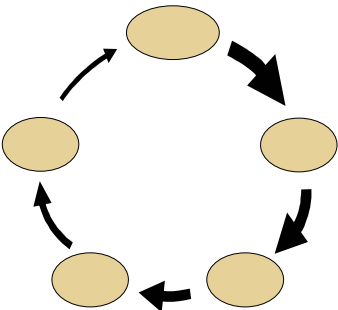


The Service Value Chain



Winning strategies for making money in the Field Service Business

FieldSVC.Com

Introduction

If you are like many field service businesses, up to 40 percent of the opportunities you receive each day are lost forever. By understanding the Service Value Chain and taking advantage of the practical tips and advice in the article, you can significantly improve sales and gross margins by making the most of the opportunities you have. The Service Value Chain is a concept highlighted in the coming book, *“Tips and Tricks from the Masters of Field Service”* by M. Brian Yale, the author of this article,

First, a few definitions - Field Service is a large and diverse industry. In the broadest sense, there are two categories of field service:

Consumer Discretionary. Consumers, both residential and commercial, will contract for repairs or installations on an as-needed basis. This business is characterized by demand service – typically driven by Yellow Page advertising. Speed of service delivery, field payment processing, a requirement that the customer is present at the time of service, and dynamic real-time dispatching are all business drivers. Businesses in this category include Plumbing, Drain Cleaning, Heating and Air Conditioning, Appliance Repair, Pest Control, Utility Repair, Auto Towing or Mobile Repair services, Painting and Wall Hanging contractors, Electrical contractors, Roofing contractors, Window replacement businesses, Fencing contractors, Landscapers, and other related businesses.

Entitlement-Based. Field Service in this realm is based on contract relationships with the customer. This business is characterized by scheduled service, no requirement for the customer to be present, efficiency of service delivery, no field payment processing, routes instead of dynamic dispatching. Businesses in this category include Lawn Care, Janitorial Maintenance, Industrial Equipment Maintenance, Pest Control Baiting System Providers, Gardening, Pool Maintenance, and Maid Services.

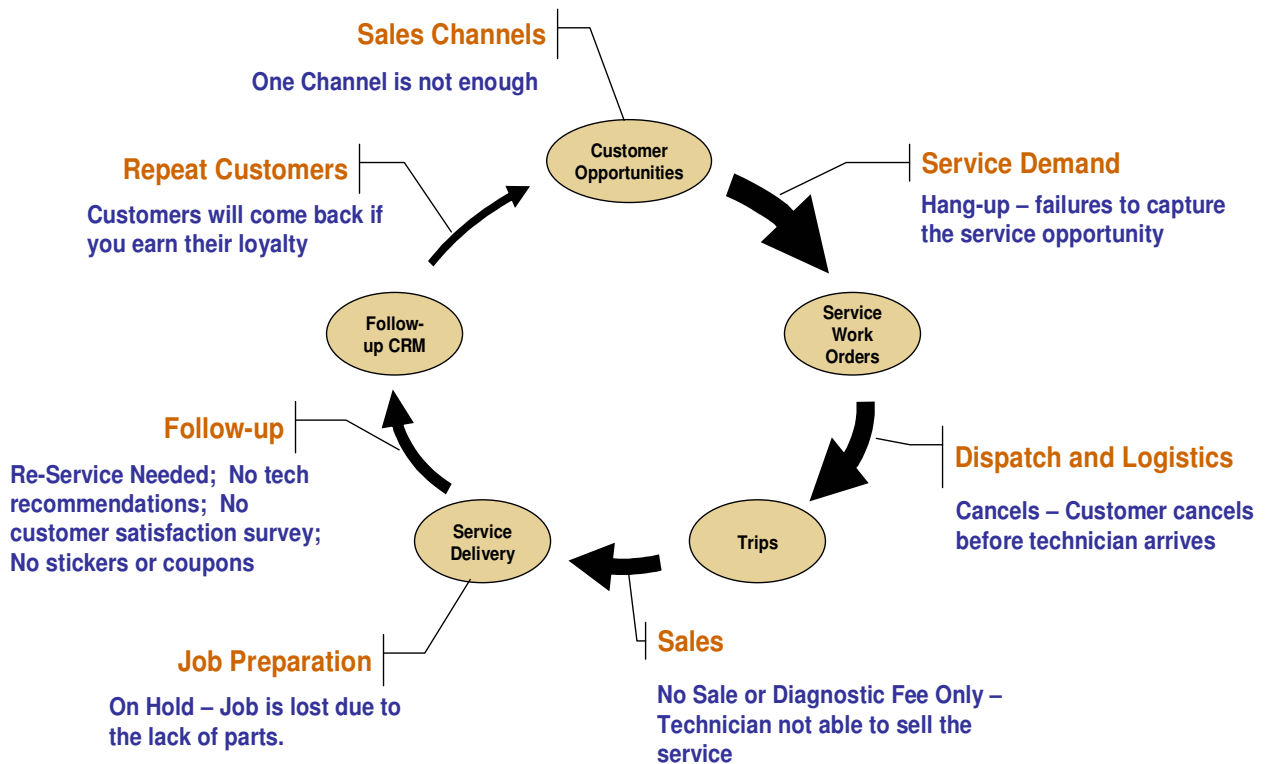
The Service Value Chain discussed in this article is primarily directed to Consumer Discretionary field service businesses. However, much of the discussion applies equally to the Entitlement-based businesses. In fact, many Entitlement-based businesses routinely handle one-time emergency service customers, just as many Consumer Discretionary businesses have a component of contract maintenance work in their business.

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We all like to say that Field Service is a simple business – the customer calls for service, we provide the service, and get paid – that’s it! But wait a minute - if that scenario only works sixty times out of every one hundred, then something is not right. Farmers who send their fruits and vegetables to market would be distraught if 40 percent of their produce were lost in transit. A theme park would not last long if only 60 out of every 100 patrons survived one of their rides. Yet, we in field service put up with these losses everyday. In order to get to the bottom of this and fix it, we need to view field service as a process – a process that starts with the need for service and ends with the successful delivery of service. This is the heart of the Service Value Chain.

The Service Value Chain



The Service Value Chain is the progression of a service opportunity from beginning to end. Small improvements at each step can translate to significant improvement in sales

and revenue. In effect, you can grow by 20 percent or more without any change in service demand. All you need to do is make the most of opportunities you already have!

The Service Value Chain closes the loop with the customer. Once the service work is completed, we want to build an ongoing relationship with the customer in order to get repeat business and referrals. When everything is done right, your reward is a satisfied customer that uses your business again. The process repeats itself and you grow. When it's not done right, fewer and fewer opportunities come your way, and the process slowly grinds to a halt, as does your business.

The arrows decrease in size during the process because customers and opportunities are lost at each step. Losses at each step may be less than ten percent, but only a relatively small number of customers make it to the repeat customer stage.

Customer Opportunities. Opportunities come from Sales Channels and from repeat business. Repeat business needs to be thought of as your reward for doing a great job in managing the service value chain and customer relationships. If you are not actively engaged in retaining your customers, only about 24 percent of first time customers will come back. That means 76 percent of customers that used you once will never use you again. In fact, the majority of consumers cannot even remember the name of the service provider they used after just three days!

Historically, Field Service businesses had only one sales channel – yellow page advertising – and only one method of contact – inbound calls. Although most field service businesses continue to operate that way, there are many other sales channels that will bring more opportunities to the business:

- Outbound Calls
- Direct Sales
- Self-Service
- Wholesale Opportunities, Service Brokers
- Alliances

Many field service businesses now receive over 50 percent of their work from these channels, freeing the company from total dependence on inbound calls.

Service Demand. You need to capture the customer information and arrange a time for a site visit. Sounds pretty simple – what can go wrong? Plenty. Typically, calls are handled by Customer Service Representatives (CSRs) or in some cases by dispatchers or managers in the branch. Many shops just take down the information as best they can and don't track their success rate in booking the work. Companies routinely lose 15 percent or more of the opportunities for this reason alone. Worse still, you won't know how much business is being lost

Use call scripts to guide call takers through the booking process. The scripts should be customer-focused and have objection scripts if the customer balks at booking the work order.

because your staff doesn't come clean with all the opportunities they are fumbling.



Capturing service demand needs to be handled in a highly professional manner. You need call scripts to guide those taking customer calls through the booking process. Scripts should be customer-focused and have objection scripts if the customer balks at booking the work order. You need a reliable method of measuring lost opportunities (“Hang-ups”) in order to improve performance in this critical area. Here are some tips on getting all the opportunities you can:

- Trained specialists should take all inbound customer calls.
- Empathize with the customer.
- Don't pre-qualify the customer.
- Don't do over-the-phone diagnosis.

Here are the most common reasons for failing to book a service work order:

- Customer wanted a price quote or estimate over the phone.
- Customer could not say how they would pay for the service.
- Customer thought the price was too high.
- Customer did not agree to the trip charge or diagnostic fee.
- Customer wanted faster service than the business could provide.
- Customer wanted a specific appointment time.

If you use specialists with scripts and objection scripts, and you are prepared to be flexible when objections are raised, then you will capture as many calls as possible for your business. You should be able to reduce hang-ups to a level in the range of five to eight percent, which is probably one half of what it is today in your business. We have seen hang-up rates in some shops exceed 20 percent - catastrophic to any field service business!



Follow the principle of “give the best service to the best opportunities” and your business will prosper.

A key point: **You cannot improve what you cannot measure.** To reduce hang-ups, you need honesty in reporting. Many CSRs will go out of their way to avoid the stigma of a hang-up. To improve hang-ups, you need strong leadership, a training program, a good tracking system, and plenty of time spent observing the CSRs and listening in on conversations.

Dispatch and Logistics. The next step in the Service Value Chain begins with a booked work order. You now have a customer that has agreed to the service or at least to have a diagnosis done. At this point, Operations takes over. A dispatcher or manager will assign a technician, estimator, or salesperson to the work order and send the person to the job site at the appointed time. This process is logistics – getting the right

technician, with the right parts and equipment to the right customer at the right time. Does that sound like something that is handled perfectly every time? Hardly.

Logistics break down for a variety of reasons; foremost among them is an imbalance between supply and demand. At any given point in time, you will either have too many technicians or too many service work orders. If this imbalance gets too great, business will suffer and you not able to get a technician to the job site – either not at all, not fast enough, or not when promised.

Customer cancels happen after the service work order is booked but before the technician arrives at the job site. Major reasons for customer cancels are:

- Technician Did Not Show Up On Time.
- Customer Booked with a Competitor.
- Customer Found a Quicker Service Provider.
- Customer Had to Leave.
- Customer Fixed Their Problem.



There are some hidden opportunities with customer cancels. One study showed that if you call back all the customers that cancelled service the following day, 20 percent will agree to book again. If your cancel rate is a typical 10 percent, then just by taking this simple step, you can increase your sales instantly by two percent.

If most of your customers are entitlement-based – that is, under contract or warranty and you are the only authorized provider, then cancels of service work orders are usually not an issue. However, long term captive customers have a way of getting even when exposed to persistent poor service, so you should not get too complacent with these customers. Many Lawn Care companies face fifty percent plus cancellations from customers after their annual contract expires. Imagine having to replace one half of your business each year just to stay afloat. Never take a customer for granted, not even a captive customer!

We have seen cancel rates as high as 25 percent, but a 10 percent rate is typical. This is a double-edged sword – if your cancel rate is too high you need more technicians. If it's too low, you may have too many technicians, or your customers are captive. A healthy, high performing business should experience a cancel rate from four and eight percent.

Service Sales. The technician arrives on site, diagnoses the problem, and presents a written estimate for the customer to approve. The customer signs off on the estimate and the work begins (or, at least the job staging process begins).

Factors contributing to the success in this process are:

People want to know when you will arrive a lot more than how fast you might arrive.

Call back all the customers that cancelled service the following day, 20% will agree to book again

- Technician appearance and demeanor.
- Condition and cleanliness of the service vehicle.
- Rapport the technician builds with the customer during the problem diagnosis.
- Quality and thoroughness of the estimate.
- Technicians' ability to explain the problem and solution.
- Price.
- Timing of the work to be done.

The end result should be a sale. For repair businesses, a 90 percent success rate is typical. For major repairs or installations, the success rate is normally from 33 to 50 percent. A no-sale fails both you and the customer. The cost of getting the technicians to a customer's front door is from \$95 to \$120, depending on the market. The following are the main reasons a customer declines service:

- Customer will get a second opinion or price quote from a competitor.
- Customer only wanted an estimate - will decide later.
- Customer had to leave.
- Customer had a payment problem.
- Technician took too long to arrive.
- Technician not able to duplicate problem.
- Technician not able to perform the work.
- Parts or Equipment not available.

A high correlation exists between no-sale work order rates and the experience levels of the technicians. If most of your technicians have been with your company for one year or less, expect a high no-sale rate. If most of your technicians have been with you three or more years, then the no-sale rate should be well below 10 percent.

Job Preparation. If your field service work requires some job staging and job preparation, it's unlikely that you will be able to offer same day service. Consider the staging required in order to install a new Air Conditioning unit in the customer's home:

1. Close the sale and arrange for financing.
2. Pull permits for Mechanical and/or Electrical work.
3. Arrange for Public Utility Company rebates and/or Manufacturer rebates.
4. Order A/C unit or pull from inventory.
5. Determine parts and material requirements for ducts, vents, and returns, etc. Order or pull the necessary parts.
6. Set up appointment with the customer and the lead installer for the installation.

Companies good at this can accomplish all six tasks in a few hours. Sales made today are routinely installed tomorrow in HVAC businesses. However, in some environments job staging can take several days or weeks. Stay in close contact with the customer during this time. If there are delays, customers often cancel and demand their money back,

obviously not a good for you or for the customer. Customer communication is the best defense.

By minimizing job preparation time, you should lose very little business, maybe one or two cancels per hundred. If you are losing five percent or more of your sales during staging, fix the staging process and communicate better and more often than you are doing now.

Follow-up. Most businesses consider the process complete when the work is done and the technician collects the payment. However, several steps remain in the Service Value Chain. Re-services and warranty work are common follow-up issues. Technician recommendations, satisfaction surveys, and Customer Relationship Management (CRM) activities are important success drivers but often overlooked.

Re-services. All field service businesses have a small number of jobs requiring re-servicing. The primary reason is poor quality of service, followed by defective parts. When a technician does not do the job right the first time, he or she has to return, often multiple times, to complete the job. This is costly to the company and annoying to the customer. How can re-services be stopped? The following is a few ideas that work:

- Send a qualified and prepared technician to the job site.
- Charge back the technician for re-services.
- Target training in high re-service areas.
- Coach technicians that have re-services



Recommendations. Here's a tip that works to increase revenue. Require the technicians to write recommendations for future work on many estimates and invoices. You can expect to have good follow-up recommendations on about one third of the invoices written in the field. Typical recommendations are fixture upgrades, maintenance or extended warranty offerings, accessories, or additional work that the customer does not want to have fixed as part of that day's work. The technician must review the recommendations with the customer. After several days or weeks, your CSRs should place outbound calls in an effort to book the additional work. There are always slack calling periods when they have time for this effort. They will be successful about 20 percent of the time. The end result is a 6.6 percent revenue increase for your business.

Satisfaction Surveys. Many, if not all, of your service customers should be contacted after the work is completed to make sure they were happy with the work and that their problem was solved. Ask from three to five questions, like:

- Did the technician show up on time?
- Did the technician explain the problem and how it would be fixed?
- Did the technician fix the problem and clean up when done?
- Would you use us again?

Tracking technician satisfaction levels is another way to reinforce the importance of satisfying the customer. It serves to prevent technicians from using excessive behavior patterns, such as gouging the customer because they think they can.

Customers can have trouble knowing whether or not a technician did a good job. Tangible things they can address are the appearance and friendliness of the technician, how careful he or she was in not damaging or dirtying their home or business, and how well he or she cleaned up.



Here's another success tip: If the technician leaves the job site cleaner than it was before the problem occurred, customers will consider that to be great service. Customers describing their service experience as "great" are four times more likely to use you again as compared with customers that received "good" service.

Follow-up CRM. CRM, or Customer Relationship Management, is a process designed to build customer loyalty and customer retention. Occasional reminders that a tune-up is due, special off-season offers, and other mailers are helpful to keep your name in front of the customer. It costs an estimated five times more to acquire a new customer than it does to retain an existing one, so this effort is money well spent for most field service businesses. However, some companies doing mainly one-time repairs for residential customers might find this a waste of time and money. If the mean-time-between-service for repeat customers is over two years, forget about CRM for residential customers. Focus your energy and money on commercial accounts, where ongoing relationships can be built and the mean-time-between-service is six months or less.

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The Service Value Chain and Yield. Yield is the percentage of opportunities that result in a successful sale. Six Sigma refers to this as "flow through yield", since there are several steps along the way that impact yield,



In the mid-1990's, we studied over 20 plumbing businesses to determine why some were successful while others were not. By closely examining each of the businesses' financial statements, we concluded that there was no magic pill – great businesses were doing many things just a little better than their peers. We have seen this time and again – the difference between a highly successfully field service business and a struggling one is not just one or two things - the highly successful business is just a little better in twenty or thirty ways, and the differences accumulate.

Let's compare three service businesses. "D" Company is poorly run, having modest problems in all areas of the service value chain. "C" Company is a typical field service business. "A" Company has processes, systems, and leadership in place to maximize yield. We gave each company 1,000 service opportunities. Here's how they fared:

Step	"D" Company		"C" Company		"A" Company		Loss Reason
	Opportunities	percent Lost	Opportunities	percent Lost	Opportunities	percent Lost	
Opportunities	1,000		1,000		1,000		
Booked Work Orders	850	15 percent	920	8 percent	960	4 percent	Hang-ups
On-Site Trips	723	15 percent	828	10 percent	883	8 percent	Cancel
Sold Work Orders	614	15 percent	745	10 percent	813	8 percent	No Sales
Job Preparation	590	4 percent	730	2 percent	804	1 percent	Lost while on-hold
Yield	566	57 percent	716	72 percent	796	80 percent	

Assuming an average sale of \$350, "D" Company made \$198,100, "C" Company made \$250,600, while "A" Company made \$278,600. That's over 40 percent more than "D" Company! Unfortunately for "D" Company, it gets worse. They have a high 15 percent re-service rate, so their cost of sales is greater than "C" Company at 10 percent re-services or "A" Company at 7 percent re-services. As a result, the gross margins on these sales look something like:

- "D" Company gross margin: 50 percent, or \$99,050
- "C" Company gross margin: 55 percent, or \$137,830
- "A" Company gross margin: 58 percent, or \$161,600

The "A" Company produced 63 percent more gross margin dollars with the same opportunities given to "D" Company, even though both charged the same price! This was achieved by small improvements at each step along the service value chain. There's no magic here, just attention to detail and a commitment to doing things right.

"D" Company suffers from a poor repeat business rate of 20 percent. "C" Company did a little better at 35 percent, while the "A" Company enjoys repeat business from 55 percent of their customers. As a result, "D" Company is doomed, "C" Company treads water, and "A" Company grows and prospers.

Conclusion and Recommendation. You can improve sales and profit in your business without any increase in opportunities, but unless you are very experienced at process improvements and change management, you'll need expert help. You can start by getting a free initial consultation from FieldSvc.Com – just go to the www.fieldsvc.com web site and click on the “Free Consultation” link. It's the first step you can take today to become a high performing organization.