

## Service Company: Lean #2

**Service companies often - despite the description - have much in common with manufacturing companies and this makes ResQ's lean thinking in terms of VALUE STREAM MAPPING very applicable.**

### How?

Within the service industry, products or services are not stored in a warehouse waiting for someone to buy them – they are provided on an ad-hoc basis to customers as required and therefore you may not think that lean would be applicable.

There is one area of the service industry that is quite different to manufacturing;

**Relationship Management:** service based models are often based on ensuring the customer becomes a regular purchaser of the products but the interaction with high cost personal servicing is minimised i.e. relationship management is maximised.

The traditional cost accounting measures though often measure each customer interaction in its own right through efficiency measures such as calls waiting, average call time, & conversion rates.

ResQ have many examples which show that taking the Value Stream Mapping view is the way forward in a service environment. Here are two examples;

### Outbound Calls

Client Z was undertaking outbound calls to its existing customers to sell product B, all the people it was calling already held product A.

The campaign didn't meet its targets and insufficient numbers of product B were sold and the campaign was stopped and the product allowed to die off.

However mapping that the call would perform two functions;

- 1) Remind the customers that they had Product A and the benefits of it.
- 2) Attempt to sell a new Product B.

As with any such outbound campaign, out of the list of 100 people only 30 were actually spoken to. Analysis showed that those that were contacted improved their renewal rates on Product A from 65% to 85% and a sales rate of 5% was achieved for Product B.

Whilst the rate of 5% on Product B was not sufficient to meet the company profit requirements the rise in renewals was more than enough to pay the costs of the campaign.

This effectively made the sales of Product B, **FREE!** And the renewals on Product A went into future revenues.

### How?

If you have a renewal rate of 65% and have 100 customers then after 2 years you will be left with only 42 customers. If the renewal rate is 85%, this rises to 72; an **extra set of 30 annual revenues.**

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<u>65%</u>	<u>85%</u>
Year 1 100*65% = 65	Year 1 100*85% = 85
Year 2 65*65% = 42	Year 2 85*85% = 72

### **Marketing Drives Interaction**

Very often the customer will interact on a regular frequency or in response to a stimulus from the company, often in the form of a marketing campaign, knowledge of this is important to understand the costs it affects.

One such campaign was undertaken on a regular basis and the marketing team sent out thousands of mailers. To minimise costs in marketing they had all the mailers printed at once and delivered at the same time (the cheapest option with Royal Mail).

This meant that all the calls came into the call centre at roughly the same time and the call centre creaked. Calls waiting and calls abandoned went up, the sales conversion rate hit as were it could be expected. There was a similar hit in the back office as the numbers of welcome letters, welcome packs etc rose to a peak and then fell away again.

So the entire system was set-up and resources employed to manage to a peak, not caused by the customer but by the marketing department.

Analysis showed that if the marketing campaign was spread out over a longer period, giving more time for longer interactions with the customer then a number of benefits would accrue;

- ✓ The calls waiting and calls abandoned dropped to much lower levels.
- ✓ The sales conversion rate rose as the agents had more time to talk with the customer to handle objections.
- ✓ The levelling of the marketing campaign meant that marketing could respond to competitor behaviour more rapidly.
- ✓ The levelling of the marketing campaigns meant that the pressure on the sales/service and back office teams was reduced and issues such as stress and holiday management were reduced.

This was confirmed by testing and the marketing budget was increased to allow the marketing team to go with smaller print runs and smaller delivery options which spread the marketing over a longer period. This increased cost was more than offset in

- ✓ Increased sales revenues from increased conversion rates
- ✓ Greater utilisation of resources, the peaks were removed and resources used in a more regular pattern.

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