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CUSTOMER SERVICE AND HOW TO MEASURE IT

Customer service, THE basic measurement of how well a company meets its commitments, is not always easy to quantify. Yet it's the objective of everything we do. « Obtain the Voice of the Customer » is the first step in Lean Production and in Supply Chain Management:

Obtaining the Voice of the Customer...



What are his wants and needs ?

Today, the Voice of the Customer is not just cost + quality + delivery: competitive advantage comes from supplying a service along with the product, before, during and after delivery. Also, the « customer » usually has many faces: according to our spot in the supply chain, we serve not only the final customer but several intermediate customers, each with his own wants and needs.

Consider one of the key dimensions of customer service, meeting delivery promises. Typically, three dates are associated with every customer demand or order:

THE 3 DELIVERY DATES OF A CUSTOMER ORDER



1. Requested Delivery Date :

The delivery date the customer asks for



2. Confirmed Delivery Date :

The delivery date negotiated with the client; the delivery date confirmed by the supplier



3. Latest Confirmed Delivery Date :

In case of delay or other problems, the Confirmed Delivery Date can change, and the planning system should always reflect the Latest Confirmed Delivery Date

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Although the Requested Delivery Date from the customer seems to be the best measurement criterion, in practice customers often do not request reasonable delivery dates, or dates which correspond to their real needs (lack of confidence, invoicing deadlines ...).

For these reasons, most companies measure their customer service with respect to the First Confirmed Date or the Latest Confirmed Delivery Date (be careful not to move out the First Confirmed Delivery Date too often!):

IMPROVING CUSTOMER SERVICE: Progressive Performance Measurements



1. Meet the Latest Confirmed Delivery Date at 95% and reduce the number of move-outs
2. Meet the First Confirmed Delivery Date at 95% (move-outs having been greatly reduced or completely eliminated), and finally
3. Meet the Customer Requested Delivery Date at 95%

These three performance measurements should be used in sequence to improve customer service.

Usually a tolerance is allowed around the date: +/-2 days, -2/+0, or no tolerance, according to the situation. A few automobile suppliers—those making gas tanks for example—deliver 100% on the hour, specified two hours beforehand by a Kanban signal!

For products delivered on a customer order for a future delivery date, the Available To Promise (ATP) function of MRP II permits committing to a Confirmed Delivery Date which is realistic, because ATP is based on the Master Production Schedule.

The best measure of customer service comes from... the customer! Positioned a little more downstream in the supply chain than the producer's measurement, the customer's measure takes into account transportation and physical logistics. We recommend utilizing both measurements.

Evaluating the financial gain from improved customer service is sometimes a tough job. For make-to-stock environments, improving the delivery of line items and of complete customer orders, results in more rapid invoicing and payment and a gain in Earnings Before Income Taxes (EBIT) on the increased sales volume. For make-to-order companies, meeting delivery dates often means reducing the payment of penalties for late delivery.

In both cases, the reduction of premium freight costs is a quantifiable measure of improved customer service. One of our customers reduced his premium transportation expenses from 488K euros to 43K euros one year later, and to zero one year after that. These savings, which translate directly into increased profits, are complemented by creating a reputation of a company that meets its commitments. This also should translate into increased sales which can be measured.