SWP 35/87 REACHING FOR THE CUSTOMER: STRATEGIES FOR MARKETING AND CUSTOMER SERVICE

MARTIN CHRISTOPHER
Professor of Marketing & Logistics
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 OAL
United Kingdom

(Tel: 0234-751122)

(Fax: 0234 751806)

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Martin Christopher
Professor of Marketing & Logistics
Cranfield School of Management

Traditionally distribution has been viewed by many as a source of cost - admittedly a necessary cost, but a cost nevertheless. Inevitably such a viewpoint leads to a search for improvement in operating efficiency and a focus on cost reduction. Thus improving vehicle utilisation, warehouse throughput times, materials handling methods and so on are the constant concern of many distribution managers.

Whilst not wishing to diminish the importance of cost containment, it can be argued that such a concern with efficiency can on occasion lead to a failure to recognise the real issue in distribution - that is how effective is our distribution strategy?

This distinction between efficiency and effectiveness was most clearly defined by Peter Drucker who argued that efficiency was a concern with "doing things right", whilst effectiveness placed the emphasis on "doing the right things".

Such a statement could easily be dismissed as purely a clever play on words and yet it has a crucial significance for management. So often much of what we do is akin to re-arranging the deck chairs on the Titanic - we make the ship look tidier but neglect its overall direction. In other words operating efficiency takes precedence over strategy. On the other hand the successful companies - those who have developed leadership positions in their markets - tend to be those that have recognised that competitive advantage comes firstly from their strategic position and secondly from their operating efficiency. Clearly a combination of the two is better still.

How then does this philosophy relate to the management of the distribution task?

Firstly it must be recongised that logistics costs account for a large proportion of the sales value of many products. Thus it will follow that in a competitive market, particularly where substitutes are available and acceptable to the customer, a major advantage can be gained if logistics costs can be reduced whilst still maintaining the required service levels. A recent report (Guardian, March 26th 1986) stated that car industry experts are forecasting that each car made in Nissan UK's new Tyneside plant will be produced for about £600 less than it costs a British manufacturer to make. The report went on to state that the reason for this Japanese cost advantage is no longer primarily cheaper labour costs but is due to superior logistics management. Nissan will be managing the total material flow, from component source to final user, as an entity. As a result their inventory of materials, work in progress, goods in transit and finished goods will be kept to a minimum: throughput times will be reduced; transport costs will be low - yet their ability to service the end market will not be diminished.

Such an advantage will be difficult for competitors to overcome without the adoption of similar methods.

However, it must be recognised that the advantage in the market place does not always go to the lowest cost producer. In the same industry as Nissan, Jaguar have achieved substantial success not so much by cutting costs but by adding value. Much has been said about the new approach to quality at Jaguar and how it has led to major improvements in the final product. Just as important however in their success has been their concentration on improving customer service, specifically in North America. A radical overhaul of their US dealer network plus a major emphasis on improving the logistics of spares support has transformed their market position.

Other examples of value-added strategies based around superior service could be cited; companies like DEC and IBM for example dominate the segments in which they compete as much through their service package as through their technology.

Evidence such as this suggests that it may be advisable for British companies to shift their emphasis towards the adoption of value-added strategies instead of struggling in vain to become the lowest cost producers. The relationship between market share and unit costs are well known but in so many markets U.K. companies have little chance of regaining lost volume except through offering the customer something over and above that provided by competitors.

If this is true what contribution can distribution and logistics management make in the search for value-added?

MARKETING & LOGISTICS CONVERGE

Most marketing executives probably have never considered the very real contribution to success in the market place that can be made by more effective logistics management. Whilst many would acknowledge the sense of the old adage 'the right product in the right place at the right time', how many actually factor it explicitly into their marketing strategy?

On the other hand some of the more innovative companies recognise that if developing a position of sustainable competitive advantage is the name of the game, then a major source of that advantage is superior logistics performance.

Thus it can be argued that instead of viewing distribution, marketing and manufacturing as largely separate activities within the business, they need to be unified - particularly at the strategic level. One might be tempted to describe such an integrated approach to strategy and planning as 'Marketing Logistics'. Whatever we call it the important requirement is to understand that any business can only compete and survive through one or other of two options : by winning a cost advantage or by providing superior values and benefits to the customer.

Certain changes in the marketing environment make such a revised orientation even more appropriate. One such change has been the steady transition to 'commodity' type markets. By this is meant that increasingly the power of the 'brand' is diminishing as technologies of competing products converge, thus making product differences less apparent. Faced with such situations the customer may be influenced by price or by 'image' perceptions, but over-riding these aspects may well be 'availability' - in other words - is the product in stock. Nor is it only in consumer markets that we are encountering the force of customer service as a determinant of purchase; there is much evidence from industrial markets of the same phenomenon.

A second change is that the customer expectations of service have increased, thus in almost every market the customer is now more demanding, more "sophisticated" than he or she was, say thirty years ago. Industrial buyers are more professional too, increasing use is made of formal 'vendor appraisal' systems and suppliers are now confronted with the need to provide 'just-in-time' delivery performance.

The third change that has had a particularly severe impact in many industries is the trend for product life cycles to become shorter. The product life cycle represents the period of time that a brand or specific product model is an effective player in the market. There are many implications for management of shorter product life cycles but one in particular is worthy of note.

What we have witnessed in many markets is the effect of changes in technology and consumer demand combining to produce more volatile markets where a product can be obsolete almost as soon as it reaches the market. There are many current examples of shortening life cycles but perhaps the personal computer symbolises them all.

In this particular case we have seen rapid developments in technology which have firstly created markets where none existed before and then almost as quickly have rendered themselves obsolete as the next generation of product is announced.

Such shortening life cycles create substantial problems for logistics management. In particular shorter life cycles demand shorter lead-times - indeed our definition of lead-time may well need to change. Lead-times are traditionally defined as the elapsed period from receipt of customer order to delivery. However in today's environment there is a second aspect to lead-time: how long does it take from the procurement of raw materials, sub-assemblies etc. through to the delivery of the final product to the customer.

That same personal computer referred to earlier may have a total procurement-to-delivery lead-time of twelve months! In other words some of the components may remain in stock for several weeks before being incorporated in a sub-assembly or module. Those sub-assemblies may then be in-transit to another location, possibly overseas, for another couple of weeks where they then, say, are held up pending customs clearance, then further delays in storage and manufacturing and so on.

What we are now witnessing is a situation where the product life cycle, in some cases, is in danger of becoming shorter than the procurement-to-delivery lead-time with all the consequent problems for planning and operations that such a situation will create.

The answer to this problem must lie in greater attempts to manage the total materials lead-time throughout the entire system. So often it is found that a substantial proportion of this total lead-time is created through lack of insight and clearly defined managerial responsibilities at the interfaces between adjacent functions.

We have also indentified a further trend in that because <u>production</u> lead-times are shortening through the use of new technology, this in effect means that a greater propotion of the total procurement-to-delivery lead-time is accounted for by transport and storage. Thus we see greater pressure for integrated distribution/logistics management arising as a result.

THE CUSTOMER SERVICE DIMENSION

These changes in the environment, previously described, have served to move logistics to centre stage and, in turn, to focus the spotlight on customer service.

Customer service is the thread that links the logistics and marketing processes, because, in the end, the output of the logistics system <u>is</u> customer service. The skill lies in managing the twin arms of marketing and logistics in such a way as to maximise the value added through customer service whilst still seeking a cost advantage. It can be done, and perhaps one of the most intriguing examples of recent years has come from the world of high fashion - the Italian company Benetton.

Benetton has become a world leader in the production and retailing of high fashion casual wear - particularly knitwear. As this description of their approach indicates they have found a way to gain a marketing edge through superior logistics management:

> "Benetton's order system is 'just-in-time' as production runs are not started until orders have been received. A key aspect of its system is the dyeing of knitted goods after production rather than dyeing yarn prior to knitting. This allows Benetton outlets to delay commitment to particular colours until later in the production cycle. Since each selling season typically begins with about ten alternative colours with only about three usually resulting in high demand, the delay in colour choice affords Benetton an opportunity to respond directly to market demand. The retail system itself provides valuable information to Benetton for production planning via daily orders. These feed production with current demand, on which replenishment schedules for designs and colours may be based. The timeliness of this order data is crucial since popular colours will often sell out in the first ten days of a new season. This rapid response system gives Benetton retailers a competitive edge over their less responsive competitors. The order information is digested and fed back to those customers whose orders appear to be out of line with others in their area. Further, Benetton uses CAD for design and cutting in order to respond to dynamic demand as rapidly as possible. Finally, the company's marketing strategy promotes simple colour fashion with heavy advertising support, which in turn maximises the benefits from the delayed dyeing production process".
>
> David Montgomery & Warren Hausman
> "Managing the Marketing/Manufacturing Interface"
>
> Issues P.A. Journal of Management Vol.2, No.2, 1985

Examples such as this demonstrate the opportunities that exist for using a closely integrated logistics and marketing system in order to provide high levels of service at lowest cost. The competitive edge that Benetton have achieved through this means is considerable - they have both added value and achieved a cost advantage.

Given that the evidence to support the case for customer service driven strategies is so strong, where should those businesses that wish to travel down that road begin?

DEFINING AND MEASURING CUSTOMER SERVICE

It is sometimes suggested that the role of customer service is to provide 'time and place utility' in the transfer of goods and services betwen buyer and seller. Put another way, there is no value in a product or service until it is in the hands of the customer or consumer. It follows that making the product or service 'available' is what, in essence, the distribution function of the business is all about. 'Availability' is in itself a complex concept, impacted upon by a galaxy of factors which together constitute customer service. These factors might include, for example, delivery frequency and reliability, stock levels and order cycle time, as they impact upon availability. Indeed, it could be said that ultimately customer service is determined by the interaction of all those factors that affect the process of making products and services available to the buyer.

Many commentators have defined various elements of customer service, but the most commonly occurring seem to be:

Order Cycle Time
Consistency and Reliability of Delivery
Inventory Availability
Order-size Constraints
Ordering Convenience
Delivery Time and Flexibility
Invoicing Procedures and Accuracy
Claims Procedure
Condition of Goods
Salesman's Visits
Order Status Information
After Sales Support

In any particular product/market situation, some of these elements will be more important than others and there may be factors other than those listed above which have a significance in a specific market. Indeed, the argument that will be developed in this paper is that it is essential to understand customer service in terms of differing requirements of different market segments and that no universally appropriate list of elements exists; each market that the company services will attach different importance to different service elements.

CUSTOMER SERVICE IS PERCEPTUAL

It is a common fault in marketing to fail to realise that customers do not always attach the same importance to product attributes as the vendor. Thus, it sometimes happens that products are promoted on attributes or features that are less important to the customer in reality than other aspects. A floor cleaner that is sold on its ease of application, for example, will not succeed unless 'ease of application' is a salient benefit sought by the customer. If 'shine' or the need for less frequent cleaning are important to the customer then we might be better advised to feature those aspects on our promotion. The same principle applies in customer service: which aspects of service are rated most highly by the customer? If a company places its emphasis upon stock availablity but the customer regards delivery reliability more highly, it may not be allocating its resources in a way likely to maximise sales. Alternatively, a company that realises that its customers place a higher value on completeness of orders than they do on, say, regular scheduled deliveries could develop this to its advantage.

There is, thus, a great premium to be placed on gaining an insight into the factors that influence buyer behaviour and, in the context of customer service, which particular elements are seen by the customer to be the most important. The use of market research techniques in customer service has lagged behind their application in such areas as product testing and advertising research, yet the importance of researching the service needs of customers is just as great as, say, the need to understand the market reaction to price. In fact, it is possible to apply standard, proven market research methods to gain considerable insight into the ways that customers will react to customer service.

The first step in research of this type is to identify the relative source of influence on the purchase decision. If we are selling components to a manufacturer, for example, who will make the decision on the source of supply? This is not always an easy question to answer as, in many cases, there will be several people involved. The purchasing manager of the company to whom we are selling may only be acting as an agent for others within the firm. In other cases, his influence will be much greater. Alternatively, if we are manufacturing products for sale through retail outlets, is the decision to stock made centrally by a retail chain or by individual store managers? The answers to these questions can often by supplied by the sales force. The sales representative should know from experience who the decision-makers are.

Given that a clear indication of the source of decision-making power can be gained, the customer service researcher at least knows who to research. The question still remains however - which elements of the vendor's total marketing offering have what effect on the purchase decision? Ideally, once the decision-making unit in a specific market has been identified, an initial, small-scale research programme should be initiated which would be based on personal interviews with a representative sample of buyers. The purpose of these interviews is to elicit, *in the language of the customers*, first, the importance they attach to customer service *vis-a-vis* the other marketing mix elements such as price, product quality, promotion and so on and second, the specific importance they attach to the individual components of customer service.

ASSESSING THE CUSTOMER SERVICE CLIMATE

In our eagerness to develop a customer service strategy it would be a mistake to focus exclusively on the 'external' dimension of service i.e. customer perceptions. Of equal importance is the 'internal' dimension, i.e. how do our own people, our managers and workforce, view service? What is their attitude to customers? Do they share the same concept and definition of service as our customers?

It would be a truism to suggest that ultimately a company's performance is limited more by the vision and the quality of its people than it is by market factors or competitive forces. However it is perhaps only belatedly that we have come to recognise this.

Much has been written and spoken about "corporate culture". We have come to recognise that the shared values that are held throughout the organisation can provide a powerful driving force and focus for all its actions. More often than not though we have to admit that most organisations lack a cohesive and communicated culture - even if there is a defined philosophy of the business, it may be little understood.

This lack of shared values can impact the company in many ways and particularly its approach to customer service.

One viable way to assess the customer service "climate" within the firm is to take the temperature by means of an employee survey. One such approach that has been developed begins with identifying all those personnel who have a direct or indirect impact upon customer service. A useful device here is to consider the complete 'order to cash' cycle and to ensure that we have identified all those people involved in all the different departments that influence the order flow. The focus of the survey should be upon these key people's perceptions of service: what do they think is important to the customers? and how do they think we perform service-wise?

What quite often emerges from these internal surveys is that employees hold quite different views as to what constitutes customer service. similarly they may often over rate the company's actual performance compared with the customers' own rating. Making such comparisons between customers' perceptions and the employees' perceptions can provide a powerful means of identifying customer service problems and their sources.

This 'audit' of internal perceptions and attitudes towards service can form the basis of a programme of action aimed at developing a customer service culture. However such a process, which almost inevitably will involve a major re-orientation within the firm, cannot work without the total commitment of top management. The service culture must grow outwards from the Board Room and the Chief Executive must be its greatest champion.

Within the logistics function one very practical step is to set up the equivalent of a 'quality circle'. Such a scheme might involve looking at the total order processing and invoicing cycle and selecting individuals from all the departments or sections involved. This group would meet at least once a week with the expressed objective of seeking improvements to customer service from whatever source they might come. A further task that might usefully be given to this group is to handle all customer complaints that relate to service.

Underpinning all of these initiatives should be a company-wide education programme. Increasingly, more and more organisations have come to recognise the key role that in-company education can have in developing a sense of shared values. Furthemore, because it is a basic tenet of psychology that attitude change must precede behaviour change, education can lead to measurably improved performance. One of the best examples recently has come from British Airways whose 'Putting People First' campaign has resulted in a significant change in employee behaviour and thus in the company's marketplace performance.

USING SERVICE TO SELL

Earlier it was stressed that it is important to establish those components of the total customer service mix which have the greatest impact on the buyer's perceptions of us as a supplier. This thinking needs to be carried right through into the design of the customer service offering. This offering can best be described as the customer service 'package', for it will most likely contain more than one component.

The design of the package will need to take account of the differing needs of different market segments so that the resources allocated to customer service can be used in the most cost-effective way. Too often, a uniform, blanket approach to service is adopted by companies which does not distinguish between the real requirements of different customer types. This can lead to customers being offered too little service or too much.

The precise composition of the customer service package for any market segment will depend on the results of the analysis described earlier. It will also be determined by budgetary and cost constraints. If alternative packages can be identified which seem to be equally acceptable to the buyer, it makes sense to choose the least cost alternative. For example, it may be possible to identify a customer service package with high acceptability which enables the emphasis to be switched away from a high level of inventory availability towards, say, improved customer communications. Once a cost-effective package has been identified in this way, it should become a major part of the company's marketing mix - 'using service to sell' is the message here. If the market segments we serve are sensitive to service, then the service package must be actively promoted. One way in which this can be achieved with great effect is by stressing the impact on the *customer's* costs of the improved service package, for example, what improved reliability will do for his own stock planning; what shorter lead-times will do for his inventory levels; how improved ordering and invoicing systems will lead to fewer errors; and so on. All too often, the customer will not appreciate the impact that improved service offered by the supplier can have on his, the customer's, bottom line.

CONCLUSION

The main theme of this paper has been that logistics and marketing can combine together to provide a powerful means of achieving a sustainable competitive advantage. The combination of added-value through service and cost advantage through greater efficiency make a winning team wherever they are tried.

There are probably more opportunities for profit improvement through superior marketing logistics than from any other source.