



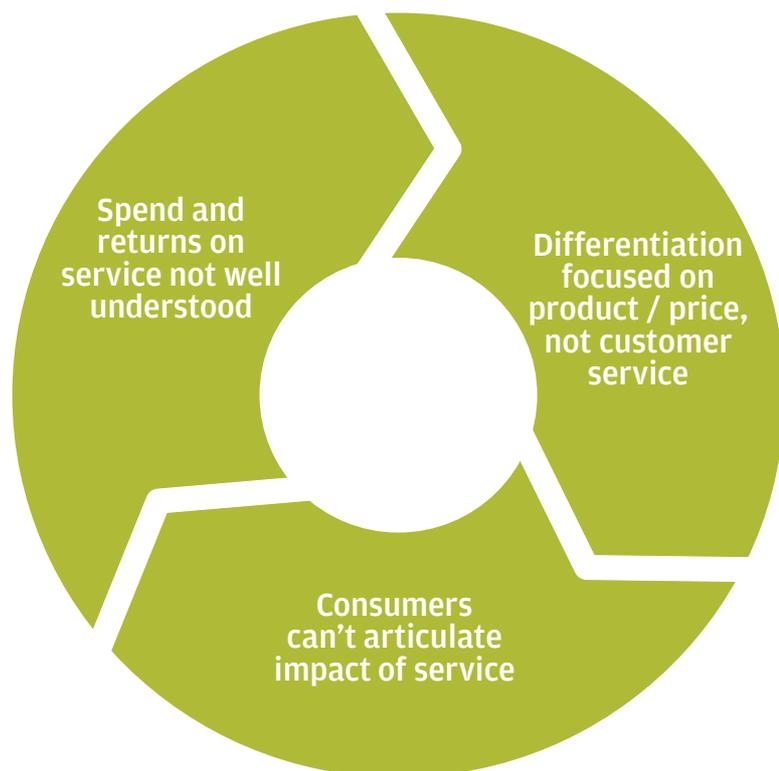
THE FOG IS LIFTING

The changing face
of customer service



STUCK IN THE PAST

For decades, customer service has been poorly understood – an afterthought to the proposition, a cost to be managed, or worse a series of independent and uncosted decisions which add up to an unplanned customer service experience



Customer Service deserves more attention: it is a major area of investment for consumer-facing businesses, and deployed right can deliver substantial returns in terms of immediate sales, customer loyalty and colleague engagement. The emergence of low-cost business models (notably in retail and travel) and the technology-driven explosion in the number of service channels (online, mobile, etc.) have shaken up customer service and led both consumers and companies to question established norms.

The future of customer service is becoming clearer, and it poses important questions for any consumer-facing company. Four megatrends underpin the next ten years of customer service, but how you should respond to them varies profoundly according to your business:

1. Polarisation
2. Personalisation
3. Whenever/wherever
4. Smart investing in Service

MEGATREND #1: POLARISATION

CONSUMERS HAVE BECOME MORE SOPHISTICATED ABOUT CHOOSING WHAT SORT OF SERVICE THEY WANT, AND WHEN

Polarisation has resulted from the interplay between changing consumer attitudes to service and supply-side developments which have occurred in parallel.

On the demand side, consumers have become more sophisticated about choosing what service they want. Crucially, this is no longer driven solely by affordability: individual consumers will mix and match, making different decisions about service levels in different situations. The factor which drives this decision about service levels is the consumer's level of intellectual and emotional engagement with the purchase. Where the consumer is engaged, the service experience is a core part of the purchase; for more functional and everyday purchases (toilet roll, utilities) the consumer has limited desire to engage, and wants an efficient "vending machine".

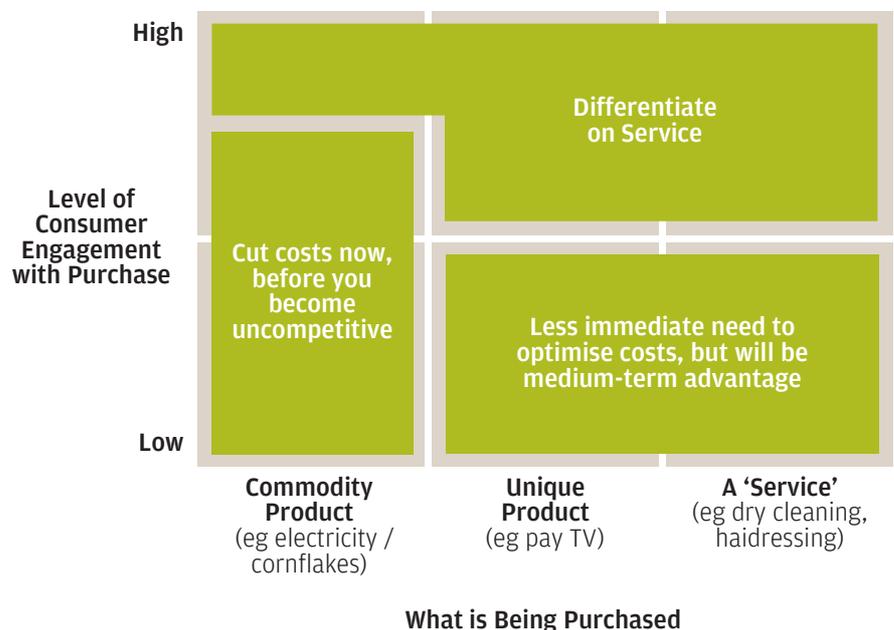
On the supply side, consumers ten years ago had little choice about the standard of customer service they received. Providers in a given industry aspired to similar service standards, and any differences in service level were closely in line with the product's price. Customer service was considered a cost of doing business as opposed to an opportunity to differentiate.

Now, however, consumers are being offered considerable options in service levels when buying exactly the same product: from no frills service (and low price) to a full service proposition aligned to what consumers value.

- In personal banking, direct-only banks have pioneered no-frills service, while high-service models are emerging eg, Metrobank or the recent customer service repositioning by NatWest
- In utilities, many suppliers now offer explicitly low-cost tariffs where account servicing is available only via the online channel
- In grocery and in airlines, where the core product (baked beans, say, or getting to Paris) is often substitutable between providers, ultra-low-cost service models have been engineered to support price differentiation (eg, Ryanair, Lidl)

Interestingly, both ends of this spectrum can be considered as "good customer service" by consumers, but the underlying approach to deliver this varies considerably.

Impact of Service Polarisation on Different Industries



MEGATREND #2: PERSONALISATION

THE MOST SUCCESSFUL CUSTOMER SERVICE COMPANIES ARE AGGRESSIVELY PURSUING WAYS TO TAILOR SERVICE LEVELS TO EACH CONSUMER AND MAKE SERVICE FEEL MORE PERSONAL

In many ways, personalisation is a regressive trend: a partial return to the personal-touch, bespoke service relationship of the past. The “mass production” of service over recent years has driven significant cost reduction but made service impersonal. Today, **technological innovation means that many elements of bespoke service can now be re-introduced cost-effectively**, especially in online businesses.

Equally, enlightened businesses with people-based service interactions are realising **the virtue of empowerment**: back-tracking on the strictest process adherence and consistency policies (eg, mystery shopping), and allowing their staff to demonstrate personal touch and take the initiative more - with positive impact on both customer service and staff engagement.

The customisation element of Personalisation is evolving rapidly, with customer expectations now set by online-only businesses which are structurally advantaged in being able to offer a bespoke experience (by tracking customer activity, and being able to deliver a bespoke experience at low cost). A number of factors are now driving customisation across other channels:

- More sources of information to enable personalisation eg, loyalty schemes, social media and other data collection tools
- Evolution of identification technology, from the increasingly universal use of caller ID in contact centres, through to more innovative solutions such as smartphones (eg, Shopkick’s partnership with Best Buy), through to number plate, voice and face recognition

- Increasing understanding of customer behaviour drivers/life-time value eg, the use of specific scripting and linguistic analysis to reduce credit risk in the debt collection industry
- The implementation of ERP/CRM systems centred around a single customer view, even in traditionally weak customer service industries (eg, utilities)

A personalised service experience is underpinned by technology, organisation design and well-designed processes. Implementing it successfully does not necessarily drive a cost saving. However, knowing more about your customers and being able to treat them differently enables you to be smarter about who you spend money serving, and who you don’t. This is already being implemented in a rudimentary way in a number of industries eg,

- A major utility whose entire organisational structure is aligned to different customer lifetime value segments
- O2’s call centre dedicated to its (high value) iPhone customers
- Most High Street banks offering dedicated customer service routes for premium banking customers
- In airports, fast-track through passport control and access to lounges

In future, much smarter, more granular personalisation will become the norm, often accompanied by a more human interaction between customers and front line staff. Today’s service winners need to invest now to maintain their lead.

MEGATREND #3: WHENEVER / WHEREVER

**CONSUMERS ARE ALL
CHANNEL-HOPPERS
NOW, AND EXPECT A
SEAMLESS MULTI-
CHANNEL EXPERIENCE**

The last decade has seen a proliferation of service channels. Phone and face-to-face are still key channels, but SMS, email, Facebook, Twitter, webchat and the rest are jostling for attention. No doubt more will emerge over the next 10 years too.

The challenge posed by these new channels is not participating in them: it is managing customer service across them in a profit-optimising way. This is difficult for four reasons:

- Consumers don't segment neatly by channel. They interact across all of them, and for a given interaction will trade off the benefits of each of the channels in terms of convenience, time, reliability, confidentiality, etc in deciding how to interact

- Consumers expect a joined-up experience. Fulfilling the channel with standalone systems does not meet consumer expectations
- The characteristics of the channels are complex, changing and poorly quantified
- Multi-channel access availability often prompts more, not less, interaction - and can make costs harder to manage despite growth in 'low-cost' channels

The businesses that do this well today tend to have started from scratch (Ocado and First Direct are good examples), though there are some older businesses who have proved it can be done (eg, British Airways, encouraged by a tough competitive environment).

However, other major consumer brands conspicuously struggle to provide a seamless experience, or are doing so with "sticking plaster" solutions. In five years time, customers will expect much more.



MEGATREND #4: SMART INVESTING IN SERVICE

The impact of the three previous megatrends (Polarisation, Personalisation and Whenever/Wherever) mean you have to think much harder about where to put your customer service £s.

Gone are the days when customer service was simply a cost area to be cut as hard as possible (no-one is blithely offshoring everything nowadays or focusing their contact centres purely on Average Handling Time). Beating the competition now means grappling with the complicated arithmetic of

Lifetime Value and a detailed understanding of the costs and benefits of customer interactions across journey stages, channels, customer segments and missions.

It's not necessarily easy, but it is worth it, as OC&C's experience with our clients testifies:

CUSTOMER SERVICE STRATEGY FOR A MAJOR GROCERY

In a cost constrained environment, OC&C advised a major grocer on what initiatives to pursue to improve their customer service rating. Many of these initiatives were low cost, delivering big return on investment (eg, changing the Service KPIs), others saved money while enhancing customer service (eg, an evolution of self-serve checkouts) and some were directly revenue-generating as well as benefiting service ratings (eg, better promotion of multi-channel purchase options)

CROSS-SALES IN THE LEISURE INDUSTRY

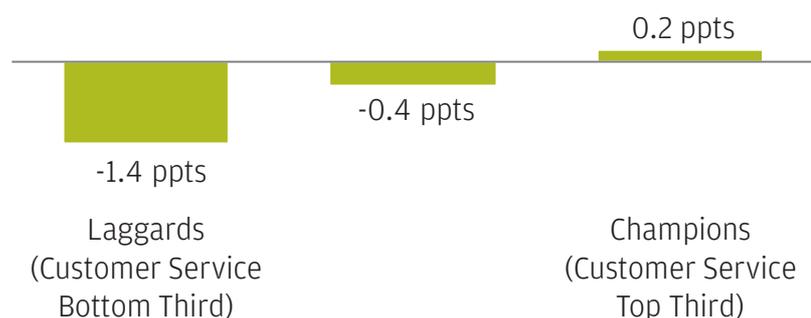
OC&C advised a client to reverse the decision to push traffic online - every £1 of additional contact centre cost was delivering £4 incremental profit from cross sales

PLANNING THE SWITCH TO SELF-SERVE IN A UTILITY

Our client's customer base had several segments with a high propensity to use self-serve channels (online, SMS and mobile), representing >30% of customers, and had made aggressive plans to reduce its contact centres in anticipation of a switch to self-serve. Thinking about what the customer cared about in different types of interaction showed that even customers with a high online propensity would continue to use (and value) call centre channels for most interactions

Smart investing in customer service isn't just a catchphrase: it has a proven link to financial performance. During the recession, customer service champions sustained their EBIT margins, while the laggards suffered significant margin compression

Impact of Customer Service Rating on EBIT Growth (UK Retailers), 2008-10



Source: OC&C's Annual Retail Proposition Index

SO WHAT?

The megatrends identified pose some tough questions for any company in the customer services business, including retailers, leisure companies, banks, utilities and indeed any other company where consumers need or want some level of service.

Each megatrend poses some pertinent questions, which OC&C have worked with clients to address:

1. POLARISATION

- What type of service do your customers actually value, and how does this vary by segment and mission?
- Do they want to engage with you, or is it a functional purchase?
- Is your business philosophy (and cost base) aligned with this?

2. PERSONALISATION

- Are you keeping up with consumer expectation in terms of level of customisation, and empowering your staff to deliver great service?
- Do your 3-5 year plans include further strides towards personalisation (eg, culture, org re-design, new customer information sources, major CRM enhancements)?

3. WHENEVER / WHEREVER

- Do you understand which channels consumers want to use for each interaction? Are you making this choice easy for them?
- When do you need to deliver on the multi-channel promise in your industry? What is the cost / benefit of a totally joined-up experience for consumers?

4. SMART INVESTING IN SERVICE

- Do you understand where you spend your customer service £s?
- Is this spend optimised versus consumer segments and evolving behaviours?
- Where should you cut, and where should you invest more?

It's an exciting time to be involved in customer service, with opportunities to gain competitive advantage. We would love to hear about the challenges your company is facing, and share views on the future. Please get in touch on CustomerService@occstrategy.com

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