



## Out-of-the-Box Customer Service

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*In today's ultracompetitive environment, leading companies redefine customer service by building relationships, anticipating needs, and helping customers become more profitable.*

by Jonathan Byrnes

Take a moment to think about the following question: What is your worst customer service nightmare?

A few months ago, I asked a group of high-level executives about their customer service nightmares. At first, they offered chilling scenarios involving missed delivery dates, unanswered phone calls, and impatient customers waiting endlessly for technical support.

Next, I asked the question in a different way: What customer service move might your competitors make that would be your worst nightmare? The answers included having a competitor:

- identify a critical service I missed and offer it to my customers
- create a culture of cooperation and collaboration that brings them closer to my customers
- become organizationally aligned around the customer and build interfaces to the customer across the value chain
- enter the market between my company and my customers
- generate better customer information and use it to offer new services to my customers
- integrate multiple divisions and present one contact point for the customer

This set of answers differed from the first set of scenarios in a crucial way.

### The new customer service

The shift in the executives' answers reflects the fundamental change taking place in customer service today. In the past, customer service essentially meant companies keeping their promises to customers. Phrases like "meeting customer expectations" and "giving customers what they want when they want it" reflect this objective.

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Today, however, leading companies are redefining customer service. Phrases like "building a relationship with the customer," "being proactive, anticipating customer needs," and "understanding the customer better than the customer understands herself" underscore this new objective.

These executives all agreed that their customers are narrowing their supplier bases by 40 percent or more, and that to grow market share a vendor must create new forms of customer service that dramatically increase customer

value.

This new view of customer service requires commitment and entails understanding the customer well enough to dramatically increase the customer's profitability. Importantly, well-designed customer service innovations often reduce vendor operating costs at the same time. Such a deep relationship with the customer implies a new definition of customer service—mutual change management—in which the goal is to drive innovation over time.

### The case of Nalco Chemical

In today's aggressive business world, simply meeting customer expectations by delivering the right products on time is the price of admission. It is what every company must do to stay in business. The way to differentiate your company, however, is through customer service innovation. This enables a company to

expand the boundaries of its business and increase its domain of value creation.

Consider Nalco Chemical, a specialty chemical maker whose water treatment chemicals were becoming a commodity. Nalco installed sensors on the customers' chemical tanks so that it could monitor them as customers drew down the chemicals. This led to big cost savings for Nalco in routing the replenishment trucks, and even led to cost reductions in manufacturing due to better production scheduling.

Nalco then realized that these sensors could be used for a new purpose. Because Nalco knew the water treatment systems that were using the chemicals, it could predict the rate of chemical use if the systems were functioning properly. Nalco started to compare actual versus predicted chemical use as an indicator of possible problems in the overall water treatment system. When there was problem, Nalco called to alert the customer.

Since the cost of a major municipal system malfunction might amount to several times the annual cost of the Nalco chemicals, the benefits were huge. At contract renewal time, Nalco issued report cards on itself to the customers showing the large benefits relative to the chemical costs.

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Nalco redrew the boundaries of its product offering, providing an innovative customer service that brought benefits to both parties. The customers benefited from systems savings that more than paid for the chemicals, Nalco received price increases, and at the same time lowered operating cost.

#### **Out of the box**

Nalco provided out-of-the-box customer service. It went far beyond merely meeting customer expectations for on-time deliveries with accurate amounts, which might be described as in-the-box customer service.

By expanding business beyond its traditional boundaries, Nalco opened new opportunities to create customer value, block competitors, and lower its own costs. In doing so, Nalco redefined its products and expanded the "box" that traditionally defined its business. In the process, Nalco secured its best accounts and significantly raised its profitability.

#### **Differentiated ball bearings**

The case of SKF Bearings provides another example of innovative customer service.<sup>1</sup> Traditionally, ball bearings were relatively undifferentiated. However, SKF carefully analyzed its customers' needs and "extended" its product to more fully meet them.

In the vehicle aftermarket, mechanics have three problems with ball bearing repairs: (1) where to find the replacement bearing; (2) how to install the new bearing; and (3) where to obtain accessories needed for the installation.

SKF's response? Create ready-made repair kits. These kits included all components required for the repair, including competitors' products where necessary, as well as installation materials and instructions.

In the industrial equipment aftermarket, the cost of machine downtime is much greater than the cost of repair. Ball bearing longevity is critical. Longevity depends on four factors: (1) the quality of the product; (2) how the product is installed; (3) how well protected the ball bearings are from environmental contamination; and (4) maintenance quality.

In order to meet the needs of this market, SKF created planned maintenance programs aimed at reducing machine downtime due to bearing failure. The programs included elements such as specifying lubricants, automatic lubricating devices for difficult-to-reach bearings, cleanliness programs, sealing products, and monitoring and maintenance management services.

Through these measures, SKF extended the definition of its products and provided out-of-the-box customer service.

#### **Out-of-the-box innovation process**

The process of developing out-of-the-box customer service innovations requires two elements: an understanding of the customer's business and an understanding of channel costs. It is fundamentally different from the process of providing flawless in-the-box customer service, which typically involves performance feedback loops and process adjustments.

**Out-of-the-box customer service innovation is highly interactive with account and product selection.**

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In order to create an innovation that increases your customer's profitability, you must be able to walk in the shoes of your customers. This involves developing a thorough understanding of the customer's business, generally through on-site observation and interviews.

Often, a company's sales reps are the prime link to the customers, and they are generally focused on selling more product through in-the-box service excellence. In contrast, out-of-the-box innovations require that, in addition to the sales team, operations and marketing managers gain detailed customer knowledge through direct customer contact.

Most importantly, out-of-the-box customer service innovations require seeing customer operations in a new way, with a focus on discovering opportunities to improve the customer's own business. The Nalco and SKF innovations required, more than anything, a fresh view of a traditional customer relationship. They did not involve detailed analysis or specialized technical knowledge at the discovery stage.

Secondly, understanding the cost of service provision is critical. This understanding must include both your company and your customers. Some services are incompatible with others, and there are natural service packages that relate well to clusters of accounts and products, yielding economies of scope. There is a need for a quick, effective cost model spanning the vendor and a few typical accounts. Many important service innovations will significantly lower the vendor's operating cost while they create value for the customer.

#### **Strategic customer service**

Offering well-constructed packages of services can enable a vendor to fundamentally change strategic position from a commodity-like supplier to a highly differentiated provider. The Stockless System I described in my January 2003 [column](#) illustrates this.

For this shift to occur, the vendor must offer a well-packaged critical mass of customer services that changes its relationship to the account. This can move the locus of the customer's purchase process from cost-oriented, lower-level employees to service-oriented general managers.

The package of customer service offerings must be developed in the context of competitor activities. Some out-of-the-box customer services, such as stockless or vendor-managed inventory, will block competitor incursion into key accounts.

Out-of-the-box customer service innovation is highly interactive with account and product selection. Different accounts have different service needs, different perceptions of value, and different readiness to change. The process has to be carefully managed. Simply offering a menu of innovative customer services misses this crucial point and risks failure.

There is usually a logical sequence to moving accounts from arm's length to service-differentiated relationships. Some out-of-the-box customer services offer an opening to deepen your ties with your customers, other services create a natural migration path to an even more value-laden relationship, and others lock in the relationship. This sequence has to be well understood and integrated into your account planning process. Account coordination must involve your operations people as well as your sales people.


In most companies, few new skills are needed to develop and offer out-of-the-box customer service. Instead, the necessary new ingredient is a commitment to gaining a new understanding of your customers' businesses. This requires a resolve to break down traditional organizational barriers, especially within your own company, in order to bring all of your resources to bear on building powerful new customer relationships.

Out-of-the-box customer service is fundamentally different in all respects from in-the-box customer service. It involves new value creation in the customer, and often lowers vendor costs significantly at the same time. It is an essential component of profitability management because it locks in your best accounts and increases

profitability in both your best customers and in your own company.

There are critical first-mover advantages. The risk of not moving fast is the real possibility of losing your best customers as they rapidly pursue supplier consolidations and favor your competitors' out-of-the-box innovations. Unlike price competition, if a competitor wins one of your customers through out-of-the-box customer service innovation, your company probably will not get the customer back.

By the way, what's your best customer service nightmare? The one you give your competitors!

See you next month. 

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