The Risk/Reward Barometer of the Company's Value Proposition

> *"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."*
> Sam Walton

For life sciences companies, the customer relationship is complex. A customer can be a patient, a health professional, or an associated body that manages or administers these interactions at a central and local level. The key for a pharmaceutical company is to get collective feedback from the most influential customer group: health professionals.

Companies need to engage health professionals in a systematic and sustained way, often at an individual level. The rapport that reps often build up with such customers is vital, but it also needs to be supplemented by a customer service approach that demonstrates genuine value. One important measure of this value is the level of medical information provided. In many markets there is a mandatory requirement to provide medical information on a 24-hour basis for patients as well as health professionals—but often the use of such information is not tracked as well as it should be. In fact, it can offer valuable insights into how customers respond to a company's products and provide early warning of potential quality or patient targeting issues.

The rewards of good customer experience are straightforward: a satisfied customer is more likely to be loyal and generate more repeat business. There are related benefits:

- Customer retention is far cheaper than customer acquisition.
- A loyal customer is a strong competitive advantage.
- A satisfied customer can become "part of the team," helping you generate word-of-mouth referrals.
- Such customers are also a great source of new product ideas, competitive intelligence and industry credibility.

Taken as a whole, the benefits of achieving great customer satisfaction are like a multi-tiered annuity stream. Wall Street rewards annuities because they reduce uncertainty and volatility. The risks of poor customer service are greater and more insidious because they are less visible. For every unhappy customer you hear from, there are countless others who are less vocal. Negative word of mouth can damage years of good reputation and ripple through countless prospects who never become customers. For life sciences companies especially, the act of not managing customer service can become a liability leading to litigious consequences and possibly a claim. Ultimately, unhappy customers lead to lower sales, lower market share and lower profits.

Customer Service is both an advocate for the customer within the company, and an advocate for the company with the customer. It generates unique insight into the customer experience, providing an outside view on the company value proposition.

In contrast to other industries, the life sciences sector is more aware of the importance of customer relationships. Yet the opportunity to develop this area further remains. It needs to be seen less as a cost center and more as a barometer that can guide the company towards sustainable value. Three significant barriers must be overcome to change this view.

Barrier 1: ***Insufficient visibility of the risks to customer satisfaction and loyalty uncovered by Customer Service***

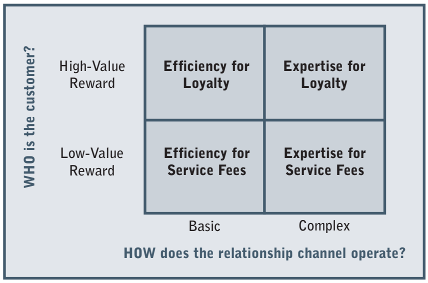
Customer Service can be thankless and hectic. Picture a room full of service representatives juggling calls from concerned customers, possibly complaining and confused regarding drug use, effects and side-effects. In such an intense environment, it is difficult to determine the context and pattern of the calls received. Could a high incidence of confused customers suggest a re-wording of drug usage instructions?

Alternatively, even at a business-to-business level, Customer Service can gather information where patterns will offer meaningful clues to problems and their root causes. Finding patterns in problems such as delivery delays, information requests, complaints and claims can lead to proactive solutions. Categorizing the types of complaints by quality, order error, response time and resolution time can reduce service costs and identify the causes of dissatisfaction. Informed companies can address problems at the source and understand the pattern and context of the calls they receive.

Even when you can’t eliminate the root cause, better categorization of issues can speed up the time taken to resolve problems. Timely responsiveness can salvage many frustrated customer relationships. As one executive of a major airline said, “Customers don’t expect you to be perfect. They do expect you to fix things when they go wrong.” Achieving this requires that problems and their causes be grouped and studied so that effective action can be taken.

Barrier 2: ***Poor visibility of the benefits of a good customer experience, especially when grouped by who and how***

While many companies know how much they save by reducing customer service, few can project the true cost of lower service levels. In particular, you need to understand how customer service levels affect your key and most profitable customer segments. If you don't, you may understate—or overstate—the risk. Overstating the risk leads to an inefficient allocation of resources, which reinforces the view that Customer Service is a cost center. Understating the risk can be even worse, leading to the loss of your most valuable customers—the ones your strategy counts on—and the marketing impact of negative word of mouth on other customers.



Good Customer Service departments take into account the absolute and relative lifetime revenue of customer segments and prioritize service efforts for high-reward customers. Beyond direct future benefits, you may also segment strategic customers that represent new markets or product champions. The key is to segment customer service issues by *who*—the customers that matter most to your current and future bottom line.

Once companies understand which customer segments are most important, they must gain insight into how the relationship works. In complex patient-customer-company interactions, a large part of the relationship depends on expertise and the effective execution of this expertise across a network of inter-dependent stakeholders. The company that can manage these service complexities effectively has a clear market differentiator. Segmenting customer relationship interactions helps to clearly define the relative value of great service.

When you include the relative value of the customer, you have a useful framework to maximize the rewards of service for you and the customer. For example, if your expertise in complex channels is a differentiator, you may want to offer it free to high-value customers in return for greater loyalty. This could be in the form of free specialist nursing services to hospitals. At the same time, you may want to charge low-value customers extra for this service. Whatever metrics you choose, you must align them with what the customer perceives as important. *Does the customer value a combined product-service proposition above a low product price? Is order accuracy more important than speed in delivery? What are acceptable lead times? Customers may always want delivery yesterday, but are shorter lead times worth a premium?* Understanding the relative importance of such elements will make customer service monitoring more relevant.

Barrier 3: ***The absence of a customer advocate and direct accountability***

Ideally, your entire organization has common customer service performance goals. You should back up this alignment with accountability and incentives, especially when the different drivers of those goals span different functions. Failure to do so creates a barrier to achieving better customer service. Overcoming this barrier requires clear, credible and aligned customer service metrics—and the political will and organizational culture to rely on them for tough decisions. *Do you incur higher costs in the short term to secure long-term customer loyalty?* Only companies that understand the risks and rewards of customer service can make informed decisions on such questions. Customer Service has a key role in generating and sharing this information. Beyond being the handling agent, it can become an effective customer advocate to other departments and an expert on customer performance metrics and their drivers. It has to understand the problems and the operational solutions. Most important, Customer Service must effectively communicate these metrics to the rest of the organization so that other departments can resolve the root causes of customer experience issues.

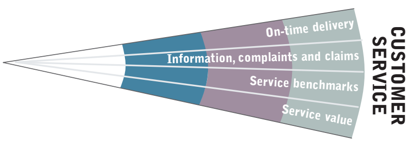
This works both ways. Not only must Customer Service bring in other functions to resolve problems, it should offer useful information in return. For example, trends in the type of complaints or problems can suggest quality improvements and operational efficiencies in production. Forewarning a sales rep about service issues before that rep meets with the customer allows Sales to craft an appropriate message and offer assistance. Mutual cooperation like this demonstrates the responsiveness of the organization and can salvage troubled relationships.

Excellence in Customer Experience

The four decision areas described below equip Customer Service with the critical risk and reward information they need to be more effective customer advocates, bringing excellence to the customer experience.

Decision areas in Customer Service:

- **On-time delivery** ➔ What is driving delivery performance?
- **Information, complaints and claims** ➔ What is driving responsiveness?
- **Service benchmarks** ➔ What is driving service levels?
- **Service value** ➔ What is driving the service cost and benefit?



The sequence of these decision areas provides a logical flow of analysis and action, starting with understanding the primary drivers of risk. First and foremost, did you deliver on time what the customer purchased? Customers do not easily forgive failures in this area; such mistakes therefore carry the greatest risk.

Beyond this fundamental contract with the customer, there are many issues that customers prefer to have resolved quickly. These include simple requests for information, complaints and major claims on the product or service the customer acquired.

The next two decision areas shift the focus to the benefits of retaining key customers. You start by benchmarking your company against industry standards. *What criteria are you measured against, and how good is your performance compared with the competition?* The last decision area brings everything together into a relative cost/benefit analysis of each customer relationship. *Are you reaping the rewards of customer service? What are they, and how much has it cost?*

On-Time Delivery

One of the biggest obligations a seller has to a buyer is to deliver on time what was ordered (or in the case of free samples, promised). Customers negotiate a due date and expect that it will be met, without exception. This is why delivery is a key performance criterion in the life sciences industry. Deliveries must be at the right quality, tolerances and security levels, creating challenges that are part of the delivery process and customer expectation.

Reducing time-related bottlenecks is critical in a just-in-time economy. Monitoring on-time delivery and order fill rate percentages can flag negative trends and enable faster customer service responses. It provides Sales with information to solve potential issues before going on customer calls. Unfulfilled delivery expectations can be important information for Accounts Receivable when checking on late payments from customers. This decision area can also uncover root causes of supply chain problems. Tracking delivery timeliness by product, carrier and wholesaler will highlight potential deficiencies in key hand-off steps in the supply chain process. With better information, you can categorize different levels of timeliness and compare them to different customer delivery thresholds for a more detailed view of risk and recommended action.

GOALS	METRICS	DIMENSIONS
Average Lead-Time Days (#)	Avg. Quoted Lead Days (#)	Billing Customer Category Customer Name
Order Fill Rate (%)	Avg. Sales per Order ($)	Carrier/Distributor Distributor/Carrier Type Carrier
On-Time Unit Delivery (%)	Avg. Shipment Miles (#)	Cust. Delivery On-Target Range Range
	Sales Order Count (#)	Fiscal Week Fiscal Year Quarter Month Week
	Shipments On-Time (#)	Lead-Time Range Range
	Units Delivered On-Time (#)	On-Time Shipment Range Range
	Units Shipped (#)	Plants Plant
		Product SKU Product Line Brand SKU
		Shipment Type/Bill of Lading (#) Shipment Type Shipment Bill of Lading (#)
		Ship-To Location Region State/Province County City Zip Code/Postal Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Distribution	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Operations / Production	Executives			•
	Analysts		•	
Sales	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Purchasing	Executives			•

Information, Complaints and Claims

Every complaint is also a proactive customer statement that you are not meeting expectations. It is an opportunity to listen to your customer, whether to a simple request for information, a complaint about product quality, a financial claim on returned products, or even an emerging safety issue. Experience shows that each call can be the tip of an iceberg. The one frustrated customer who calls may represent many more who don't bother. In the case of life sciences companies, the requirement for medical information is generally universal across most countries, and there often has to be a 24-hour information service for patients as well as health professionals. This medical information, if adequately tracked, can offer valuable insights and provide early warning of potential quality or patient targeting issues.

GOALS	METRICS	DIMENSIONS	
Complaint Count (#)	Canceled Order Count (#)	Billing Customer	Complaint Status
Failed Orders (#)	Claim Payments ($)	Category	Complaint Received
Returned Units (#)	Claim Payments (#)	Customer Name	Customer Location
	Claim Settlement ($)	Carrier/Distributor	Region
	Claims (#)	Distributor/Carrier	State/Province
	Claims ($)	Type	County
	Customer Recommendations (#)	Carrier	Zip Code/Postal Code
	Damaged Units (#)	Claim Status	End-Customer by Type
	Failed Orders ($)	Claims Received	Type
	Returned Product ($/%)	Claim Type	Group
	Service Call Count (#)	Type	Customer ID
	Time to Complaint Reply (days) (#)	Identification (#)	Fiscal Month
	Information requests (#)	Complaint	Year
		Type	Quarter
		Identification (#)	Month

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance	Executives	•		
	Analysts	•		
Distribution	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Operations / Production	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	

By tracking and categorizing these calls, you can gauge the severity of various risks and prevent them in the future. There are three dimensions to monitoring the customer voice: frequency, coverage across customer segments and type of issue. Simply counting complaints will not adequately reflect the nature or risk of a problem. For example, you may receive many complaints about paperwork and order identification errors, but these represent lower risk than a few product quality complaints that may lead to production delays for one or two large customers. In this example, a count of complaint frequency will not adequately reflect the risk of losing critical customers.

Claims are complaints that have been monetized. These may range from patient claims regarding drugs to health-care bodies making claims for service performance issues, for example, when goods have been damaged. Claims are a direct cost to the business, have a direct impact on customer profitability and, if poorly handled, lessen customer loyalty.

Service Benchmarks

Service benchmarks help evaluate how your customer service stacks up against industry standards. They measure response times and gaps affecting customer satisfaction. Understanding the link between service benchmarks and customer sales/profitability is a key goal. For example, we may find that many small orders lead to complaints about incorrect order fulfillments and product returns. The high proportional cost of delivery for small orders, combined with the order errors, should make us question our value proposition. Perhaps by increasing the minimum order value we would solve two problems. First, there would be a reduction in per dollar workload, an improvement in order performance and a reduction in returns. Second, the customer's perception of value may improve, since delivery costs would be proportionally lower.

Internal metrics may include number of orders, sales order amount, number of service calls and units shipped. External performance metrics may include delivery performance, problem resolution, customer satisfaction, response time, claims and returns. Using standard industry criteria allows managers to compare external information from third-party assessments with internally driven customer surveys. Gaps in external information can uncover risks not picked up by internal monitoring. Such information can also identify the need for better external communications.

Combined with skilled analysis, service benchmarks can be used to adjust the business and customer proposition. You can summarize customer benchmarks by region and customer segment, and thereby offer a high-level overview or drill down into Customer Service performance.

> *"Our customers are increasingly requiring immediate, direct access to their health transaction data in order to reduce healthcare costs while maintaining a high level of quality of care for their members. They also want to compare their actual experience to benchmark data that will add meaning and relevance to their own scores. Our ability to deliver that type of solution through a variety of Web-based reports and cubes has become a key differentiator between us and our competition. This capability is now a major tool in reaching our information management goal of becoming the pre-eminent healthcare information broker in the State of Tennessee."*
>
> Frank Brooks, Director of Data Management and Information Delivery, BlueCross BlueShield of Tennessee

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SERVICE BENCHMARKS

GOALS	METRICS	DIMENSIONS

Average Resolution Response Time (#)
Customer Satisfaction Scorecard
Service Effectiveness Index
	Damaged Units (#)
	Failed Orders (#)
	Lost Customer Count (#)
	Outstanding Service Issues (#)
	Returned Product ($/%)
	Service Call Count (#)
	Perfect Orders (%)
		Billing Customer
		    Category
		    Customer Name
		Customer Location
		    Region
		    State/Province
		    County
		    Zip Code/Postal Code
		End-Customer Location
		    Region
		    State/Province
		    County
		    Zip Code/Postal Code
		Product Brand
		    Product Line
		    Brand
		Service Relationship Perspective
		    Service Relationship Perspective

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance				
	Executives			•
Marketing				
	Executives			•
Product Development				
	Executives			•
Purchasing				
	Executives			•
Sales				
	Executives			•
	Analysts		•	

Service Value

GOALS	METRICS	DIMENSIONS
Lifetime Profit ($) Service Cost (%) Service Effectiveness Index	Claims (#) Claims ($) Complaint Count (#) Customer Retention Cost ($) Customer Service Cost ($) Customer Visits (#) Customers (#) Lost Customer Count (#) Net Profit ($/%) Outstanding Service Issues (#) Receivables ($) Customer Satisfaction Scorecard	Aging Brackets Range Billing Customer Category Customer Name Contracted Pay't Time Range End-Customer by Type Type Group Customer ID Fiscal Month Year Quarter Month Product SKU Product Line Brand SKU

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Customer Service				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Finance				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
	Professionals		•	
Marketing				
	Executives			•
	Analysts		•	

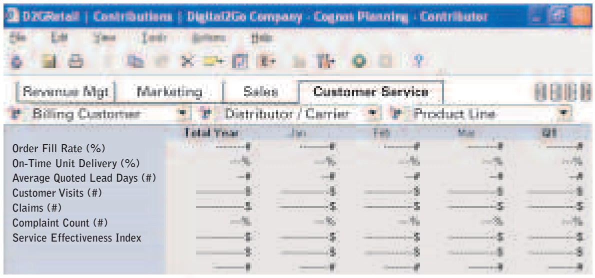
This decision area combines costs and benefits to evaluate the value of the customer relationship. It segments customers by who they are and performance by how the company provides the service. Quantifying customer risk issues and the efforts required to resolve them provides the cost overview. Some issues can be financially quantified, such as the number of calls received, cost per call and dollar value of claims processed. Others, such as late deliveries or complaints, can be categorized through a service-level index.

When determining cost, it is also important to understand how the relationship operates. *Does the customer communicate with you through efficient electronic means and direct access to internal support systems, or use less efficient means such as phone or fax?* Customer conversations that can be captured as data (i.e., electronic means) tend to indicate more efficient relationships. You can define sub-categories of complexity based on customer and transaction knowledge, for instance, by tagging relationships based on how many separate steps and hand-offs are required to complete the transaction.

At the same time, you need to categorize the benefits: for example, using a lifetime revenue metric or strategic value index based on expected revenue. When Customer Service can analyze value and cost, it can avoid trading one for the other by setting more accurate priorities for use of resources. Poor service performance in simple channels implies that Customer Service should invest more in process automation and improved efficiency. Performance issues in complex channels point to increasing investment in skills, expertise and decision-making support when analysis shows that the investment is worth it.

On-Time Delivery
Average Lead-Time Days (#)
Order Fill Rate (%)
On-Time Unit Delivery (%)
Average Quoted Lead Days (#)
Units Shipped (#)

Service Value
Service Cost (%)/($)
Customer Visits (#)
Claims (#)
Complaint Count (#)
Service Effectiveness Index



Dimensions
Fiscal Year/Month/Week
Billing Customer/Category
Customer Location/Region
Market Segment
Product Brand/Product Line
Distributor/Carrier Type

The On-Time Delivery and Service Value decision areas illustrate how the Customer Service function can monitor its performance, allocate resources and set plans for financial and operational targets.