

Chapter 8 Order Management and Customer Service

Order Management executes the operating plan based on demand forecast. It is the interface between buyers and sellers and consists of:

Influencing the Order

- This is the phase where an organization attempts to change the manner by which its customers place orders.

Order Execution

- This is how the organization handles the order received from the customer.

Order Management

Example of Order to Cash Cycle

1. Process inquiry & quote
2. Receive, enter & validate order
3. Reserve inventory & determine delivery date: Available-to-Deliver (ATD), Available-to-Promise (ATP)
4. Consolidate orders
5. Plan & build loads
6. Route shipments
7. Select carrier & calculate transportation cost
8. Receive product at warehouses (important for ATP orders)
9. Pick product
10. Load vehicle, generate shipping document, verify credit and ship
11. Receive & verify order at customer site
12. Install product
13. Invoice



Order Management

Product availability from customer perspective:


- Did I get what I wanted?
- When I wanted it?
- In the quantity I wanted?

Product availability is the ultimate measure of logistics and supply chain performance.

Order Management

Expected Cost of Stockouts:

- Stockout occurs when desired quantities are not available
- Four possible events:
 - the buyer waits until the product is available
 - the buyer back-orders the product
 - the seller loses current revenue
 - the seller loses a buyer and its future revenue



Customer Service is the interface between logistics and marketing. It includes all activities that impact information flow, product flow, and cash flow between the organization and its customers.

- **Philosophy** - an organization-wide commitment to provide customer satisfaction through superior customer service.
- **Performance** - emphasizes customer service as specific performance measures and address strategic, tactical, and operational aspects of order management.
- **Activity** - treats customer service as a particular task that an organization must perform to satisfy a customer's order requirements.



■ **Customer Relationship Management (CRM):**

- is the art and science of strategically positioning customers to improve profitability and enhance relationships
- used by service industries (airline/hotel reward programs)
- has not been widely used in B2B environment until the last decade
- customer action affects firm's cost
 - how customers order
 - how much customers order
 - what customers order
 - when customers order



Four basic steps in the implementation of CRM

- Step 1: Segment the Customer Base by Profitability
- Step 2: Identify Proper Product/Service Package for Each Customer Segment
- Step 3: Develop and Execute the Best Processes
- Step 4: Measure Performance and Continuously Improve

Profitability as a method to classify customers

Protect Zone

- Customers in the “Protect Zone” are the most profitable.

Danger Zone

- Customers in the “Danger Zone” are the least profitable and might generate loss.
- The firm’s options for “Danger Zone” customers:
 - change customer interaction with firm so they can move up to an acceptable zone
 - charge the customer the actual cost of doing business

Build Zone

- These customers have a low cost to serve and a low net sales value, so the firm should maintain the cost to serve and build net sales value to help drive the customer into the “Protect” segment.

Proper Product/Service Package for Each Customer Segment

Table 8-1

Hypothetical Product/Service Offerings: Option A

PRODUCT/SERVICE OFFERING	CUSTOMER SEGMENT A	CUSTOMER SEGMENT B	CUSTOMER SEGMENT C
Product quality (% defects)	Less than 1%	5%–10%	10%–15%
Order fill	98%	92%	88%
Lead time	3 days	7 days	14 days
Delivery time	Within 1 hour of request	On day requested	During week requested
Payment terms	4/10 net 30	3/10 net 30	2/10 net 30
Customer service support	Dedicated rep	Next available rep	Through Web site

E-Commerce Order Management Process

- Traditional business model – “Buy, Make, Sell”
- E-Commerce business model – “Sell, Make, Buy” (Dell) can be compelling
 - Dell uses “price & lead time” to influence orders

Four distinct dimensions of customer service:

□ Time

- Cycle time
- Safe delivery
- Correct orders

□ Dependability

- More important than the absolute length of lead time

□ Communications

- Pre-transaction
- Transaction
- Post-transaction

□ Convenience

- Service level must be flexible



Customer Service Performance Measures from buyer's view

- Orders received on time
- Orders received complete
- Orders received damage free
- Orders filled accurately
- Orders billed accurately

Order Management Influence on Customer Service

- Product availability – order fill rate
- Order cycle time – time between order & shipment arrival
- Logistics operations responsiveness – ability to meet special request and sudden changes
- Logistics systems information – ability to supply timely and accurate information
- Post-sale product support – ability to provide tech info, parts support & handle product return



Importance of Service Recovery in Customer Service

- No matter how well an organization tries to provide excellent service, mistakes will occur
- Recovery requires a firm to realize that mistakes will occur and have process in place to fix them
- Superior service recovery builds customer loyalty