"How Optimizing the Customer Experience Can Help Your Business Survive – and Even Thrive - in a Recession"

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Executive Summary

The US is now officially in a recession along with most other developed economies. Stock prices have plunged worldwide, unemployment is rising and the economic outlook for the next couple of years is bleak. It's no longer "business as usual" for any company or industry, and past performance is no guarantee of future results.

How to "future proof" the value chain (in particular the customer facing capabilities) will require a level of understanding what customers value together with speed and precision in execution that is currently rare. Those that do will optimize both their top line (revenues, loyalty etc) and bottom line (costs, efficiencies) and overall business effectiveness.

The first part of this paper ("The Recession Changes Everything") looks at the pressures companies are now under and how their likely responses will impact the Customer Experience. The second part ("Measure Twice, Cut Once") suggests some practical approaches to optimizing Customer facing capabilities in a recession (eg: map the current experience, validate it with customers, then focus on what really matters), the primary objective being a lower customer cost-to-serve while improving/maintaining revenue streams.

The Recession Changes Everything

The bottom line is that whether in B2B or B2C the current recession changes everything because it forcibly reorders your customers' priorities.

For sure, price becomes more important than ever. Yesterday's "must have" feature or service may be today's "nice to have." Yesterday's IT automation priority may now be less important to your customers than access to live service support and advice. Being easier – and therefore more cost effective – to deal with may now be more relevant to your customers than innovation in product features or functionality.

> Your business is almost certainly now spending money and effort in the wrong places if it's continuing to use a paradigm that has now been overtaken by current events.

So what are your customers thinking - and what will they do now? Almost regardless of what industry you're in, your customers are going to:

- **Need reassurance about you.** Organisations and individuals face massive uncertainties and will need to be regularly reassured for some time to come.

- **Be less forgiving of service or process problems.** Change reduces established loyalties and operational deficiencies that were once tolerated may now be all the justification a customer needs to go elsewhere.

- **Fundamentally re-evaluate your value proposition.** The strategic challenge is to deal effectively with the constant pressure to commoditize your value proposition.

- **Place even more focus on price.** Businesses everywhere are deferring non-essential purchases as concern with brand equity is replaced by cost-driven indifference and short-term focus.

- **Become less loyal to established suppliers.** Established relationships are vulnerable when your customer's job #1 is ensuring his own survival.

- **Place more emphasis on peer endorsement for new suppliers.** Customers seeking new business relationships will seek strong peer endorsement before committing as no-one can afford to make a mistake.

As an example of a company responding to the recession by trying build up its emotional drivers rather than cut back on hygiene factors, one of the largest US mutual fund and brokerage organizations has just launched an aggressive "customer outreach" initiative designed to help stem the outflow of money from its funds, targeted at a wide segment of its customer base, including those with relatively modest investment balances. Their efforts focus on driving active customer engagement and include invitations to conference calls, webinars, free financial planning sessions, in-person seminars, and changes to on- and off-line communications. Clearly this organization concluded that investing in tactics that would impact the emotional drivers of its business was a better approach than cutting back on the basics.

- **Seek business relationships with companies that can help them regain a sense of control.** Some customers will place a higher premium on working with businesses that can help them address the devastating loss of control which the recession has caused.

In approaching these changes in customer behaviour most companies will seek either to enhance margin by reducing spending, or help customers regain some sense of control by addressing selected areas of their concerns. An example of the latter could be a bank sending out comfort letters to customers explaining how the bank intends to ride out the storm, thus alleviating emotional fears. In either case the mindset that prevails will dramatically impact the Customer Experience offered.

These two responses need not be mutually exclusive either. Cost cutting in one area can be used to fund investment in another - more highly leveragable - area. In any business, rational "hygiene factors" are obviously necessary to satisfy basic customer expectations. Examples of hygiene factors for many businesses are basic access possibilities, availability and welcome of service staff, getting resolution to queries within a reasonable time, quality of product, etc. The opportunity for cost-cutting in these areas varies business by business, but should be approached with caution and with a clear fact-based understanding of the potential impact on the Customer Experience, these "basics" may well have changed or been added to (eg: need for reassurance) by recent events .

Yesterday's high-leverage touch point may not be seen as such today, and equally what was seen as an area of waste yesterday may look very different today. The key is to <u>know</u> what has changed and to find out what now matters to your customers, and not simply to guess.

And of course "hygiene factors" alone are not sufficient to drive retention, loyalty or word of mouth recommendation – or to create precious reassurance for customers in tough times. That requires emotional drivers such as trust, confidence, empathy, personalisation and sincere friendliness, promising on commitments, time to listen, and maybe even over-delivering in these areas in the coming months. Before either cutting costs that impact "hygiene factors" or focusing precious discretionary expenditure on upgrading the Customer Experience, the key is to precisely understand how the recession impacts the relative importance of individual touch points.

Change Creates Opportunity

This type of change is painful but it also creates opportunity in at least two dimensions:

In another example, a multi-national insurance company with a major business in Mexico found that by significantly upgrading the face-to-face experience provided in its large customer service centres, it improved retention rates, created substantial goodwill, and "raised the bar" significantly for competitors. (In Mexico middle and lower income customers prefer to conduct their insurance transactions in person and are prepared to travel long distances and endure lengthy waits to do so, primarily out of distrust of the local postal services.) The key here was that the insurance company had measured and understood the emotional power of treating its less affluent customers with decency and respect, and chose to invest in this key area of the Customer Experience rather than cut back on "hygiene factors" when the local economy started to deteriorate.

a) As a result of the recession some companies will have the chance to acquire new customers from competitors who struggle, go under or no longer have the resources to compete effectively.

b) When individuals face major change in their lives (eg: moving home) ties to all their existing loyalties and relationships are loosened.

A clear understanding of what kind of Customer Experience those displaced customers are now looking for is therefore critical if they are to be won over.

Some companies will acquire weaker competitors and will have to integrate their customer facing capabilities. For the acquirer, having a clear vision of the desired Customer Experience is critical if the integration is to be implemented effectively, acquired customers will be more likely to leave if they experience any service issues.

And for executives trying to drive a change agenda within their organizations, the current economic downturn does have a silver lining. In most businesses the status quo now looks less and less attractive to top management. There is likely to be a consensus that change is needed, and for an executive with a plan of action, there is also personal opportunity. To quote Rahm Emmanuel, the incoming U.S. White House Chief of Staff, "Never let a crisis go to waste."

Whether businesses like it or not, the recession is a catalyst for change, and effective leadership will be the single most important characteristic of those companies that will survive and even prosper. At Mulberry Consulting our contention is that the most powerful contribution a senior executive can bring to the table in mapping a strategic path toward a clear and concrete vision of how to optimize the company's Customer facing capabilities in response to the current economic climate.

The first step is an objective evidence -based assessment of the customer's view of what has changed – what is important now and what's not, what can be cut and what can't, and how to go about it.

"Measure Twice, Cut Once"

The old carpenters' maxim for getting a job done right, "measure twice, cut once," applies well to businesses now looking to reduce costs in a recession. Before cutting – whether it's people, budgets, services or product features – businesses need to first measure carefully what the net impact on Customer Experience will be. This is not an area for guesswork as mistakes are likely to quickly invoke the law of unintended consequences. Nor is it an area in which to deploy unproven techniques for measurement or analysis. It requires a quantified evaluation of the end-to-end Customer Experience using proven tools and techniques, preferably against a benchmark of peer group performance.

McKinsey recently interviewed senior executives from eleven leading service delivery companies, and all but one agreed that improving the Customer Experience is growing in importance to their companies, customers, and competitors. However, many of them will discover that their long-held but seldomvalidated assertions about what customers really want are either wrong, or have now been substantially altered by the recession.

Against this backdrop we offer some specific examples as thought-starters to help companies manage their customer facing capabilities to optimise their Customer Experience while maintaining or reducing costs:

- **Optimize the end-to-end customer experience.** From a business perspective, why spend resources to satisfy customers at every stage of an entire customer journey if only a fraction of it will be remembered? In addition, why spend resources satisfying all customer segments if many don't care? We know that human beings only remember certain peak and particularly end moments of an experience, so the challenge is to find out how to reduce spending on touchpoints less critical to the customer, and of course which customer segments to apply this to.

- **Consider the possibility that the mantra of all-embracing customer-centricity might be wrong.** For example, at a Northern European mobile telco the generally held view was that to increase the "very satisfied" proportion of customers the company needed to improve the entire end-to-end service experience, from "becoming a customer", "receiving a welcome call", "getting started", "receiving the first invoice", "using service channels", "discovering new usage features", "receiving a service call", "contract renewal", "offer to downgrade" right through to "being saved". Analysis quickly revealed that most important to the brand and to its target customers was improving the initial experience of "becoming a customer" and "receiving the first invoice". Furthermore, the proportion of new customer dissatisfaction by far outweighed the rest of the customer base, so focus was placed on customers with less than six month tenure. The remedy lay in simple, low cost initiatives such as better information at stores and online explaining that the customer's existing mobile supplier may delay the number portability process, plus clear graphics on invoices explaining how to understand the bill. Thus the telco did not try to satisfy all customer needs, but became better at generating positive memories, and ultimately reached its satisfaction and retention goal.

- **Find the optimal service level.** Mulberry Consulting is often asked what the service levels at a given company should be. Clients ask what others are doing, and what customers are expecting. The bad news is that there is no generic answer to the question; the good news for some companies is that they may be maintaining unnecessarily high – and expensive - service levels. For example, if customers of Microsoft have a high expectation that their problem will be solved when they call the company, the chances are that they will wait several minutes, and perhaps as much as ten minutes, without jeopardising brand equity. On the other hand, if customers are unsure whether their problem will be resolved at all, then frustration will set in rapidly and sub-one minute service levels start becoming important - and extremely expensive. So the trick is to monitor abandon rates and customer satisfaction in real time to find the inflection point where service level reaches an acceptable level.

- **Improving First Call Resolution (FCR) has a dramatic impact on costs, and improves the overall Customer Experience.** Improving FCR is a classic efficiency project, potentially delivering large cost savings and an improved Customer Experience. It is also characterised by low risk, low investment and high returns, to the degree that one call centre we worked with actually boosted sales by 77%, a massive impact

  Our models show FCR as the independent variable which often has single highest effect on customer loyalty. This is understandable given that customers who get their query answered straight away do not need to call back. This in turn reduces the number of calls, and consequently reduces frontline workload requirement and costs. However, even though improving FCR may be a low risk/ low investment project it is by no means easy. There are three basic causes for poor levels of FCR. First, frontline agent-related areas are the primary source of error (44-57% of root cause) but also the quickest to fix. The majority of problems are due to agent error, for example providing unclear or wrong information. Second, organisational and process factors (32-37% of root cause) are the second most important source of problems but can require system changes entailing longer resolution. This could for example impact processes for claims management. Third, customer behaviour itself may be uncontrollable (11-17% of root cause) and difficult to fix, but fortunately this constitutes the least common reason for low FCR.

In one business a simple remedy to address frontline agent problems was deployment of a suggested script for the agents containing one *must-say* sentence in each of the call's five phases. By following this simple structure, such as wrapping up the "Farewell phase" with "…OK, I can confirm I have now ordered [product] for you, at [price], which will arrive at [date/time], thanks for your order. Is there anything else I can now help you with?" many more calls were resolved first time, providing huge cost savings, with minimum investment and enhanced Customer Experience.

- Make it your first priority to measure and re-evaluate your end-to-end experience process. Talk to your customers, potentially focusing on one segment at a time, and make sure you understand what they *really* value in the areas that you serve them, as distinct from what they see as nice-to-have but not essential to your core proposition. There may be cost savings in surprising places.

- Finally, remember that a little kindness goes a long way in hard times. People from top to bottom in service businesses should never forget that now more than ever customers are human beings too, and that they may be more influenced by genuine kindness and consideration than by an IT upgrade.

How Mulberry Consulting can help

Mulberry Consulting is dedicated to helping organizations across the globe become more Customer Intelligent and better manage their customer capabilities to optimize the Customer Experience they deliver. Unlike some consultancies which have recently "discovered" the concept of Customer Experience, this is all that we've ever done.

All associates of Mulberry Consulting have deep subject-matter expertise spanning a wide range of industries, and they have at their disposal a set of market leading proven approaches and analytical tools.

Our proprietary Experience Excellence Assessment ™ will assess the current capabilities that are in place to deliver a desired Customer Experience and provides the basis for implementing customer-centered change. Our Customer Journey Mapping approach provides a visual realization of the rational and emotional journey that customers go through at each stage of the lifecycle, and identifies the key touch points that can make or break the experience. And our approach to *Customer Intelligent* analyses such as recommendation measures is highly practical and helps organizations to identify and focus on those particular practical areas that are most important and most motivating to their customers.

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As International Marketing VP for the insurance giant MetLife, Simon is responsible for marketing strategy, brand management, market intelligence and communications initiatives across the 15 countries outside the US which comprise MetLife's International business. He became interested in the challenges of managing the customer experience while working with MetLife's in-country teams in support of their distribution partners both tied and third party.

His background is in consumer marketing and advertising. Before joining MetLife he was EVP at the global direct marketing agency Wunderman, heading up their packaged goods practice. Simon previously held senior marketing positions at Mars Inc, the privately-held, $22BN manufacturer of such global power brands as M&M's, Snickers, Pedigree and Uncle Ben's. He started his career in the advertising business, with the Ted Bates agency in London, and then on Madison Avenue in New York.

Born in England, he has an MA degree from Oxford and has written extensively on marketing topics.

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Torben has worked in the field of customer-based innovation and transformation projects during the last 10 years. His project experience covers in particular customer experience and other retention programmes, CRM system design, self-service and contact centre design.

Torben co-founded and led US-based Zensys Inc., now the world's leading wireless technology company in the mass market for intelligent home control. Torben is a former Director of Telenor International and TDC both major European telcos.

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