANAGEMENT DEVELOPMENT IN CUSTOMER SERVICE

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MANAGEMENT DEVELOPMENT IN CUSTOMER SERVICE

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INTRODUCTION

I

- In an age of increasing dependence upon computer systems, the customer service engineer is the ambassador for the company, not only providing maintenance service on the hardware, but also "maintaining" the user. The customer service engineer needs to be engineer, diplomat, salesman, manager (in terms of ability to commit corporate resources) and, if all goes wrong, scapegoat.
- Many service engineers in the course of their careers will become managers, a
 difficult transition in many professions, where technical competence does not
 necessarily translate into managerial competence.
- The purpose of this brief is to highlight the main challenges facing customer service managers today and to discuss some of the skills that must be learnt.



II MANAGEMENT ISSUES

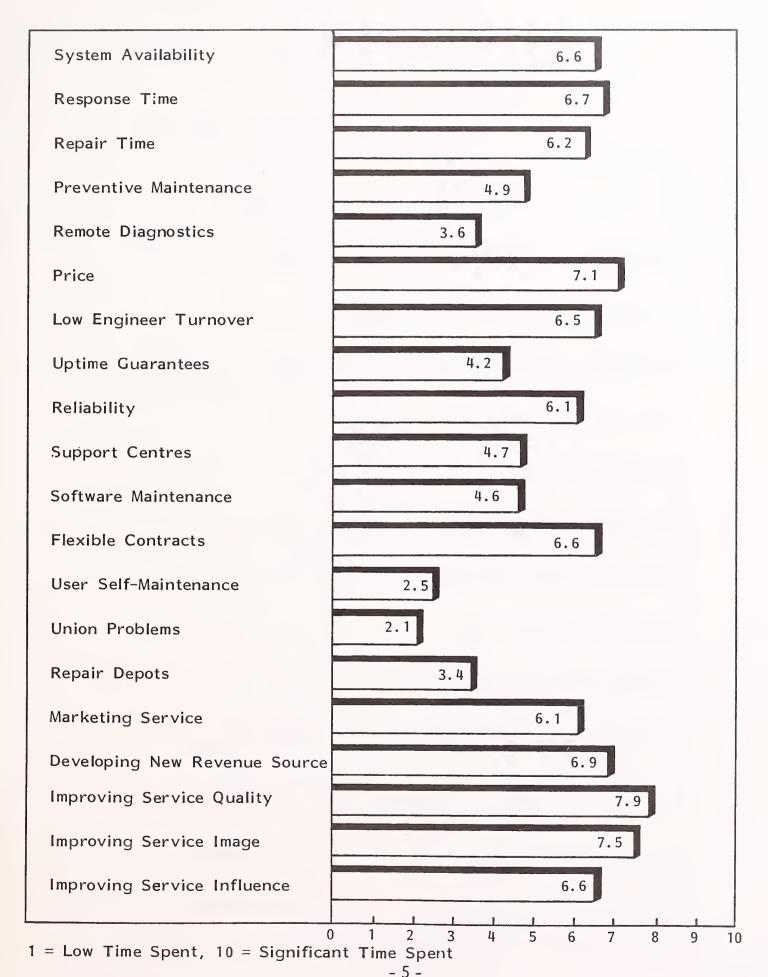
A. THE MANAGEMENT OF CHANGE

- The customer service function is currently experiencing a number of changes:
 - Changes in the technical nature of the engineering task. At a purely engineering level, the task is becoming less skilled as repair techniques and diagnostics become increasingly routine. Indications are that this trend is likely to continue.
 - This 'de-skilling' is offset to some extent by a greater involvement in software maintenance, needing a range of very different problemsolving skills.
 - Changes in the nature of the market. At one time, service was regarded as a tied, or captive market. Now, the growth of independent maintenance—both from pure maintenance companies and from computer manufacturers moving into the independent maintenance area—is affecting the market structure.
 - Changes in the type of service customer. New lower-cost office automation equipment has become more common in the market. Users of this kit may not have a history of working with computer companies, and so have different expectations of service levels and relative cost (relative to the value of the hardware).

B. MANAGEMENT TIME AND SUCCESS

- As Exhibit II-I shows, service management still spend most of their time covering the traditional key elements in customer service:
 - Improving service quality.
 - Pricing issues.
 - Minimising staff turnover.
- An interesting aspect is the relatively high level of time spent on improving the image of customer service.
- One message emerging from the exhibit is management's unwillingness, or perhaps inability, to set priorities reflecting the changing environment in which they work today. Many of the elements are given the same relative level of importance.
- When looking at management's success in achieving set objectives the picture is rather gloomy. Developing new revenue sources occupies a significant amount of management time, and is only moderately successful, as Exhibit II-2 shows.
- Marketing customer service, one of the most important issues facing today's customer service manager, is also meeting only moderate success, as is improving the service image. By contrast, management's ability to work within budget constraints is impressive.
- With the challenges ahead, now is the time for management to change priorities and philosophy to achieve more in marketing and profit management, which means spending more time investigating customer needs and developing profitable marketing strategies to satisfy the customer.

HOW MANAGERS SPEND THEIR TIME



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INPUT

FIELD SERVICE OBJECTIVES ACHIEVEMENT (Vendors Rate Themselves)

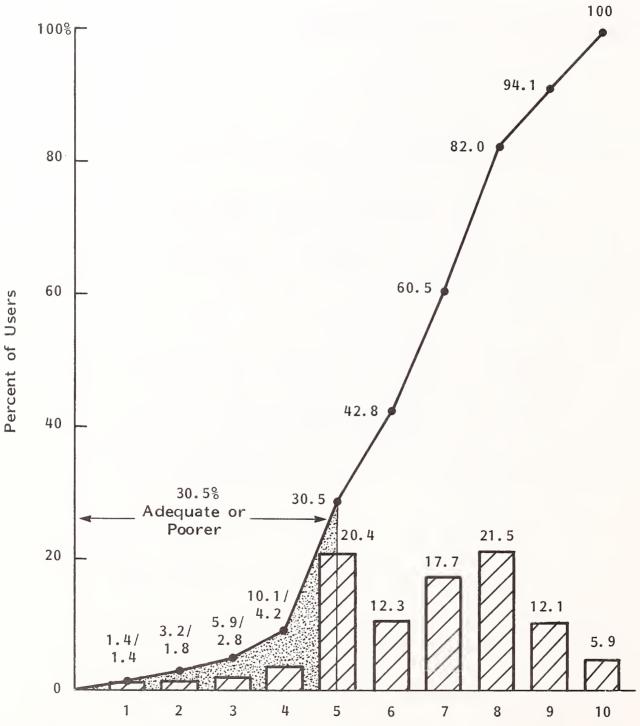
1 = Low Level of Success, 10 = High Level of Success

OBJECTIVE	RATING
Recruiting of Field Service Engineers	6.9
Training of Field Service Engineers	7.0
Reducing Labour Turnover	6.6
Improving Product Quality	5.8
Quality of Service	6.7
Providing Remote Diagnostics	2.9
Meeting Customer Demands	6.9
Developing New Revenues	5.0
Living Within Budget Limitations	7.3
Providing Competitive Salary/ Compensation	6.7
Reducing Spare Parts Shortages	6.9
Marketing Field Service	5.2
Improving Service Image (Promoting Professionalism)	5.5

III USER VIEWS ABOUT SERVICE MANAGEMENT

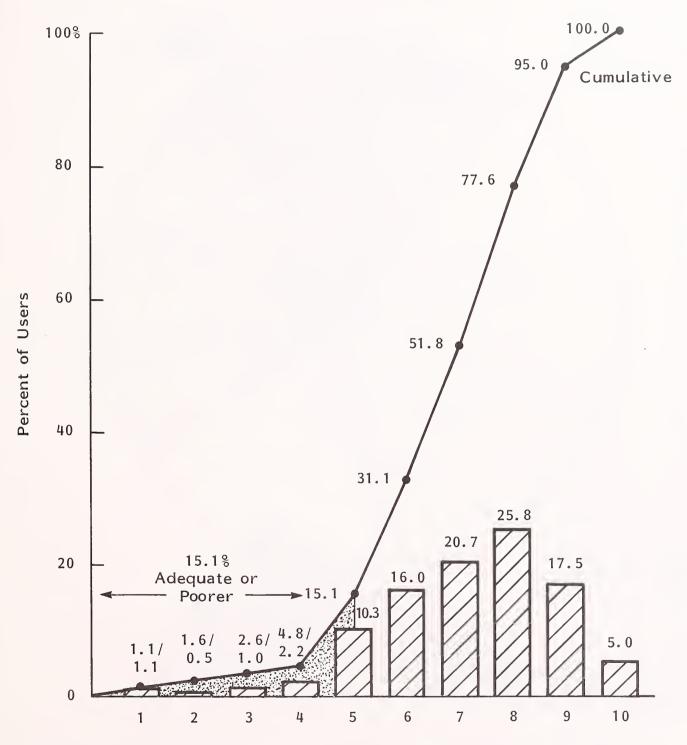
- As part of INPUT's 1984 Annual Report, users were asked to rate the quality of service management on a scale I = poor through I0 = excellent.
- The overall average in Europe was 6%, a moderate performance—although a little lower than the rating given to service engineers. Exhibits III-I through III-3 show the distribution of those ratings for the main markets of the U.K., France, and Germany.
- The ratings alone, however, show only part of the picture. Exhibit III-4 shows the main complaints about service that users have. It is noticeable that a high proportion of those are management related. In other words, users are complaining about service because in a number of areas, management is not performing its task effectively. Those management related areas specifically highlighted by users include:
 - Poorly trained engineers.
 - Poor administration.
 - Vendor's attitude to user problems.
 - Availability of replacement parts.
 - Response times.
 - Communications.

UNITED KINGDOM USERS' RATING OF QUALITY OF SERVICE MANAGEMENT



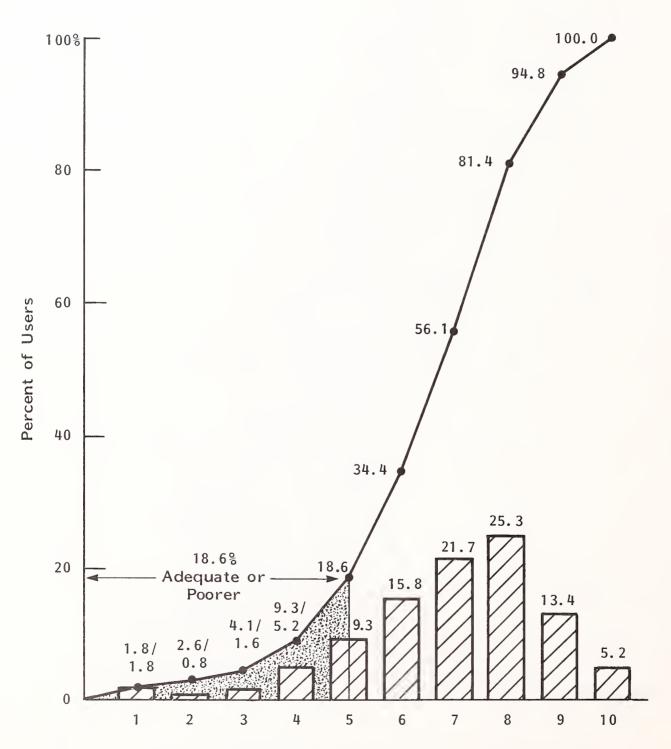
Rating: 1 = Low, 10 = Excellent, 5 = Adequate

FRENCH USERS' RATING OF QUALITY OF SERVICE MANAGEMENT



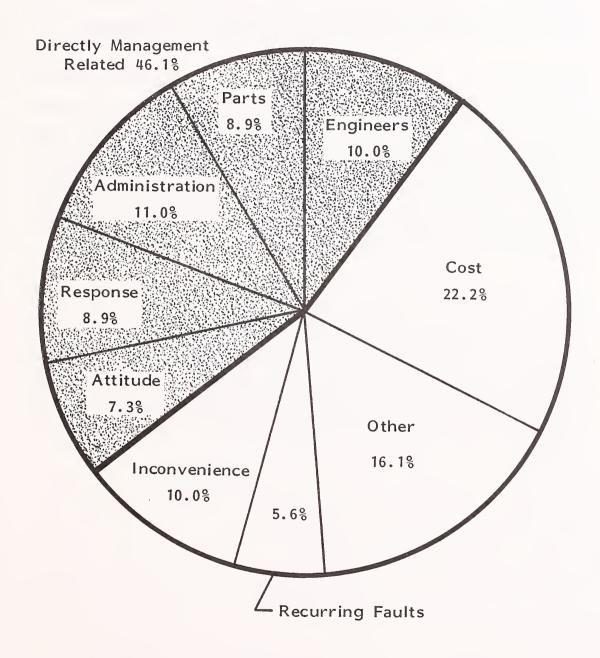
Rating: 1 = Low, 10 = Excellent, 5 = Adequate

GERMAN USERS' RATING OF QUALITY OF SERVICE MANAGEMENT



Rating: 1 = Poor, 10 = Excellent, 5 = Adequate

COMPLAINTS ABOUT SERVICE



- These various complaints highlight those areas where management skills need further development:
 - Recruitment and training. Ensuring that the right person is employed in what is a rapidly changing role; and that as the job changes, engineers are adequately retrained to cope with those new demands.
 - Designing and controlling administration systems geared to meeting customer needs, as well as satisfying any internal requirements. Administration systems cover all activities from the operation and manning of the telephone switchboard, to the fault report and despatch centre (which also impacts on response time), stores administration and inventory control (also impacting on parts availability), and, possibly the most troublesome areas, the invoicing and escalation procedures.
 - Improving communications. This apparently innocuous function itself covers many areas: communication with the service department; ensuring that changes in service are communicated to customers; ensuring that any delays or shortfalls in service to the customer are adequately explained; and communicating problems through the right channels so that they can be solved as quickly and effectively as possible.

IV THE TRANSITION FROM ENGINEER TO MANAGER

- Customer service engineers have specific, closely defined responsibilities. They are expected to arrive at a particular customer's site and effect any necessary repairs to the best of their technical ability. Their main area of decision-making lies in the technical area: how best to repair the fault, what level of company resources to employ, and how and when to initiate escalation procedures.
- On taking up a management role, the decisions become not only more complex, impacting wider and more expensive corporate resources, but may also stretch beyond the engineer's area of technical competence and experience. Perhaps the most fundamental change in outlook is to move from considering the process to considering the purpose.
- Many of the demands of the customer service function revolve around meeting identifiable, quantifiable targets—system availability; response time; repair time, among others. As a manager, the emphasis must change towards resource control, giving more attention to the financial and manpower implications of meeting those stated targets.
- In the current era of change, it is important that management look away from present mechanics and move into the future: to identify the organisation structure, service product, and manpower that will be needed to meet the customer's needs—not just today, but in the future as well.

- In a monetary environment a thorough understanding of finance is essential. This must go far beyond traditional cost control techniques into the ability to control a profit centre effectively, and must therefore include a working knowledge of profit and loss statements, balance sheets, cash flow statements, and budgetary control and variance analysis reports.
- Finally, given the current highly competitive environment, the manager must understand marketing and how it affects customer service. Marketing is the discipline which will pull together all the component aspects of service management and target them towards the key objective of customer satisfaction.

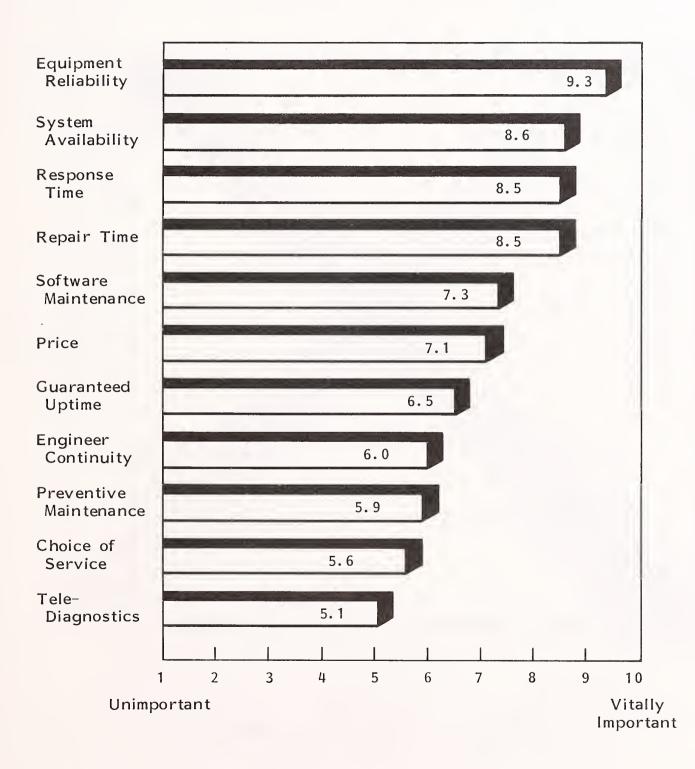
V THE FUNCTIONS

A. MARKETING MANAGEMENT IN CUSTOMER SERVICE

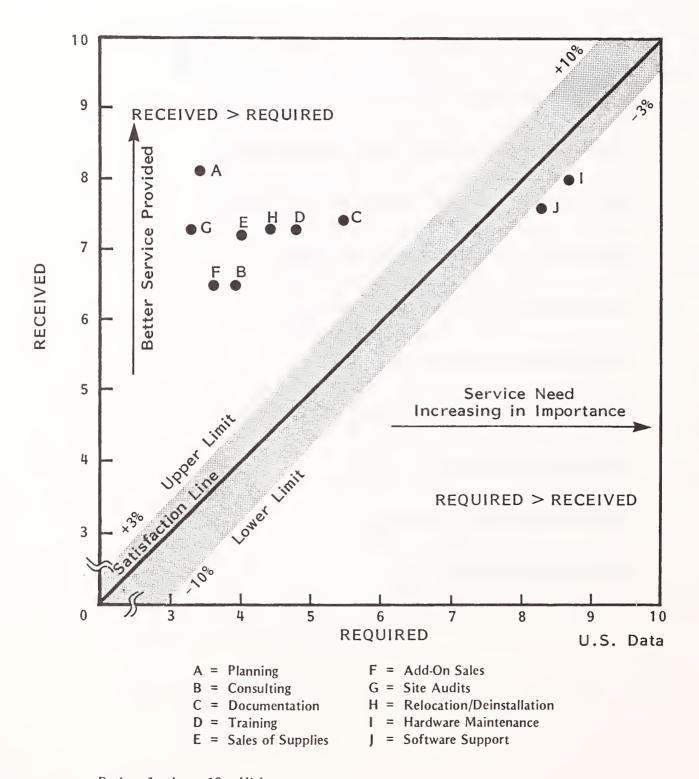
- In the development of customer service as a separate business entity,
 marketing is of paramount importance.
- If management is the art (or perhaps science) of optimising the deployment of corporate resources, then marketing aims to produce maximum compatibility between the vendor's resource and the attitudes of customers--or, indeed, potential customers.
- In the case of customer service, those corporate assets will include the pool of knowledge, experience and ability of the vendor's personnel, as well as more tangible items such as parts, test and repair equipment and vehicles, and, not least, buildings such as service centres and repair centres.
- The nature of service is such that customers are frequently starting with a negative attitude: in their mind increasingly reliable equipment should require little maintenance. A key part of the marketing effort is to create a positive attitude in the customer's mind, either by highlighting the real product benefits or to synthesise in the customer's mind apparent advantages over competing service products.

- Marketing, therefore, is concerned with every aspect of the service business that in any way impacts the customer. It will include research, product development policy, quality control, stock-holding, credit control and invoicing methods, price policy, sales organisation, and advertising and promotion.
- Selling, frequently confused with marketing, is only one aspect of that wider function. It concerns persuading potential customers that the mix of attributes and qualities of the product(s) being offered is the best match, among competing products, to the total wants, needs—and purchasing ability—of the customer.
- Although important, the selling activity must not be allowed to dominate the marketing mix. In fact, the more marketing-minded the company is, the less is the need for pure selling. The total application of the marketing concept is intended to maximise long-term revenue by achieving a high level of customer satisfaction. A purely sales-oriented approach will generate short-term revenues, but it will become progressively more difficult to retain the customer base without maximising customer satisfaction.
- Within the customer service market, product quality is paramount. As Exhibit V-1 shows, the key elements in the service product mix are quality related-equipment reliability, system availability, and good repair turnround time. The marketing effort needed is to quantify the customers' need in each of these areas and to construct a product which meets those requirements.
- Providing a product significantly better than user needs may be satisfying but will not optimise the use of corporate resources—in short, effort is being wasted. Exhibits V-2 and V-3, taken from a study INPUT conducted in the U.S., are good examples of how to view performance from a marketing perspective.

USER NEEDS

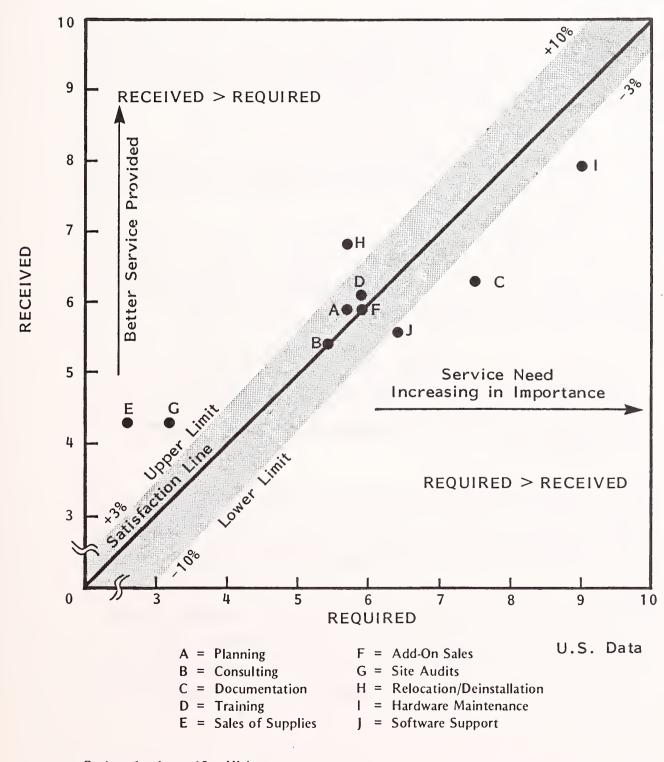


USER SATISFACTION WITH SERVICES RECEIVED/REQUIRED VENDOR: NCR



Rating: 1 = Low, 10 = High

USER SATISFACTION WITH SERVICES RECEIVED/REQUIRED VENDOR: PRIME



Rating: 1 = Low, 10 = High

- Exhibit V-2, the NCR position, shows that for most of the service elements, NCR are providing a higher quality than users demand.
- The Prime situation, Exhibit V-3, shows a much closer match between user need and supplier performance, and also highlights those areas where product quality is deficient, and to which management attention should be directed.
- This approach will not only come closer to optimising the use of physical resources, but will also ensure that best use is made of that scarcest of all management resources—time.
- The ultimate test of marketing effectiveness is increased sales and increased profits. Exhibit V-4 summarises the key aspects of a market-oriented approach that leads to that result.
 - Emphasise markets, not services. By looking outward to the market needs rather than inward at current products, it will be possible to ensure that products keep pace with customer requirements.
 - Targetting services. An understanding of market needs and the translation of those needs into a structured business plan ensures that effort is directed towards those services which will generate the highest level of sales and profit.
 - Profit, not sales revenue. Clearly it is possible to provide almost perfect service provided profit objectives are ignored. Management must understand the profit implications of decisions taken.
 - Planning. This is one of the key elements in the management process, and applies to marketing just as to any other function. The market should be analysed to identify opportunities that correspond to corporate strategic goals and/or are within the technical capability of the company.

EXHIBIT V-4

HOW MARKETING CAN INCREASE SALES AND PROFITS

- Places Emphasis on Markets, Not Services
 - Opens Up Bigger Market Potential
 - Focuses on Customer Needs and Wants
- Targets Services in Areas of Highest Sales and Profit Potential
- Emphasises Profit Planning, Not Just Sales Revenue
- Emphasises a Planned Approach
 - Systematic Analysis of Market
 - Planned Levels of Achievement
 - Creates Positive Strategies to Overcome Problems
- Balances Company Resources to Optimise Business Effectiveness
- Focuses Attention of All Employees on Sales and Profit Goals
- Encourages Marketing Decisions Based on Fact, Not Fantasy

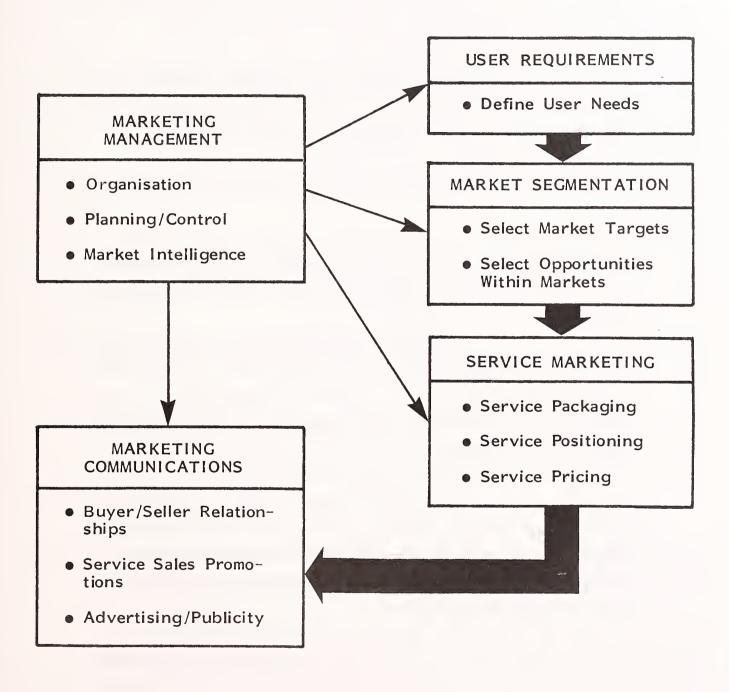


Planning the levels of achievement is fundamental to effective management control. The plan could be in terms of market share, total sales revenue, number of customers, engineers utilisation ratio, etc.

B. THE SERVICE MARKETING PROCESS

- The key elements in the marketing process are shown in Exhibit V-5.
- User requirements. Clearly the most fundamental activity in any marketing exercise is developing an understanding of the user needs, and defining these in measurable terms such as MTBF, response time, system availability, repair turnround time, and so on.
- Market segmentation. Service markets can be segmented and then targeted in a number of ways, such as by:
 - Product.
 - Geographical area.
 - Industry.
 - Size of user company.
 - Type of system.
- A targetted market segment has a number of key characteristics.
 - Measurability--can the segment be identified and the results measured?

THE SERVICE MARKETING PROCESS



- Accessibility--can the segment be analysed with readily available data?
- Substantiability--is the segment large enough to justify analysis?
- Actionability--can practical use be made of information about a particular service segment?
- If all these criteria can be applied successfully to a segment, realistic targetting can be very productive, particularly in reinforcing existing market positions and developing more effective marketing plans for new products.
- Service marketing covers the packaging, positioning and pricing of service activities.
 - Packaging involves the production of descriptive information required to sell the product—e.g., documentation, promotional literature and contracts.
 - Positioning means competitively placing the services in the user, dealer and manufacturer environment. This is a continuous process as the market changes in response to the introduction of new competitive services or price changes.
 - Pricing is one of the most difficult areas to tackle. On one level it should be cost-recovery based, but it must also reflect competitive activity. As service becomes relatively more expensive (relative to hardware prices) pricing should aim to reflect the value the customer places on the service received.
- Communications. Marketing is, above all, an exercise in communications, both internal (e.g., between service and manufacturer) and external (between vendor and customer). Communication is a two-way process, so not only

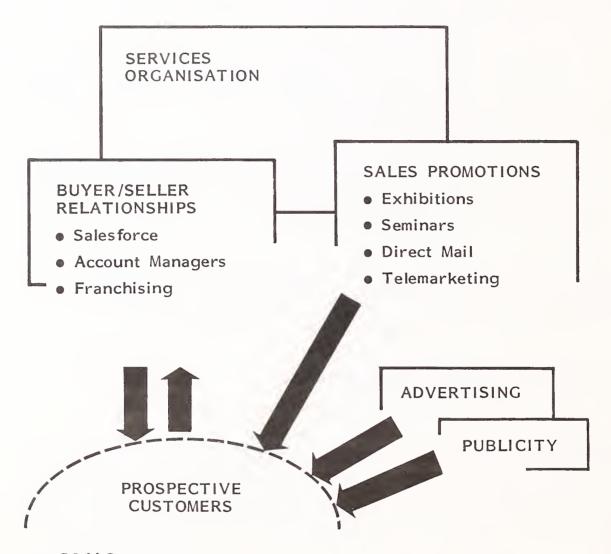
should vendors be communicating information about their service to the customer, they should also be listening to and receiving information from the customer (see Exhibit V-6).

- As the exhibit shows, communication can take a number of forms:
 - Informal, relying on the everyday contact between prospective customers and company employees--service engineers, service management, and accounting staff.
 - Formal, or planned communication such as advertising, direct mail or exhibitions, where the communication is targetted to achieve a specific result and convey a specific message.
- A most important aspect of communication is that it is two-way, and CS managers should absorb information coming in as well as impart it.

C. MANAGEMENT AND PROFIT GENERATION

- Frequently, the customer service function has been operated as a cost centre, in which the prime objective has been to achieve specified objectives within a budget limit. The trend now is towards treating customer service as a profit centre.
- The distinction is not only philosophical--there is a real difference in management techniques needed.
- As a starting point, when adopting profit as the basis for measurement it is important to establish the target, which can be expressed in a number of ways:

MARKETING COMMUNICATIONS



GOALS

- Control Costs of Selling
- Emphasise Promotional Methods
- Establish Objectives and Measure Performance

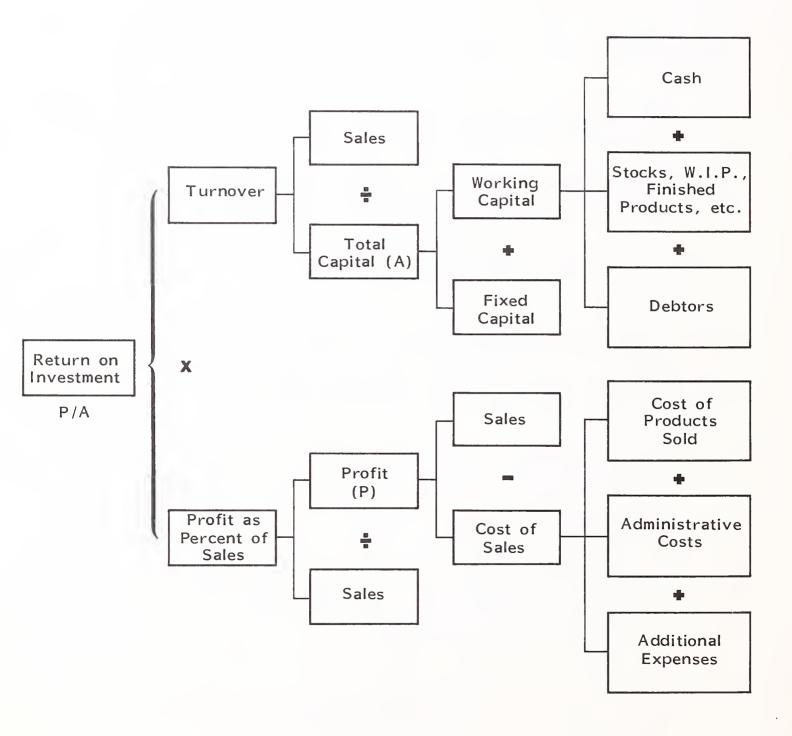


- Absolute gross profit value--surplus of revenue over costs.
- Return on sales-profit as a percentage of total customer service revenues.
- Return on investment--profit expressed as a percentage of the total capital employed in the customer service business.
- The last, return on investment, is the most frequently adopted in industry and has one major advantage over the other methods:
 - It facilitates internal comparison of performance, by measuring management's success in optimising the use of corporate resources.
- Merely describing customer service as a profit centre does not make it one. Here it is important to distinguish between the ability to take decisions and commit resources which will generate profits, as opposed to merely being measured by the profit (or loss) achieved. The former approach demands that customer service management be given significant responsibility and authority in policy making.
- The key decision areas when considering CS as a profit centre are:
 - Product policy--what type of service will be offered--will it be a complete package of services rather than a pure maintenance service?
 - Pricing policy--what level of prices will be set? Will they be cost-plus, or competitor restricted, or related to the value of the service to the customer?
 - Marketing policy--how will the product be marketed? Independently of hardware sales? In parallel? What media should be used?

- To be a successful profit centre, a number of key points must be agreed at the outset:
 - What resources are at the disposal of CS management:
 - Manpower--how many? Where? Quality? Experience? Training?
 - What is the relationship with other parts of the company?
 - Are demands made by manufacturing or sales activities? For example, in installation planning or pre-sales activities.
 - Will any corporate image activities apply equally to customer service? Will CS be able to influence those activities?
 - What are the internal pricing/cross-charging policies of the company? It is particularly important to establish the level of corporate overheads that will be charged to customer service, and the basis for assuring at that level.
- CS management must ensure that it has the power to generate profits, and not just the responsibility.
- Measuring profit is not sufficient; management must also use techniques to
 evaluate performance on an ongoing basis. Ratio analysis, the use of control
 ratios, can be useful here for three major functions:
 - Measuring liabilities and debt.
 - Revealing turnover relationships.
 - Demonstrating corporate profitability.

- Ratios can be used either to make intercompany comparisons or to measure corporate progress in achieving objectives.
- The most frequently used ratios are explained below, and their relationship is shown in Exhibit V-7.
 - The current asset ratio. This is intended to demonstrate a company's ability to meet its current obligations. The ratio is current assets (cash, stocks and debtors) divided by current liabilities (creditors, overdrafts, etc.) A satisfactory ratio is regarded to be 2; i.e., current assets are twice current liabilities. This can be misleading if stocks are a high proportion of current assets, as it may not always be possible to realise their value quickly.
 - The liquidity ratio (the 'acid test')--liquid assets (cash, securities) divided by current liabilities. This ratio overcomes the disadvantage of the current asset ratio in that it only takes account of readily realisable assets. A satisfactory ratio is regarded as 1.0.
 - The debt ratio (gearing). This ratio measures the level of debt in a business relative to the shareholders' (equity) interest. Although there are variations, the most common way of expressing it is debt (loans, both short- and long-term) as a percentage of the total capitalisation of the business. A high gearing indicates a high level of borrowing, which can prove a severe handicap in recessionary times when interest rates are high. The gearing is also important in deciding the rate of future expansion as well as influencing the source of future funding.
 - Revenue (turnover) ratios. A number of turnover ratios are in use, the two most common being: profit as a percentage of turnover; inventory in relation to turnover.

RELATIONSHIP OF CONTROL RATIOS

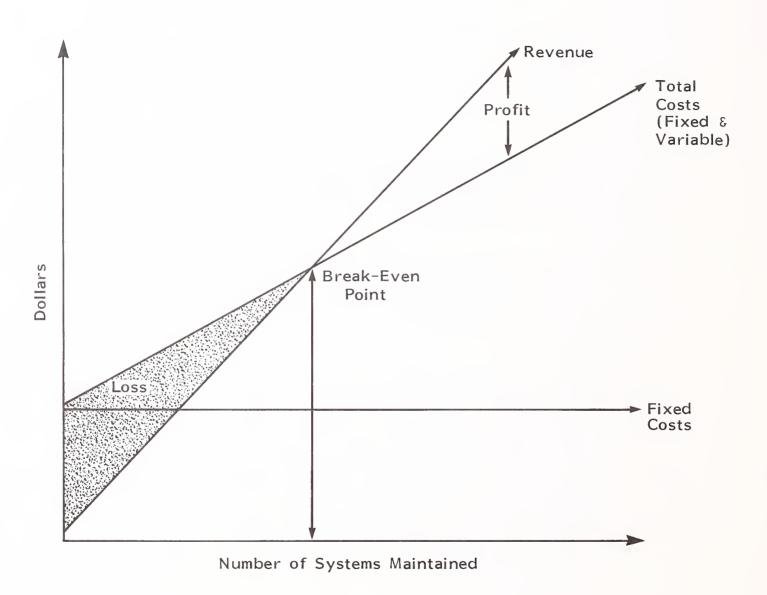


- When developing a business, the profit effect of expansion must be clearly understood. A first step in that process is an understanding of costs and revenue. A simple break-even chart is shown as Exhibit V-8.
 - The components in this simple example are:
 - Revenue--dependent upon number of customers and price of service.
 - Fixed costs--costs which do not vary with the number of customers or systems maintained (e.g., rents, rates, depreciation).
 - Variable costs—those costs which vary in proportion to the volume of business (e.g., petrol for engineers' cars, service parts).
- In reality, life isn't so simple as costs are not usually linear in nature, nor are fixed costs so rigidly fixed. In fact, fixed costs are often 'stepped' so that a marginal increase in revenue can lead to a greater increase in costs. At the extreme, taking on one additional system to maintain may involve hiring an extra engineer, increasing administration, possibly even having to establish a new service centre. The effect of this can be to reduce profit when additional systems are taken on. Exhibit V-9 illustrates the position.

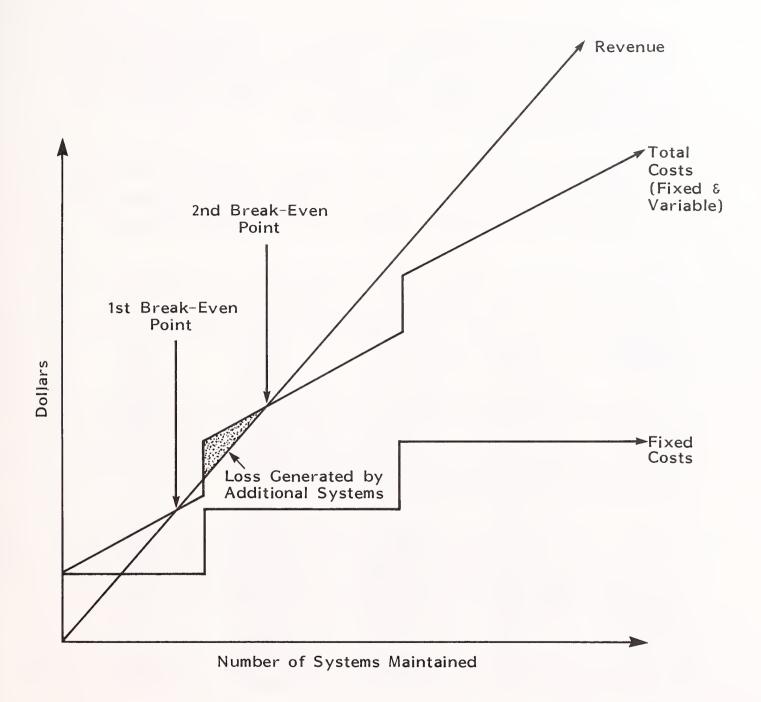
D. PERSONNEL ISSUES

 The changing CS environment does, and will continue to impact customer service management.

SIMPLE BREAK-EVEN CHART

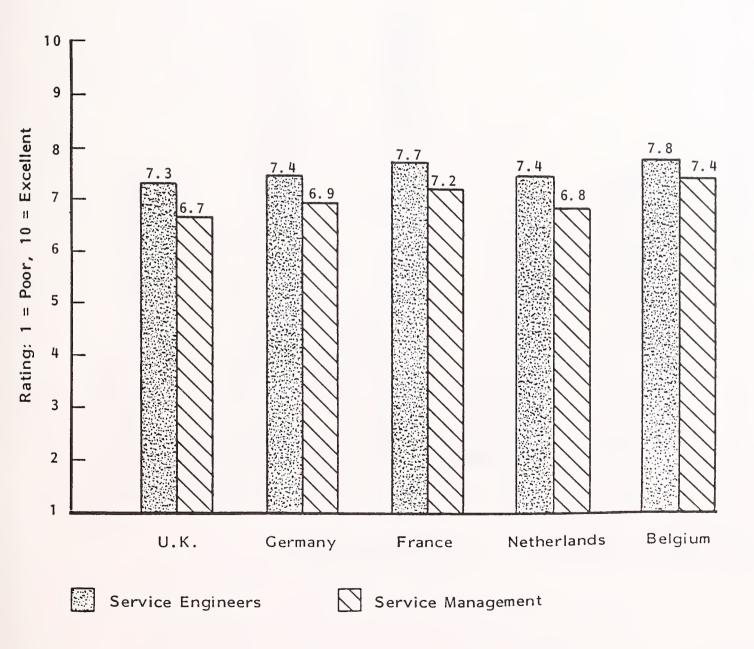


STEPPED BREAK-EVEN CHART



- In most of Europe, there is a shortage of skilled engineering staff, and this will demand significant time both in initial recruiting and trying to minimise labour turnover.
- The personnel aspect is important as the engineer is frequently the key link between the vendor and the customer. Although users are generally satisfied with the quality of their support staff, as shown in Exhibit V-10, there is still a significant level of adverse comment about staff.
 - Exhibit V-II shows that in several countries, significant numbers of users have negative comments about their engineering support personnel. The most common complaint relates to inadequate training.
- Clearly, in trying to maximise customer satisfaction, the CS manager must constantly monitor user requirements and reprofile the job to identify the skills needed to meet those requirements and compare the new requirement with the existing labour force.
- Over time it is certain that the CS engineer will have to be a very different person from the CS engineer of the past. Management must, therefore, be aware of these changing requirements and initiate training/recruiting activities to keep pace with changing user needs.
- This training should include a number of key areas: interpersonal skills for dealing with customers; software support to meet increasing user demand for this support; training skills to enable user training—a major opportunity in the future.

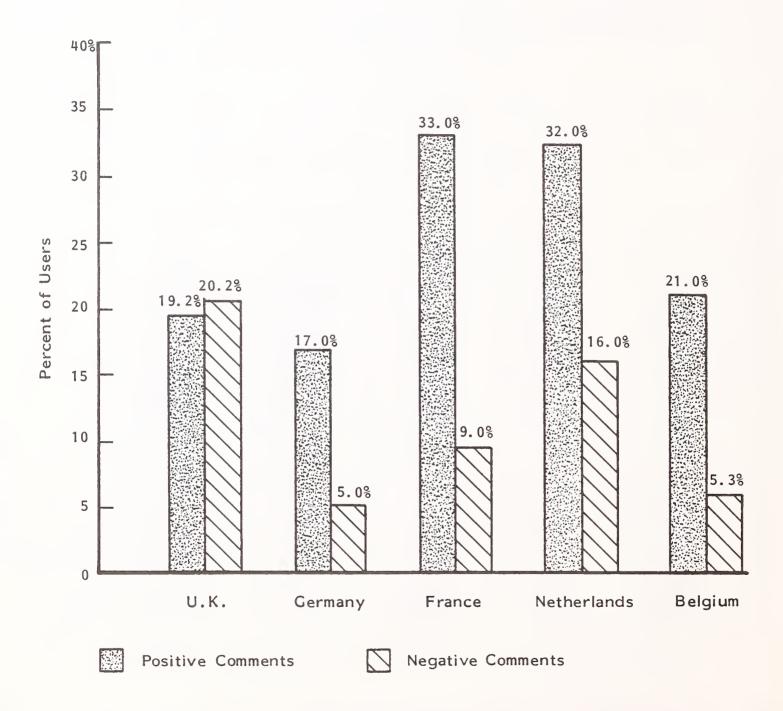
USER SATISFACTION WITH STAFF QUALITY



- 35 -

EXHIBIT V-11

USER COMMENTS ON PERSONNEL QUALITY





About INPUT

INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions. Continuing services are provided to users and vendors of computers, communications, and office products and services.

The company carries out continuous and in-depth research. Working closely with clients on important issues, INPUT's staff members analyze and interpret the research data, then develop recommendations and innovative ideas to meet clients' needs.

Clients receive reports, presentations, access to data on which analyses are based, and continuous consulting.

Many of INPUT's professional staff members have nearly 20 years' experience in their areas of specialization. Most have held senior management positions in operations, marketing, or planning. This expertise enables INPUT to supply practical solutions to complex business problems.

Formed in 1974, INPUT has become a leading international planning services firm. Clients include over 100 of the world's largest and most technically advanced companies.

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