

LOGISTICS 2



Lecture VIII: REASONS FOR AND FEATURES OF AN EFFECTIVE CUSTOMER SERVICE PROCESS

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OVERVIEW

- Weeks 1-3: International Logistics Market
- Weeks 4-6: Customer Service and the Logistics Environment
- Week 6: Group Assignment Presentation:
- **Weeks 7-9: The Importance of Communication and Customer Service**
- Weeks 10-12: Principles of Marketing within Logistics Environment
- Week 11: Individual Assignment
- Week 13-14: Revision



OVERVIEW

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REASONS FOR PROVIDING AN EFFECTIVE CUSTOMER SERVICE PROCESS

- CUSTOMER LOYALTY – BRAND LOYALTY AND PRICE DISCRIMINATION
- QUALIFIED STAFF RECRUITMENT
- PRODUCTIVE EFFICIENCY
- ALLOCATIVE EFFICIENCY
- TRADE DIVERSION/CREATION – COMPETITIVENESS
- PROFITS
- SHARE PRICE
- AVOID REPUTATIONAL/LEGAL COSTS
- WOOLWORTHS... BOMB
- DEMAND/SUPPLY/MARKET SHARE
- GREATER CREDIT ACCESS
- CAPACITY TO INNOVATE/EXPERIMENT/TEST NEW PRODUCTS AND SERVICES
- ECONOMIES OF SCALE
- COST REDUCTION
- REDUCES DISRUPTION FOR RISK AND UNCERTAINTY

FEATURES OF AN EFFECTIVE CUSTOMER SERVICE PROCESS

- ADDRESS STAKEHOLDER REQUIREMENTS
- EFFECTIVE RISK MANAGEMENT
- INFORMATION....
COMMUNICATION...COOPERATION
- EFFECTIVE LISTENING –AVOID POOR
REPUTATION
- ETHICS
- CSR
- CONSUMER/STAFF LOYALTY AND
INCENTIVES
- Customer Service can be seen as
an activity or sequence of
activities to satisfy stakeholder
requirements
- Customer service is a
performance –the ability to
meet or exceed expectations
- Customer service can be a
corporate philosophy –customer
first, to provide the best
customer service possible

CHARACTERISTICS OF AN EFFECTIVE CUSTOMER SERVICE PROCESS

- THE AVAILABILITY OF ITEMS
 - AFTER-SALES BACKUP AND SUPPORT
 - HANDLING OF ORDERS AND QUERIES
 - HANDLING OF COMPLIMENTS AND COMPLAINTS
 - ORDER CONVENIENCE
 - PAYMENT AND DELIVERY CONVENIENCE
 - COMPETENT TECHNICAL REPRESENTATIVES
 - DELIVERY TIME
 - RELIABILITY
 - DEMONSTRATION OF EQUIPMENT, AVAILABILITY OF INFORMATION
- WHAT HAPPENS DURING...
 - PRE-TRANSACTION?
 - DURING THE TRANSACTION OR SALE?
 - WHAT HAPPENS AFTER THE TRANSACTION OR SALE?

CHARACTERISTICS OF AN EFFECTIVE CUSTOMER SERVICE PROCESS

- KEY PRE-TRANSACTION SKILLS INCLUDE:
 - Buying your goods in advance
 - Packaging your goods in advance
 - Anticipating your customers needs and desires
 - Organising your staff so they react/respond quickly as soon as they place an order –pre-service training
 - Developing systems that can adapt to change
 - Preferably having your prices and warranty obligations clearly written out and simplified for a quicker service and customer convenience.
- KEY TRANSACTION SKILLS INCLUDE
 - Correctly entering or recording the order information
 - Treating your customers well
 - Assessing customer needs well
 - Providing as much info as possible
 - Following up on customer orders as quickly as possible
 - Making it easy to place an order
 - Providing suitable/comparable substitutes when out of stock
 - Following up outstanding customer order problems or concerns.
 - Acknowledging and recording customer feedback in the best possible way.

CHARACTERISTICS OF AN EFFECTIVE CUSTOMER SERVICE PROCESS

- **KEY POST-TRANSACTION SKILLS INCLUDE:**
- **Installation of the Product as advertised and promised**
- **The honouring of the warranty –under promise and over deliver**
- **The ability of your company to repair/replace a broken item**
- **The ability to supply a part for a product for a reasonable price**
- **The ability to trace a supplied product to an original supplier when faulty**
- **The ability or willingness of a company to replace the item when its faulty or defective**
- **The ability to handle customer claims, complaints and repairs after the sale –logistical efficiency.**

WHICH FACTORS CAN YOU INFLUENCE TO IMPROVE CUSTOMER SERVICE

- Administrative and Financial Efficiency
- Logistics and distribution efficiency (How quickly do we deliver as promised?)
- Supplier efficiency
- Personal attitudes of staff towards customers
- Numbers: Do we have more customers than we can realistically satisfy?
- Resource variables: Do these exist to meet needs?
- Infrastructure variables: Do we have the infrastructure to support peoples needs?
- Process variables: Do customers get lost in our process?

IMPROVING CUSTOMER SERVICE VIA TRANSPORT

Carrier and mode choices

The motivations of both shippers and carriers as they affect carrier and mode choice decisions must be considered first. Shippers transporting goods are essentially seeking to *maximise service* and *minimise cost* for a given customer when they offer a consignment of goods for transport. They will look to do this by managing direct transport costs, such as inventory costs, including in-transit, safety stocks and transaction costs and the cost of service failure, including the time specified for delivery, the lead time and the condition of the goods upon arrival. Shippers will also evaluate a number of shipping parameters to distinguish modes, which will vary by country, including:

- the geographic coverage of the carrier;
- the volume, weight, value and type of goods the carrier can handle;
- any consignment, load and dimension limits;
- the importance to the carrier of their consignment;
- transit time from door to door;
- the carrier's reliability versus risk
- the price for throughput, distance, time and the cost per 'unit' moved;
- the service frequency and schedule flexibility;
- the carrier's service range and choice, including the use of technology;
- any intermediate handling and/or alternative routings;
- any environmental externalities.

Capital

- Fixed assets and facilities such as terminals, hubs, trans-shipment points, offices.
- Mobile assets and equipment such as vehicles, trailers, containers, handling equipment, communications equipment.
- Business costs, including the cost of capital, profit targets, taxes and regulatory costs.

Operating

- Fuel, including taxes.
- Drivers.
- Maintenance and repairs.
- Track cost, tolls and ferries.
- Schedulers.
- Loading.
- Sales, administration, legal and insurance for vehicles and goods, operating licence, permits and fixed taxes.
- Outsourced delivery services, short-term hires and third-party carriers.

IMPROVING CUSTOMER SERVICE VIA OUTSOURCING

The reasons to outsource logistics activities include:

- an ability to concentrate on 'core competencies';
- the avoidance of large capital investments in logistical assets or a release of existing capital;
- converting logistics activities from a capital to current expenditure;
- reducing labour costs;
- improving standards of service;
- enjoying a greater logistical expertise offered by a 3PL and their economies of scale in vehicle acquisition, fuel, etc.;
- a need for wider geographical coverage offered by a 3PL;
- better support for a wider product range;
- the 'groupage' of loads among several 3PL clients that offer lower unit costs and balancing seasonal fluctuations.

There are several disadvantages in outsourcing logistics activities to 3PL service providers, which include:

- the loss of control over logistics operations to the 3PL;
- the subsequent loss of management expertise and experience over time;
- a partial loss of direct contact with customers;
- a tendency to underestimate core activities, i.e. what should be outsourced and what should not;
- disclosing competitively sensitive information to the 3PL;
- undertaking extra effort in searching for and selecting 3PLs;
- possible customer confusion regarding service provision and follow-up;
- an increased risk of customer service failure; and
- an over-dependence on the 3PL which may lead to a loss of bargaining power.

IMPROVING CUSTOMER SERVICE VIA INVENTORY MANAGEMENT

The lean paradigm is based on the principles of lean production in the automotive sector detailed in the book *The Machine that Changed the World*.⁹ The idea behind lean is the development of a value stream to identify bottlenecks in order to eliminate all waste, including time, and ensure a level production system. The five principles behind lean are:

- 1 Specify what creates value from the customers' perspective.
- 2 Identify the steps necessary to add value at each stage in the production and distribution process, i.e. the 'value stream'.
- 3 Make products flow smoothly along the value stream.
- 4 Make only what is demanded by the customer.
- 5 Strive for perfection, eliminating waste wherever possible.

The use of lean at a metals manufacturer is described in Logistics Example 7.3.

Conversely, the agile paradigm has its origins in principles of postponement that were discussed in Chapter 1. Being agile means using market knowledge and a virtual corporation to exploit profitable opportunities in a volatile marketplace. Characteristics of agility include the following:

- An agile supply chain is market sensitive.
- An agile supply chain is demand driven rather than forecast driven.
- There is significant use of IT to promote sharing of data.
- There is significant sharing of information through 'process integration'.

IMPROVING CUSTOMER SERVICE VIA INVENTORY MANAGEMENT

Chapter 9 Logistics financial performance

Table 9.1 (continued)

Effectiveness measures internal focus (%)

Inventory count accuracy

Order fill

Out of stock

Line-item fill

Back orders

Inventory obsolescence

Incoming material quality

Processing accuracy

Case fill

Cash/cash cycle time

Average

Efficiency measures (%)

Cost

Outbound freight cost

Inbound freight cost

Inventory carrying cost

Third-party storage cost

Logistics cost/unit/budget

Cost to serve

Average

80.8

Productivity

Finished goods inventory turn

80.2

Orders processed/labour unit

43.3

Product units processed per warehouse labour unit

47.6

Units processed/time unit

37.2

Orders processed/time unit

36.1

Product units processed/transportation unit

21.8

Average

44.4

Utilisation

Space utilisation/capacity

46.5

Equipment downtime

46.0

Equipment utilisation/capacity

40.4

Labour utilisation/capacity

35.8

Average

42.2

Source: Logistics performance measurement in the supply chain: a benchmark,

IMPROVING CUSTOMER SERVICE VIA FINANCIAL AND OTHER PERFORMANCE INDICATORS

Table 9.2 Eight criteria for good performance metrics

Criterion	Description
<i>Validity</i>	The metric accurately captures the events and activities being measured and controls for any exogenous factors
<i>Robustness</i>	The metric is interpreted similarly by the users, is comparable across time, location and organisations, and is repeatable
<i>Usefulness</i>	The metric is readily understandable by the decision maker and provides a guide for action to be taken
<i>Integration</i>	The metric includes all relevant aspects of the process and promotes coordination across functions and divisions
<i>Economy</i>	The benefits of using the metric outweigh the costs of data collection, analysis and reporting
<i>Compatibility</i>	The metric is compatible with the existing information, material and cashflows and systems in the organisation
<i>Level of detail</i>	The metric provides a sufficient degree of granularity or aggregation for the user
<i>Behavioural soundness</i>	The metric minimises incentives for counterproductive acts or game playing and is presented in a useful form

Source: A Review and Evaluation of Logistics Metrics, *International Journal of Logistics Management*, Vol. 5, No. 2,

IMPROVING CUSTOMER SERVICE VIA REVERSE LOGISTICS AND ECO-SUSTAINABILITY

the loop on the supply chain.

If goods or materials are not sent 'backwards' or upstream in the supply chain then an activity is probably not a reverse logistics activity. Reverse logistics also includes processing returned merchandise due to damage, seasonal inventory, re-stock, salvage, recalls and excess inventory. Key management elements in reverse logistics include:

- *gatekeeping* to screen defective and unwarranted returned merchandise at the entry point into the reverse logistics process;
- *short disposition cycle times* related to return product decisions, movement and processing to avert a lengthy ageing process on returns;
- *reverse logistics information systems* to properly track returns and measure disposition cycle times and vendor performance;
- *central return centres* or processing facilities dedicated to handling returns quickly and efficiently;
- *zero returns* policies that avoid accepting any physical returns and instead set maximum values of returned products that are payable to customers;
- *re-manufacture and refurbishment* of products that has five categories: repair, refurbishing and re-manufacturing to recondition or upgrade products, and cannibalisation and recycling to use or dispose of products;
- *asset recovery* classifies and disposes returned goods, surplus, obsolete, scrap, waste and excess material products, and other assets to maximise returns to the owner and minimise costs and liabilities associated with disposition;

IMPROVING CUSTOMER SERVICE VIA REVERSE LOGISTICS AND ECO-SUSTAINABILITY

Reverse logistics and product recovery management

- *negotiation* of the value of returned material without any pricing guidelines. This task is often performed by specialist third parties who advise the primary participants in the supply chain who are working to transfer ownership of the material back to the original source;
- *financial management* policies to properly handle accounting and reconciliation issues related to returned products;
- *outsourcing* reverse product flow to outsourced reverse logistics suppliers who can be used as a benchmark to help determine what and how reverse activities should be performed, and how much those activities should cost.

Benefits to firms practising reverse logistics management include cost reductions, added-value for customers and proper compliance with legislative regulations. Critical success factors for reverse logistics programmes to capture the key elements above include:

- *management and control* by mapping or flow charting the reverse logistics process through the firm, developing an environmental management system, educating customers, employees, suppliers and other supply chain members, and developing partnerships to achieve reverse logistics goals and economies of scale;
- *measurement* by adopting full product life cycle and end-of-product life costing as they relate to reverse logistics activities and the product supply chain;
- *finance* to properly allocate sufficient resources for reverse logistics activities and environmental initiatives.⁵

Reverse and green or sustainable logistics come together as a result of regulation and legislation such as the EU Waste Electrical and Electronic Equipment (WEEE) Directive introduced and adopted into EU law in 2005. The directive is designed to reduce the amount of WEEE, of which there was some 915,000 tonnes across Europe at the beginning of the millennium, and increase levels of refurbishment and recycling by requiring EU member states to force producers and retailers to take responsibility for the return and reverse logistics of such products.⁶

IMPROVING CUSTOMER SERVICE VIA REVERSE LOGISTICS AND ECO-SUSTAINABILITY

Product recovery management of Fujifilm's QuickSnap camera

Fujifilm's QuickSnap popular single-use camera has been designed to use various techniques of product recovery management; it cannot be re-used or re-sold without undergoing some form of PRM due to its design characteristics. Waste management is almost non-existent in the QuickSnap 'inverse manufacturing system' as an almost 100 per cent recycling rate can be achieved, even with components such as packaging for the product. By comparison, over 65 per cent of Kodak's single-use cameras returned to them are recycled. However, unlike Fujifilm, which uses dedicated retailers for product returns, Kodak takes back cameras from any retailer.

Fujifilm launched single-use cameras in 1986 under the brand name QuickSnap after market research determined that a growing segment of Japanese consumers wanted to take pictures only on an occasional basis. QuickSnap quickly became a popular consumer convenience product and 1 million cameras were sold in its first six months in the marketplace. Subsequently, the market expanded dramatically and more than 60 million cameras were sold in 1995. Although the original launching price was around US\$10, current selling prices range from \$7–15 depending on product features such as zoom lens, waterproof body or high-resolution films.

At the beginning of the 1990s several stakeholder groups attacked the product's disposable nature, which resulted in a negative impact on the brand's image and sales. Consumers began to refer to QuickSnap as 'disposables' or 'throwaways' and the media reported environmental groups' concern regarding their wastefulness. In response to those environmental pressures and as part of its corporate and social responsibility posture, Fujifilm initiated a voluntary take-back programme and began recycling the cameras by utilising a highly developed and original recycling programme. In doing so it established one of the first, fully integrated closed-loop or reverse logistics systems for FMCG products and has since negated much of the poor environmental image of the QuickSnap product. Fujifilm calls its reverse system an 'inverse manufacturing system' and in 2006 this system was awarded the Inverse Manufacturing Grand Prize, which publicly recognises achievements from companies over the past ten years for developing various types of inverse (circulatory) production techniques.

The QuickSnap product concept and structure had two advantages that smoothed the way to recycling. First, the QuickSnap is categorised not as a camera but as 'film' in industrial product classification and the silver and chemical base utilised in films already had recycling targets and measures that Fujifilm could draw upon. It was important to re-use

There are two main reasons for the QuickSnap modular design, according to Fujifilm's manufacturing engineering department. First, it is desirable that products have an easy-to-disassemble structure in order to be re-used or recycled. Second, quality inspection and testing can be conducted specifically on the unit or modular design. Decomposing the product into several units is determined not only from the standpoint of recycling or re-use but also by a balance of various conditions such as design appeal or production costs. The QuickSnap unit structure has been changed only slightly since 1992 and only to correspond to customer needs.

Currently, all QuickSnap products include recycled or reused parts. Accordingly, QuickSnap is considered to be a product that represents recycle-based manufacturing. This recycle-based manufacturing loop facilitates a balance between forecast accuracy and the ability of manufacturing to adjust production to meet current demands. Fujifilm's inverse manufacturing system allows for both processes, production and recycling, to be carried out in the same facilities. The QuickSnap disassembling process is carried out in reverse order of the new product assembling process and is compatible with the recycling and decomposing processes. For example, one machine which is used only to set the rear unit into the main unit can also take the rear unit off the main unit. This means that other machines can also be utilised for the recycling or disassembly process when demand fluctuates and thus efficiency of the inverse manufacturing system is enhanced.

Fujifilm's environmental report notes that the economic impact from QuickSnap recovery within the company amounts to some 1.7 billion yen a year. Further, the environmental economic impact outside the company, i.e. reductions in sulphur dioxide, carbon dioxide and volatile organic compounds, is about 47.2 billion yen. These calculations are consistent with guidelines from the Ministry of the Environment, government of Japan and were vetted and approved by third-party organisations.

An aerial photograph of a coastal city, likely Hobart, Tasmania, Australia. The city is built on a peninsula and is surrounded by blue water. A large, semi-transparent blue circle is overlaid on the image, highlighting a specific area in the central part of the city. The text is overlaid on the bottom part of the image.

Any questions

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Please also feel free to contact me via
email at: Jack.Dyer@utas.edu.au