Oifig Fiontair Áitiúil

Local Enterprise Office

Product and Service Delivery

...Let's talk business

*Oifig Fiontair Áitiúil **Lú***

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Product and Service Delivery

Every business sells either a product (a physical item) or a service (something intangible), or both. Many businesses develop one first, and extend into the second – for example, a company that makes industrial machines may provide a maintenance service for its customers, to keep the machines running at their best.

Product/Service?

The first step in optimising your business' product/service delivery is to understand what your customers are really buying (see also the advice booklet '**Marketing the Product or Service**').

Sometimes, if you can see past the obvious product/service that the customer purchases, you can see their real need - and, by meeting that real need, not only open up new opportunities but also distance your business from its competitors. For example, Dell makes and sells computers, but so do lots of other companies; the difference is that Dell allows its customers to create a computer to their own specifications, adding or subtracting features to get exactly the machine they want within their budget. Other companies force customers to buy computers that have already been assembled in pre-decided configurations. Dell understands that their customers are not just buying a computer, they are buying a computer that they have designed themselves to meet their own specific needs.

Optimising your business' product / service delivery involves answering these questions:

- Will your business be product or service-based, or a combination of both?
- If product-based, will you buy in your product or manufacture it yourself?
- If service-based, how will you ensure consistency of service delivery?

Product or Service-based?

Every business sells some kind of product or service - sometimes one or the other, sometimes a mixture of both - to its customers.

Product-based businesses usually involve:

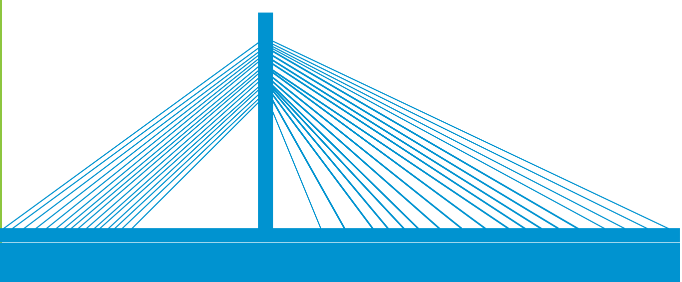
- Raw materials or finished goods
- A distribution channel to customers
- A physical location that suits customers

These things all cost money. Stock clearly costs money, since you have to pay for it - often before you can sell it, which puts pressure on your cashflow. But there's also the risk of buying the wrong stock - wrong size, wrong colours, wrong model - or of obsolescence, where your stock goes out-of-date - food past its sell-by date, for example, or 'old' technology, even though it works perfectly well.

The choice of distribution channel to reach customers is often a manufacturer's greatest challenge. Every distribution channel involves costs - whether you sell direct to the end- customer, bearing all the marketing costs yourself, or you sell through intermediaries, such as wholesalers and retailers, who are rewarded by commissions or discounts from the retail price.

And it is rare for any manufacturer to have just one channel of distribution - most have, and need, several, in order to reach into different parts of the market. Again, Dell, which has been so successful in selling direct to customers is now partnering with major US retailers, like Best Buy, Staples, WalMart and Sam's Club, to offer pre-configured, pre-built computers - just like the other computer manufacturers that have always sold through the retail channel. But Dell is not turning its back on what has made it successful - it is simply recognising that, while a large part of the market wants to customise computers to their own specifications and will buy online to do so, a significant part of the computer user market will do neither of these things - they want to walk into a store, buy a reliable computer, with a sensible specification, from a recognisable brand, and to walk out the door with it - they are prepared to trade off customisability for immediate usability (again, this shows the importance of understanding what customers are really buying).

And last, physical location. This can be critical for many businesses, especially those in retail or personal services, or those that need specific resources close at hand - deep-sea ports, rivers, access to raw materials, suppliers, or skilled staff. A restaurant located on an unfashionable street or part of town will be less successful than one in a better (from the customers' point of view) location. But physical location can be irrelevant for businesses that sell at a distance from their customers - mail order or Internet- based businesses, for example - or consultants, who travel to their clients' businesses to carry out their work.



Both product and service-based businesses have advantages and disadvantages. Think of a business that sells shower fittings, for example - or kitchen tables. Both have items available for sale to customers, from a shop or warehouse, located where customers can reach it easily. The business may buy its stock from other businesses, or make some itself. Either way, it forms part of a 'supply chain', which stretches from the original manufacturer through to the end-customer. The physical nature of the product makes comparison easy for customers, who can shop around based on quality, convenience and price. This is good news because it means you can easily attract new customers - but bad news because perhaps your customers can find the same product, or a similar product, cheaper elsewhere.

Service-based

Service-based businesses sell 'intangibles' like haircuts, or accounting services. Very often, potential customers cannot tell whether the service is good or bad until after they have bought it - and sometimes not even then, if they lack the necessary expertise to judge the quality of the service. This makes it harder for customers to compare - and so they are often slow to try a new supplier of a service (because of the risk of making a bad choice), and (good news, perhaps) even slower to change once they feel that they are getting a good deal. So, in selling services, you need to think about how you can reduce the risk to a potential customer of that first, all important trial.

Buy-in or Manufacture?

A key question for a product-based company is whether to buy-in the product or to manufacture it in-house.

Buying-in a finished product for re-sale puts you at the end of the supply chain, where the risks are lower, since you are closer to the customer - but, equally, where the rewards are usually lower too, since, typically, you only keep a part of the price the customer pays, passing the bulk back to a wholesaler and then on to the original manufacturer. It also means that you have little control over the features or presentation of the product - usually you sell it just as you got it.

However, you can usually buy in quantities related to your market needs, so that you can control your stock cost (see earlier).

On the other hand, while manufacturing the product yourself gives you greater control over the end-result, since you decide the product's features, it also involves more risk, since you are farther away from the customer (you may never actually meet your end-customer) and you are at the mercy of the other parties in the supply chain to tell you what the end-customer wants in, and from, the product. And, in order to manufacture economically, it may be necessary to make a lot of a particular item at a time, increasing the risk if it's not what the customer wants.

Increasingly, for Irish businesses, manufacturing is being outsourced, to lower-cost countries in Eastern Europe or the Far East. But, despite the extra cost, you may decide to manufacture locally first, in order to sort out teething problems - once your business is up and running, you can look at outsourcing to save money on manufacturing.

Another issue...

Another issue to consider for manufacturers is quality and quality certification. While most businesses claim that quality is important to them, few are able to demonstrate it through achievement of quality certification - for example, **ISO 9000** or **Guaranteed Irish**. Certification of quality may be the distinguishing factor that your customers are looking for.

Maintaining Service Consistency

Service businesses are 'people' businesses- they depend on their staff to deliver the service, whether it is a haircut, accounting services, a meal, or a car service. And the challenge of a service business is consistency of service delivery.

If you go to the same hairdresser or restaurant, you won't receive the same service every time - if the restaurant is very busy, short-staffed, with problems in the kitchen and the manager away on holiday, you'll get a less than wonderful experience. Accounting firms depend on the training they give their staff to ensure that similar transactions are handled the same way in the clients' books, every time - but accountants spend a significant part of their time on each job checking and re-checking the quality of work done.

The secret in providing consistently good service is to develop a system, write it down, train your staff and monitor delivery. Sounds easy? It's anything but! First, there's the problem of developing a system - actually taking apart the service itself so you can see the elements that make it up. The more experienced you are at providing the service, the harder it is to explain what you do - try this experiment: explain what you do when you are changing gear (up or down, it doesn't matter) in a car. When we become good at performing a service, we take it for granted, and no longer see the steps involved. But, if you can break down your service into its elements, and document them, then you can begin to train your staff in how to provide the service - and how to provide it better. Training should be an integral part of a service business - you can never be **too good**. And, once trained, staff need to be monitored to ensure that the system delivers what the customers want, in the way they want, when they want.

Systematising service delivery is an essential first step if you have ambitions to develop your service business through franchising. If you can't show someone else how to run your business, you can't franchise it, but it's also important for keeping customers. Reducing the variability of service delivery is a key way to get customers coming back again and again. That favourite restaurant of yours is your favourite in large part because of its consistency, and it rarely disappoints.

Again, in service businesses, development and adoption of a systematised approach lends itself to quality certification - for example, ISO 9000 or NSAI Excellence through People. Certification may give potential customers additional reassurance, enough to convert them into actual customers.

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Further Information

Local Enterprise Office Louth | **www.localenterprise.ie/Louth**

Louth County Council | **www.louthcoco.ie**

Supporting SMEs | **www.supportingsmes.ie**

Enterprise Ireland | **www.enterprise-ireland.com**

Local Enterprise Offices | **www.localenterprise.ie**

Department of Jobs, Enterprise and Innovation | **www.djei.ie**

National Standards Authority of Ireland | **www.nsai.ie**

Guaranteed Irish | **www.guaranteedirish.ie**

ISO 9000 | **www.nsai.ie**

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