DIFFERENTIATION THROUGH SERVICE EXCELLENCE
DRIVING CUSTOMER LOYALTY AND SERVICE PROFITABILITY

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EXECUTIVE SUMMARY
A STRATEGIC APPROACH: INVESTING IN NEW SERVICE PROCESS PLATFORMS

The importance of achieving service excellence is growing. Products are increasingly becoming commodities, and CEOs are recognizing that first-rate service is crucial to enhancing customer satisfaction. Meanwhile, customers are communicating their service experiences – good and bad – for all to see on the Internet. And while rates of revenue growth are flattening in many product businesses, service income is accelerating. In short, service delivery is a moment of truth that can determine customer loyalty and profitable growth.

Of course, you need to consider the proper strategic approach. For example, you may need to determine whether to harvest your installed base for new revenues, use services as a springboard for product sales growth, or develop an independent services business.

And you need to recognize that the status quo is not sustainable. With the proliferation of products, customer segments, and channels, your current approach will need to evolve substantially to keep pace with customer expectations. New technologies abound, including Web 2.0 developments that allow virtual communities to provide

support and embedded software that enables remote diagnostics. These technologies will alter customer expectations and change the game for you and your competitors.

Based on our discussions with leaders in companies in many industries, as well as with thought leaders in the services arena, we have identified five key service process platforms that will shape the future:
- Integrated virtual call centers
- Integrated service networks
- Proactive aftersales service
- Customer touch-point management
- Smart service agents

By considering these platforms and adopting them as appropriate, you will be well on the road to differentiating your brand and offerings. In addition, you will need to take into account implementation best practices and the role of integrated systems to enable new processes. Finally, by establishing and monitoring strategically aligned metrics in your services implementation, you will be in a solid position to generate new growth and superior shareholder value for the long run.

IMPORTANCE OF PROMOTING SERVICE EXCELLENCE

SEEKING NEW SOURCES OF COMPETITIVE ADVANTAGE

Companies in every industry are increasingly recognizing the need to achieve service excellence to sustain profitable growth. This is true in part because the traditional sources of competitive advantage are vanishing.

Product features can be duplicated quickly by competitors from anywhere around the globe, and price advantages can be instantly eroded because of ubiquitous access to Internet-based shopping. High-quality service can be a differentiator as the rules of competition change. The definition of high-quality service changes from one industry to the next, but might include, for example:

- The customers' ability to communicate with knowledgeable and helpful call center staff
- Completely fulfilling service-level agreements (SLAs)
- Rapid processing of warranty claims
- Exceeding expectations when addressing complaints
- Timely availability of parts

Service excellence does more than purely allowing your company to stand out from the crowd. Service can be an important source of profits. In fact, according to Deloitte Development LLC, profitability of service operations can be 75% higher than overall profitability in a given business unit.[1] In many manufacturing companies, achieving any significant profit level is highly dependent on the service business. And companies are realizing that poor service will drive away their customers: an Accenture study found that poor service is the principal reason that consumers choose to switch providers.[2]

Expectations for service quality are rising around the globe. Through improved access to both traditional media

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and Internet capabilities that foster contributions by virtual community members, consumers and businesses have increased access to information about the service experiences of others. A notable customer experience, whether good or bad, will be quickly propagated for all to see.

The Status Quo Is Not Sustainable

To be sure, improving service can be a major driver of costs in your firm. But companies that continue to focus solely on the cost side of improving the customer experience will do so at their peril: they will lose profit opportunities and customers. Quite simply, you need to heed the long-term value of service infrastructure investments as well as customer expectations for service in your markets.

There are many motivations for change in the approach to service delivery. One is the growing complexity of products, markets, channels, and processes. Innovation is accelerating and driving creation of new products for customers in countless segments – in different geographies, with varying sensitivities to price, and with a variety of demands for aesthetics and function. Service channels are proliferating as well beyond the original manufacturer, to include distribution partners, outsourced call centers, self-service Web channels, and combinations of these. There's a heightened need for integration of service with marketing, sales, and product development to reduce the time to market for new service processes that align with the stepped-up pace of product delivery schedules.

Another driver for change is the fact that new technologies are disrupting markets and rendering long-standing business processes obsolete. Web 2.0 technologies are catalyzing development of communities that provide insights into service capabilities in specific markets – allowing rapid dissemination of expertise from completely new sources.

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1. "The Service Revolution in Global Manufacturing Industries," Deloitte Development LLC, 2006.
2. "Customer Satisfaction in the Multi-Polar World," Accenture 2007 Global Customer Satisfaction Survey, 2007.

Agenda Items	Emphasis Today . . .	Emphasis Shifting Toward . . .	
Optimize costs	▪ Outsourcing ▪ Basic automation ▪ Self-service	▪ Consolidation and integration ▪ Intelligent automation ▪ Leverage community	Still key priority, focus shifts to new levers

Deliver predictable experience	▪ Focus within a service channel
	▪ Experience defined on static customer segmentation
		▪ Focus across:
		  – Service channels
		  – Customer touch points
		▪ Experience tied closely to real customer value	

Talent management	▪ Labor cost arbitrage ▪ Retaining and motivating in high-cost locations	▪ Flex talent – community, home sourcing, and so forth ▪ Knowledge management	
From cost to profit center		▪ Price and sell add-on services ▪ Up-sell/cross-sell products ▪ Solution selling – for example, "Power by the hour"	Becomes mainstream priority
Close loop with R & D		Field feedback	Still emerging priority

Figure 1: Discontinuities in Customer Service Agenda

Embedded software and remote diagnostic functionality for a range of consumer, medical, and industrial products provide opportunities for forward-thinking companies to advance their service capabilities – reducing resolution cycle times of days to hours or less.

While cost mustn't be the sole focus, companies can cost-effectively depart from the status quo, containing costs where it makes sense. The key here is to understand your customer segments and how you can take a "bifocal" approach to customer service. For example, for low-margin customers, self-service via the Web can be a cost-effective delivery channel and still be satisfactory.

On the other hand, for high-end customers, a more tailored though more expensive approach may make sense, providing service through a blend of personal and Internet-based mechanisms.

All of these external factors provide the stimulus for changing the status quo in customer service organizations. Those companies that do change will recognize the need and see the opportunities. They have the will to overcome the hurdles faced in this significant transformation – in particular, to address the internal challenges ranging from organizational silos to a patchwork landscape of systems. Innovation in customer service can best be achieved if you have the leadership to align your organization and integrated systems to streamline business processes.

The Shift in Emphasis in Customer Service Agendas

Many companies have begun the journey to improve their service operations, though the focus has been primarily on cost reduction. For example, firms have started to lower call center costs through outsourcing, enhanced automation, and self-service. Since the focus has been largely on cost, the benefits to customers – and thus opportunities for top-line revenue growth – have been minimal. Also, customer segmentation and other information used in these initial implementations have been relatively static, so rapidly evolving customer needs are not well considered in service offerings.

But customer service agendas are changing. Companies are shifting the center of gravity of their activities from cost reduction toward enhancing the customer experience. The latest information technology enables collaboration across worldwide communities and offers a real-time understanding of customers. Thus armed, firms are tailoring service experiences to specific customer segments in innovative ways and transforming their ability to leverage global talent (see Figure 1).

PLATFORMS FOR PROCESS INNOVATION AND BUSINESS TRANSFORMATION
LEVERAGING CUSTOMER INSIGHTS, IMPROVING PRODUCTIVITY

Customer service channels secure and retain customers' attention on a regular basis, and customers will directly and indirectly provide deep insights to companies in the process of receiving service. Leveraging these customer insights is a key foundation of new platforms for service delivery.

And while securing customer information is vital, there are other factors that motivate development of these new platforms. These factors include talent shortages, Internet-based community development, and the continual need to improve productivity. The platforms for service process innovation and business transformation are discussed in detail below. (See Figure 2 for a summary.)

Integrated Virtual Call Centers

An integrated virtual call center enables distributed talent to respond quickly and knowledgeably to customer needs. Staffers include call center reps, home-based agents, field service engineers, and many others who can be contacted directly by customers or receive notice of incidents that are electronically routed to them. These call centers can be enablers of service enhancements and can be a source of differentiation. Companies can better leverage a global talent pool and new technologies to solve problems.

Communication technologies supporting these call centers enable multiple interaction channels, including traditional telephones, mobile phones, chat, and e-mail. Essential functionality in these call centers includes:
- Integrated routing of inbound contacts
- Monitoring staff utilization
- Knowledge management
- Case management to handle a relatively involved set of interactions
- Billing services when appropriate

The emerging top agenda items for development of integrated virtual call centers are consolidation of call center management and process integration. These allow companies to manage distributed talent more cost-effectively and ensure that service processes are focused on the right issues. Consolidation and integration of virtual call centers enable firms to better cope with the high costs of talent in some locations, shortages of talent in certain markets, and a proliferation of service channels.

By providing staffers with the right tools and through adept deployment of global networks, companies can overcome the talent constraints and improve employee retention. They can leverage dynamically provided information, respond in a personalized fashion to customers, and cost-effectively deliver enhanced service.

Scenario	Description	Catalyst for Adoption
Integrated virtual call center	■ Supports distributed talent ■ Leverages multiple interaction channels ■ Offers integrated/centralized routing, analytics, knowledge management, billing, and so on	■ Consolidation and integration: top agenda items ■ Shortage of quality talent
Integrated service networks	Integration of spare parts planning, knowledge management, product data for aftersales service	Increasing need to outsource aftersales services in complex organizations while ensuring high levels of service
Proactive aftersales service	Service platform that allows communication between product and service hubs, and shares diagnostic results to prevent and log incidents	■ Remote management through embedded software and connectivity ■ Shift toward solutions and SLAs ■ Increasing cost of field services
Customer touch-point management	■ Allows design of customer experience based on segmentation, feedback, and so on ■ Enables agility to alter customer experience based on proactive sourcing of feedback from social web	■ Transforming customer experience is becoming a competitive differentiator ■ Customer collaboration on social web has a significant impact on brand value
Smart service agents	■ Provide intelligent information and inferencing logic to troubleshoot issues ■ Provide recommendations at key transition points and support up-selling and cross-selling	■ Outsourcing hits diminishing returns. ■ Service becomes a profit center

Figure 2: Platforms for Service Process Innovation and Business Transformation

Integrated Service Networks

Integrated service networks allow companies to offer end-to-end aftersales service solutions by consolidating information and processes among multiple outsourcers, independent contractors, and third-party service agents. The capabilities of these global networks encompass integration of spare parts planning, resource scheduling, product life-cycle management data, and other service-related information. Well-deployed networks can help reduce costs including field service and parts inventory.

The emerging top agenda items for integrated service networks include the need to contain costs while ensuring high performance according to SLAs. The opportunities are particularly notable in industries with complex products, including high tech, automotive, and medical equipment. Companies that can effectively outsource their aftersales service operations in these environments – while ensuring field service coordination and measurably improving service – will improve the customer experience and be well positioned for growth.

Proactive Aftersales Service

In industries such as industrial machinery, high-end consumer electronics, automotive, and utilities, uptime is highly important to customers, and providers typically have expensive field service operations to ensure customer satisfaction. The products (capital items)

used in these industries typically have high levels of embedded software content and functionality for remote management.

To reduce costs, ensure high uptime, and enhance customer satisfaction, companies in these industries are pursuing automation enabled by communication between products and service hubs. The purpose of this communication is to:
- Share diagnostic results
- Anticipate and prevent incidents
- Log incidents
- Track data for billing

Service hubs send software updates to the product to facilitate remote management and use automatic triggers to better schedule service based on equipment breakdown forecasts. Through these deployments, companies can reduce the cost of field service, improve compliance to SLAs including uptime, anticipate problems before they occur, and increase customer satisfaction. These companies can also provide feedback to R & D organizations for enhancements, ensuring greater product reliability and facilitating new product development.

Customer Touch-Point Management

Companies typically have a growing range of modes of interacting with their customers for service, sales, and marketing – including call centers, sales staff, partners, and the Web. It's essential to ensure a consistent customer

experience across these touch points, which reinforces your brand and sends the message to customers that you understand them well. Effective management of customer touch points can be a strong competitive differentiator, helping ensure customer satisfaction and loyalty.

In addition to solid alignment among service, sales, and marketing, touch-point management increasingly depends on real-time transfer of data, context, and experience across interaction channels. Companies can leverage technology to ensure that those interacting with customers have the visibility

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that enables them to properly coordinate their actions. Moreover, by understanding customer segments and considering the lifetime value of customers, companies can more cost-effectively deliver the right customer experiences – aligned with business strategy and brand attributes – across the many touch points.

With the emergence of Web 2.0, agility in customer touch-point management is key for companies that want to stay ahead of the pack. The time lag between formal feedback and information from informal Web channels is growing. Companies can draw more rapid insights from information on the Web covering their own and competitive products. And companies can adapt their interaction strategies across touch points – refining their approach while ensuring consistency.

In particular, based on real-time feedback from the Web, firms can quickly refine the knowledge databases used by all touch points. By fostering appropriate blogs, forums, and communities, companies can develop their own service plans that leverage the Web. Finally, companies can refine their marketing and service assumptions, adapting their brand strategies to conform to the evolving experience that customers expect.

Smart Service Agents

Today, service agents dealing with complex products, customer needs, and processes often do not have the ability to process and make use of relevant information in real time. There are new software solutions ("smart service agents") that help address this issue.

Inferencing logic, building on contextual and real-time knowledge bases, enables guided navigation for agents and can address many opportunities in the service arena (see Figure 3). Two key opportunities include the following.

Troubleshoot Technical Problems
In industries with complex products, such as high tech and industrial machinery, even a knowledgeable individual may have difficulties resolving particular equipment problems. Providing field service and other agents with solutions that can provide recommendations at key transition points can help speed up problem resolution.

Leverage Service Interactions for Sales
With response rates to traditional direct marketing dropping, companies in service-intensive industries are taking advantage of incoming service calls and Web visits to make up-sell and cross-sell offers to existing customers. Telecommunication companies, banks, and utilities, for example, are using customer information in their own databases and leveraging inferencing logic to enable "real-time offer management." These companies can learn from their inbound interactions, adapt based on customer responses, and immediately refine the offer for the next customer. As a result, these real-time offers are more likely to result in sales.

In both types of applications of smart service agents, companies can continually improve customer satisfaction and profitable growth. In particular, smart service agents provide opportunities to transform companies' service operations into profit centers.
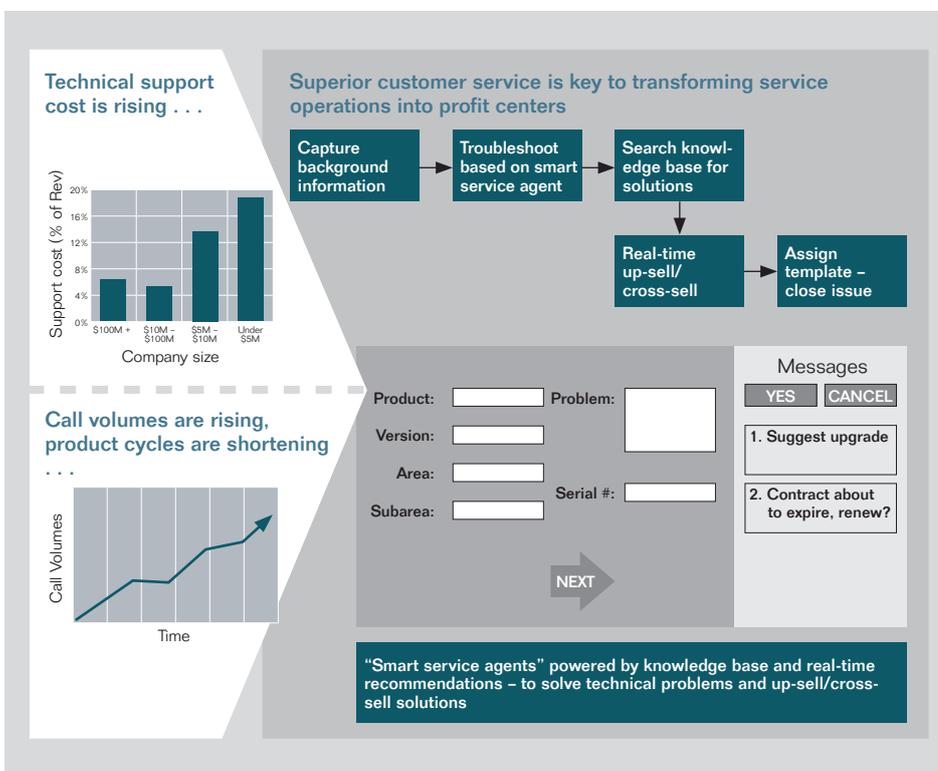

Figure 3: Smart Service Agents: Transform Service Operations into Profit Centers

BEST PRACTICES FOR VALUE CREATION
ESTABLISHING THE RIGHT METRICS, DETERMINING THE RIGHT CHANNELS

> Through improved access to both traditional media and Internet capabilities that foster contributions by virtual community members, consumers and businesses have increased access to information about the service experiences of others. A notable customer experience, whether good or bad, will be quickly propagated for all to see.

As with any implementation investment, your company should approach rollout of new service capabilities in a way that ensures that your high-level business goals are met. The first step is development of a business case, which shows how the implementation will support your strategic objectives. For example, you should identify how the new capabilities will enhance the customer experience in support of your brand. Or you might concentrate on improving key performance metrics such as rate of first-call resolution and average time to resolve a complaint.

Customer service agendas are changing. Companies are shifting the center of gravity of their activities from cost reduction toward enhancing the customer experience.

In the planning phase, be sure to deeply understand your customers and how services can best meet their needs. This means understanding your customer segments and the numerous touch points, and how they are likely to evolve over time. It also means determining as well as possible how a constellation of channels – partners, the Web, call centers, and so forth – can best provide the services you want to deliver.

The best implementations will ensure that the information collected over time will serve higher purposes, to assist with product planning, enable adjustments in service deployment, and facilitate strategic planning. The best practices encompass achieving tactical success day after day, continually improving the customer experience. But they should also position the firm for achieving differentiated offerings and creating superior shareholder value for the long run.

A High-Tech OEM's Approach to Enhancing Field Service

An OEM of PCs had been quite successful selling into the corporate market, but its sales growth started to slow, and it sought to increase revenue by extending its product lines to appeal to consumers. In order to distribute its new products to the public, the company decided to partner with retail electronics chains.

At first, sales surged, as consumers saw the value of purchasing PCs (which had an excellent reputation among business users) for home use. But soon, consumers started to complain that they had trouble getting their products serviced – even if they bought an extended warranty. Web-based communities initiated discussions criticizing the OEM's service and policies, and several journalists who review PC products were motivated to write negative comments in their blogs. To make matters worse, the electronics retailers complained. They had difficulties getting parts in time for their technicians to deliver field service, and they had trouble getting reimbursed by the OEM for broken components.

The OEM's management soon recognized the importance of providing excellent service to consumer segments – and that service processes that best serve consumers are quite different from those in the corporate world. To address the issues, OEM management contracted with a third-party firm to provide field service and took the following additional actions.

Call Center Implementation and Touch-Point Management

The company established a separate customer relationship management (CRM)–enabled virtual call center to focus on consumers. Call center agents and counterparts in the field are now able to access knowledge bases covering technical specifications, warranty policies, and other relevant information. The OEM considered all the customer touch points in designing its processes, ensuring visibility by agents, third-party field operations staff, and others into customer characteristics and history. This way, the company achieves a consistent customer experience that supports its brand.

Now, for example, a customer with a broken DVD drive would contact the call center. The agent logs the call for tracking, confirms the applicable warranty, and tries to resolve the problem immediately by checking the knowledge database. If necessary, the agent completes a return materials authorization and an interactive online form to schedule a field technician, since this customer has an extended warranty allowing for in-home service. The field technician replaces the broken drive with a new one provided by the retailer and returns the damaged equipment to the OEM. Thanks to integration of the OEM's CRM and billing systems, including reverse logistics features, the retailer is reimbursed promptly by the OEM for the cost of the DVD drive.

Integrated Service Network

To ensure availability of parts and fast response times from the field technicians, the OEM worked with retailers and the outsourced service firm to design processes encompassing field service. The company enabled these processes with a CRM-based channel service solution and a supply chain solution that integrated tightly with CRM. It put in place service-level agreements encompassing priority-based service response times, inventory levels, and more to monitor the performance of its service network. Over time, the performance of this network significantly improved, along with customer satisfaction, and the network became a key source of differentiation and brand value.

Smart Service Agents

While not part of its initial implementation, the OEM is considering adding real-time offer management functionality for its call center agents, to help cross-sell and up-sell its consumer PC solutions. This will be especially valuable as the company expects to expand its PC products to integrate with more complex devices, including home entertainment systems. In line with this, the company is considering providing access by field technicians to smart service agents to more effectively resolve complex technical problems.

Thanks to this multifaceted approach, the OEM is achieving service excellence and differentiation in a competitive market. Customer loyalty is improving, profit growth is accelerating, and the OEM is well positioned to gain market share in home PC and related markets.

AN INTEGRATED APPROACH YIELDS SUPERIOR SERVICE PROCESS PERFORMANCE
FOCUSING ON ROBUST SERVICE CAPABILITIES AND END-TO-END PROCESSES

The Importance of Data and Process Integration

The service platforms described above typically fall under the umbrella of customer relationship management (CRM) solutions. And their operation depends on the data typically stored in CRM sys-

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tems, including customer profiles, order histories, marketing campaign information, and more. However, the operation of these solutions depends on more than CRM-based data alone. For example, a virtual call center agent may need to work with dynamic available-to-promise data and applications that are embedded in a company's supply chain systems. Integrated service networks depend on data from spare parts procurement solutions. Smart service agent–based solutions may require asset data that is typically managed in a product life-cycle management solution. Thus, integration of the relevant CRM service applications with other enterprise applications is key to success.

But more than data needs to be integrated. To be successful, your company should consider its service offerings in the context of end-to-end processes, optimizing the way service is interwoven into the activities of the broader organization. For example, when designing real-time offer management services using smart service agents, or establishing proactive aftersales service processes that are paid for directly by customers, invoicing processes need to be well integrated into the mix. If billing processes are an afterthought, the end-to-end process will stumble no matter how well specific service processes are designed.

Service Features of SAP® Customer Relationship Management

The SAP® Customer Relationship Management (SAP CRM) application equips your service organization with all the functionality it needs to maximize the benefit your customers derive from your service offerings. The service features of SAP CRM integrate interaction center technology to enable development of virtual call centers and provide process support to develop integrated service networks. SAP CRM delivers the tools necessary to establish proactive aftersales service and support management of customer touch points. The business processes supported by the service functionality of SAP CRM include:

Service order management
Streamline interactions with customers by processing service quotations and service orders from initial receipt to billing and analysis

Service contract management
Increase revenue by offering more of your services in the form of service contracts, usage-based billing contracts, and leasing contracts

Channel service
Efficiently manage third-party service and spare parts providers – as partners or outsourcers – to lower your service costs and extend to customers services beyond your core competencies

Complaints and returns management
Manage the entire complaints and returns process, from recording complaints to analyzing and processing them and performing statistical evaluations

In-house and depot repair
Automate the entire in-house and depot repair process, including creating the return materials authorization, billing, and shipping repaired products to customers

Case management
Consolidate diverse information in a central repository, and track and analyze the information related to a long-running string of interactions

Installed-base management
Provide effective service quickly by keeping track of the products – both yours and those of third parties – installed at customer sites

Determine as well as possible how a constellation of channels – partners, the Web, call centers, and so forth – can best provide the services you want to deliver.

Warranty and claims management
Reassure customers that, should anything go wrong, their investment is protected through rapid processing of their warranty claims

Resource planning
Organize, plan, and dispatch service resources to meet service demands in the most effective way

Service analytics
Identify problems and trends, compare the effectiveness of service territories, and take corrective action if needed

The service functionality of SAP CRM is integrated with the full array of SAP solutions covering enterprise resource planning, supply chain management, supplier relationship management, and more. Thus, SAP CRM service features allow your company to enable complete end-to-end customer-facing service processes.

For More Information

To learn more about how SAP can help your company differentiate through service excellence with the service functionality of SAP CRM, call your SAP representative today or visit us on the Web at www.sap.com/solutions/business-suite/crm/featuresfunctions/service.epx.

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