

Service Chain Management

White Paper

by

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1. Management Summary

In today's competitive environment, service not product usually determines the difference between success and failure. Within a global web-enabled economy, the client can go elsewhere with ease and maintaining your brand image is paramount in retaining and growing business. Material costs now often represent a small percentage of total costs, with labour and premises overheads typically the two largest expenses. And yet there is little done to understand, manage and reduce these costs on a corporate basis.

This white paper is designed to highlight the importance of the often neglected subject of Service Chain Management and to show how service can be improved and costs cut through transparency of information.

2. What is Service Chain management?

There are many articles written on the subject of supply chain management but very little available on management of the service chain. The focus of purchasing departments and computer software suppliers has been on managing the supply of goods for manufacture, distribution, wholesale or retail. ERP, e-procurement and supply chain management systems have helped augment the strict purchasing, goods-in-wards and inspection processes that existed for these materials to provide better information and control. This focus of corporations has been significant in driving improvements in quality and cost reduction through volume purchasing agreements.

Service Chain management is exactly the same concept applied to the non-trading aspects of the business; the overheads necessary to keep the core business operational, e.g. cleaning, catering, engineering, preventative and reactive maintenance. Somewhat due to the success of the above, these costs now typically represent a significant percentage of the total suppliers and total costs of a company. In fact, logically, as they generally involve man-hours of time this component of total costs is likely to be subject to the pressure of becoming an ever increasing cost base. The delivery of these services can drastically affect customer perception of service and the bottom line profits of the entire business. A growing trend to outsource these services and their associated costs and focus on core competencies has unfortunately not just delegated responsibility but often abdicated accountability too.

3. Why is Service Chain management important?

No multi-site, national or international organisation would think of delegating the purchase of materials or products to local outlets, missing out on the power of buying as a group

No finance department would consider the approval of an invoice without proof of delivery, inspection and count.

No purchasing department would accept the idea that the supplier or subcontractor of materials will determine their own performance against contract.

No production manager would consider the subcontracting of a sub-assembly to imply there is now no need to monitor costs and quality.

And yet this is exactly what happens in most businesses when it comes to service contracts.

Service contracts are commonly negotiated locally, no proof of delivery is provided for approval of invoices. Performance against service level agreements are usually monitored and reported against by the contractors themselves. No transparent view of performance across buildings, assets, engineers, contractors or boundaries exists. The appointment of a sub contractor is seen as the end of the process rather than a part of it.

4. Are Service Chain management savings significant?

One of the world's largest retail organisations with 10,000 corporately managed suppliers for all goods sold in their shops worldwide recently discovered its suppliers of local services exceeded 15,000, with no national or international purchasing applied.

Negotiating a single contract (in place of 12 local) for just one area of maintenance saved a European Hotel organisation over half a million dollars per annum.

Active monitoring of service level agreements can typically save 5 to 10 % per annum of service contract costs.

Tracking actual service provided against preventative maintenance contracts can result in rebates or reductions of over 5% per annum.

The effect on the bottom line of these savings is direct and in most organisations very significant, usually more than reductions in direct material costs. Reducing the overheads within a business by \$100,000 drives \$100,000 to the bottom line. Whereas reducing the cost of a product to be sold by \$100,000 will only have the same effect if the resale price is maintained and if direct costs are unaffected. If sales price is produced by mark up or a commission paid on profitability, the effect on the bottom line can be reduced considerably.

5. How does this affect Customers?

The result of poor service chain management on customers' perception of service can be even more significant than the cost savings. In today's competitive marketplace, the difference in the customer experience will be one of the main factors affecting the sale, return or referral by the client. Not being able to gain access, having to queue unnecessarily, having to walk up stairs, unclean, too hot or too cold can all drive the customer away, possibly never to return. In most cases the customer can go elsewhere for the product or service and loyalty which took years to build is switched overnight. This is all too apparent within the retail market but is just as true within leisure, public services, transport even financial services. Experiencing a poor environment can at best leave a poor perception of service; taken to the extreme the customer could suffer injury or death if health and safety factors have been ignored.

6. Aren't Contractors responsible for delivering their service?

Most contractors will be keen to provide a good service and will have their own systems in place to manage their staff, billings and reporting requirements. However these are driven by the contractors need to manage their costs, ensure that they utilise resources well and charge where appropriate. Whether manual or latest hand held wireless technology, the management information is based around the needs of the contractor. This can cause problems when disputes arise over the customer's view of service vs. a vs. the data provided by the contractor, for example:

The store manager perceives that the asset (e.g. escalator, boiler) is constantly breaking down, the contractor shows 99% availability

The accounts department disputes an invoice because there is no evidence that the service was ever performed, the contractor produces a report.

The buyer feels that the service level agreement is not being met despite the contractor's metrics which say they are.

The result is that bills do not get paid, the business feels it is paying too much and getting poor service and the contractor is frustrated that its services are undervalued and in dispute.

And although the contractor might be responsible for delivering service it is the business that is responsible for Health & Safety:

"Every employer is under the duty to conduct his undertaking in such a way to ensure the health and safety, so far as is reasonably practicable, of persons not in his employment." - Health and Safety Executive

This includes protecting the health and safety of contractors and members of the public. This duty extends to providing information to non-employees if they will be affected by the work activities.

“It is the employer’s duty to assess risks to lone workers and take steps to avoid or control risk where necessary” Health and Safety Executive

Procedures need to be put in place to monitor lone workers to see they remain safe.

7. Isn’t that the whole point of SLA’s (service level agreements)?

More and more service contracts are being written with key performance indicators and service levels needing to be met by out-sourced service providers. These form the start of many new business relationships. Not only are they difficult to produce and agree, they prove even more difficult to manage. The most common scenario being that the contractor is responsible for reporting upon their own compliance? Not so much poacher turned gamekeeper as poacher made policeman!

Not that the Contractor is always the villain and the owner the victim, the SLA is often a blunt tool that leads to unprofitable business, creating penalty claims and service demands that are not in the spirit of what was agreed or is required. The result is usually one of two extremes, either the SLA is ignored entirely and Service goes unmonitored or the rigid rules are applied with disregard to service or value. Too commonly outsourced service contracts end acrimoniously with both parties feeling aggrieved only to be replaced by a similar relationship which falls foul of the same misunderstandings and miscommunication after the initial honeymoon period. This constant flux is not in the interest of either party, keeping an existing client is much more cost effective than finding a new one and maintaining a supplier that has built up experience and trust is desirable to most operations.

The SLA needs to be a framework on which to build a business partnership. The SLA requires an independent monitoring system that provides detailed undisputed management information that can be used by all parties to analyse what they are getting or providing, with easy comparisons across the enterprise.

8. Transparency of service delivers win / win

Managing the Service Chain is essential to keep customers happy and safe, ensuring value for money is achieved and building strong business partnerships. We believe that by sharing real time performance data, best practice can be both enforced and rewarded. Commitment to improving the transparency of service delivery helps to create best value and ensures long standing business relationships.

The internet can provide the capability to achieve this transparency by holding an independent database of all contract details and associated transactions updated as they occur and accessible by anyone with a browser from any where in the world. This ability to hold data between organisations and create the data as a result of the actual service process interaction has only just been realised. Local server based systems are well suited to managing a business or a property but cannot give a view across businesses, suppliers, owners, assets, or countries. The Web and ASP (Application Service Providers) introduces the concept of shared data and shared applications, available on a subscription basis, so that each beneficiary can pay for the part they use.

By sharing a common source of data that is updated immediately as part of the service chain process all parties can see what has happened, what is happening and what is planned to happen. From planned maintenance schedules or reactive call out, each process is time stamped on initiation, response, ETA (estimated time of arrival), actual arrival, completion or carried forward reason and costs. Asset details can be transmitted to avoid confusion. Clocking in and out of site ensures undisputed attendance and proof of delivery. Communication of messages, health & safety, risk assessments, security, permits to work and inspection certificates can all be electronically managed with recorded acceptance tracking to ensure maximum compliance with all liabilities.

The transparency of service chain delivery can be a win/ win for all parties involved.

9. Further Information

The FM Company plc was established in 2002 following a joint development project with Kingston University. We are an independent British company based in London and are committed to improving the transparency of service delivery, to create best value. We believe that by sharing real time performance data, best practice can be both enforced and rewarded. Our dedicated employees bring devotion and passion to their work with a commitment to listen to our customers needs and continually improve our application 'Essentials'. 'Essentials' is available on an annual subscription basis using a web browser or patented site terminal application.

If you would like to understand more about Service Chain Management or would like to arrange a no obligation discussion on how your business could benefit from improving the transparency of your service and maintenance management please contact us.

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Gary joined the FMCompany plc as its CEO in January 2005. He has twenty-one years experience of applying technology to solve business issues. With a strong sales and consultancy background; Gary has worked within the manufacturing and distribution environment, consultancy and software industry, managing teams from start-up to six hundred staff. Gary has a track record of building successful well-motivated teams including direct and indirect business partnerships, which have achieved increased profit and shareholder value along with superior customer satisfaction.

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