



Don't Forget Your Customer!

How managing the customer experience can help companies survive tough economic times.

By Dr. Morris A. Cohen
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In a global recession, customer retention is absolutely critical. Today, many companies are facing a crisis. They need to increase revenue, reduce costs and conserve cash in an environment where product sales and prices are falling rapidly. Many firms are considering employee layoffs, capacity cutbacks and divestiture of under-performing businesses. Some are facing bankruptcy and liquidation. As companies scramble to survive, it's more important than ever to focus on effectively servicing existing customers as a source of immediate relief, and long-term value.

Services that companies provide can define their customers' experience. This includes enabling customers to learn about products, place purchase orders, receive/install and begin using products and generate value through the use of products. These services provide opportunities for companies to increase revenue and profits, reduce costs, stimulate market growth and absorb the shocks of business cycle variations.

The U.S. has led the world in developing technologies that have generated exciting and innovative manufactured products. As consumers, we expect each new generation to be superior in performance and cost. At the same time, our economy is truly global. No company can ignore opportunities for sourcing low-cost and high-quality materials and value-added services. The world has caught up with us when it comes to manufacturing and logistics. As a result, most products have some or all of their value outsourced. This means that making and selling products has become a tough game to win. All products, however, come bundled with a service component that helps define each customer's experience. As consumers, we want quality products and quality services -- and are willing to pay a premium for them. Companies who can provide them efficiently will survive these challenging economic times.

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Some companies are better at service than others. Anyone who has recently purchased a telephone or computer from a major provider can compare that experience with purchasing an equivalent item from an Apple Store. Everything from online reservations, access to expert help at the "Genius" bar and a friendly staff enhances the quality of customer interaction. Having neat innovative products helps of course, but may not be necessary.

Saturn, General Motors' spinoff, was meant to be an experiment in applying world-class processes in the auto industry. While neither the product nor its price were exceptional, Saturn consistently received the highest levels of customer satisfaction for everything from the initial purchase encounter to the after sales support experience.

Examples of superior customer experience can be found in every industry. In all cases, customers willingly pay a premium for higher service quality.

So how can companies respond to the recession by focusing on their customers' experience? By following three basic steps:

1. **Design:** Understand the experience your customer wants, recognizing that one size does not fit all, and design "service products" that fulfill these needs.
2. **Price:** Determine a price for each service product variation.
3. **Produce:** Cost-effectively develop and manage the supply chain that produces and delivers these services.

Consider one aspect of customer experience, aftermarket service, which provides support after customers have purchased the product. Aftermarket sales typically represent 25% to 50% of a company's revenue and provide a disproportionately high contribution to profit, since the sale of service contracts, spare parts and maintenance labor have some of the highest margins of all products sold. For example, Hewlett Packard generates its greatest profit margins from sales of products like printer cartridges, while Lockheed Martin and Boeing make more money from providing after sales support than they do from selling an airplane.

Here's an overview of each step:

1. **Design:**
Identify the market segments and determine what kind of support each requires. Foreign exchange traders, for example, view the router that connects them to the internet as mission critical. They need immediate response to a breakdown in connectivity since losses could be enormous if the system is down for seconds. Manufacturers of semiconductor chips seek a 15-minute response time to a machine breakdown on the fab factory floor because the cost of lost production can be tens of thousands of dollars per hour. The U.S. Air Force flying combat missions in Afghanistan sees the downtime of its aircraft as a threat to achieving its mission.

2. **Price:**

Determine a price for each segment and product variation. Pricing can be based on performance metrics like response time, product availability and repair turnaround time. Different prices can be charged for different levels of service. Cisco, the manufacturer of the routers that traders and others use, provides everything from 2-hour to 3 business day response time guarantees. Many aerospace and defense companies have adopted a "Performance Based" approach to pricing for services. The price charged for support is determined by the value the customer generates from the use of the product and not from the resources (spare parts, repair time, etc.) used by the supplier in providing that support. Note that service revenue opportunities can be based on existing support services and resources.

3. **Produce:**

Designing and managing the service supply chain, which provides the necessary resources, can be the most challenging part. These resources have some of the worst financial performance of any asset on a company's balance sheet. Spare parts inventory turnover is often an order of magnitude lower than the turnover for other inventory in the supply chain. Asset utilization for maintenance and repair manpower and facilities typically are at "fire station" levels; often well below 50%. So focusing on service assets has the potential to reduce investment and lower operating costs. However, since these assets serve as an insurance policy to protect against the risk of disruption due to product failure, any reduction must be done in a manner that recognizes their unique role as a source of customer satisfaction. The good news is that knowledge and systems to optimize the tradeoffs between risk and cost, inherent in the aftermarket, are now available.

To implement the three-step process, managers need to prioritize how each initiative can contribute to the challenges posed by the current economic downturn by providing new sources of high margin revenue and freeing up cash,, and to meeting service goals and corporate objectives that will persist even after the current economic crisis subsides. In the long run, enabling customers to increase the value of acquiring and using products and lowering their cost to do so, can generate higher levels of customer satisfaction, which in turn drive repeat sales, market growth and improved profit margins.

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