Abstract 002 - 0154

Customer Service Logistics: Analyzing and taking preventive actions to contingent risks to the process

Second World Conference on POM and 15th Annual POM Conference,
Cancún, México, April 30-May 3, 2004

Prof. Dr. Roberto Gilioli Rotondaro – rotondar@cwaynet.com.br

Escola Politécnica da Universidade de São Paulo

Av. Professor Almeida Prado 128 trav. 2 S.Paulo S.P. Brasil fone 55 11 30915363 fax 55 11 30915399

Abstract

Under normal conditions, most of the efforts of logistics professionals in planning and monitoring are directed towards the implementation of an efficient operation. At the same time, steps should be taken to handle unexpected events that may impair the system and the expected results.

This paper analyses the Service Flow of a large soft drink and beer distributor located in the city of São Paulo, Brazil, by identifying and assessing three steps involving the customer participation and where there is a great potential for the occurrence of contingent issues that should be either predicted or corrected.

A study of these steps was conducted by a group of employees to define and implement preventive actions that, besides preventing contingent issues, customize the service and ensure customer fidelity. A system of indicators, already available in the company, was used to monitor this work and show the status of the actions and the results achieved.

Second World Conference on POM and 15th Annual POM Conference, Cancún, México, April 30-May 3, 2004
1. Introduction

The Soft-drink and Beer Distributor Company K (1), responsible for the logistics and delivery of the most consumed soft-drink line in Brazil, has presented increased indexes of returns and customer complaints over the last quarters.

Logistics systems are designed to deliver products to customers. So, the cost of non-routine handling, particularly of small shipments such as customers returns, tends to be high.

A group of technicians was formed to implement actions to handle these complaints as efficiently and effectively as possible.

São Paulo city (third biggest city in the world) downtown area, where there are 5,200 customers recorded, was selected for the study. Several soft-drink brands have been disputing market share in this region, since it is the number one in profits.

Company K is aware of the importance of Customer Service to get strategic advantage. Customer Service is the output of the logistic system and constitute the key interface between marketing and logistic functions, supporting the “place” element of the marketing mix. But even more important, customer service plays a significant role in the development and maintenance of customer loyalty and on-going satisfaction (Balou 2003).

To start the task the group defined the perfect customer service strategy as an order delivered:
Provide a good service or handle a complaint efficiently is crucial for the company to really distinguish itself in the eyes of the customer. Thus, logistics can play a key role in contributing for the organization’s competitive advantage by providing an excellent customer service.

Note (1) Company K is a fictitious organization, but its experiences are based on real-life examples.

2. **Company K working flow**

*The companies designed to serve are intended to success: the profit-planned companies are intended to failure (Nicholas Murray Buther).*

This paper begins explaining the key words and the environment that are relevant to our argument. The group began its analysis by the “activity cycle”. This analysis provides an important perspective on the dynamics, the participant’s interfaces and the decisions that should be combined for the efficient operation of the operational system.

The cycle is represented in Figure 1.
The activities shown in Figure 1 “M1 M2 M3” are the moments of truth of the process.

NORMANN (1993) states that the quality experienced by the customer is based on what he called “Moments of Truth” to characterize the moment at which the customer gets in contact with any aspect of the service-rendering company. These are the moments the customer gets a perception of the service delivered and forms his/her concept of “Perceived quality”.

At these moments, failures occurring in the presence of the customer, generate dissatisfaction and if not duly solved, corrected and even avoided, lead to the loss of the customer.
The group focused on the analysis of these moments, trying to know and understand the events that lead to these failures.

A survey was made and the group decided to work at M2 moment “at the time of delivery” where most of the problems occurs. A Pareto analysis sowed that the number one problem was “the return”. The group studied all the reports and complains as related by the technicians and drivers analyzing the main reasons for the return. Figure 2 shows the result of the analysis of the studied reports and lists, the reasons for the return, in descending order of importance.

**REASONS FOR RETURN**

<table>
<thead>
<tr>
<th></th>
<th>Reasons for Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The customer do not have money to pay the order</td>
</tr>
<tr>
<td>2</td>
<td>Problems with the time of delivery</td>
</tr>
<tr>
<td>3</td>
<td>Incorrect quantity of product or wrong product</td>
</tr>
<tr>
<td>4</td>
<td>Damaged product</td>
</tr>
<tr>
<td>5</td>
<td>Difference in flavor</td>
</tr>
<tr>
<td>6</td>
<td>Problems with the truck</td>
</tr>
</tbody>
</table>

Figure 2. Reasons for the return in descending order of importance

The group conducted a search on the actions taken by each technician to solve the problems listed and set a basic procedure to deal with future problems. The group’s current knowledge was greater than expected by the management and highly reliable, but it was not written in the procedures. The reason why the company was not aware of this was due to the fact that the experience gained at M2 moment was considered only a corrective action to a single problem and not an experience to be shared with everybody. It was lacking the perception that new facts, most
of them contingent ones, were occurring in the frontline, and the company should incorporate them as a new knowledge.

Another symptom of this problem appears when the group analyze the quality indicator related to returns and complains. The indicator number didn’t went down a certain level and this was related to the fact that the corrective actions the company implemented was effective only to correct a single situation, not to establish a procedure to prepare the process to deal with contingent problems.

The group decided to develop procedures to prepare the process to avoid or correct these problems.

Figure 3 shows an example of the procedures developed for the main problems listed in Figure 2.

<table>
<thead>
<tr>
<th>Problems</th>
<th>Procedures to solve the problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer do not have money to pay for the order</td>
<td>- The driver sets an agreement with the customer to come back later or at the end of the day, when he/she has probably made some sales and has the necessary amount to pay for the order. &lt;br&gt; - The driver calls the Technician and an agreement is set with the customer for partial sales, according to his/her payment conditions. The documents should be amended and the salesman should be asked to visit the customer to get the new order. Such procedure will generate a return of the products not bought by the customer.</td>
</tr>
<tr>
<td>2. Problems with the time of delivery</td>
<td>- The salesman should be trained to schedule the delivery time according to the delivery route planning, when necessary. &lt;br&gt; - In case of delay in the delivery route due to contingent problems, the driver should inform the Technician about the problem, so as he/she can draw a new delivery route and inform the customer.</td>
</tr>
<tr>
<td>3. Incorrect quantity of product or wrong product</td>
<td>- Salesman should be trained on the use of support hardware and the Company’s guidelines to avoid errors and inform the customer about these guidelines &lt;br&gt; - Check inspection efficiency when the products are released &lt;br&gt; - Check product’s inspection in stock pallets</td>
</tr>
</tbody>
</table>
| 4. Damaged product | - The driver sorts out the damaged products and delivers the unspoiled ones. The Technician proceeds to the necessary document amendments concerning the new price and takes the necessary steps for the return of the damaged products  
- Contact the product release and stock inspection departments to detect the possible cause of damage  
- Check the drivers’ procedures that can be causing damage to the products |
| 5. Difference in quantity and/or flavor | - The driver sorts out the articles that are out of the customer’s specifications and delivers the correct ones. The Technician is informed about that and amends the documentation according to the new price and takes the necessary steps for the return of the incorrect items.  
- The salesman is asked to make an analysis of the problem and take the necessary corrective and preventive actions. |

Figure 3. Example of procedures set to solve the main problems listed in Figure 2.

The group unanimously agreed that the problems might occur unexpectedly, and many times differently than usual, or at inconvenient times, requiring constant changes in the routine procedures set by the Company.

Such actions unconsciously guide the behavior of employees at the involved departments, modifying procedures, processes and even the use of the software’s used. (Johnson S, 2003)

These external knowledge that is in the boundaries of the customer should be managed and used not only to solve the problems, but also to generate a competition by applying this knowledge to the critical activities of the Company. (Anand, Glick, Manz 2002)
3. The use of the Social Capital in the solution of contingent problems

The knowledge of an organization is mostly within its formal limits. However, the external knowledge, that is, what happens in the external interface of the organization, should be used. This knowledge to which the organizations can have access using their formal and informal relations with external agents is called “Social Capital”. (Anand, Glick, Manz 2002)

The first step to take advantage of the knowledge gained from the solution of contingent problems depend on the acknowledgement of the involved management that should appreciate and realize its importance for the company. The managers should realize that the external knowledge will complement the amount of knowledge that should be used by the company in the decision making process.

Secondly, it should be recognized that organizations are increasingly facing new situations and challenges, in which former knowledge and the experience gained from past events may be useless to solve the new problem.

Thirdly, in order that a project for obtaining social capital, i.e., external knowledge, is well-succeeded, it is necessary that the absorption capacity of the organization, or its ability to understand the new knowledge residing outside its boundaries, is planned and fits the intended purposes.
4. Actions to obtain social capital and minimize the effects of contingent risks

- Set routine procedures that allow the external knowledge to be stored and used by the organization. The Technicians and salesmen should be the key-elements in the process.

- Fit the communication channels to provide continuous, immediate, interactive contact with the customers.

- Provide Technicians with the necessary knowledge on marketing, business and benchmarking, besides expertise on logistics and IT

- Create a compensation system for the Technicians’ participation and achievement in creative solutions for new or very difficult problems. The pride and satisfaction for a good performance should be fostered among the employees.

- Have as objective to ensure the presence of unique and valuable knowledge on the key aspects concerning the Company’s operations that can provide a real competitive advantage. (Anand, glick, Manz 2003)

5. Contributions for the Company strategies

Besides the aspects described above, the actions designed to solve contingent problems and gain the necessary knowledge may contribute for the consolidation of the relationship with customers and their loyalty.

The high interaction among Technicians and salesmen in the solution of problems allows an efficient knowledge of customers characteristics and customer’s identification both concerning market and business characteristics.

Second World Conference on POM and 15th Annual POM Conference, Cancún, México, April 30-May 3, 2004
The final result of this process is the possibility of “customizing” the service that is one of the main facts that ensure the customers’ fidelity.

6. References

- JOHNSONS. A dinâmica de rede em formigas, cérebros, cidades. Jorge Zahar 2003 Brasil
- ANAND V. GLICK W. MANZ C. Academy Management Executive V. 16, n.1 p. 87-101, February 2002
- LALONDE, B. J., COOPER, M., NOORDEWIER, T., Customer serice, a management perspective. Oak Brook, Ill: The council of Logistics Management 1988