



Cutting costs not customers

Maintaining customer loyalty
in a challenging market

Opportunities in adversity

The difficult conditions over the past twelve months have forced many businesses to improve performance by reducing costs. This makes sense, but the potential negative impact on reputation and the meeting of core customer needs should be carefully considered. While falling profitability requires attention and action, the loss of customers could be a fatal blow. The recent changes in the way many customers relate to business and each other that are explored in this paper greatly increases the risk of customer loss.

We believe that by focusing on addressing five critical questions, leaders can improve the loyalty of their core customers and reduce their costs.

Online forums, blogs, and other social media such as Facebook mean that news travels faster and to more people than ever before.

What's changed this time around?

As in previous slowdowns, poorer economic conditions have forced customers to respond by focusing on what they value. A consequence of this focus on value is a reduced willingness to pay for features they do not value. But this time around, greater connectedness between customers means that when they feel a business has let them down or fails to deliver to their expectations, news spreads much further and much faster than before.

Over the last 7-8 years, technological changes have increased the risks of damaging your reputation with broad exposure to a wide range of customers. Customers have also gained more of an equal footing with businesses. Online forums, blogs, and other social media forums such as Facebook, now mean that news travels faster and to more people. For example, if you were to do an online search using the terms "bad experience" together with a product or company name, you will find a number of items where customers are sharing their experiences with others. You may wish to try this with your own company or product. With the click of a mouse, the effect of your "service delivery stumble" can be shared with hundreds, thousands or even millions of people and is accessible for other customers to read when they are researching their own future purchases.

Protecting profitability and securing the future

The reality is that most customers spend less in recessions, so companies must respond by reducing their costs to maintain profitability. But acquiring a new profitable customer is an order of magnitude more expensive than retaining an existing one. If cost cutting results in the loss of profitable customers, the actions you have taken will have weakened, not improved, your position.

The challenge facing executives is execution. How can they make the necessary cost reductions while retaining the core customers that provide profits now and profitable growth when the economy recovers.

What follows are five important questions you need to ask about the execution of your cost reduction and performance improvement initiatives to ensure that your valuable customer base is preserved.



Question 1: Who are our “good” customers and how will they be affected?

As George Orwell might have said “All customers are created equal, but some are created more equal than others”. You need to have an intimate knowledge of the customers that provide you with your profits today and who will deliver growth in the future. To protect the profit that they deliver, you need to know what channels they use, what products they buy and what critical elements of your product and service they value.

With this information, you can ensure that your cost saving initiatives will not adversely impact those channels and the elements of the products and services that your core customers value. You may even consider making strategic investments in those areas that core customers value to gain an advantage while your competitors are cutting back.

It is time to be concerned if:

- ▶ Managers leading your cost saving initiatives are unable to tell you how their initiatives will impact your core customers.
- ▶ Managers leading your cost saving initiatives are unable to explain how they plan to “ring fence” your best customers to protect them from any changes that could adversely impact them.

25-30% of the workload in customer operations should never need to be performed ... it increases costs and leads to customer frustration

Question 2: What are we doing about “redundant contacts”?

In order to cut costs, one element most companies focus on is how to be more efficient in their customer service by reducing handling time, shifting work back onto customers by increasing self service, increasing staff utilisation, or moving to lower cost locations.

A more powerful approach is to ask why customers contact you in the first place. Our experience across a range of industries from banking and insurance to telecommunications and utilities is that around 25-30% of the workload handled by customer operations should never need to be performed.

This work, that we've termed “redundant contacts” includes:

- ▶ Customers needing to contact you a second time about the same issue because it wasn't completely resolved the first time (typically around 10-15%).
- ▶ Customers calling to check on progress or receipt of a form or payment.
- ▶ Customers seeking clarification on confusing offers, forms or correspondence.

Eliminating these contacts has the potential to deliver major savings by eliminating unnecessary work. It can also increase satisfaction, loyalty and advocacy by eliminating a set of frustrations for customers.

Execution of these types of initiatives is challenging because they need effective collaboration across organisational silos, but the rewards are great. When addressed systematically, we see banks, insurers, telecommunication companies and online businesses deliver year on year reductions in contact volumes of over 20% per year. By addressing this challenge, they have made themselves progressively more efficient and easier to deal with for their customers.

It is time to be concerned if:

- ▶ Your cost savings plan is built around increasing staff productivity only, rather than reducing the need for customers to contact you unnecessarily.
- ▶ Each of your cost saving initiatives is largely contained within an organisational silo.

Question 3: How do our proposed cost reductions align with important touchpoints and lifecycle events?

In 1987, Jan Carlzon, the then president and CEO of Scandinavian Airlines System, popularised the term “moments of truth”¹ - that is, those points in the customer lifecycle that have a disproportionate impact on customers' satisfaction, loyalty and advocacy.

Each touchpoint and interaction that occurs between your customers and your staff incurs a cost, it may contribute to revenue, and it has an impact on customers' satisfaction, loyalty and advocacy. Once the “redundant contacts” (raised in question 2) are eliminated, your efforts need to be focused on improving the performance touchpoints that create the most value for both you and your core customers and make the biggest contribution to customer advocacy.

This means that you should be looking to create the maximum value for both the customer and your company from each “moment of truth”: squeezing a bit more value from each of the important touchpoints. It means making sure that, at each touchpoint, all the people, process, technologies and other supporting assets that deliver value are aligned and are being used intensively to create value. It means more effective sales calls, more targeted marketing, and products that offer customers the outcomes they want, without additional features they don't value.

It is time to be concerned if:

- ▶ Managers who are leading your response to the slowdown are unable to tell you how each touchpoint creates value for each customer segment.
- ▶ Managers are unable to tell you how the changes that are being made at each touchpoint will be perceived by each customer segment.

Source:

¹ Moments of Truth - New Strategies for Today's Customer Driven Economy, Jan Carlzon, Ballinger Publishing 1987.



Question 4: How are we reducing the anxiety and stress our best customers are experiencing?

The worsening economic conditions are causing customers to feel stress, uncertainty and a loss of control. All of these are having a dramatic impact on what customers value and how they behave. Customers tend to respond to pressure in one of two ways. Some focus on “riding out the storm” with reduced spending and a strong price focus. Others seek to regain a sense of control and they look for relationships with companies who help them reduce their levels of stress and anxiety.

As the economy worsens, organisations that focus on reducing the levels of uncertainty, stress and anxiety for their core customers will be rewarded with higher levels of loyalty and advocacy and lower levels of price sensitivity. Contrast, for example, Apple’s passionate pool of committed, high spending advocates, with other electronics or white goods retailers.

From the minute you walk into an Apple store, the focus is on the experience. You are greeted by a concierge who introduces you to a staff member who can help you make an informed decision. Free classes and the “Genius Bar” in each Apple store staffed with product experts, all focus on helping you get the most value from your purchases. Discounting is rare but customers continue to flock to the stores, and growth remains strong.

Compare this experience with conventional electronics or white goods retailers. Staff, if you can find them, know little about the products and focus only on making the sale. Post sales service is an expense and is often discouraged. Profits and discounts are used to stimulate demand but profit growth is still weak.

By ensuring that you are making life easy for your customers at the critical points in the customer lifecycle and helping them get the most value from your products and services you will build higher levels of customer engagement, loyalty and advocacy. In turn this will act as a barrier to customer churn and reduce their sensitivity to price.

It is time to be concerned if:

- ▶ Your cost-saving initiatives are likely to increase your core customers’ use of self service involuntarily.
- ▶ Your cost saving initiatives are likely to reduce the support you offer to core customers to help them make best use of your products.
- ▶ Your customers are likely to perceive your changes as making their life more difficult.



Question 5: How effectively do we listen and respond to customers?

The reality is that no organisation is perfect. Mistakes and service failures happen and this risk increases during periods of cost reduction and change. It is how effectively and gracefully you identify, recover and correct the situation that makes the difference between being the winner or loser.

The challenge is that most customers who have had a problem choose not to tell you. Customer satisfaction survey samples are often anonymous or too small to be used for accurate client identification. Complaints are often your only source. However, according to an often cited TARP study, management or corporate HQ will only be aware of 1% to 5% of customers who are dissatisfied and end up being handled through a formal complaints system. That is, for every complaint that management hears about there is a large number of unhappy customers who haven't been identified and who are telling others about their bad experience².

Your goal during these turbulent times should be to increase the volume of actionable feedback you get from your customers and get that information to the people in the organisation who can act on it in time to make a difference. By listening well at every touchpoint, your aim should be to hear from as many of those other unhappy customers. In that way you will be able to identify and rapidly adapt to changes in customers' attitudes and expectations, and mould their perception of your company's ability to deliver against them. By responding consistently and appropriately to feedback, you will be able to address the cause of any dissatisfaction, reduce churn and stay closely aligned to the changing needs of your customers as the economy turns.

It is time to be concerned if:

- ▶ Your improvement initiatives set out to reduce the number of complaints you receive without addressing the source of the issue/s.
- ▶ The culture at each level of your organisation does not encourage customer feedback.
- ▶ Your front line staff feel that customer feedback they relay to others in the organisation is not effectively acted upon.
- ▶ Your staff in general feel that the customer feedback relayed to them is either too difficult or too minor to act upon.

Source:

² Basic Facts on Customer Complaint Behaviour and the Impact of Service on the Bottom Line, John Goodman, Competitive Advantage, June 1999, pp1-5

Conclusion

Containing costs is a necessity but organisations can never “cost cut” their way to leadership. Responding to a depressed economy represents both a risk and an opportunity. Customers have long memories that extend across economic cycles. They will not forget (or forgive) opportunistic actions or other violations of trust, but they will remember excellent customer service. The risk of damaging your reputation with your core customers as you execute your cost reduction program is higher now than it was a few years ago because of greater customer connectedness. You now have an opportunity to take advantage if your competitors stumble during their execution of cost reduction strategies and damage their reputation with their customers.

We believe that now is the time for leaders to manage their risk and take advantage of the opportunities by focusing on their reputation with each of their core customers. Addressing the five questions in this paper and executing your program in response to them will help you to contain costs as well as to reduce the risk of losing any of your core customers that drive profitability today and will drive growth when the upturn arrives.

Ernst& Young's business advisory specialists assist organisations to improve their operational and financial performance. The tools and approaches applied by our customer management specialists include assessment, strategy, design, implementation and acceleration components that help to protect your revenues and profits from your core customers through cost reduction programs. These specialists also can provide you with assurance that your existing programs will deliver as planned and the risk to the revenues and profitability of core customers will be effectively managed.

Contacts



Mithran Doraisamy

Partner

Tel: + 61 3 9655 2660

mithran.doraisamy@au.ey.com



Paul Lewis

Executive Director

Tel: + 61 2 9276 9152

paul.lewis@au.ey.com

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Adelaide

Ernst & Young Building
121 King William Street
Adelaide SA 5000
Tel: +61 8 8417 1600
Fax: +61 8 8417 1775

Brisbane

1 Eagle Street
Brisbane QLD 4000
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100

Canberra

Ernst & Young House
51 Allara Street
Canberra ACT 2600
Tel: +61 2 6267 3888
Fax: +61 2 6246 1500

Gold Coast

12-14 Marine Parade
Southport QLD 4215
Tel: +61 7 5571 3000
Fax: +61 7 5571 3033

Melbourne

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777

Perth

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436

Sydney

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959