Customer Service Costs and Metrics

Customer service costs and metrics should be defined relative to the functional components and activities grouped into six specific elements. These can be defined as follows:

- ***Order taking and receipt*** – the process of obtaining the order from your customer via sales representation; customer purchasing department; computer direct; E-commerce; etc.
- ***Order processing*** – receiving the order; review for validity; computer entry; inventory and credit verification; customer notification, etc.
- Order inquiry and management – response to customer inquiry, verbal, written, electronic; order status information; change requests; expediting; etc.
- ***Order fulfillment*** – issue to plant, DC, or fulfillment location; product scheduling; order selection and preparation; order shipment; order documentation; etc.
- ***Order delivery*** – carrier selection and scheduling; order transportation; delivery including verification; etc.
- ***Order invoicing*** – billing; invoicing; accounts receivable processing; payment; etc.

Each of these areas of customer service can and should be measured, tracked, and managed by:

- Transactional costs to complete each element
  - Direct costs
  - Fully allocated costs
- Cycle time to complete:
  - Each element
  - Total cycle
- Accuracy and completeness, such as:
  - Order accuracy
  - Inventory accuracy
  - Product availability
  - Order completeness
  - Requested delivery receipt versus actual
  - Invoice accuracy.

Many companies measure the "Cash to cash" cycle for supply chain, meaning the time from payment for raw materials, components, and/or finished product to the time invoices are paid by the customer. This measures and reflects the working capital employed against the effectiveness of the total supply chain.

Leading edge companies operate and manage customer service according to both product and customer ***segmentation.*** This is a process whereby both products and customers are segmented according to priority or volume:

- "A" representing the 20% of the customers and products that accounts for 80% of the business
- "B" representing the 30% of the customers and products that account for 15% of the business
- "C" representing the 50% of the customers and products that account for 5% of the business.

This segmentation process helps to identify, evaluate, and manage according to:

- Order profitability
- Customer profitability
- Differential levels of service according to priority
- Product SKU consolidation
- Customer consolidation
- Related management tools and focus.

In addition, benchmarking of costs and service levels needs to:

- Begin with internal measures against budgets or prior period actual:
  - Within each division or business unit
  - Among divisions and business units
- Continue by relating to industry standards or actual statistics
- Fine tune by identifying and comparing "like" processes and/or elements from a variety of industries where the processes are identical.

In summary, initial and continuous improvement potential should result from:

- ***Initial identification and measurement of elements of costs and service***
- ***Identification of key cost and service drivers***
- ***Root cause analysis of key issues and causes of cost and service deficiencies***
- ***Product and customer segmentation and focus***
- ***Continuous benchmarking of costs and service elements and drivers directed at continuous improvement.***

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