the service institute japan

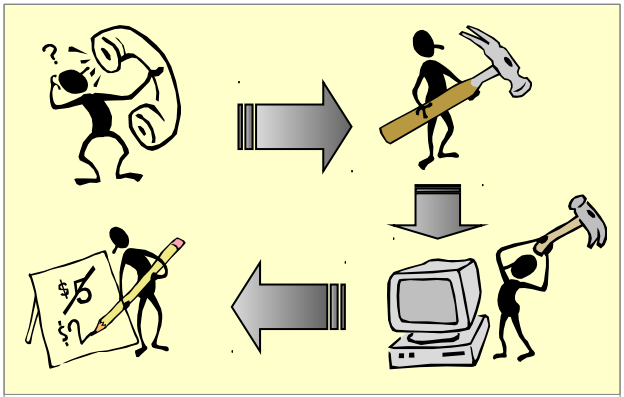
English summary of the German article series

The original articles where published in JAPAN**MARKT**, *the German language magazine of the German Chamber of Commerce and Industry in Japan in 2008/2009.*

Copies of the German original articles with charts of the benchmarking study can be obtained upon request. Please send request to info@tsij.org to order your free copy.

The three-part series is the report about a benchmarking study led by Dr. R. O. Stapf and done in cooperation with P. Gudorf of the German Chamber of Commerce and Industry in Japan 2008/2009. It was the first approach to understand the challenges of the Japanese market from the point-of-view of a Service Operation. 24 German and Swiss companies participated in the study.

Service is very simple! The customer calls. A service technician is sent. The technician repairs the machine. The service manager writes a bill. So, where is the problem?



Service is simple!
The customer calls, a service engineer takes his tool box, runs to the customer and fixes the machine. The service manager writes a bill.
What is the problem with service?

This exactly was the starting point of the comprehensive benchmarking were Managing Directors and Service Managers of 24 German and Swiss companies with service operation were surveyed.

The first part article, also titled “Service on the Test Bench" gives explanations on service in Japan, explains about the background of the study, and presents the most important results. The second article “How to Win the Service Race” looks into the workflows of service operations and analyzes related answers of the benchmarking study. And the third article “More Efficiency in Service” features improvement proposals. Each article is summarized in **Results and Perspective.**

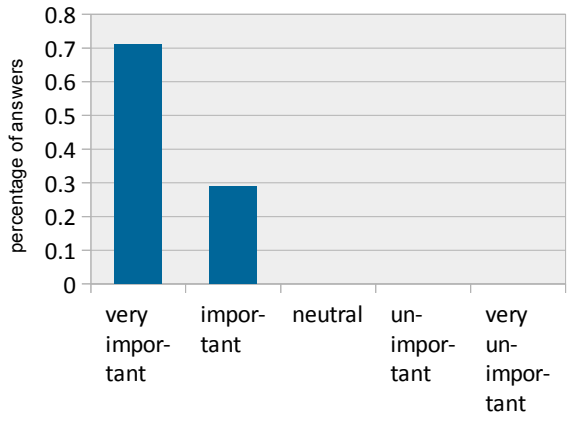
Part 1 – Service on the Test Bench

Service in Japan - In the past service was only regarded as a matter of lower priority, however, today service is for successful international industrial companies an important strategic business field. Often advantages on the product side disappear fast, sometimes within months, because competition went into the market with similar or better product features. The best possibility to differentiate against competitors is a reliable, highly effi-

cient, customer satisfaction creating, and profitable service operation. More than in the past the quality of service determines customer satisfaction, customer binding and thus strongly

Service As Sales Argument

How do you rate the quality of the service operation as a key decision factor in your industry to successfully sell more machines?



Source: Service Benchmarking Study

influencing decisions of the next product purchase. Not without a reason there is the saying "The first machine is sold by sales, the second by service".

Especially in Japan service plays an outstanding roll. Managers in Japan confirm always the extreme requirements of the service focused customers. The general perception of service in Japan is different to Europe and the USA. Service, in Japanese "saabisu", is most often considered as "free-of-charge". According to many guidelines on Japan, the customer needs to be taken care very well and expects a round-the clock-service. Of course, free of charge. Is this stereotype really true? Can European enterprises really not charge for service without angering Japanese customers?

If this is true, then western industrial companies in Japan are between the devil and the deep blue sea: Increasingly organized as profit centers, service departments should not only do maintenance and react competently in case of troubles but have to be profitable or at least covering their cost. Not an easy task for small and medium size German and Swiss companies. Due to their size and infrastructure they normally have a big disadvantage compared to their Japanese competitors. While local competitors can get an armada of technicians, sales and service staff moving - less to solve the problem but to appear in front of the customers to apologize for inconvenience - European companies have to cover all Japan with only a few technicians.

Background of the study - How are German and Swiss companies dealing with the conditions of the Japanese market? How efficient and profitable are the service operations? How do these companies perform in comparison to ther strongest Japanese competitors? This benchmarking study gives answers from the point-of-view of 24 companies. The companies participated in a really detailed survey with more then 100 questions. Most of the companies are manufactures of plant and machinery (machine tool, packaging machines, printing machines), as well as machine components. Beside these, there were also companies included offering industrial electronics, medical equipment, precision engineering, (measuring and control technology, optoelectronics), and telecommunication equipment.

All companies are typically SMEs. Three quarter of the companies have less than 100 employees in Japan, one quarter have 100 to max 500 employees. The number of service technicians confirms this picture: 45 % of the companies have less than 20 service technicians, another 45 % have less than 50.

Companies with 200 to 500, 500 to 1000, and 5 000 to 10 000 service active units represent the majority of the participants. Companies at the upper edge, in the extreme case, have to provide service for 10 000 to 25 000 units in the Japanese market. At the lower end, there are companies with less than 10 service active units. With this, the benchmarking study covers a very wide range of service operations.

As for the part 1 of the report, its first chapter "***Status Of The Service Operation***" looks into the answers concerning cost of technicians and traveling, free-of-charge service, organization of the service operation, workflow and call management, repair and remote diagnostic, service contracts, response time, service offers, and influence of service in buying decisions. "***Comparison With Competition***", the second chapter, presents the comparative analysis of the answers concerning knowledge on competition, service key figures, service operation, service contracts and customer satisfaction. The final chapter "***Improvement Of The Own Service Operation***" contains the key statements: 60 % of the participating companies have headaches concerning profitability, 80 % of the companies expect from service operation improvements more sales success, and 70% expect more profit in service (multiple answer were possible). Almost 75 % of the participants are willing to spent money to utilize external expertise to improve their service operation.

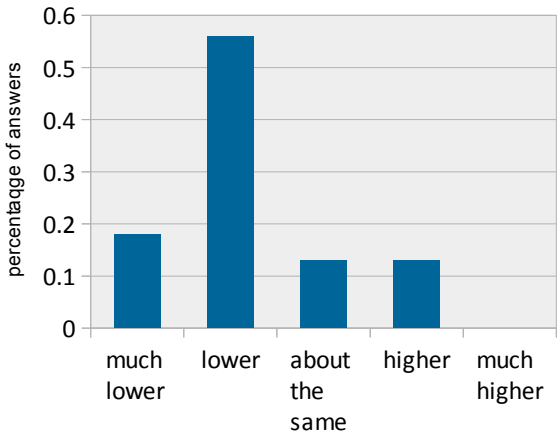
Results and Perspective – Service belongs to the biggest challenges in the Japanese market. The result of this first benchmarking study illustrates this very well. Throughout all participants confirm that requirements of the Japanese markets are higher and the importance of service as an integral success factor for the business in Japan.

Concerning the profitability of the service business in Japan it is to be seen that for most of the companies it is lower than in the home country. This raises two questions: First, is this unchangeable? Second, what needs to be done increase profitability?

Statements about competition and bandwidth of the charges of the participating companies show that price adjustments are possible. Also the reported trend that charging of service work is increasingly possible, can be considered as a clear positive signal. However, companies should consider that price increases only can be done as long as the customer experiences

The Problem: Profitability Of Service

What is the profitability of the service operation in Japan compared to your home market?



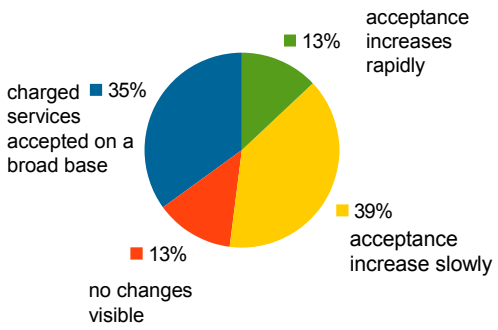
Source: Service Benchmarking Study

improvements in the services delivered. Otherwise, there is the risk of significant decrease in customer satisfaction. It should be mentioned that profitability and customer satisfaction can typically be increased the same time.

Concerning costs, the in Japan heavily discussed "free-of-charge" service should also be mentioned. Service delivered free of charge to get new sales, should be booked as sales cost

Services can be charged – even in Japan

How do you regard the chance to charge services in Japan?



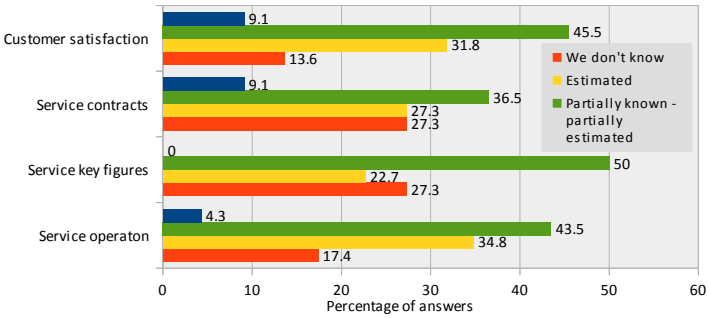
Source: Service Benchmarking Study

and thus stay out of the service P/L. Additionally, all concerned companies should ask themselves whether expensive presents in form of “free-of-charge” services are really necessary pre-conditions for successful closing of sales deals.

“free-of-charge” service for compensation of insufficient service performance has to be considered as “homemade” problem. Every company has the possibility through own efforts or, if needed, with the help of external experts, to improve the service operation in the way that customers honor the delivered services accordingly. 15 % of the companies with service operation more profitable than in their home country proof that Japanese customer do honor well delivered services.

Companies know not much about their Japanese competitor

What do you know about your competitor?

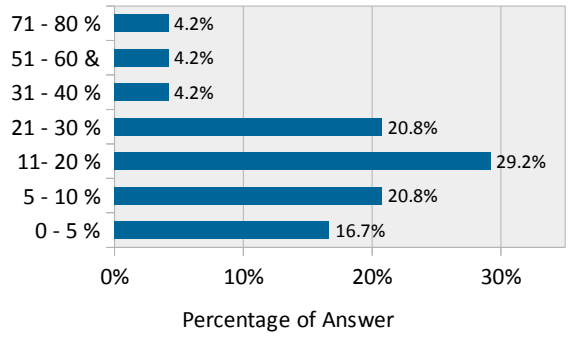


Source: Service Benchmarking Study

Service is still very often free-of-charge

What is the percentage of free-of-charge services given to your customer?

(Note: Warranty service work is here not regarded as free-of-charge service!)



Source: Service Benchmarking Study

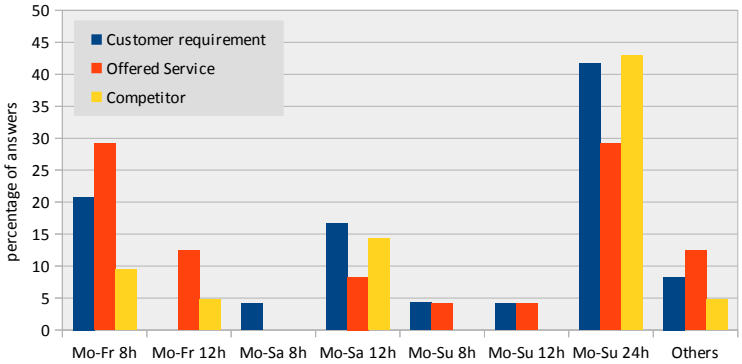
The low service contract coverage – also in comparison with Japanese competitor – gives lee way for improvements. Although industry specific conditions must be considered, experience shows that with a suitable approach and an optimized service operation expansion of a profitable business is possible.

Most likely the biggest improvement potential lies in the service operation itself. Companies, which do not have a full grip on the core process, the peripheral and service related processes, have also difficulties on the financial side of the business. The answers clearly show many companies are rather far away from an efficient operation especially in the core process (call taking, arranging of customer visits, diagnostics and escalation management). These inefficiencies cost a lot of time and money.

In summary it can be stated, the service business and its specific Japanese conditions are not as difficult as it is heard in many conversations. It is recommend to improve fast and fo-

24h-Service for less than half of the customers

What is the time during which your customers require on-site services?



Source: Service Benchmarking Study

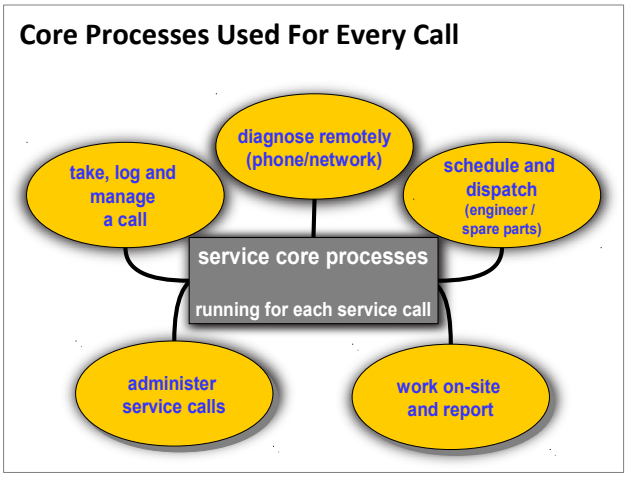
cused the service operations to improve the overall business success in Japan. Methods, to display service processes and re-engineer them to be become highly efficient will be introduced in the next part of this series. For companies using the available expertise and experience of external service professionals significant improvements of service is not at all “mission impossible”.

Part 2 – How to Win the Race in Service

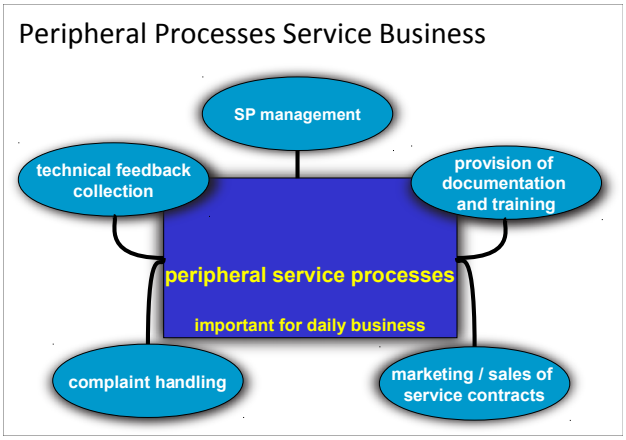
The problem of the profitability of a service operation and the service induced customer satisfaction is caused to the largest extend by the underestimation of the complexity of the service processes. Every delay in one of the, most often not really noticed single process steps or inefficient passed on information causes a delay, which at the end reduces customer satisfaction and generates avoidable cost. This is especially valid in Japan, where customer requirements in respect to service and quality are most often higher than in a company’s home country. Demands by customers don’t stop at the point-of-sales, they only really start thereafter. The company, which performances well in the after-sales-service has the best starting position to satisfy customers and create a long lasting customer binding, leading to increase of market shares.

Independent of the industry segment service processes follow basically the same pattern. Therefore the presented workflows and almost transferred to any other company.

The main part of this article gives explanations on the workflow – the flow of work – in service. It introduces in that way the process landscape of a service operation. Combined with explanations on the core process, the process which runs for each service call, reference is made to the results of the benchmarking study. Used



examples are: call taking, dispatching, response time, and remote diagnostics. This is followed by explanations on the peripheral processes, process which run on a daily level. Process examples are spare parts manage-



ment and call escalation. Again, they are illustrated with results from the benchmarking study for better understanding. Rounded up with the benchmarking example of the invoicing process the last process group of service related processes is also explained.

Results and Perspective – Service operations can slightly differ between industry segments. However, the bandwidth of answers indicates most of the companies are far away from an ideal operation.

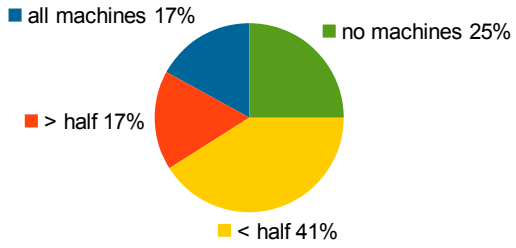
The detailed analysis of the benchmarking study shows that even companies with a few best practice elements included in their processes not necessarily have profitable service operations. This means, all service processes have an improvement potential. To turn potential in achievements, it is necessary to optimize processes holistically with real workflow modeling techniques and not with almost 100 years flow charts or similar methods. This holistic improvement approach reduces losses and increases customer satisfaction. The importance of a holistic approach is illustrated by the statement made by the head of a service call center of an internationally operating company after the workflow model of the actually running process was completed: “Today we saw the first time ever the entire process; we did a lot of sub-optimizations” Such sub-optimizations cost a lot of money . This can be avoided.

The workflow model of each service operation allows measuring of parameters to optimize the process without unrecognized reduction of efficiency at another part of the process. Workflow models also allow “dry runs” to test the entire process in respect to made changes. These tests go without any negative experience made by customers. As soon as the process is improved and sufficiently tested, it can be introduced. During the phase-in, the workflow model is the basic manual and provides the basis for quality control of the improved process.

As for the alleged operational strength of competition, there is a simple and effective countermeasure: Optimization of the entire service processes and process support by utilization of suitable service management system. With other words, for a foreign company in Japan, improving the service processes is a simple and highly effective method gain market shares in highly contested market Japanese competitors are down to the same ground. Many competitors are poorly organized and appear brilliant only by sheer size and manpower but not by efficiencies.

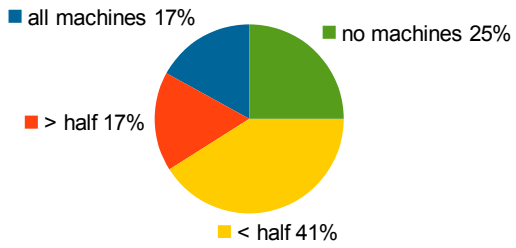
Remote diagnostic capabilities are not used to the extend possible

To which extent are your company’s machines or systems prepared for use of remote diagnostics (connecting a PC via phone lines or internet with the machines or system to investigate failure cause)?



Source: Service Benchmarking Study

To which extent does your company use this technology in Japan?



Source: Service Benchmarking Study

Part 3 – More Efficiency in Service

If one wants to be faster and more efficient than competition, the decisive elements are the service workflow and the teamwork. How good a workflow can be optimized cannot be seen better than by looking at a pit stop of a Formula 1 race. The workflow during a pitstop to service the race car is optimized to the all deciding split of a second. As for service operation of industrial companies, the following can be said: If response times of several hours need to be

achieved, it is necessary to optimize the workflow in the minute range.

Especially in times when there are all kind of reasons for a sluggish sales business, the service business will go on. An improved service operation will wake up dormant improvement potential on the revenue as well as on the cost side. “Fail to prepare, is prepare to fail” – this is definitely correct in respect to optimization of service operations and not only valid in times of any crisis, but always.

The main part of the last article in this series deals with topic of workflow model and workflow modeling.

First the workflow model is described as “condensed, easy to understand, graphical description of a business process”. For each process step is described who is doing what, using which tools or systems to transfer which input into which output by following the given regulations or guidelines.

Second, it is explained that a workflow model can identify segments in a process where efficiencies and quality can be improved and waste of human labor, material and time can be eliminated. Further can a workflow model give answers to questions every service manager is asking himself. However, if there is no real workflow model, no answer will be found. Examples of such questions are: Where in the process occur avoidable costs? What are the details of call management from customer call to completion of a service visit? How much ad-

Structure of a workflow model

Fig.: 1a

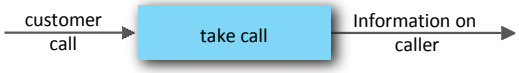


Fig.: 1b

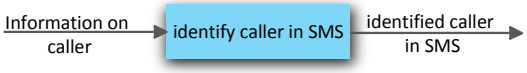
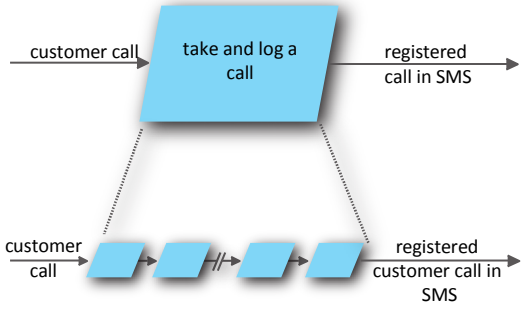


Fig.: 1c



For simplicity reasons, information on who is using which tools and systems , and on regulations and guidelines is omitted.

Fig. 2a) Duration of an activity

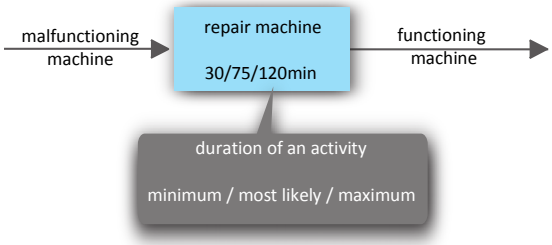


Fig. 2b) Travel time of spare parts

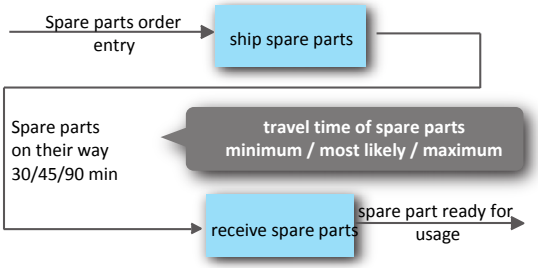
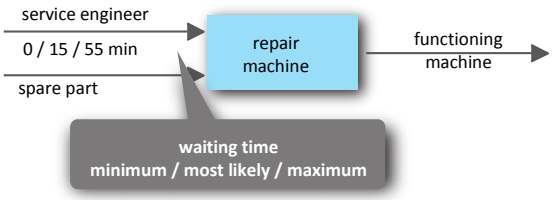


Fig. 2c) Waiting time until needed spare parts arrive



For simplicity reasons, information on who is using which tools and systems , and on regulations and guidelines is omitted.

ministrative work is done by service engineers?

Third, there is longer an explanation on the build up of a workflow model. Also workflow models can be used for any other processes like sales or administration, in this article service is used for illustration. Additionally, there is a small chapter on the difference between workflow models and flowcharts, which clearly indicates that flowcharts cannot replace workflow models. Flowcharts are made for computer programs and workflow models are made to describe, analyze and improve processes. Both are like Formula 1 race cars and tractors; both a highly specialized vehicle and should only be used for the purpose they are designed and built for.

Fig. 3b) Branching of a workflow

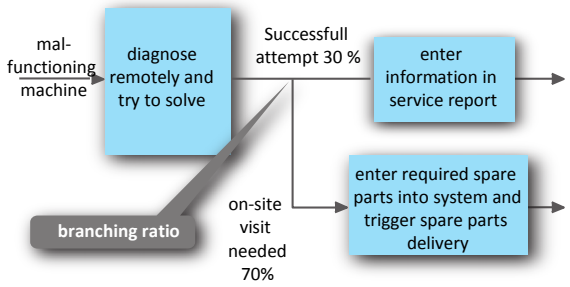
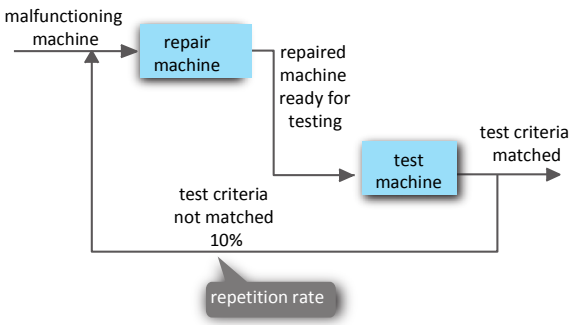


Fig. 3b) Repetition rate of an activity



For simplicity reasons, information on who is using which tools and systems , and on regulations and guidelines is omitted.

Results and Perspective – The motivation for this benchmarking study made in cooperation with the German Chamber of Commerce and Industry in Japan was giving German and Swiss companies hints for improving their service operation. In the first article the most important findings of the study are reported. The second part dealt with the process landscape of a service operation and was illustrated with examples from the study; it also displays areas with improvement potentials.

In this last part, explanation were given how workflow models are build up, what they can do, and which answers they can give. It was further pointed out what information losses will occur when attempting to map workflows with flow chart technique. Workflow modeling can be learned is not “rocket science”. When a company takes the effort to get this knowledge and expertise, the processes can be analyzed in detail and improvements can be made at the most effective segments of the service workflow.

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