CUSTOMER EXPERIENCE DURING TIMES OF CRISIS

Jolt Consulting Group Whitepaper

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BACKGROUND

Unprecedented. Catastrophic. Frightening. These and many more adjectives are being used on a daily basis to describe the current global pandemic sweeping the world and, in turn, sweeping our economy off a cliff. Closure of bars, restaurants, sporting venues, theaters, etc. will all have a significant trickle-down effect on our economy as the supply chain providing goods and services to all those and many more establishments wipes revenue off the board. While there is little that business leaders can do about the economy and associated pandemic at large (other than follow governmental guidelines), there are many things that leaders *can do* to protect their companies, their employees and themselves.

An examination of some of the most recent recessions – the 2008 financial collapse; the 2001 shock initiated by 9-11; all have lessons in them if we are willing to learn. Warren Buffett once said that as an investor, it is wise to be "fearful when others are greedy and greedy when others are fearful." Needless to say, fear is high right now.

> 20% of companies in the bottom quartile leapfrogged market leaders by the end of the recessions with:
> - Balanced cost savings
> - Operational efficiencies
> - Investments in technology, equipment & people
> - Getting closer to their customers

Following the 2008 recession, Bain & Co studied 700 US companies and found that twice as many made the leap from laggards to leaders in their sectors during the downturn, as during surrounding periods of economic calm.[1] As they examined further, they concluded that an overwhelming majority of the companies that remained laggards shared one common reaction – drastic cost reductions. This, of course, is a natural reaction, as organizations look to preserve cash and stifle investments to "wait out" the unknown. The leaders in their sectors, however, had a very different perspective. Once taking measures to address the near-term challenges (e.g., a massive switch to working from home in the current environment) and some cost-cutting, the leaders universally focused "beyond the storm" and invested in the people, processes and technologies necessary to take advantage when calmer waters return. This is an important lesson for us – calmer water will return.

Another study, conducted by The Harvard Business Review, found that in the past three global recessions, nearly a fifth of companies didn't survive[2]. Of those that did, 80% hadn't regained their pre-recession growth rates for sales and profits three years later. However, 20% of companies that were in the bottom quartile were able to leapfrog market leaders by the end of the recession. The ones that broke away from the pack balanced cost savings (yes, from some layoffs) and operational efficiencies with strong investments in assets (e.g. technology and equipment), their people (e.g. training) and most importantly, by getting far closer to their customers than the competition.

Many of us are currently using one of the best success stories to emerge from the most recent recession to pass the time while we shelter at home…Netflix. Netflix was 'born' during the last recession in 2008. Initially introduced as an alternative to video rental stores, Netflix leaned into its customers and understood that it provided a much-needed diversion from the constant drumbeat of negative

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[1] Baveja, S., Postma, G., Pritzl, R (2002, December 1), *How to Bounce Higher Out of Recession*, Bain, Link

[2] Gulati, R., Nohria, N., Wohlgezogen, F. (2010, March), *Roaring Out of Recession*, HBR.org, Link

news on the television at the time. (Sound familiar?) Further, Netflix built a reputation for outstanding customer service, which in turn helped propel its brand recognition through word of mouth advertising.[3] This strategy was not fleeting but remains a core tenant of its strategy today – namely, be "easy to do business with." As of today, Netflix continues to excel with over 61 million subscribers, a growth of 60 million from pre-recession days.

Conversely, let's examine a different company that took a different approach. During the 2001 slowdown, Dell's executives favored cost reduction tactics over enhancing customers' experiences with phone agents. They outsourced their call center to a low cost, offshore model. That workforce struggled to understand the Dell product line, adopt the Dell culture and were by and large not native-English speakers. The net result was customers found it very challenging to order from Dell, obtain product information and request service, thus frustrating customers. By 2006, some five years later, the company still hadn't made up its loss in market share resulting from unhappy customers. These lower revenue and profit results in turn forced the organization to maintain the ultimately damaging model, thus requiring it to transfer nearly 45% of all customer calls.

Another example of focusing on customer experience is during the 2000 recession, Office Depot cut 6% of its workforce while Staples increased theirs by 10%, primarily to support high-end categories and provide more personalized services. The reorientation around these offerings — personalized printing, business, tech services — ultimately worked to serve their customers better. In the three years following that recession, Staples was, on average, 30% more profitable than Office Depot.[4]

What do all of these history lessons tell us? They all have a common thread – get closer to your customers while balancing near term finances. More specifically, those companies that balance near term cost savings with aggressive long-term investments in their customer experience ultimately are the most successful enterprises.

WHY CUSTOMER EXPERIENCE MATTERS

Before diving into why customer experience matters, it is important to ensure a common definition for 'customer experience.' The company HubSpot has a very good definition; they define customer experience as 'the impression you leave with your customer, resulting in how they think of your brand, across every stage of the customer journey. Multiple touchpoints factor into the customer experience, and these touchpoints occur on a cross-functional basis.' Let's break that down across a typical organization. The customer experience starts with marketing and the information you share, the sales experience and finally the post-sale service experience. If any of these processes breakdown or leave the customer frustrated, a negative opinion is formed.

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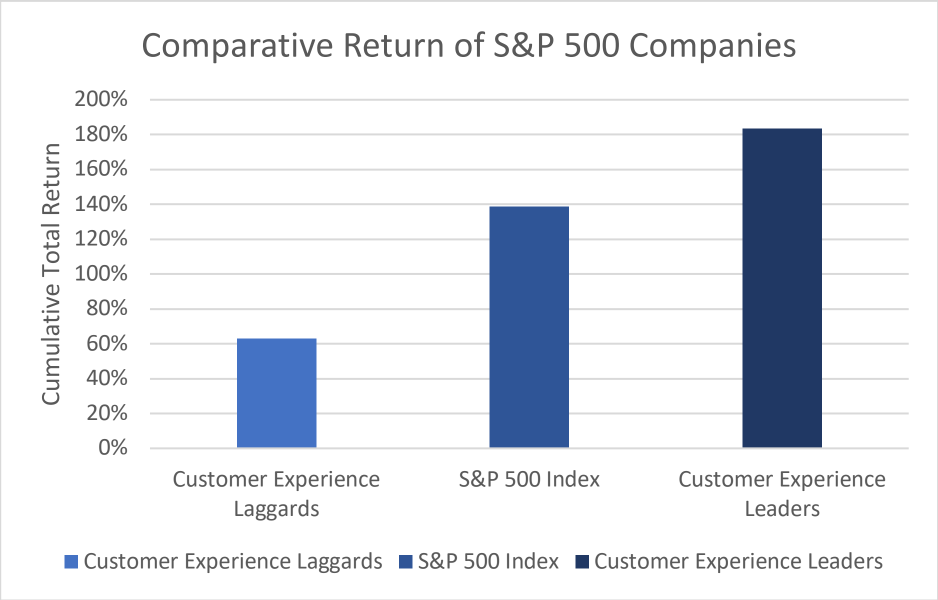
[3] Ritter, M. (2015, January 27), *5 Businesses That Survived The Recession and Why,* Business2Community, Link
[4] Hagen, P. (2019, June 10), *5 Ways to Recession Proof Your Business with Customer Experience*, CMSWire, Link



So, why does customer experience matter? A good customer experience boosts repurchase probability and long-term loyalty. Happy customers refer others to the business, thus reducing customer acquisition costs. Conversely, bad experiences have the opposite effect, but there are also many hidden dangers by providing a bad experience. Firstly, with higher customer churn, additional money must be spent to attract new customers to replace lost ones. Next, additional back office expenses associated with setting up new customers and removing old ones may occur. Finally, there will be many more calls to your service department (e.g., a substantial expense) from frustrated customers trying to resolve their problem (before eventually departing). Ultimately, you don't want to go out of business because you've annoyed all of your customers due to their poor experience.

In the current environment, an improved customer experience will not only help your business weather the coming recession, it will help put you in a position to excel. Bain and Company analyzed past recessions and the link to customer experience…their findings were interesting.[5] The losing companies tended to follow a few recession dead ends. Some tried to slash and burn their way to the other side, under the misconception that extreme cost-cutting would be enough to survive the storm. Other lagging companies strayed outside their core business, investing in the latest hot sectors and tools, praying for a winner. Still others tolerated poor results during the downturn, waiting to see what would happen, and then finally took action—too late because they bought the wrong asset or fell behind in product innovation.

Companies that ranked among the eventual winners, by contrast, moved deliberately to capture opportunities before the recession. While they focused intensively on cost transformation, they also looked beyond cost. Think of a recession as a sharp curve on an auto racetrack— it's the best place to pass competitors but requires more skill than passing on straightaways. The best drivers apply the brakes just ahead of the curve (they take out excess costs), turn hard toward the apex of the curve (identify the short list of projects that will form the next business model), and accelerate hard out of the curve (spend and hire before markets have rebounded).

[5] Holland, T., Katzin, J. (2019, May 16), *Beyond the Downturn: Recession Strategies to Take the Lead*, Bain, Link

The strongest companies coming out of the last recession went on offense early, while many of their peers focused on survival. And they focused principally on improving the customer experience, simplifying and personalizing it through investments in digital capabilities.

Let's examine the concept via a few case studies.

Case Study #1 – Panera

The financial crisis of 2007-2008 affected all sectors of the economy, and the restaurant sector was no exception. There were sales declines, store closures, and bankruptcies that affected many well-known brands. Panera seemed to be part of a different story altogether. The chain's stock price rose 46% and between 2007 and 2010, the increase was 81%. In fact, Panera was the best performing restaurant stock of 2008.

With a relentless focus on customers' evolving tastes while maintaining its core values, Panera created an offering which appealed to an ever-expanding audience with sustainable menu options, fast service in a casual dining setting, and good value.[6] They focused relentlessly on their customer experience. Conversely, one of the first strategies many restaurants used to fight the recession was to offer discounts (pricing strategy). It seems logical, as people become more cost conscious during a recession. Nearly everyone was offering discounts to increase traffic. It was a race to the bottom. One of Panera's most impressive strategies wasn't what they did, but what they didn't do. They did not follow the herd and offer discounts. They understood the value they provided and the differentiated offering they presented to the customer. They believed the experience they were delivering was different and in tune with what customers wanted. Ronald Shaich, Panera's founder and former CEO said upon reflection, "Unemployment went from 5% to 10%. There's 90% of society that is still employed. I couldn't capture all those people that are unemployed. They weren't eating out at all. All I could do was stay focused on who my target customer was, and not be reactive." In addition to the physical store experience, Panera also invested in technology, including new solutions to help speed up ordering and enable smoother payment transactions. All designed to make it easier for the customer. The result was a different customer experience that led to increased sales. During its 20 plus years as a publicly traded company, Panera was the best performing restaurant stock gaining over 8,000%.

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[6] None (2019, April 5), *What Panera Did to Succeed in the 2008 Recession*, Teampay.co, Link

Case Study #2 – Starbucks

During the same recession, another well-known company also went through a significant transformation that resulted in a dramatic improvement in customer experience and financial results. Throughout 2007, Starbucks was forced to close some 600 stores and saw profits decline 30%. They were being beaten by lower priced alternatives. On January 8, 2008, Howard D. Schultz, the original founder, returned as CEO of Starbucks after a gap of eight years, replacing Jim Donald. Schultz shot off a letter to the employees on the day he took office and said, "The company must shift its focus away from bureaucracy and back to customers."[7] He made his objective very clear, to be successful, Starbucks needed to "reignite the emotional attachment with customers." Schultz felt that customer engagement had been lost during the prior years and this was the cause of the customer exodus. To address his concerns, Schultz outlined and implemented a three-pronged program. The plan elements included:

> "The company must shift its focus away from bureaucracy and back to customers."
> -Howard Schultz,Starbucks CEO

Improving Customer Experience – In March 2008, the "My Starbucks Idea" was rolled out for customers to exchange ideas with each other and directly with the company. More than 93,000 ideas were shared by about 1.3 million users on social media, and website page views per month rose to 5.5 million. Starbucks implemented over 100 of those ideas. Through this initiative, the coffee retailer built a robust fan base. By giving customers a platform to voice their ideas and views on the brand and by responding to it, it was able to reignite the brand trust.

Technology – Well before its competitors, Starbucks embraced technological advances to help make it easier for customers to conduct business with them. For example, Starbucks was one of the first of its competitors that embraced mobile applications. These apps allowed customers to preorder drinks, save profiles and browse menus, all from the comfort of their homes, office, car, etc.

Employee Engagement – Employees (including baristas) were always an integral part of Starbucks online and the social media community. Starbucks has a separate web page for its employees, which is used to generate and debate ideas.

[7] Husain, S, Khan, F., Mirza, W. *2014, September 14), *Brewing Innovation*, Business Today, Link

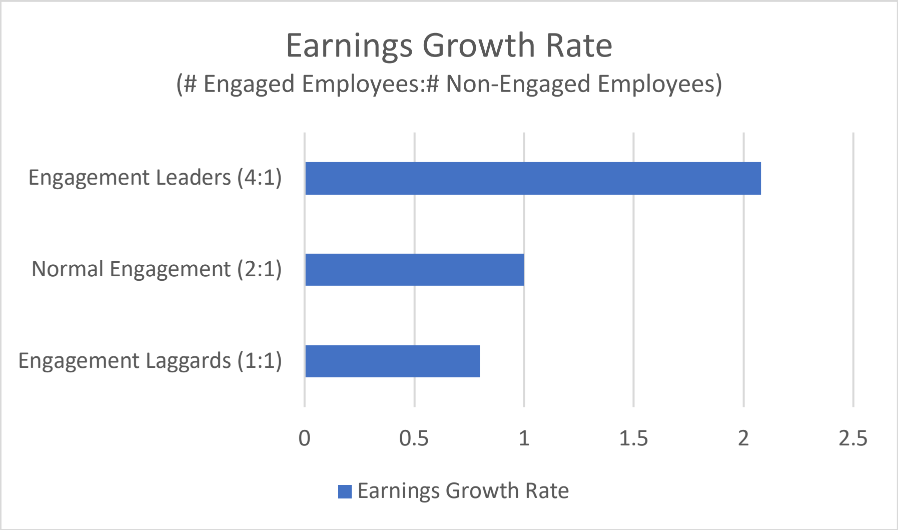
ACTIONS TO TAKE NOW

Based upon the research conducted and our collective years of experience, Jolt Consulting Group believes there are three fundamental actions a company can take now to improve its customer experience and, in turn, position it for accelerated growth and market share capture once the difficult times pass. The recommendations focus on three of the assets present in any organization – its employees, its processes and its technology.

Employee Engagement (People)

In February 2009, James K. Harter, Ph.D., Gallup's Chief Scientist of Workplace Management stated, "In bad times, employee engagement is the difference between surviving and not. In good times and bad, low employee engagement reduces performance, customer satisfaction and profit."[8] Given the current circumstances, many companies can't afford to erode their employee engagement.

When compared with their industry peers, organizations with more than four engaged employees for every one actively disengaged employee saw 2.6 times more growth in earnings per share than did organizations with a ratio of slightly less than one engaged worker for every one actively disengaged employee.[9] And earnings per share for top-quartile (in engagement) organizations outpaced the earnings per share of bottom-quartile companies by 18%. On a more micro level, the top quartile of business units boasts 12% higher customer advocacy, 18% higher productivity, and 12% higher profitability than bottom-quartile business units. The bottom quartile of business units has 51% more inventory shrinkage, 31% to 51% more employee turnover, and 62% more accidents than business units in the top quartile.



So, what does all this mean? Companies with higher levels of employee engagement have lower rates of turnover, lower training costs, fewer recruiting costs, low customer churn and high levels of employee engagement. In this current environment, isn't that the objective for all of us? The leader's

[8] Robison, J. (2009, February 19), *Building Engagement in This Economic Crisis,* Gallup, Link
[9] Unknown (2019, January 14), *The Customer Experience ROI Study,* Watermark, Link

role is to design and implement a culture that drives this employee engagement. How, though, is this done?

There are several concrete actions a leader can take to improve employee engagement.

Those actions include:

- Share with employees what you expect from them.
- Make sure employees have the right materials and equipment to do their jobs.
- Give people the opportunity to do what they do best.
- Don't forget to give recognition or praise.
- Let your employees know you care about them.
- Keep encouraging their development.

Recognition provides employees with a personal, positive indication that they are valued contributors. Crisis present tremendous opportunities for leaders to reinforce their value system. When confronted with a crisis, do you 'retreat and hunker down' or do you 'lean into the issue by seeking ways to reassure and recognize your team'? Leaders of organizations with high levels of employee engagement do the latter, largely because that is what comes naturally to them. Even if it is not natural a reaction to you, find ways to lean in order to support your team by fulfilling one of your key responsibilities – recognition – as this one, simple step can provide your organization with energy to power through any crisis.

Assess Your Actions from the Customers Vantage Point (Process)

In the fog of recession, business leaders must remember to keep their eyes trained on delivering value to customers — rather than getting lost in the weeds simply trying to survive. Doing things differently to help those customers and win their trust in this time presents a significant opportunity.

Too often in times of crisis or frankly most any time, businesses fail to think through their internal actions (processes) from the vantage point of their customer. They are so accustomed to following a prescribed playbook, that they fail to take to the time understand how the customer views that playbook. Is it a process that makes it easy for your customers to do business with you or is it a process that just ''is'? We often use a metaphor when addressing this with our customers. We encourage our 'clients' leaders to stop looking inward on their business with their back to the window and instead, turn the chair around and look outside. Understand what it is like to be on the outside interacting with your organization. Do you make it easy for your customers? Do you know? How do you know?

Just as with employee engagement, there are several actions that leaders can take, especially during times of crisis, that can help think through your processes from a customer's vantage point. Those actions are:

- Reject the old paradigms that treat a contact center as nothing more than a cost center. Your contact center is your main window into your customers' minds and frustrations.

- Demand ownership of the customer experience. Do you have a defined customer experience process? Does your entire team know how you want your customers treated?
- Listen to your customers as you create your strategy. Especially in times of crisis, customers will tell you what's important, but only if you listen.
- Conduct a gap analysis of your customer journey offering and then implement best practices to address those gaps. Do your offerings align with what your customer has said is important?
- Evaluate software with customer experience as the top goal for a business case. Technology should never drive the business or its processes, but it is a critical component of any organization as it provides needed channels to ensure customers can access your organization when and how they want.

Periods of slowness caused by economic contraction provides all companies an opportunity to accelerate their continuous improvement processes and find ways to improve their customer experience by redesigning processes. Understanding current workflows from the vantage point of the customer will help leaders understand how easy or hard it is to do business with your organization. If you were a customer and had to navigate your current structure, would you be happy? What would you expect? If you believe a gap exists, use the crisis as an opportunity to lean into and get closer to your customers.

Make Strategic Investments (Technology)

In challenging times, continuing to invest, as our case studies highlighted, is critical to ensure a positive outcome when sunny days do finally return. Strategic investments in technology, especially ones focused on improving your customer experience are critical as they can streamline processes (cost-savings opportunities), enable more customer-focus (customer experience) and provide the necessary scale when conditions improve (higher profit).

Historically, investments in technologies to support sales and marketing activities have been prioritized during periods of contraction, with the thought during lean times being "we need to grow sales." Unfortunately, this mindset is the very epitome of 'inward' thinking referenced earlier in this paper. Instead, invest in technologies that make it easier for you to connect with your customers – the sales will follow. Prime areas for investment would include your contact center, service organization and post-sale account management teams.

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As a leader, there are some specific areas you can explore for investment, each of which would positively impact your customers' experience. Those areas are:

- Digital Tools to Improve Communication (Engage)
  - Customer portals enable self-service;
  - Chat to reduce inbound calls and staffing needs;
  - Online social-networking communities that allow customers to build relationships amongst themselves;

  - Unified communications (UC) to facilitate cross-departmental communication;
  - Widgets that empower inside sales through co-browsing and quoting tools.
- Productivity Focused Investments (Increase Efficiency)
  - Field service scheduling & dispatch tools to automate tedious work;
  - Mobile technologies that drive information into the hands of front-line staff;
  - Remote monitoring technologies that help avoid inbound calls.
- Customer Data & Analytics (Deepen Relationships)
  - Operational performance data (the basics – how are you performing for them?);
  - Customer asset data (the "gold") – performance data on equipment/assets you manage for them;
  - Outcome-centric data (how are they better because of you?);
  - Benchmarking data (how does customer 'A' compare to the 'universe' of all customers?) – proactively help improve through the same challenging time they are experiencing.

Times of economic uncertainty and especially during recessions provide opportunities for businesses to leverage the power of technology to streamline operations, while improving their customer experience. These investments will reap massive returns when economic conditions improve as the concepts outlined above will allow an organization to more profitably scale and, via an improved customer experience, capture market share. We strongly encourage leaning into your customers and making technology investments that will deepen their relationship with you – sound advice during good times and bad.

CONCLUSIONS

As we live through a time like no other (at least for most of us), we can find it challenging to look past the constant barrage of negative news and realize that things will get better. The actions we take as leaders today will determine how our organizations fair, not only while in the crisis, but also once it passes. As history has shown, retreating into a shell or trying to cut our way out is a recipe for failure in the long run. Only those organizations that effectively balance prudent cost savings and strategic investments, especially in their customer experience, will capture market share over the long-term. Focusing on ways to improve your employee engagement, streamline processes and invest in technology, all through the lens of your customers, will allow you to outflank competitors who simply try to "ride it out." View the current crisis as an opportunity and we firmly believe that you will emerge a stronger, more profitable and larger firm as a result.