



## The Customer Service Peril

### Why do so many organizations get caught providing inadequate customer service?

### Don't get caught by shifting loop dominance



#### Customer Service: A common concern

There's a reason the issue of customer service is a common concern, one that most companies must eventually address. It's because, as a company grows, it acquires a larger customer base. This changes the nature of the challenge in maintaining revenue.

The change is not due to changing external circumstances, but is a natural consequence of the innate structure of the firm and its market.

#### That's obvious, isn't it?

Yes, it is. So why is it that so many organizations find themselves in a customer service crisis, somehow surprised that declining customer satisfaction threatens success?

The answer: *shifting loop dominance*. This happens when system behavior shifts from one feedback loop being primarily responsible for a system's behavior to another loop being primarily responsible.

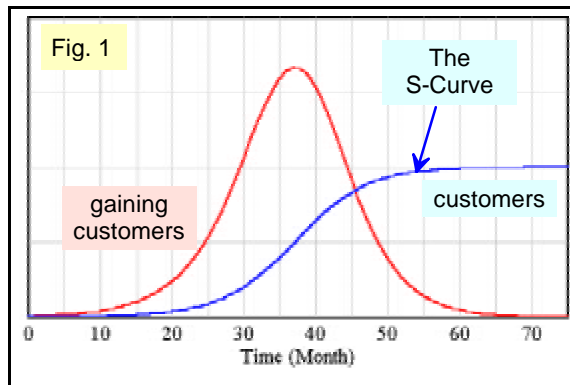
It can happen without notice because the organization's focus is on how things *have been*, not how they *will be*. It's a dangerous time. What previously created success no longer does. But we keep trying harder, based on what worked in the past ... just making things worse.

#### The product life cycle

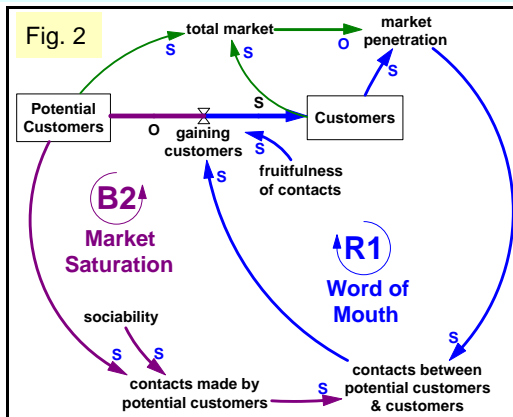
Initially, organizations have a small (or no) customer base. The S-Curve in Figure 1 shows the customer base grows as a company realizes its full potential.

#### What is systems thinking?

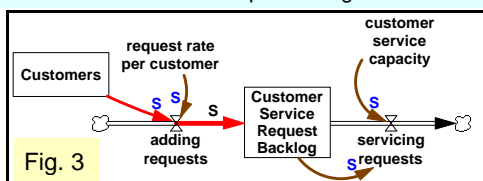
Seeking to understand system behavior by examining "the whole" ... instead of by analyzing the parts.



These are the typical profiles of the product life cycle.



Customers grow by WOM (R1), but eventually all Potential Customers are depleted ... growth slows &



The Service Request Backlog fills as Customers add to it; it empties as requests are serviced.

In Figure 2 **Customers** is the accumulation over time of the flow of **gaining customers\*** (variable names are **dark red**). In this simple model, there is no **losing customers** outflow, but there sure is when customer service is poor.

#### Considering service requests

Figure 3 shows a partial extension of this model for businesses for which customers make service requests. Requests might be for replacement parts, correcting defects or failures, explanations of how hardware or software operates, etc.

The flows, **adding requests** and **servicing requests**, adds to and reduce, respectively, the **Customer Service Request Backlog**.

**Customer service capacity** determines the rate at which requests are handled.

#### When request backlog grows?

A growing backlog increases the **request response delay**. Customers mentally compare this delay against **customer's response delay expectation**. The larger the percentage increase over expectation, the greater the **customer satisfaction factor** ... customers get more upset. This increases the **losing customers** flow to deplete the number of **Customers**.

Figure 4 shows this part of the structure. Balancing loop, **B3: Customer Service**, shows the logic of how adding customers, with a fixed customer service capacity, eventually increases **losing customers**.

Balancing loop, **B2: Market Saturation**

\* This treatment builds on that in **The Product Life Cycle**. See it for a description of the model in Figure 2.

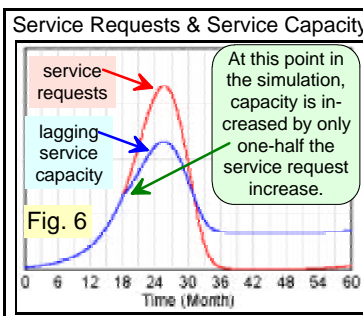
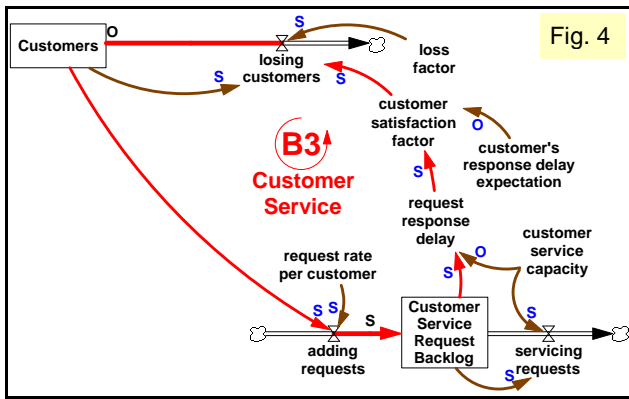
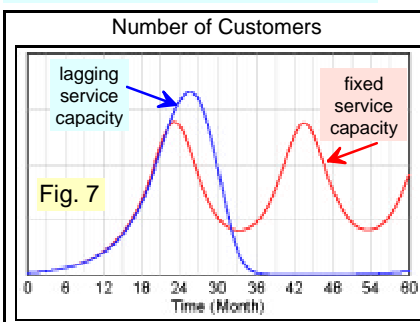


Figure 6 shows a change to the model: beginning at 18 months service capacity (blue) is limited to 50% of additional service requests (red) ... perhaps reflecting a management desire to increase profits by limiting service costs.

Here service capacity is increased, but not enough to handle the requests ...

Figure 7 shows what happens.



The number of Customers (blue) does increase somewhat above the fixed capacity case (red), but then falls drastically. This policy makes matters worse because it allows request response delays to rise even more than the fixed capacity case. We get, not just oscillations, but crash & burn.

... the result is that, instead of oscillation, Customers goes higher and then collapses.

**That's shifting loop dominance!**

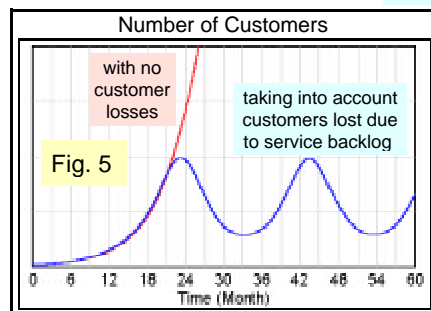
As the Service Request Backlog increases, customer satisfaction falls and we lose customers ... hitting an early, self-imposed limit.

in Figure 2, describes the limit to growth when we fully tap the market and run out of customers ... the flattening of the S-Curve because of that limit.

But we don't get to that limit, if we begin to lose customers because of declining service quality. Figure 5 shows the kind of behavior we can get when we add loop B3 to Figure 2. With a fixed customer service capacity, Customers, instead of taking off (red), oscillates (blue).

**Why oscillation?**

As the backlog increases, more and more customers defect. Eventually we lose so many that we again have enough customer service capacity ... we no longer lose customers. And then the cycle begins again.



Not enough capacity, lose customers ... until enough capacity, gain customers ...

We might say, "That's stupid. No company would keep customer service capacity constant ... surely they'd increase it." Probably, but we see the same kind of behavior when service capacity is increased, just not by enough.

"What's happening when senior managers, acknowledged as heroes in the press for their wisdom and success, seem to suddenly manage a series of failures that seriously damage their reputations?"  
Dennis Meadows

Initially, R1, the Word of Mouth growth loop, is the dominant loop that most influences the system's behavior. After a time, dominance shifts to loop B3. After almost 2 years of steady growth, sales collapse within 6 months. Though swift, the shift can be imperceptible because management attention and measurement systems are geared to the initially dominant loop: sales, not customer service.

Remember, too, the real world isn't as nice and neat as a simulation plot. We must cope with statistical variation, perception delays, and a hard-to-measure intangible: customer satisfaction. For months declining sales may appear a temporary aberration.

And management tends to blame problems on market downturns or unexpected competition ... not their own actions.

It's a dangerous time ... for everyone.

**Feedback is Power - Tap It**

Initially, a dominant loop most influences a system's behavior. But after a time, dominance shifts. Though this can occur quickly, the shift is sometimes imperceptible because, for perhaps years, all the measurement systems have been geared to the initially dominant loop. This is a dangerous time. After years of steady growth, organizations can falter and even fail.

**Workshop Benefits**

Explicitly examining this structure, taking into account the specifics of an organization's situation, is a valuable group learning opportunity. It's important to gauge the appropriate level of service capacity, the measures used to determine the appropriate level of service to be provided, the delays associated with getting additional service capacity on-line, and what should trigger increasing capacity.

**The Effect of Shifting Loop Dominance**

When loop dominance shifts, the habits, the senior personnel, the policies, the data and control systems, the criteria for success, even the mythology of the firm may become irrelevant or counterproductive.

Dennis Meadows on Shifting Dominance  
Power of Systems Thinking Conference, May 1997

*Continuous Improvement Associates*

Bob Powell, Ph.D., MBA

6992 Blackhawk Place  
Colorado Springs, CO 80919  
Phone: (719) 599-0977

Website: exponentialimprovement.com  
E-mail: scuba@usa.net