



Can efficiencies be customer-led?

A paper for CCA Industry Council

CCA INDUSTRY COUNCIL

CCA Industry Council drives the industry's research agenda by interacting to ensure research approach, debate and output provides the pathway for the future in terms of new thinking and strategies from across all sectors.

An initial meeting was held where 30 leading players from industry debated 'Changing the Rules'. From this debate it is clear a need has been established to create 'Beyond Operational Efficiency' – a new vision for how customer contact centres should be repositioned within organisation, placing the customer at the heart of the business.

Industry Council consists of an exclusive group of representatives from leading organisations who are committed to providing this input whilst themselves benefiting from a unique package of leading edge research, networking, government influencing opportunities and profile within industry as 'Leaders of the Future'.

Industry Council will have global impact and members of the group have been invited to join the CCA Standard Council who will oversee the launch of the new revised CCA Standard® to the international market during 2006-2007.

Expert academic and private sector facilitators will draw on leading edge debate and invite participation from other recognised research houses and agencies to engage with Industry Council to ensure the group deliver leading edge analysis.

As the independent professional body, CCA partner with leading organisations and groups to access relevant research and information for the development of the Industry Council. CCA's vision is for contact centres to be repositioned within organisations to reflect the increasing complexity and competitor challenges arising from the dominance of this channel.

CCA are indebted to the efforts of the Foundation Partner Group who have formed the backbone of activity in taking forward the development of the CCA Standard® and creating the vision for CCA Industry Council. These organisations across all sectors, both public and private, each have a significant impact on the contact centre market-place.

FOUNDATION PARTNERS



Foreword from Rob Pike, Chair of CCA Industry Council



In an age when there is a multitude of options available to customers on where and how they get the products/services they require at the right time in their life cycle, delivering a great customer experience becomes ever more challenging.

Customer dissatisfaction has wide implications. It creates a vicious circle of dissatisfaction, impacting the staff who engage with those customers, and the shareholders who invest in the business. Offering superb customer service grants an enormous competitive advantage to a company - but how do you do this efficiently and cost-effectively? Many organisations are driven by cost savings with the ultimate risk of losing customers - a position which no organisation can afford to find itself in today. Investing in the right processes, technologies and people and actually doing what customers want instead of what we think they want leads to satisfied customers, and ideally loyal and engaged customers who then become advocates.

This is the third in a series of research papers exploring the changing face of customer contact and examines how listening to customers and responding appropriately to their needs can result in operational efficiencies.

We are indebted to the work of CCA Foundation Partners who have been the catalyst of CCA's evolution to Customer Contact Association in 2006. Their dedication has helped create CCA's Industry Council, a unique think-tank which is challenged with finding solutions to ensure that the customer is placed at the heart of an organisation's operations.

We would like to extend our grateful thanks to CCA's Research Council for providing very insightful findings into this critical issue.

Rob Pike

Chair, CCA Industry Council

A demanding world: How much value do you create for your customers?

Prepared by Stephen Parry, Transform

All organisations purport to want to understand their customers, yet many are wary of looking closely at how they are serving or not serving their customers. It may be an uncomfortable thing to do, and could prove to be disruptive, threatening a host of existing investments and power structures.

Many people within organisations are aware that the external components (outside the call centre) of the value chain do not work effectively and may even have a vested interest in keeping that way. The truth about how the value chain performs end-to-end often surfaces within organisations without action being taken. Winston Churchill once observed: 'Men occasionally stumble over the truth, but most of them pick themselves up and hurry off as if nothing has happened.' This paper outlines a simple concept that will provide operational managers with the uncomfortable truth, by outlining an approach for demand classification and end-to-end performance measurement.

The operational manager's compass

The following principles must be at the heart of every service and operational manager's day to day business. He or she must:

- Create value for customers while optimising the delivery process.
- Identify new customer needs and exploit opportunities.
- Remove the causes of bad customer experiences and organisational re-work.
- Remove the dependency on making money from the failure of other organisations.

Often these responsibilities are separated between various departments, if they are, it illustrates how fragmented your business has become. Unless the operations manager has responsibility for these four principles then it will be almost impossible to create breakthrough services without excessive management resource time being spent on co-ordination activities.

This compass then provokes the question, what creates value for my customers? How can I detect new opportunities? How can I improve the customer experience? And how exposed is my business? These questions can only be answered through the introduction of a demand classification system.

Demand Profiling and Demand Management

Where products and services are unsuited to the needs of the customer, the service experience always worsens and costs rise. Customers can sense when organisations are sticking to ill-fitting processes or scripts rather than solving their problems.

At the heart of the diagnostic approach, therefore, is the unique classification of customer demand. Most companies wish to create value for their customers and sincerely believe that their customer-service operations are indeed doing that. On closer inspection, however, it may turn out that a significant proportion of incoming service demand is not actually creating value at all, but just restoring value. We therefore classify customer demand into two types: demand that is essentially driven by the customers' *positive* needs, and demand that is *negative* or *restorative* in its origins.

Identifying the proportion of positive to negative demand is an integral part of improving services and reducing operating costs.

Positive and negative customer demands each have two sub-components, as shown in Figure 1: creation and opportunity demands, both positive in origin; and restorative and external demands, both negative in origin.

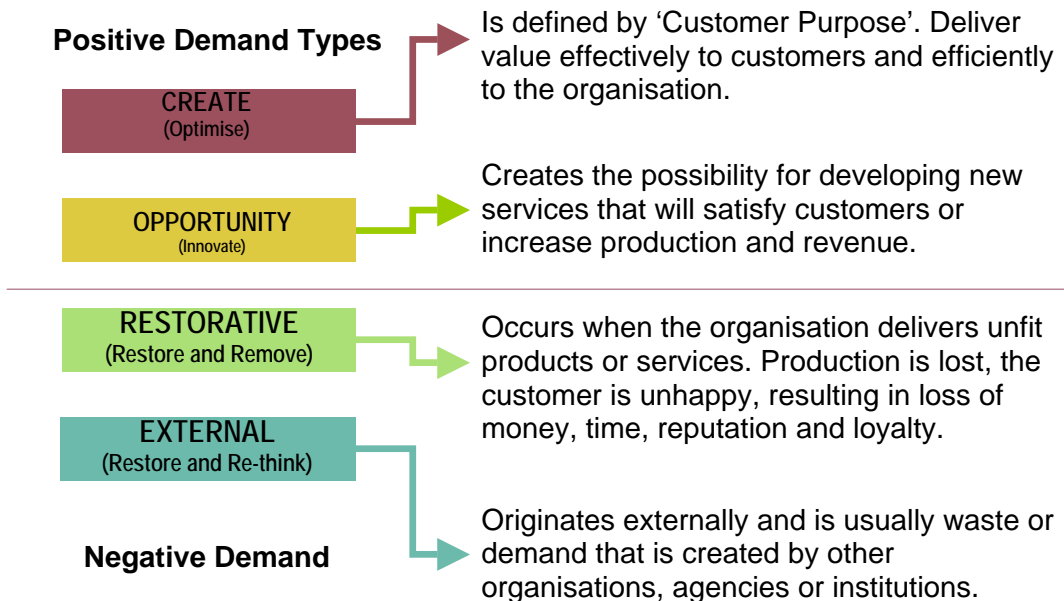


Figure 1. CORE Demand definition.

Creation demand

Creation demand comes into a service organisation because customers want to understand how to optimise the functionality of their service or product, or how to obtain more of what they already have. Creation demand is not the result of something being wrong, such that customers have lost the value of a service or product, but rather the result of customers' questions such as: 'Which product is best?' or 'How can I get more out of my product or service?'

For efficient delivery, creation demand must be optimised. This is the type of demand that the organisation wants to keep, so the organisation needs to make it simple and easy for the customer to 'pull' service. Identification and analysis of how the end-to-end processes deliver against this demand type will indicate clearly which elements of the support structure could be improved, for example using tools for automation or web-based assistance.

Creation demand is seen in many service sectors. Customers of a bank, for example, may wish to gain more information from their bank statements and transactional details, to understand how they could better invest their existing savings, or to find out in which countries they could use their bank cards.

Similarly, customers enquiring about their utilities may wish to set up a direct debit for payment or to ascertain the amount of their next bill.

Opportunity demand

Opportunity demand occurs when the customer wants something that is not currently offered. Most organisations will merely apologise to customers, saying that they can't fulfil the demand, and will then terminate the transaction.

In a customer-centric organisation, in contrast, it is critical to capture this type of enquiry: these can provide a rich source of ideas and data for new services or product lines. Opportunity demand needs innovation to create new services and potential revenues need to be examined.

Restorative demand

Restorative demand occurs when the organisation delivers unfit products or services, generating unwanted demand as a consequence. This causes customer dissatisfaction, resulting in loss of money, time, reputation and loyalty.

The work involved in correcting this situation is deemed to be restoring lost value. In the eyes of the customer, restoring value is seen thus: '*You broke it, you fix it!*'

Restorative demand needs to be removed by identifying and rectifying the originating cause, which may reside in other parts of the organisation. Only in poorly run or unethical companies would you find revenue being generated against demand of this type.

Restorative demand becomes a drain on resources, and ineffective organisations inadvertently generate between 40 and 90 per cent of the total customer demand in this negative way.

Here's the golden rule:

Never automate or outsource restorative demand

Becoming an efficient corporate waste disposal unit is not a strategy for long-term success.

Automation for this type of demand locks in frustration for the customer and for the frontline staff whom the customer has to call repeatedly about the organisation failing to solve their problems completely.

Support staff also feel disenfranchised because existing constraints prevent them from making any difference in this situation. The spiral continues, with the customer becoming more and more disillusioned, which generates additional negative demand, and all the while the frontline staff feel powerless to change things.

External demand

External demand is failure generated externally by other agencies, institutions or companies. Organisations can generate revenue against this type of demand as long as it continues to present itself - that is, until a competitor metaphorically fixes the road and removes the need to fix tyres.

External demand should be addressed by rethinking the environment that allows it to exist and by developing new solutions. In this context it is perfectly respectable

to restore value, because the other things that are not working are the responsibility of other people. In fact, some businesses are set up specifically to handle this type of demand. However, organisations with this business model have to question the basis of their future: are the revenues that they are generating largely dependent on other companies failing to perform their duties? If so, what happens if those companies start performing well? This business model can be fundamentally flawed, depending on how exposed the business is and whether or not it is totally dependent on restoring value as a revenue stream.

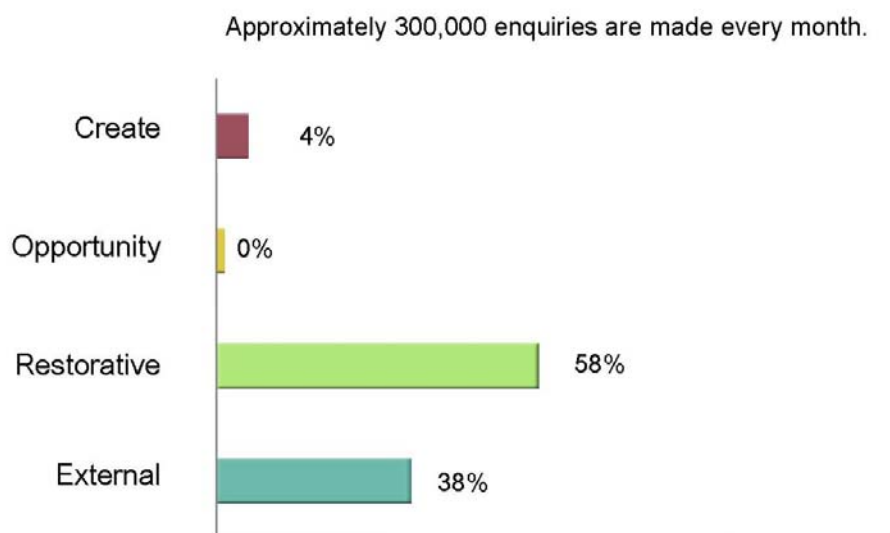
CORE in action: an example

Once demand has been classified, each type needs to be treated in an appropriate way. Most organisations do not separate types of demand and treat all demand in the same way, as units of work to be processed efficiently. In many cases organisations have automated all their demand, including the restorative type, thereby institutionalising waste.

This approach can be very seductive: at face value it does indeed reduce costs, but this disguises the reality that the organisation is automating work that it could actually remove completely.

Figure 2 shows the distribution of demand types received by an international telecommunications company supporting broadband customers.

Figure 2. Broadband, CORE profile



These enquiries are due to one of three principal causes:

1. Problems with the provision of internet services.
2. Consumers experiencing problems with their own equipment, such as personal computers.
3. Consumers requiring additional services or enhancements.

Analysis demonstrated the following:

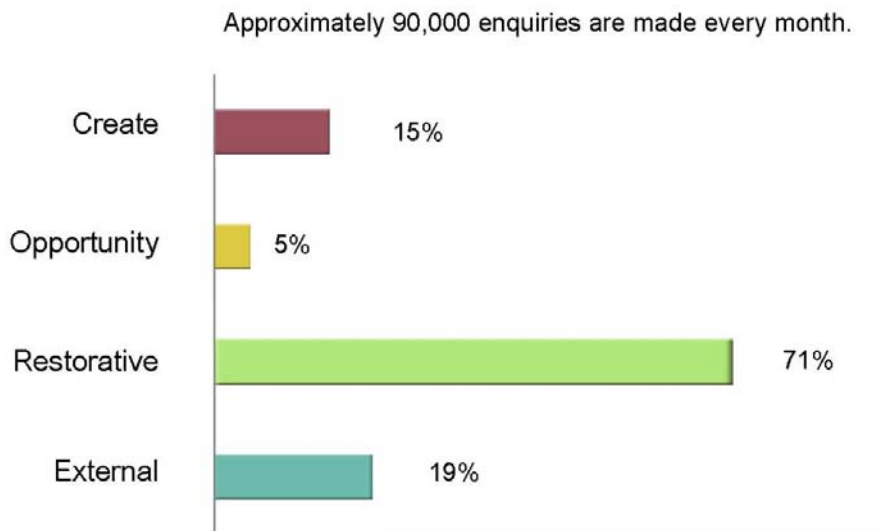
- 58 per cent of the demand is generated when consumers experience a problem with the supplier’s internet infrastructure (restorative demand).
- Another 38 per cent originates from the customer’s equipment (external demand). A significant proportion of this demand includes revenue opportunities currently not considered.
- The remaining 4 per cent represents demand that provides a real potential to add value to consumers’ experience, including increasing their bandwidth or helping them use their broadband connection for new purposes (creation demand).

Ongoing revenue from connecting customers to the network has only a limited lifespan; future revenue has to come from providing greater content and services, as well as enhancing and expanding existing usage.

The current support philosophy of this company is to design against problems, and needs to change to a philosophy that removes root causes and provides value to customers in an effort to change the demand profile. The current demand profile, with 5-6 per cent creation demand and 1-2 per cent opportunity demand, demonstrates the effect on customers of the current approach.

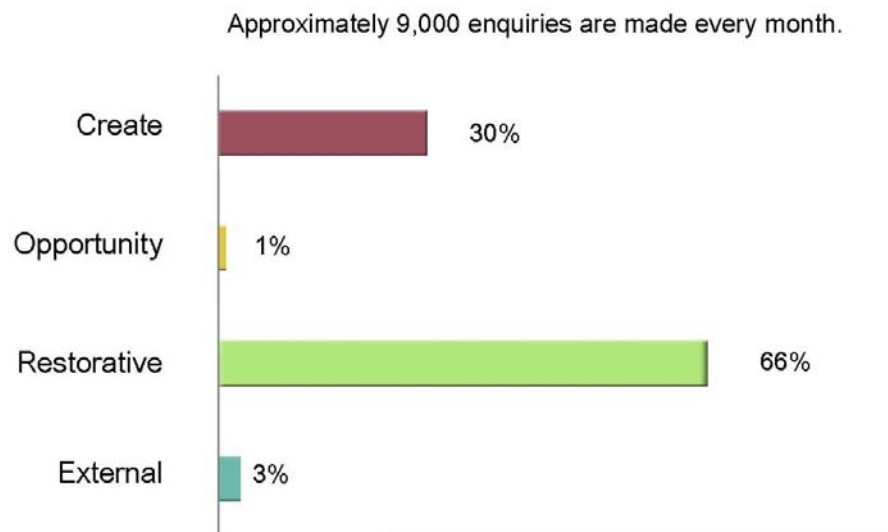
CORE profiles from other industries

Figure 3. Financial Services CORE profile



The analysis shows that 71% of the demand is generated when consumers experience a problem with a financial product. Nineteen percent of the demand was generated by poor products and services supplied by other companies

Figure 4. Telesales, Office Products, CORE profile



The analysis shows that 66% of the demand is generated when consumers experience a problem with a product or delivery.

Seeing the organisation end-to-end

Understanding the CORE Demand profile is just the first step. Understanding and measuring how the organisation responds end-to-end is the next important activity.

Value is created for customers by the entire end-to-end organisation. Understanding how the combined efforts of all departments and teams contribute to creating value is therefore essential to understanding where organisations undertake unnecessary work, and where they are aligned or misaligned to meet customer needs.

Measuring the right things

The organisation needs a new concept of measuring its service – not just from the functional-specialisation point of view, but by calculating the whole end-to-end system. What we are advocating is looking at the entire organisation as one block, ignoring the departmentalisation and reviewing the organisation's entire performance.

End-to-end effectiveness measurements are not the same as *efficiency related output measurements*. Output measurements – such as 'the number of calls answered' or 'total sales' – may indicate a problem exists but do not specify what to do about it. End-to-end measurements indicate how well any system responds to demand. For example, an end-to-end measurement might indicate that 'Whenever a particular request is made, it always takes approximately 1 hour plus or minus 15 minutes to respond'. Similarly, in an online environment a typical end-to-end measurement could be 'The elapsed time from order taken to final delivery'. Provided that there is no change to the system and no unusual occurrences, end-to-end effectiveness measurements predict how well organisations will respond in the future.

Once the elapsed time for delivery is known, a company can make an informed decision about whether or not it wants to improve this. If changes to the system are made, the same end-to-end measurement can be used to gauge the effectiveness of that change.

When the organisation's focus is on the end-to-end measurement, people in the system begin to learn and understand which factors influence service. Once an effective system is in place, the organisation can set about optimisation.

By tracking the end-to-end measurements over time, it is possible to identify the typical processes, procedures, practices, dependencies and bottlenecks that continuously cause deterioration to service. Collectively, these types of failures are referred to as the *common causes of variation*. They are common to the way systems have been designed, implemented, and operated.

If something out of the ordinary occurs, it is usually due to a special cause. The ability to separate special causes from common causes of variation in performance is fundamental to service management.

Identifying causes of service variation

Some of these causes may be, for example, out-of-stock items, poor product or service information, slow IT systems that inhibit performance, service delivery failures, poorly trained staff, lack of system definition, and organisational gaming (the practice of sticking to the letter of the law because that makes the numbers, rather than achieving the organisation's principal purposes). In such an environment, collecting data is key to improving both customer and employee satisfaction while also addressing the need of the organisation to make a profit.

Once the data is obtained, it is imperative that the company use it to make the necessary changes, and then use the end-to-end measurements again to check that service has improved.

When measuring how well the organisation creates value for the customer, managers and especially staff need to look carefully at *all* of the data, as this will not only show the *average* performance but - much more usefully - *where* to improve. The data contains valuable information that can help them improve customer experience and create success and reduce costs.

Through the measurement of the end-to-end system, organisations are able to identify any weaknesses and can concentrate on improving their capability in those areas for the good of their customers.

Organisations must learn to separate common-cause variation from special-cause variation. Having identified which is which, the organisation can then work on removing the *common* causes of variation - the internal factors that cause delays and increase waste, such as untrained staff, inappropriate processes, and inappropriate practices. Removing these causes reduces the range of variation in relation to system performance as a whole, so system performance becomes much more predictable.

This point is often overlooked: if an organisation simply uses statistical analysis to create an average, it will not be able to manage and predict performance because of these fundamental errors of ignoring the range of performance and including special causes. This approach might be likened to having one foot in molten lava

and the other in liquid nitrogen and declaring that ‘on average’ you should feel comfortable!

If your business uses averages, you will get an average business!

Measuring variation in performance

Using control charts to measure capability Understanding and removing the causes of variation is the key to improving business performance. *Control charts* were developed in the 1920s by Walter A. Shewhart to provide details on the performance and capability of business process. Control-chart techniques are simple and powerful, and in the hands of front-line staff they can be turned into drivers for change.

The key advantage of using control charts is in establishing the difference between the *performance factors* that form part of the delivery system and the *external factors* that lie outside the system. The control chart thus assists in identifying performance variation that is inherent in the system as distinct from that caused by external factors. Unless the data can be separated out, external factors could be wrongly attributed to employees, for whom inappropriate targets might then be set based on these misleading numbers. In addition, the system has its own internal variability which occurs simply from the design of the business process.

When applied to the end-to-end system, control-chart techniques will provide the organisation with what we call *capability measurements*. Consider the example of a company wishing to understand the end-to-end capability of its organisation to deliver parcels on time. Suppose it found that it had a mean time success rate of just 68 per cent, but that the variation around this mean was quite wide-ranging – from 57 per cent to 80 per cent.

Asking staff to improve on the mean figure of 68 per cent would just result in everyone trying harder: what is needed is to understand the *causes* of variation in the end-to-end delivery system, and rectifying these.

Insights from capability measurements

A control chart will reveal much about the organisation, some of which may be startling. This may lead to the realisation that the organisation can take an extraordinarily long time to fulfil a simple request. It is not unusual at this stage for the organisation to discover, for instance, that it sometimes takes ten days to do a ten-minute job, just because the system is designed that way – waste has been built in, and treated as if it were normal.

Most organisations have detailed approaches for capturing, sifting and presenting this data with the use of technologies and best practice, but although managers can glean some trends from such information, the result is only scratching the surface. What makes the difference is gaining insight into the context in which the demand is generated.

‘Reality shock’ and the beginning of transformation

Identifying the CORE Demand profile exposes the significant amount of demand coming into an organisation that does not create value, sometimes as much as 90% of the total. It makes little commercial sense to spend resources in creating an

expedient flow for this demand type using such approaches as Six Sigma: it is far better, wherever possible, to eradicate it. This is why it is vital to be able to recognise and differentiate between the four CORE Demand types (Figure 1).

Reactions to this new understanding of the profile of demand tend to be expressions of surprise, and can include the following:

- 'We thought we understood our customers and were customer-centric.'
- 'We thought that everything joined up fairly well end-to-end.'
- 'We thought our "fix" targets were being met and we were doing well.'
- 'We thought we had a common mission.'
- 'We thought because we had best practice we must be doing OK.'
- 'We found delivering only to specification was enough.'
- 'We were creating value, but for only 10 per cent of the time.'

Another shock may result from this new awareness of reality, and is perhaps more profound. The organisation may come to realise that although it has spent years investing a huge amount of money in developing new products and in changing the way the organisation fits together to meet the needs of the customers, the current organisation meets neither the customer requirements nor the customer purpose.

This realisation can have a dramatic impact. In extreme circumstances the new reality can send tremors through the organisation, especially when the organisation is one that impacts on the social environment surrounding it - as might be the case for an organisation delivering social services, health services or immigration services, for example. The effect can be likened to putting the lights on at a good party, and revealing all the mess - an action often greeted with cries of 'Turn the lights off! We were enjoying ourselves!'

This is the point of choice for the organisation: the more dramatic the shock of realisation, the more necessary it is that the organisation not turn a blind eye but take its first steps toward transformation.

For further information and original sources please see *Sense and Respond: The Journey to Customer Purpose Palgrave 2005* by Stephen Parry, Susan Barlow and Mike Faulkner.

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