

WERC WATCH®

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(I)t's essential that companies in the logistics industry embrace an integrated approach to customer service

Customer Service: The Key to Real Competitive Advantage

Phrases like “the customer is king” and “the customer is always right” have been around for years. But while every company knows that customer service is important, not every company makes it a part of its

core strategy. That may be a mistake, according to the results of a recent survey from St. Louis-based billing and CRM product/service provider Amdocs.

The survey interviewed some 1,000 consumers about recent experiences in the banking, cable, retail and telecommunications industries. The results revealed that consumers have little patience for shoddy customer service. In fact, a U.S. consumer will stand for no more than two negative customer service experiences before taking their business elsewhere.

Other findings were just as revealing:

- More than 75 percent of consumers would hang up on a call to customer service if placed on hold for longer than five minutes.

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Customer Service Fallacies and Facts

John Tschohl is an international management consultant, speaker, and author of several books. He is also president of the Minneapolis-based Service Quality Institute, which provides customer service training in a variety of formats to companies in all types of industries.

Tschohl maintains that customer service in America is a dying skill. He says that while some of this can be attributed to low unemployment rates,

much of it is the result of ignorance on the part of business owners and executives. In fact, says Tschohl, there are two big fallacies that many business owners buy into when it comes to customer service.

Fallacy #1: Customer service means adding people to the payroll.

You can have hundreds of employees on your payroll and still be horribly

deficient in providing exceptional customer service. In this case, more doesn't necessarily translate to better, especially if those people aren't trained, motivated and empowered to provide the best service possible to your customers.

Professional athletes know the importance of training. Whether they're making \$500,000 or \$5 million a year, they all go to spring training and work on the basics.

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- More than 80 percent of the respondents said they would rather visit the dentist, pay their taxes or sit in traffic than deal with an unhelpful representative.
- Some 75 percent tell friends and family about negative customer service experiences.
- Additionally, 85 percent say that negative customer service experiences will drive them to switch providers.
- Consumers believe that the loss of business is the biggest motivator for companies to improve their customer service.

Based on the results, companies can't ignore customer service—in fact, in order to stay competitive, it's imperative that companies place a high value on customer service. Customers have a wide range of choices available today and clearly won't hesitate to make a switch if the service isn't there.

But providing good customer service has more value than simply keeping customers around long term. When made a priority, customer service can lead to a more profitable operation. Consider the fact, for instance, that it's less expensive to keep customers than it is to recruit new customers—as much as 10 percent cheaper, in some cases. Established customers also tend to buy more products at higher margins and require less attention than new customers.

For these reasons, it's essential that companies in the logistics industry embrace an integrated approach to customer service—one that will not only draw new customers in, but also more importantly, keep existing customers coming back time and again.

This *WERCwatch* is designed to provide an understanding of the importance of customer service to the logistics industry. In addition, it

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Organize training camps for your employees. Give them a minimum of 40 hours of customer service training annually. The goal of any training program is to change attitudes and behaviors and to reinforce basic skills. In order to do that, and keep enthusiasm high, introduce a new training program twice a year.

Once you have trained your employees, empower them. Don't tie their hands with cumbersome policies and procedures and expect them to provide exceptional service. Give employees the authority to solve customer problems, and then trust them to make decisions that will satisfy your customers and keep them coming back to you.

When employees are confident in their skills and feel empowered and trusted, they are motivated. Motivated employees are productive employees, and productive employees have a positive impact on your bottom line.

Fallacy #2: You must pay people more in order to improve customer service.

The largest employer in the world has the highest-paid service employees, but its customer service is questionable. The second-largest employer pays most of its employees lower wages in every market it's in, but has the reputation as one of the best customer service organizations in the world. One employer is Wal-Mart; the other is the U.S. Postal Service. Can you guess which has the best customer service reputation? (Hint: It's not the U.S. Postal Service.)

If you want employees to stay with you, you must treat them well. That doesn't necessarily translate to high salaries. Most people don't leave their jobs in order to make more money. They leave because they haven't been trained to handle the job, and they leave because their supervisors haven't been trained to motivate, coach and nurture them. They leave because they don't feel valued or appreciated.

You must work as hard—if not harder—to keep your employees as you do to hire them. When you train your employees, you are sending the message that you value them. When you give employees the knowledge and tools they need to do their jobs well, you increase their loyalty to the company and create a productive team that works well together.

Studies show that employee turnover is inversely proportional to employee perceptions of the quality of service provided by the employer. When a company's service is perceived as bad, not only do consumers not like to patronize it, employees don't like to work for it.

If you want to provide exceptional customer service, you must do two things for your employees: Train them and treat them well. By doing so, you will reap the rewards of increased customer—and employee—loyalty.

John Tschohl and the Service Quality Institute can be reached at 800-548-0538 or at quality@servicequality.com.

will present a variety of examples of how customer service leaders have used customer service to improve overall operations and profitability.

Making Customer Service a Priority

With the potential benefits that can be achieved from focusing on customer service, it would seem that more logistics organizations would do just that. It's often not the case, however, says Donna Richmond, president of The Richmond Group, a consulting firm whose entire focus is on customer service, based in Wheaton, Ill. "Most companies focus on what their industries' focus is—this is where they compete," says Richmond. "In logistics, the pressure is usually to cut costs, a directive that typically comes from senior management due to competitive pressure."

Customer service, therefore, sometimes takes a backseat. "Customer service only becomes an issue when an industry gets out of sync because someone has begun to deliver better customer service," explains Richmond. "All things are rarely equal, but companies do try to equalize within their industry."

When clients turn to Richmond for customer service assistance, they have often reached a crisis point, she says. "The crisis will usually arise because several large customers are complaining about customer service, threatening to back off on purchasing," she says. "Or someone new will come in at the top of a client organization and want to raise the service level."

In other words, very few clients come to Richmond because they have a vision for improving customer service. "Far too many c-level executives view customer service as a cost center," she says. "Instead, they should look at it as a customer retention tool and sales driver."

Bill Drumm, president of Herbert W. Davis and Company/Establish, Inc., management consultants specializing in logistics and supply chain

strategy based in Fort Lee, N.J., sees similar situations. His consulting firm frequently works with clients looking to make improvements to their customer service. But, he says, most come to him for help only because they have a customer service problem. "For instance, we might have a supplier to Wal-Mart whose standards are below what the retailer demands," he says. "They want to keep Wal-Mart as a customer, so they look for ways to improve."

Richmond says that the issue of customer service becomes even more complicated because good customer service means different things to different customers. "It can involve everything from the packaging that you use to the type of carrier who makes your deliveries," she says. "It's complex, especially when you're dealing with a product, which can present multi-faceted issues."

But there are steps that all logistics organizations can take to improve customer service, and both Richmond and Drumm are experts at leading companies to that next level.

Individualized Attention

Companies need to realize that simply delivering a quality product at competitive pricing is not a differentiator—these are basic deliverables that are required simply to stay in the game, says Richmond. Customer service, however, can serve as a differentiator between you and the competition.

"If you're willing to develop a close relationship with your customers by learning to understand their needs, it can set you apart," says Richmond. "Many customers are looking for more than transactional relationships. If you work hard at understanding and meeting their needs, you can garner more market share for your company."

When Drumm works with clients on customer service, he begins the process by looking externally with the clients at their customers to see how their relationships are going. "We do this with phone calls, Internet polls and other

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methods,” he says. “We do it with the mindset that we need to get the customers’ opinion of our client.”

Drumm and his team also measure the client’s customer service performance through a variety of metrics, like on-time delivery and pre- and post-delivery service. These include things such as whether or not the end customers get information like expected delivery date, whether or not deliveries are shipped on

the right carrier and whether or not returns and warranties are handled correctly.

Drumm cautions, however, against getting too hung up on any one specific number. “Too often, we think of customer service as a level of a percentage,” he says. “Ninety-nine percent of some metric means nothing. A true indicator of customer service should be a portfolio of measurements.”

FIGURE 1. Maturity Model

Transforming the Service Organization

What stage is your firm? What’s hindering improvement? Where are your competitors?

Status	Stage	Description	Customer Service Organization's Activities/Characteristics
Best of Class	Profit Center	Up-sell and cross-sell and implement CRM	<ul style="list-style-type: none"> • Highly integrated, flexible and adaptable • First-call effectiveness is high • CSRs are highly skilled; can be promoted to other groups within the firm
Better	Business Centric	Perform value-added services	<ul style="list-style-type: none"> • Partner with customers and vendors to offer services, e.g., VMI • CSRs are real partners with Sales and Marketing in meeting goals • Regularly survey customers and non-customers
Good	Customer Centric	Improve and strengthen customer relationships	<ul style="list-style-type: none"> • Partner with Sales to know customers in depth • Develop “key account” program (visits, calls, etc.) to integrate customer information, understand needs and develop tools/processes to respond • Perfect Order metrics defined by customers • Metrics balance CSR effectiveness and efficiency • Eliminate all controllable costs due to errors
Average	Internally Focused	Process transactions flawlessly	<ul style="list-style-type: none"> • Become proactive • Setting up hiring and training programs for Reps • Metrics based on CSR efficiency • Adopted and training in a performance tool, e.g., TQM or Six Sigma
Below Average	Cost Center	Process transactions	<ul style="list-style-type: none"> • Reactive • CSRs have poor to average skill sets; turnover is high or worse, poor performers don’t leave • Poor or inconsistent quality • No or incorrect metrics

This is important because customers often make decisions based on what they think of the service a company delivers, says Drumm. “Huge dollar amounts often are not the issue,” he explains. “It’s often more rudimentary, which is why it’s important to track what your customers think.”

For instance, if your company is only thinking in terms of how to save a customer money, ask the customer if that’s really what satisfies them. While all companies look to cut costs, there may be more to what they desire from the service you provide.

After taking into consideration external measurements, Drumm says that it’s time to look at inside operations to measure exactly what is going on. “It’s key to look at the measurements and see if they reflect how customers perceive your service,” he says. “When you track both, you often find that they don’t match up.”

From here, says Drumm, look to improve your measurements, both internally and externally. And improve your communication with the customer. “Keep in touch with your customers more often,” he says.

Don’t forget that each segment of your market, and each customer, is looking for something different. “Each customer has different needs and wants, and you need to satisfy each segment individually,” says Drumm.

A Cut Above

When trying to improve your customer service, Richmond recommends that you keep your focus solely on your industry and its standards. “Many executives throw the term ‘world class’ around because it’s recognized as being superior,” she says. “But realistically, best-in-class is a worthy goal within an industry.”

In fact, best-in-class isn’t always necessary either, Richmond says. “Often you just need to be a level above the competition,” she explains. “A lot of factors go into becoming best-in-class, like inventory, in-transit times and others. It gets to be very expensive if you’re

trying to improve every single category to best-in-class.”

Richmond has developed a maturity model (See Fig. 1) that helps companies determine at which level they currently are and what they need to do to improve. Ranging from below average to best-of-class, the model describes the stage a company is in, ranging from cost center to profit center, and details what activities and characteristics define that stage. The take-away from the model, she says, is that firms don’t have to achieve best-of-class—they need only be one stage above competitors, but the difference has to be discernible to the customer.

When The Richmond Group assists a company with their customer service, a comprehensive audit is ordered as the first step. Areas studied include background, strategy and leadership; customer focus; organization structure and staffing; performance measurement, policies and procedures; and support group and third party interfaces, among others (See Fig. 2, following page).

Richmond says that an important finding of the audit is to identify controllable costs—usually this represents customer service and logistics errors. Cutting these to a minimum will become a critical part of the next step—making improvements.

After an audit is completed, the consultants provide the client company with a report and presentation of the findings. Recommendations are based on benchmarked, appropriate standards.

When completed, companies can begin to implement changes that will bring their standards up, hopefully to a level above those in their industry. That, in the end, can lead to a distinct competitive advantage.

Customer-Focused Logistics

Achieving top-notch customer service and benefiting from its rewards sometimes requires a complete change in company philosophy and approach.

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FIGURE 2. CS Audit

CS/Basics+™ Customer Service Baseline Audit

An operational assessment is the first step in making improvements. CS/Basics+ is comprehensive and customized to fit your operational profile and needs. Listed below is a partial list of areas covered in the audit. Deliverables include a report and presentation of findings.

SECTION 1: Background, Strategy & Leadership

- A. Facilities
- B. Channels
- C. Strategic Goals
- D. Leadership (Service Philosophy)
- E. Marketing Information
- F. Sales Information

SECTION 2: Customer Focus

- A. Customer Profile
- B. Customer Focus
- C. Service & Satisfaction Levels (Research)
- D. Communications
- E. Contact Points
- F. Customer Referrals
- G. CRM Initiatives
- H. Retention Activities

SECTION 3: Order Management Process

- A. Activity Summary
- B. Pre-Sales Activities
- C. Order Cycle Activities
- D. After Sales Activities
- E. Miscellaneous Activities
- F. Reports

SECTION 4: Human Resource Focus

- A. Recruitment and Selection
- B. Compensation (Market Comparisons)
- C. Training
- D. Performance & Salary Evaluations
- E. Image & Professionalism
- F. Employee Promotion & Retention
- G. Management Performance Assessment
- H. Employee Performance Assessment
- I. Stress Level

SECTION 5: Organization Structure & Staffing

- A. Budget
- B. Business Hours

- C. Reporting Structure
- D. Centralized vs. Decentralized Structure
- E. Department & Team Structure
- F. Staffing

SECTION 6: Information Systems

- A. Equipment
- B. System Availability & Performance
- C. Training
- D. EDI Links
- E. PC Utilization
- F. Data Discipline
- G. Business Continuity Plan

SECTION 7: Work Facility & Environment

- A. Customer Service Facility
- B. Department Layout
- C. Workstations
- D. Physical Environment
- E. Safety Issues

SECTION 8: Performance Measurement, Policies & Procedures

- A. Policies & Procedures
- B. Exception Handling
- C. Performance Metrics
- D. Reports

SECTION 9: Telecommunications Systems

- A. Phone System
 - System & Features Review
- B. Fax
- C. Internet & E-mail
- D. Activity & Performance
- E. Business Continuity Plan

SECTION 10: Support Group & 3rd Party Interfaces

- A. Summary
 1. Accounting/Credit/Finance
 2. Computer/IT
 3. Human Resources
 4. Sales & Marketing
 5. Pricing/Estimating
 6. Warehousing-DCs
 7. Other

SECTION 11: Customer Research (Survey)

Consider a supplier to a paint manufacturer that decided it wanted to do all it could to service its key customer. The supplier actually built its facilities adjacent to the manufacturer's operations to be of service in every way possible. This approach has allowed the supplier to be fully invested in the success of its customer. The result is a long-term relationship which translates to financial success for both through significantly reduced supply chain costs, lower inventory levels and quicker reaction times.

In another example, a grocery supplier has stepped up its service to its key customer by building displays within the actual stores—a practice that has evolved over time to become the expectation for both supplier and customer. The benefits to both are better managed inventories, and manufacturers of food items and other goods are in daily contact with their end customers—the shoppers. The relationships between grocery suppliers and stores are strengthened.

Traditionally, most companies have utilized logistics planning and analysis in order to improve their own organization's costs and efficiencies. However, Carol Tunstall at Competitive Logistics LLC, in Atlanta, a consulting firm whose primary objective is to help clients identify and implement solutions that have an immediate bottom-line impact, says that there's a better way—to focus on logistics alternatives from your customers' perspective. If carried out successfully, she says, this approach can differentiate your company from others and translate into service and financial advantages.

Clearly, this type of approach is a radical switch in thinking for most companies. "Companies have always focused on their own costs and efficiencies," says Tunstall. "The tendency is to function as silos, focusing on internal operations and processes." Competitive Logistics tries to help its clients to focus instead on how they can help their customers improve their financial performance.

To change the mindset from internal focus to customer focus, you will almost always come up against resistance. "There's an element of thinking that 'this is tough to change,'" adds Tunstall.

The only place to start is at the top. "In order to effect real change, it takes a vision and objectives from the top of the organization," says Tunstall. "There has to be a tie-in to the overall corporate objectives."

Once that clear directive has been issued from the top, it's up to the heads of all the divisions to figure out how to translate those changes to the rest of the organization. Each department must determine exactly what its role is to support the new strategy. From a structural standpoint, the organization must now focus on customer service.

Traditionally a logistics focus on customer service includes measurement of things like on-time shipments and delivery and order fill rates. These measurements are valuable, of course, but getting information from customers on how your customer service affects the end result—their customers—can be quite a challenge.

Tunstall sees some interest in this approach from her clients, but progress typically has been limited. "This type of focus requires a real collaboration and a sharing of information," she says. "It requires a relationship of trust."

To get to that level of information sharing and trust, Tunstall suggests identifying the metrics you can measure with your customers. Then expand your understanding of their business. "If the customer is a manufacturer, for instance, go to the customer site to learn about their products and how they're used," she says. "Or, if you use the same carriers and drivers regularly, ask them about what the customers' expectations are when they work with them. This information is available; you need to make a point of getting it."

It's best to begin this approach with one strategic customer instead of trying to apply these new principles across the board.

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“Develop a joint project team and then study one particular area for improvement,” says Tunstall. “In doing so, you’ll develop a spirit of trust. This is key for the future because otherwise old barriers to sharing information remain in place. There’s always going to be a hesitancy to share financial information, but the more trust you can build, the more likely that you’ll make progress.”

The key is to understand what’s important to the customer and then take steps to improve in these areas. From there, put metrics in place to measure your progress.

The benefits of getting to know your customers and their needs at such a high level are many. For one, says Tunstall, you’ll be able to make wise choices in the future about what initiatives to address and improve upon. And as you build partnerships with your customers, you’ll improve your chances of growing your business and adding to your bottom line.

Understand, says Tunstall, that not all customers are alike. “Your strategic customers are most important to your business and need to be treated differently,” she points out. “Changes you make may not apply to all customers. Place an emphasis on different customer needs and wants.”

Internally, a different mindset and organizational structure needs to be in place. “You need to work as a team and have incentives or rewards in place for good teamwork,” says Tunstall. “If you are a union organization, you may have to demonstrate the need and reward for this approach to the union.”

Management needs to ensure that everyone understands the need to focus on customer expectations. That means that all of the bonuses, rewards and increases must be tied to customer needs—a very different system than a traditional organizational set-up.

Tunstall says that once the change in mindset has been made, the work is just beginning. “This is an ongoing, never-ending process,”

she says. “It needs to be planned and executed very carefully.”

Carrying out the change to a customer-focused approach in an incremental manner is recommended. “Part of the process is to define how much change can take place when,” she says.

For instance, you can look at where you want the organization to be with its customers in five years. Then define what steps are needed to take you from where you are to where you want to be. It’s important throughout this implementation phase to define success in the short term so that the organization and employees can appreciate accomplishments. Then move on to the next step.

While getting away from the traditional way of approaching logistics initiatives might be uncomfortable, and may even come up against resistance, when it comes to customer service, truly “getting inside the customer’s mind” may be just what’s in order.

Customer Service in the Material Handling Industry

The economy has seen ups and downs over the past 10 years, and the material handling industry has been along for the ride, suffering through the downturns and enjoying the good times. For many material handling equipment providers, staying profitable during the rough patches hasn’t been easy, if even possible. Milwaukee-based HK Systems, led by CEO John Splude, has weathered the storms during the 10 years that it has operated as an independent company. At the heart of 10 years of profitability and growth, says Splude, has been a commitment to customer service.

“We’ve found that in this industry, due to its complexity, many providers are simply focused on getting projects,” says Splude. “My background at HK’s parent company (Harnischfeger Industries) taught me that long-term relationships were key to success. You build those relationships with customer service.”

Realizing this, Splude and his team began to make customer service a driving business strategy. At the same time, HK started looking at how it could extend its customer service policy into the aftermarket business on the theory that this would lead to a strong retrofit business. "We recognized that the retrofit business was more important than new business," he says.

Thus began HK's intense focus on the aftermarket. "We put an executive into place with his own team to focus solely on aftermarket," says Splude. "As we saw this working, we began to go after our competitors' installed base—this was unheard of before."

Today, HK garners about 75 percent to 80 percent of its own base's aftermarket business, and between 25 percent and 30 percent of its competitors' installed base's aftermarket. Since the aftermarket is considerably more profitable than the initial service/installment market, HK has received a great return on its efforts.

Splude explains, "You have to build in your expertise and realize that upgrades and retrofits are live systems—the customers don't shut down while you're providing them. It takes a unique skill set to provide a retrofit without interruption, which is why we've dedicated a team to it."

Employee buy-in

Like any company that is going to make customer service a core competency, HK Systems had to get employee buy-in to the concept. It all began with simply talking to employees about the approach and led to a variety of incentives to keep the enthusiasm going. "More than anything, we let our employees know how much we value customer service," says Splude.

Part of HK's approach to customer service includes a 24-hour, seven-day a week hotline for customers. The hotline is staffed by HK employees who "stay with" the caller until his or her problem is solved.

The level of employee dedication to this system was exemplified recently when a call center employee got a call from a customer in

need of a part on a Sunday. Even though the HK warehouse was closed that day, the employee opened it, found the part, and had it delivered to the customer immediately. "That's the kind of 'above and beyond' service that we let our employees know about," says Splude.

In addition to the 24/7 call center, HK provides senior-level follow-up on all finished projects, one year after completion. "We send out an executive different from the one who was originally involved in the project," says Splude. "He or she will get a review from the customer on how things went and how the aftermarket system is going. Then the exec will write up a report and present it at our monthly management meeting."

Getting employees dedicated to that level of service has involved a variety of incentives. For one, HK gives out quarterly bonuses to those employees who perform a great deal of customer service. Another incentive is known as the "Instant Recognition Award," a cash bonus to any employee who goes above and beyond the normal level of customer service. HK also has a "wall of fame" to recognize those employees who exemplify the company's customer service approach. To make the distribution of these bonuses and awards fair and consistent, only Splude and an HR representative determine who wins these special awards.

Staying on top

While HK has attained a high level when it comes to customer service, Splude recognizes that "everything becomes a commodity eventually." He cites the impact that Wal-Mart has had on the retail industry with its mastering of supply chain management. The retail giant leverages its supply chain efficiencies to serve the customer better, and thus improve its bottom line. The company's finesse of supply chain management has been a wake-up call for the competition, and many retailers are now trying to catch up.

Customers are getting smarter too, says Splude, and are no longer going to stand by and

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**—John Splude,
CEO of HK Systems**

Where companies used to get away with sloppy customer service, customers are no longer going to stand by and allow shoddy service to pass.

allow shoddy service to pass. Everyone must operate more efficiently and a weakness in any part of the supply chain just won't do.

Still, not all customers are willing to pay for top-notch customer service. "Some will value it and others won't," says Splude. But for the companies that choose to deliver it, it pays off. "Customer service is something we'll always put on top," says Splude.

A Successful Retailer's Approach

When Garrett Boone and Kip Tindell founded The Container Store some 26 years ago, they did so with a mission—to become the best retailer in the U.S. Not the biggest, not the most dominant, but the best. And to Boone and Tindell being the best meant delivering the best customer service.

For the Coppell, Tex.-based retailer, providing the best customer service has always meant that customer service is a core part of the company's strategy. It's so much a part of what the company is that employees don't even have to think twice before acting in a manner that puts the customer's needs first.

This attitude permeates from the company's top officers to its 32 retail stores and on down into the 1.1 million sq. ft. centralized DC in the Dallas area. Employees are highly trained and, at the store level, work to sell solutions to organizing challenges. "We have employees who can ask questions and then sell a customized, multi-product solution," says Amy Carovillano, vice president of logistics and distribution.

In fact, the company strives to help "the man in the desert," according to Carovillano. "If we're an oasis in the desert and a man crawls up to us seeking water and we provide it, we've helped him, but not as much as we could," she says. "Instead, we look to bring that man in and help him even further."

This attitude stretches across the organization. The distribution center, for example, treats its stores as its customers and looks to do all it

can to make the jobs of the store staffs as easy as possible. "We know how to get the product there best," says Carovillano, "so we do all that we can so that they can be free to help the customers."

A unique DC

The DC holds an average of 7,000 SKUs in over 36,000 locations. At peak season, there are 10,000 SKUs, amounting to more than 10 million units. The building has three basic services, including receiving, store replenishment (full truckloads to the retail stores) and fulfillment (direct-to-customer web orders).

Each day, the DC receives between 50 and 60 trailers from its vendors. The 650,000 sq. ft. of the DC that is currently utilized is laid out in sections similar to the store layouts. When the DC staff fills orders, it fills mixed boxes by store section—the majority of the product is sent in caseloads to the retail locations. Then when the cases arrive at the store, the staff can easily unpack items and place them on the floor.

To replenish stores quickly and efficiently, the DC contains case flow, bin shelving, standard pallet rack and pallet flow and push-back racks. On average, the DC pulls and loads between 10 and 15 trucks every day and sends each store an average of two to three trucks per week.

The DC supports catalog, online store, retail shipping and wholesale business from its fulfillment department. The team averages about 500 orders and 650 cartons every day in fulfillment. During peak times, that number can balloon to over 1,500 orders and 2,000 cartons.

In addition, the DC does all the ticketing, packaging and other preparations to ensure that items are floor-ready when they arrive at the store. "Our attitude is that if the item is in the DC, it needs to be in the store," says Carovillano. "We have a store fill rate of 99.97 percent."

The customer service to the stores doesn't end there, however. Unlike most retailers, which depend on the stores to determine what

needs to be shipped and when, The Container Store handles all the demand and forecasting tasks at the DC. “We use complex algorithms to manage merchandise flow,” says Carovillano. “If they sell it, we do the rest.”

For example, if there’s a sales or seasonal event coming up, the DC figures out what each store needs and sends it to them. “We figure that if a customer buys a custom closet that involves 50 SKUs and the store is out of one of them, the sale can be shut down,” says Carovillano. “The more accurate the inventory, the better the likelihood that we can take care of the customer.”

As a result of this can-do attitude, the out-of-stock ratio in Container Store retail stores is less than 2 percent.

Even with the DC’s best intentions and efforts, however, The Container Store could not maintain this high level of customer service if it did not have cooperation from its suppliers as well. “We have long-term relationships established with all of our suppliers,” says Carovillano. “They know how important it is to us to fulfill orders.”

The DC works closely with all its suppliers on item ticketing. Because the company puts retail prices on all items, it requests its suppliers to put Container Store stickers on all items it purchases. Depending on the size of the supplier, that might mean the supplier handling printing and applying, or The Container Store might print the stickers and send them to the supplier for application.

In addition, the DC works with its suppliers on packing sizes to ensure that the stores are not overwhelmed by large shipments. “The ideal is that the vendor gets product to us ready to go to the stores,” says Carovillano. “But some of the smaller suppliers can’t handle that, so we’ll repackage if we need to. The important thing is that before product goes to the store, it is floor ready.”

How does The Container Store keep such high levels of cooperation with its suppliers?

Carovillano says that another founding principle at the company comes from an old Andrew Carnegie expression: “Fill the other guy’s basket to the brim.”

“We take care of our vendors,” she says. “We’re looking for a long-term, mutually beneficial relationship. We treat them as partners.”

As a result, says Carovillano, The Container Store is the favorite customer of just about every vendor with which it partners. “We work with them to find out what issues there might be in meeting our demands and then help them figure out how to handle them,” she says. “Our objective is to help them meet our specifications.”

The benefits of The Container Store’s unique customer service approach are many, but Carovillano says that with such an ingrained philosophy, it’s almost hard to separate it out. “The great customer service we can provide at the store level is what fuels our profitability,” she says. “We’ve had between 20 percent and 25 percent growth for 26 years.”

And it’s a philosophy that all the company’s employees buy into. “If you tell one of our DC employees that they need to make sure we get our solutions out to the store customer, they take it very seriously,” says Carovillano. “They feel a part of a bigger picture, and that’s something that’s ingrained from the start.”

DC employees are treated to a variety of amenities that makes going to work each day a pleasure. For instance, the space includes a wellness room where employees can enjoy quiet time or use the massage chair, a shower area, an in-house breakfast truck, a walking trail and great lawn, and use of The Container Store products for desk accessories and office shelving systems.

For other retailers striving to achieve this level of customer service, Carovillano says that the key is making customer service an integral part of all that you do. “Too many people in the DC field don’t even know who they’re dealing with,” she says. “You have to understand your customers’ business and look for the best ways

Unlike most retailers, which depend on the stores to determine what needs to be shipped and when, The Container Store handles all the demand and forecasting tasks at the DC.

...Unilever's Home and Personal Care (HPC) division launched a new, five-year strategic plan called "Path to Growth." The overriding objective of the plan was to improve the company's top-line growth, operating margins, customer service, and shareholder returns.

to help them. If you take care of your customers, the rest will follow."

Quite simply, says Carovillano, in the retail industry, "If you provide great customer service, you have a successful business model."

A Manufacturer's Strategy

In the year 2000, Unilever's Home and Personal Care (HPC) division launched a new, five-year strategic plan called "Path to Growth." The overriding objective of the plan was to improve the company's top-line growth, operating margins, customer service, and shareholder returns. The HPC division aimed to create a world-class supply chain that would elevate its customer service to be among the best in the industry.

One key part of this strategy involved the design of an entirely new distribution center network, which was handled by reducing the number of DCs from 15 to 5. Total floor space for the five new DCs is just 9 percent below what it was for the 15 original, coming in at 4.9 million versus 5.4 million sq. ft.

The reworking of the network involved combining the distribution systems of Unilever's three business units—Lever Brothers, Chesebrough-Ponds and Helene Curtis. Prior to the restructuring effort, each business unit had its own physical distribution system, its own legacy IT system, its own transportation agreements and its own third-party logistics alliances. The combined product lines totaled 2,800 SKUs.

A primary problem was that this old network was complex and redundant. Out of the 15 DCs, several served the same regions. There were also 13 overflow warehouses, 9 plants and 60 co-packing facilities. The facilities were undersized, and none could handle the entire product lines of the three business units. This resulted in too many touches—product went from the factory to replenishment warehouses, then to DCs—and involved too many round-trip

shipments to and from co-packers and among satellite warehouses.

Because the HPC division had decided that it wanted to improve its customer service levels, it recognized that a new system was in order. In the old system, inefficiencies like shuttling orders between facilities to fulfill a customer's aggregated requirements increased the likelihood of mistakes. Transportation schedules and warehouse picking times were below industry norms, resulting in above-normal product cycle times. For example, the division could only deliver 72 percent of its entire product line to customers within a targeted goal of one-day transit.

In addition, customers were unhappy with the three separate distribution networks because they found them confusing and inconvenient. Purchasing agents often complained that they had to order from three separate price lists and then had trouble obtaining volume discounts based upon the sum of their purchases.

A new approach

Understanding that it had a problem that needed to be fixed, Unilever's senior management team began to search for just the right solution. The company worked closely with customers to discover their current and prospective needs. It also assessed its direct competitors' abilities. Finally, the company designed a set of six requirements for developing its new supply chain network:

1. Improve customer-service levels to be able to provide one-day transit time for 90 percent of its customers.
2. Optimize and simplify the distribution network, resulting in fewer DCs, fewer inventories, fewer touches and lower logistics costs.
3. Design the new consolidation centers so that each one could accommodate HPC's entire range of product lines.
4. Minimize Unilever's capital investment in the project.

Not There Yet

In spite of the fact that most companies understand that delivering top-rate customer service can lead to increased profitability, many are still letting it slide. Herbert W. Davis and Company/Establish, Inc., maintains an annual database of logistics companies, measuring a wide variety of markers for success. It defines customer service as “the prompt and complete delivery of goods ordered.”

Taking information from its full database, Herbert W. Davis and Company/Establish, Inc., has been able to determine that customer service levels have remained fairly stagnant for the past 10 years. In fact, in measuring total cycle time and product availability (broken down into percent of orders, lines and cases), the database indicated that customer service has actually slipped.

FIGURE 3. Average Data Reported

Standard Product Measures	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03
Total Cycle Time (days)	7	7	6	9	8	7	8	8	7	8	7
Product Availability (% of orders)	84	86	87	87	87	85	85	86	87	88	85
% of lines	92	92	92	94	94	93	90	92	92	95	91
% of Cases	95	96	96	93	95	95	92	90	93	93	91

Herbert W. Davis and Company/Establish, Inc. www.establishinc.com

5. Outsource and build a team of outside experts in real estate, operations and systems, and share the risks with them.
6. Implement a fast-track schedule for the transition to minimize the start-up costs and operational interruptions.

Unilever placed a great deal of importance on this final goal, because it was determined to make the transition to the new distribution network seamless to its customers. In order to accomplish its requirements, Unilever enrolled the help of ProLogis, a consulting and development firm and provider of distribution facilities. ProLogis was charged with ensuring that the new consolidation DCs be completely operational within two years.

To determine the right distribution network for its needs, Unilever first created a baseline model that would accurately reflect existing shipping patterns, costs and customer service

levels. Then it ran alternative scenarios involving a variety of geographic configurations of DCs.

ProLogis also provided assistance in site selection. The company provided Unilever with detailed local market knowledge and identified several sites within each of the five regions Unilever was considering. The consultants were able to rank the top three sites in each region in terms of economics.

After running through dozens of alternative scenarios, the final model was chosen—five DCs, all but one with about 1.1 million sq. ft., and all but one was brand new. The company’s Atlanta-area DC was carried over into the new network, although it received a make-over in the form of a large expansion. The remaining DCs were built in Carlisle, PA; St. Louis, MO; Dallas, TX; and Los Angeles, CA. ProLogis procured the sites, managed the entire development process, and constructed the new facilities.

To become even more efficient, Unilever decided to allocate 5 to 10 percent of the floor space in each of the new DCs to co-packing operations, a task it handed over to a third-party provider. This cut down on the number of touches required for product, which had added expense to the system.

Construction on all of the five DCs was completed on or ahead of schedule. ProLogis managed the construction schedule so that Unilever could proceed with the installation of the racks and handling equipment before the building shells were complete. The two companies jointly coordinated the design and installation of the racks and equipment.

Unilever planned the best locations for the inventory and installed signage and labeling for consistency. Then the company notified customers and vendors about the new facilities and coordinated pickup and delivery schedules with the various freight companies.

With the fast-track approach, Unilever's five new DCs were accepting goods within just two weeks of Unilever's take-over, and they were shipping goods within another two weeks.

Unilever has been pleased with its results, and customer service is now at an all-time high. For instance, one-day service levels improved almost 20 percent. Senior officials at Unilever HPC foresee cost savings exceeding \$20 million a year, which amounts to a 7 percent reduction in the total cost of its logistics operations. In addition, the company has enjoyed a close to one-year payback on the entire investment in the project.

Customer Service Training Resources

Sometimes achieving top customer service requires a little help from an outside expert. Plenty of organizations are available to assist with customer service training in a variety of formats, including seminars, videos/DVDs and books and reports. Below is a small sampling of the resources available. The quality and

relevance of programs can vary widely, so please check into each resource before deciding to use them:

The LoyaltyLeader.com: Providing a variety of training tools, including "seminar in a box," special reports, tapes and CDs and training. 414-964-3872; www.theloyaltyleader.com.

Telephone Doctor: A customer service training company offering solutions that improve the way an organization communicates with customers. The company offers a video training library, an e-learning system, workshops and instructor-led workshops. 800-882-9911; www.servicetraining.com.

Service Quality Institute: Offering certification seminars, video training, consulting services, newsletters and online training. 800-548-0538; quality@servicequality.com.

Enlighten.Net: Providing software in an intranet format geared towards improving customer service by improving communication and the flow of information within a company. 877-339-3638; www.enlighten.net.

Customer Service Training Institute: A customer service training company offering group training, handbooks and various other training tools. www.infowhse.com.

Moran Consulting, Inc.: A consulting firm specializing in customer service training programs customized to company needs. The programs are offered in a "train the trainer" format so that customers can deliver the training in-house. 800-880-0116; www.customerservicetraining.net.

Sterling Consulting Group: A customer service training company that offers one-day training programs made up of four modules. 877-296-5200; www.scgtraining.com.

Books

1,001 Ways to Keep Customers Coming Back: Wow Ideas That Make Customers Happy and Will Increase Your Bottom Line, by Donna Greiner, Theodore B. Kinni

Key Strategies

Based on these case studies, there are 10 strategies that best-in-class companies follow to achieve premier customer service.

1. Make customer service a part of your core strategy and link it to overall corporate objectives.
2. Develop strong relationships with customers based on knowledge and understanding of their business needs.
3. Use a portfolio of customer-service-based metrics to measure performance.
4. Talk with and survey customers to understand how they define good customer service.
5. Become invested in your customers' success.
6. Remember that each customer has its own needs and perceptions of good customer service.
7. Train, motivate and empower employees to take action.
8. Tie employee rewards and incentives to improved customer service.
9. Treat your suppliers as partners.
10. Take a hard look at your networks and processes to optimize their effectiveness.

10 Keys to Dynamic Customer Relations, by
Greggory Sorenson

10 Steps to Connecting With Your Customers,
by William Bethel

*The Big Book of Customer Service Training
Games*, by Peggy Carlaw, Vasudha K. Deming

Great Customer Service on the Telephone,
by Kristin Anderson

Delivering Knock Your Socks Off Service, by
Ron Zemke, Kristin Anderson

*Customer Service is Worthless, Customer
Loyalty is Priceless: How to Make
Customers Love You, Keep Them Coming
Back and Tell Everyone They Know*, by
Jeffrey Gitomer

Customer Service for Dummies, by Karen
Leland, et al.

101 Ways to Boost Customer Satisfaction, by
Timothy R.V. Foster

*101 Ways to Really Satisfy Your Customers:
How to Keep Your Customers and Attract
New Ones*, by Andrew Griffiths

About this publication

Good customer service is expected from all companies in all industries these days, so even a basic level is required in order to compete. However, if your company is looking for a true competitive advantage, improving your customer service is the way to go.

This *WERCwatch* is a report on some of the methods and approaches available to make that leap to enhanced customer service. It is a compilation of information gathered from a variety of sources, including consultants, manufacturers, a retailer and a material handling company. Research and writing were conducted by Amanda Loudin.

The publication is designed to present qualitative information on successful methods for improving customer service. No presumptions should be made that the findings published in this *WERCwatch* are representative of an industry sector, product category or type of firm.

Demographics

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- Donna Richmond, president of The Richmond Group, Wheaton, Ill. (consulting firm)
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OAK BROOK, ILLINOIS 60523-4413

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