Can a company be both low-cost and service-oriented?

Based on the recent experience of many companies, some industry observers have concluded that it is difficult to be both low-cost and service-oriented. But João Baptista and Jean Estin, members of Mercer Management Consulting's European consulting division, point out that low-cost competition is forcing companies to add better service to their strategic thinking. "Besides", Baptista and Estin say, "improved quality, increased service levels, and faster responsiveness to market demands don't have to mean uncontrolled operations, constant firefighting and falling profitability".

In a White Paper that discusses ways for companies to improve their performance, Baptista, a vice-president in the consulting firm's London office, and Estin, Mercer's European director and head of its general management consulting group with headquarters in Paris, identify five reasons why increases in service often do not result in improved performance:

(1) Companies fail to determine exactly which components of service are valued by each customer segment targeted.

(2) They do not recognize that different customer segments value different components of service.

(3) They underestimate the organizational and human resource efforts required to deliver the service capabilities, and the timing involved in establishing those capabilities.

(4) They fail to develop methods capable of determining the true profitability of each individual customer.

(5) They fail to determine whether the service programme they seek to adopt will ever make money, when taking into account competitor response.

The work of Baptista and Estin in helping clients to implement profitable, service-driven organizations has led to the development of an integrated framework for both anticipating service requirements and for establishing the capabilities to deliver service at a profit. It consists of the following five building blocks:

(1) *Explicit prioritization and targeting of customers.* Since increased service in most cases means higher investment and higher product costs, a business needs to determine which components of service will be valued by which customer segments. Customers must also be assigned priorities on the basis of likely sales and associated profitability, with service-sensitive customers generally divided into those requiring customized service and those requiring standardized service only.

Library Review, Vol. 44 No. 5, 1995, pp. 18-19. © MCB University Press, 0024-2535

(2) *Creation of differentiated commercial organizations*. Baptista and Estin advocate a "tiered" salesforce, with a major account management salesforce to handle the most demanding customers and a second tier of junior sales staff and sales representatives to focus on less demanding customers.

(3) *Management of the product offer*. Design and development steps have to be timed with the customers' own internal cycles in mind. The cycles appropriate for serving major customers, in turn, determine the response cycles available to standard customers. In practice, this means that standard customers have lower priority for delivery lead times, visitation dates, and presentation of new products, but simultaneously they benefit from the overall improvement in manufacturing flexibility, order tracking capabilities, and better reliability from a general increase in service awareness.

(4) *Adoption of differentiated service processes.* Costs for these can be kept reasonable by concentrating on the manipulation of useful information with sufficient accuracy rather than collating interesting-to-know data with accounting accuracy. For instance, procedures for keeping track of orders and computing their profitability can be built on the basis of paper-based processes combined with simple mini- and macro-computer applications.

(5) *Establishment of a differentiated pricing policy*. By using cost simulations and customer demand models, pricing decisions can be delegated to the salesforce.

Baptista and Estin maintain that all five building blocks must be in place in order to reap the benefits of a service-driven organization. While acknowledging that there is an investment cost, they point out that a successful differentiated service-driven firm can recover its investment and other costs several-fold through increased profitability. They have worked with firms, for example, which have sustained 3-5 per cent higher profitability than their non-service-driven competitors.