

The Amazon Effect

**How Higher Customer Service Standards Impact
Your Business and What You Need to Do to Thrive**

By Lisa Anderson
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About the Author



Lisa Anderson, MBA, CSCP

- Founder and President of LMA Consulting Group, Inc. and formerly VP of Operations for a mid-market manufacturer
- Known as the Manufacturing Connector as she ties strategies and plans to results
- As a business consultant, she partners with manufacturers and distributors to **ELEVATE BUSINESS PERFORMANCE**
- Known as having an eagle-eye strategic focus, Lisa is a leading expert in selecting strategic priorities bridging the gap with execution and partnering with clients to “make it happen”
- As Lisa’s practice is known for doubling inventory turns, slashing lead times and increasing productivity and margins, Lisa is talked about in those circles as the strongest link in your supply chain.
- Lisa is the creator of the dynamic approach to supply chain excellence TST which combines torque, speed and traction to create high speed organizations that maximize performance
- Lisa is the author of *Leverage Social Networks to Drive Business Results*, has been a featured speaker at several industry conferences such as the Global Supply Chain & Logistics Summit and has been quoted in the Wall Street Journal, ABC News, and the Los Angeles Times.
- She was rated in the top 20 supply chain influencers by SAP and is board approved in supply chain strategy by SAC (Society for Advancement in Consulting)

Executive Summary



The following highlights the results of the Amazon Effect Research Study concluded in August, 2014.

- **65% feel customer service gaps vs. Amazon-like offerings:** Amazon and mega-distributors like Amazon have created a significant gap for manufacturers and distributors to fill. The research supports what is seen on a daily basis at clients ranging from small distributors to multi-billion dollar manufacturers – customers are demanding dramatically improved service levels, just to maintain the business. To add fuel to the fire, supply chains have become increasingly complex and global in the last several years, and so fulfilling this elevated expectation can be a challenge.
- **Websites are gaining in criticality:** As Amazon-like offerings are becoming commonplace, websites are increasing in criticality. It is no longer a feature; instead having a website must be an assumption. Manufacturers and distributors need to at least display products and services on their website to remain in the game; however, in order to meet the ever-increasing customer service expectations, websites should go beyond these basics. Websites should include the ability to order items, look up order status, manage returns easily, and pay invoices at a minimum. Ideally, websites should also be able to suggest products and services based on preferences and what's been ordered previously and provide a value added “face to the customer” on a 24/7 basis.

Executive Summary (cont.)



- **24/7 service expectations becoming the standard:** Amazon has created the expectation that 24/7 accessibility is the norm. Although on-line presence is becoming the norm, Amazon stands out from the crowd by also customizing its interaction with each customer. It is possible to reach a person if needed as well, and so they have done a good job with high tech, high touch. Nine to five customer service hours are no longer enough! Offering extended hours is becoming the norm. In addition, customers expect to be able to reach someone to help with urgent and time-sensitive matters no matter the day of the week or hour of the day. Globalization and time differences have added to this already-existing expectation.
- **Customers expect slashed lead times:** One of the most profound impacts Amazon has had on manufacturers and distributors is the creation of the expectation that same-day, next-day and Sunday deliveries can be the norm. Same day turnaround is becoming commonplace with distributors and even many manufacturers. I'm seeing an across-the-board expectation of reduced lead times. The majority of my clients are shooting to reduce lead times by 50% in order to position themselves to maintain and grow their customer base successfully. In some industries, so long as pricing is in the ballpark, even a 5% delivery improvement vs. the competition will result in increased business.

Executive Summary (cont.)



- **Building out technology infrastructure key to meeting customer expectations:** According to the survey, building out technology infrastructure is the top way manufacturers and distributors are considering helping them meet the increased customer expectations. Customers are starting to provide delivery performance, demand and promotions information; thus, the key is in how to better utilize this information. Technology can provide the answer. Although spreadsheets still win the race as the most popular tool utilized to analyze the customer data provided, business intelligence is gaining ground. My clients are considering a host of different technologies to support their customer service initiatives including ERP systems, CRM systems, bar coding, RFID, e-commerce and the like.
- **Determining what customers want is vital:** When asked what their single greatest challenge would be in meeting customer expectations in the future, determining what customers want came out on top. Respondents felt that understanding customer requirements must go hand-in-hand with the budget and costs required to support those changes. There is vast concern that competing with Amazon-like service will be cost prohibitive and drive manufacturers and distributors out of business. It certainly could have a dramatic impact on their business model.

Executive Summary (cont.)



For example, if customers in the U.S. require same day delivery, there is no way shipping from a China manufacturer will meet that expectation. Thus, I'm seeing a trend towards leveraging technology and especially ERP systems in combination with advanced processes such as sales and operations planning processes to automate what's feasible, improve order fulfillment processes and slash lead times.

- **Resources remain a top priority:** As noted in my [Skills Gap Research](#), there is a significant gap in required skills vs. available skills across the board in manufacturing and distribution. The lack of resources came in a close second as compared with understanding customer requirements as the single greatest challenge in meeting elevated customer expectations. In order to design, implement and sustain dramatic improvements in processes and systems which is cornerstone to increasing customer service and reducing lead times, top talent is a must! High-skilled resources are in short supply while demand is increasing. Manufacturers and distributors must retain, train, develop and source top talent to be successful with Amazon-like service expectations.

Latest Trends

- Volatility is the new norm
- Customers expectations are high (more for less – and quicker)
- Time matters
- New ballgame for sales growth
- Cash is king – perception is reality
- Information overloaded society (e-commerce, big data)
- Increasingly complex needs (global, regulations, risk, sustainability)

Adjust to New Normal

- Baselines must be an assumption
 - Cash is king
 - Service is paramount
 - Execution is everything
- Innovate or die
- Collaborate to thrive
- Image will make or break you

Key Observations

Success Factors

- Exceptional service
- At a high value/return for the customer
- At higher margins



We must create a competitive advantage

The Amazon Effect Research Study

The questions and results of participants indicating the impact higher service levels and greater product offerings have on manufacturers and distributors.

67% of Respondents Feel Customer Service Gaps vs. Amazon-like Offerings

1

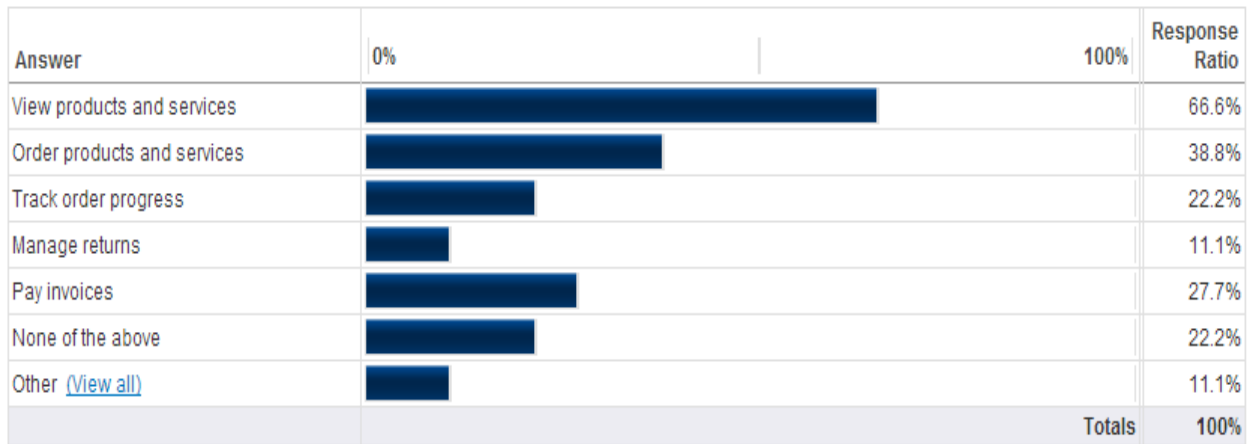
How has Amazon and companies like Amazon altered your customer's expectations?

Answer	0%100%	Response Ratio
No impact at all	<div></div>	31.5%
Slight impact on expectations	<div></div>	10.5%
Noticeable impact on expectations	<div></div>	15.7%
Greatly impacted expectations	<div></div>	31.5%
Other (View all)	<div></div>	10.5%
	Totals	100%

Consensus concludes: *“A game changer!”*

Websites are Gaining in Criticality....

2 What types of service support can your customers do on your Website?



A Majority of Respondents Use Websites to Display Products and Services at a minimum.

Websites Are Gaining in Criticality....

3

With respect to your Website, where do you see a gap in what your customers expect and what they experience?

1 = Doesn't Meet Expectations , 2 = Meets Expectations , 3 = Exceeds Expectations

Answer	1	2	3	Rating Score*
View products and services				2.2
Order products and services				1.9
Track order progress				1.6
Manage returns				1.7
Pay invoices				1.6
Other (add comment below)				1.8









*The Rating Score is the weighted average calculated by dividing the sum of all weighted ratings by the number of total responses.

Gaps Abound From Viewing and Ordering Products & Services to Order Tracking, Paying Invoices and Managing Returns.

Service Expectations Are Rising...

4

In which of the following areas do you see your customers increasing their service expectations? (Choose all that apply)

Answer	0%100%	Response Ratio
Access-24/7 online to orders, products, status, etc.		61.1%
Order/Product customization		50.0%
Order tracking		55.5%
Payment options		33.3%
Delivery		50.0%
Pricing		61.1%
Support - Service, Sales, Technical, etc.		61.1%
Other View all		11.1%
	Totals	100%

Order Tracking, Delivery, 24/7 Accessibility, Pricing & Sales Support All Vital.

Service Expectations Are Rising...

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Payment options	<div></div>	33.3%
Delivery	<div></div>	50.0%
Pricing	<div></div>	61.1%
Support - Service, Sales, Technical, etc.	<div></div>	61.1%
Other (View all)	<div></div>	11.1%
	Totals	100%

However, don't overlook the importance of the increasing requirement for product customization,

Service Expectations Are Rising...

5

How have customer expectations in the following categories changed in the past three years:

1 = Not applicable , 2 = Stayed the same , 3 = Increased slightly , 4 = Increased moderately , 5 = Increased substantially

Answer	1	2	3	4	5	Rating Score*
Delivery/lead time						3.5
Product choices						3.4
Order tracking capabilities						3.4
Increased pre-sale and post-sale service and support						3.5
Price negotiation and comparison						3.6
Customization of order						2.9
Returns policies						2.8
Other (add to comments field below)						3.0

*The Rating Score is the weighted average calculated by dividing the sum of all weighted ratings by the number of total responses.

A Majority of Respondents Feel Customers Have Become More Apt to Negotiate Price and Do Price Shopping.

Service Expectations Are Rising...

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Returns policies						2.8
Other (add to comments field below)						3.0

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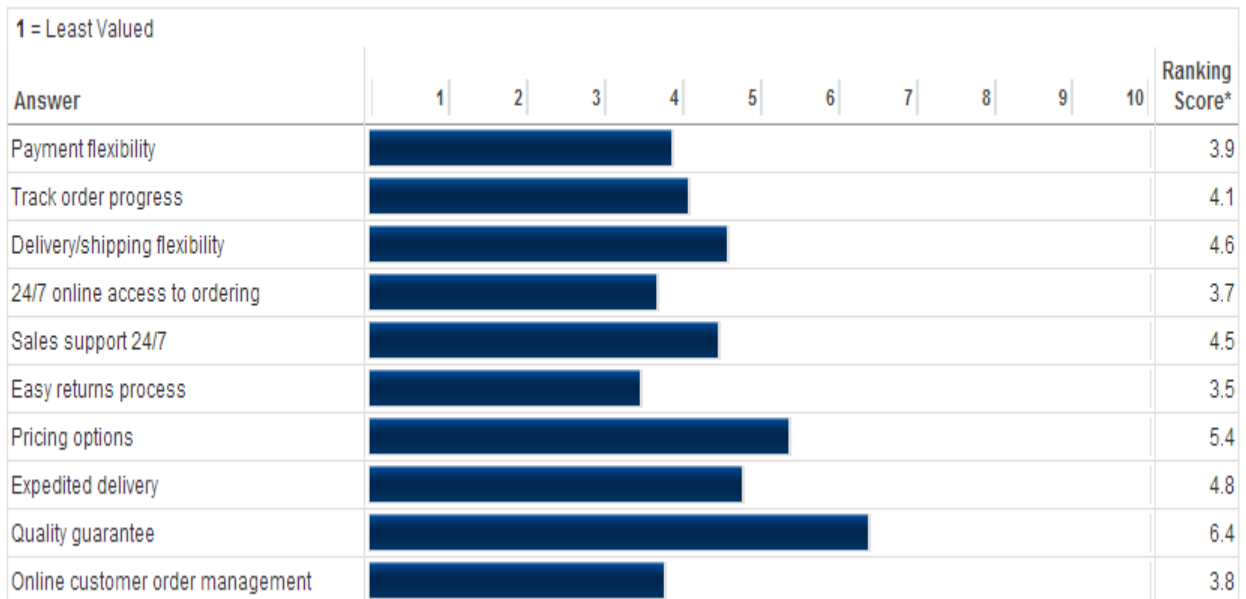
And, most importantly, delivery and lead time expectations are increasing!

The Amazon Effect Research Study

Service Expectations are Rising...

6

Which of the following is most important to your customers (Rank from least to most valued)?



*The Rating Score is the weighted average calculated by dividing the sum of all weighted ratings by the number of total responses.








Quality & Service Must Be an Assumption. Options are Expected.

Service Expectations Are Rising...

8

In servicing your customers, which of the following do your customers provide?

1 = Never asked , 2 = Already provide , 3 = Likely to provide

Answer	1	2	3	Rating Score*
Forecast				1.8
Demand data				1.9
Promotions or other marketing events				1.9
Service performance				2.0
Competitive intelligence				1.7
Returns				1.7
Other (add item to the comments field)				1.3

*The Rating Score is the weighted average calculated by dividing the sum of all weighted ratings by the number of total responses.

Tracking Your Customer Service is No Longer Enough; Customer Will Tell You!

Service Expectations Are Rising...

8 In servicing your customers, which of the following do your customers provide?

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Forecast				1.8
Demand data				1.9
Promotions or other marketing events				1.9
Service performance				2.0
Competitive intelligence				1.7
Returns				1.7
Other (add item to the comments field)				1.3

*The Rating Score is the weighted average calculated by dividing the sum of all weighted ratings by the number of total responses.

If You Aren't Capturing Demand Data, You are Missing an Opportunity.

What are We Doing in Response?

7

In response to increasing customer expectations, how have you supported this change? (select all that apply)

Answer	0%	100%	Response Ratio
Additional customer service staff	<div></div>		38.8%
Extended hours	<div></div>		55.5%
e-commerce software	<div></div>		22.2%
Redesigned Website	<div></div>		66.6%
Implement CRM processes and software	<div></div>		22.2%
Providing more data	<div></div>		55.5%
Implemented improvement programs such as lean or SIOP	<div></div>		11.1%
Not applicable - my customers have not altered their expectations			0.0%
Other (View all)	<div></div>		5.5%
	Totals		100%

Redesigning Websites, Providing More Data and Extending Hours are the Top Three Ways Respondents Have Met Increasing Service Needs.

What Are We Doing in Response?

9

Looking to the future, which of the following are you considering to help you success in meeting/exceeding customer expectations

1 = Will not consider , 2 = Not considering at this time , 3 = Considering , 4 = Researching how to include , 5 = Already in the works

Answer	1	2	3	4	5	Rating Score*
Data collection and sharing						3.2
Upgrading data collection and analysis abilities						3.1
Adding/upgrading ERP system						2.9
Adding/upgrading e-commerce software						2.6
Upgrading warehousing and distribution processes						2.8
Upgrading delivery systems						2.6
Hiring/training workers on CRM						3.1
Technology infrastructure						3.5
Other (list below in comments field)						3.0








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Building Out Technology Infrastructure Key to Meeting Customer Expectations.

What are We Doing in Response?

10

Which of the following best describes how you use the customer data that is captured?

Answer	0%100%	Response Ratio
Spreadsheet analysis using data		31.5%
Reports writers		10.5%
Business intelligence tools		21.0%
Big data		5.2%
Not utilizing the data		15.7%
Other (View all)		5.2%
No Responses		5.2%
	Totals	100%

Spreadsheets Still Win the Race; However BI is Gaining Popularity.

Greatest Challenges...

11 What is your single greatest challenge in meeting customer expectations in the future?

Answer	0%	100%	Response Ratio
Unable to identify what customers want	<div><div></div></div>		26.3%
Budget and costs associated with changes	<div><div></div></div>		26.3%
Lack of leadership to improve services	<div><div></div></div>		5.2%
Manpower deficiencies/lack of training	<div><div></div></div>		5.2%
Lack of data collection/analysis	<div><div></div></div>		0.0%
Out-of-date systems	<div><div></div></div>		5.2%
Lack of resources	<div><div></div></div>		21.0%
Other (View all)	<div><div></div></div>		5.2%
No Responses	<div><div></div></div>		5.2%
	Totals		100%

It's a Tie for Respondent's Greatest Challenge:
Understand What Customers Want and Balance What Customers Want with Costs.

Greatest Challenges...

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Lack of resources	<div></div>	21.0%
Other (View all)	<div></div>	5.2%
No Responses	<div></div>	5.2%
	Totals	100%

Resources are a Close Second – *the Skills Gap is Alive & Well.*

Respondent Feedback on The Amazon Effect

- Customers want it “now”
- Customers expect 24/7 availability
- Customers expect customization
- Customers expect “over and beyond” service

Final Observations from The Amazon Effect Research:

- Service and quality must be an assumption
- Going the extra mile is no longer a differentiator
- Time matters
- Leverage your data & technology
- It all goes back to your people!

The Amazon Effect Research Study

If You Are Interested in Receiving the Latest Trends & Tips to Outpace Your Competition with Service, Let's Stay Connected...



Profit Through PeopleSM Newsletter

Monthly digest of news and commentary focused on manufacturing, distribution and supply chain. In depth articles supply tips to apply your eagle eye to improve systems and profit through people making you the strongest link in your supply chain.



"I've Been Thinking" Weekly Tips

A weekly, quick-read of tips, ideas, tools and strategies you can implement right away. Triggered by benchmarking best practices, technology and data analysis, I share with readers some of the trending data and how I recommend you react to it.

Select one or both to stay current on what's happening in supply chain!

<http://bit.ly/1orqTWG>

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