

## **CUSTOMER SERVICE – THE IMPORTANT GOAL OF LOGISTICS**

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**Abstract:** This paper presents the connection between logistics and customer service. The customer service is one the most powerful elements available of the organization in the search competitive advantage, but the least well managed. The message of this article is that performance of customer service depends the skill with the logistics system designed and managed. The output of all logistics activity is customer service. The customer service is the most important means of gaining and maintaining differentiation in the marketplace.

Approaching the customers and providing some quality services, based on the individual needs of the customers might contribute to the earning and maintenance of the competitive advantage of the enterprise. Decreasing the costs, finding the factor/service which keeps the customer fidelity, realizing a new product are modalities of differentiation of the enterprise's for its competitors.

The logistics can play a key role in increasing customer satisfaction and enhanced customer retention.

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### **INTRODUCTION**

In a competitive environment, customer service is an important means of differentiation from competitors and of customer loyalty. Setting the components of customer service and quantifying the level of service are means of keeping the company's competitive advantage.

The purpose of the logistic system is to serve customers as well or better than the competition and at the same time to make profits. Customer service is the chain of sales activities and meeting customer requirements, which begins with receiving the orders and ends with the delivery of the products to customers, in some cases continuing with equipment maintenance services. [2]

The role of customer service is to provide time and place utilities in the transfer of goods and services between the manufacturer and the customer. In another form, the product has no value until it is in the hands of the customer. [6] Availability is a complex concept, influenced by many factors that together form the customer service. These factors

include the frequency of the delivery and its safety, the stock level and the time interval the order is released.

Companies that compete only on product characteristics have a big disadvantage against companies that enhance the basic product with value added services. Whoever first said that "people do not buy products, but benefits" was Theodore Levitt, one of the greatest thinkers in marketing. The product in the hands of the customer is much more valuable than the product in the warehouse of the unit. [4] The distribution service was, in this case, the added value source. But in other cases, advertising, branding, packaging can increase the product value perceived by the customer.

The logistic system involves the connection between the business and its customers for the procurement and stockpiling of materials, the implementation and the physical distribution of products, so that the firm manages to meet customer requirements. The logistic system provides an overview of the movement of goods and services from the supplier to the end user and the movement of payments and information in reverse sense. Between the business and the customers there are close relationships that allow identifying the benefits from the strategic point of view of the system functionality. The management's attention should focus not only on the business, but also on the interactions giving logistical system functionality.

Some experts consider that logistics has the role to ensure the effective coverage of the marketing requirements. Among the marketing mix elements - product, price, promotion and placement - in practice the focus was more on the first three. "The placement or the distribution of the right product, in the right place and at the right time" has rarely been considered as part of the marketing mix.

In many markets the brand's power declined and customers accept substitutes; even the technological differences between products were reduced and in these conditions it is difficult for companies to maintain a competitive limit only through the product they offer. In these situations the consumer service can be a means of differentiating the company's offer from that of the competitors.

Today we are witnessing the increasing importance of consumer services, which become a competitive weapon of the organization. The factors behind this growth are: [6]

the continuous changes in the customer expectations, the consumer demands more, he is more sophisticated than he was 30 years ago.

the reduction in the power of the brand growth by the technologies of the competitive products, thus making difficult to perceive the differences between products.

The specialized literature identified three components of customer service: [6]

Pre-transactional elements that create a favorable climate for customer service: the customer service policies and programs, the organizational structure necessary to implement the customer service policy, the flexibility of the system or its ability to respond to customer needs.

Transactional elements established by meeting the logistic function: the availability of the product in the stock, information about the order, the order cycle duration.

Post-transactional elements of customer service are generally those that support the product in use: product guarantee, maintenance service, product replacement, client complaint resolution, and product reimbursement.

It is very difficult for any company to identify its customers' needs.

However, it often happens that customer's fall into groups or "segments" similar in terms of level of serving. The logistics specialist should know exactly what the service

issues which differentiate customers are. Customer service is perceptual and not always reflects what the client wants most.

For example, "stock availability" is a widespread internal measure of business performance, and "on time delivery" is an external measure valued by customers. It is therefore important that companies establish a set of service criteria which are significant for customers.

Identifying customer service needs is a three-stage process: [6]

1. The identification of the key components of customer service
2. The establishment of the relative importance for customers of those service components
3. The identification of the customer segments according to the service preferences

## **2. THE IDENTIFICATION OF THE KEY COMPONENTS OF CUSTOMER SERVICE**

It is important that the firm track the customer service needs through a thorough research.

It should be initiated a low-scale program based on personal interviews among a representative sample of customers. The purpose of these interviews is to obtain, in the customers' language, firstly, the importance they attach to customer service in relation to the other elements of the marketing mix, such as price, product quality, promotion, and secondly the specific importance they attach to the individual components of customer service.

The importance of this initial step in the measurement of customer service is that relevant measures are generated by customers themselves. Once these measures are defined, it may be identified the relative importance of each one and how different types of customers appreciate one aspect of serving in relation to another.

### **1. THE ESTABLISHMENT OF THE RELATIVE IMPORTANCE FOR CUSTOMERS OF THOSE SERVICE COMPONENTS**

One of the easiest ways to discover the importance a client attaches to each item of service is to take the components generated by means of the process described in Step 1 and to request a representative sample of customers to order them from the "most important" to the "least important". In practice this is difficult, because of the great number of components.

### **4. THE IDENTIFICATION OF THE CUSTOMER SEGMENTS ACCORDING TO THE SERVICE PREFERENCES**

At this stage the problem is to observe the emergence of similar customer preferences. If a group of respondents, for example, has a completely distinct set of priorities from another, then it would be appropriate to consider them as different service segments.

The challenge for logistics is to create appropriate solutions to meet the needs of these different value customer segments.

Since companies are not created by customers but for customers, this is an opportunity to improve customer service. Traditional supply chains have been designed to optimize the supplier company's internal operations. Such a manufacturer might be motivated to establish the details of supply, production and distribution, details that will allow a maximum efficiency of the activity. In this way, the purpose to become the manufacturer with the lowest prices could be achieved.

This great approach from the point of view of the manufacturing organization was not customer-oriented, in the sense of designing supply chains for their needs. Now the challenge for the organization is to design supply chains "from customer backwards". This new view sees the client not at the end of the logistic system, but at its beginning. It is necessary to enable the supply chain from the beginning and consider the final user as the starting point for the organization, and not its final destination.

For companies, this requires permanently adapting to market changes and a well-founded logistic strategy to meet and exceed customer requirements. The ability of the logistic managers to change and to lead the change will result in customer service improvements, sales and profitability increases.

The relationship between logistics and customer service requires the company to choose one of the two fundamental strategic options [7]:

- a leadership position in pricing, which means that the firm should be the manufacturer with the lowest cost in the area in which it operates;

- a significant differentiation, which consists in visible differences against the competitors clients are interested in (superiority of the product, delivery in the shortest time and safely, quality service).

Logistics favors holding cost advantages and contributes to differentiate services. Linking logistical activities and conducting cost reductions permit the establishment of more competitive prices. The competitive advantage can also be achieved by providing qualitative services.

If the strategic option is to become the competitor with the lowest cost, then serious risks are involved. The difficulty of bringing together both the strategic option (the competitor with the lowest cost) and the operational option (customer service level) is high, because the level of service provided to customers must be close to that of competitors, even when it is chosen the low cost strategy. [3]

Approaching the customers and providing some quality services, based on the individual needs of the customers might contribute to the earning and maintenance of the competitive advantage of the enterprise. Decreasing the costs, finding the factor/service which keeps the customer fidelity, realizing a new product are modalities of differentiation of the enterprise's for its competitors.

Businesses can make good products through promotional efforts and low prices. If they fail to comply with the consumers' requirements at time and completely, the results will not come up to expectations and may even experience a decline in sales and market share. Competitors can imitate a pricing policy, but not a service policy. Price issues are always important, but they can be compensated by increasing customer services. The highest price does not mean the best customer service. The cost is related directly to the services offered, the supply and demand reflecting in the overall logistic costs. The level of logistical service is important in maintaining the client portfolio. A service level higher than that of the competition in the same terms of quality and price can increase customer loyalty. In terms of costs, attracting a new customer is five times higher than satisfying and maintaining the existing customers. [4]

So customer service is a much effective investment than other activities of the enterprise.

The improvement of the level of customer service, in order to increase sales, must be performed on the basis of the impact analysis of the service level on costs and profits of the enterprise. Increased sales volume does not amount to maximized profit.

While the objective of any logistic system is to provide the customer segments the service level which was established and negotiated, it should be acknowledged that there also should exist priorities in serving the customers. Since not all the customers of an organization are equally profitable nor products are equally profitable, key customers and key products should be offered an adequate level of service. Within the organization, profit varies by customer and by product. The indicator suitable for measuring should be the profit, and not sales revenue or sales volume. The reason is that sales revenue and volume could hide significant variations in service costs.

Ensuring a very high level of service is possible only provided a substantial increase in stocks. Proximity to a maximum level of service requires growing stocks and determines a sharp increase in logistic costs. [5]

Establishing an optimal level of services involves quantifying the additional revenues derived from providing quality services to customers and determining the cost / profit ratio for different service levels. [1]

Increase in profits can be achieved not by attracting new customers, but by developing long-lasting relationships with the existing customers. The studies conducted indicate that a 5% reduction in the rate of loss of customers can increase business profits by 25 - 85%. [5] This reflects the importance of increasing customer loyalty for the existence and development of the organization, highlighting, by default, the need to design and implement appropriate customer relationship management strategies.

The purpose of CRM strategies is to generate both value for the organization, under the form of revenue and profit, and customer value, a degree of satisfaction and fulfillment of its expectations as high as possible.

Few companies have defined a customer service policy, allowing the organization the flexibility to lead and control this service, when it was considered that this might have been the most important element of the company's marketing mix. The explanation is based on the fact that if the product or service is not available when the customer needs it, he can migrate to the competition. Even if customers are loyal to the brand / product, the lack of the product from the stock is sufficient to try another brand. Even for organizational clients the focus is put on loyalty. Thus, many companies adopt 'just-in-time' strategies that require quick response from the provider, for the order to be satisfied in short and the delivery to be safe. The pressure on the supplier is also determined by the customers' measure to streamline their supply base. Becoming a preferred provider, it is clear that he's priority should be directed to meet major customers.

Many organizations are adapting difficultly to the competitive environment because in the past they have focused on the traditional aspects of marketing - development of production, promotional activities and price competition issues focused more on getting customers than on keeping them. These are the dimensions of a transactional marketing strategy, which is not sufficient at present.

Traditional marketing has focused on the final consumer seeking to promote brand values and to generate forced demand on the company's product market. The development of the concepts of segmentation, targeting and positioning signified the organizations' refocusing from the market approach as a whole, respectively the "mass market", to targeting and positioning strategies developed to suit the characteristics of the target segments chosen by the organization. The emergence and development of a distinct concept of customer relationship management and CRM software solutions design led to increasing focus on customer organization strategy. In addition to the strategy dedicated to

a particular target segment, organizations have begun to design strategies and programs aimed at developing strategic relationships with specific strategic customers.

The purpose of any customer relationship strategy should be customer retention. At the same time, customer service plays an important role in attracting new customers. A new emphasis in marketing and logistics is more and more widespread - creating customer relationships. The idea is that one should seek to create such a level of customer satisfaction, so they do not even see necessary to consider the competitors' offers. Many markets are characterized by promiscuity, with reference to the customer base. In these markets, customers will buy a brand for an opportunity and then it is likely to buy another one next time.

Organizations should strive conscientiously to develop relational marketing strategies to maintain and strengthen customer loyalty.

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