

# 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**

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