

Make customers happy and help cut costs too

As businesses recover from the initial shock of Brexit, they will inevitably seek out wholesale cost cuts to provide some protection from the economic impacts. They need to bide their time. The implications will take time to materialise providing the perfect opportunity to redesign around the customer without taking costs off the executive agenda.



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Cutting costs. It's often a business's first reaction to periods of revenue pressure or economic uncertainty. We are living in one such period, as business faces the vagaries of Brexit. But perhaps they should pause for a second. There is another way to approach cost control – one that can not only reduce the bill, but which can improve customer experience at the same time.

The companies using this new approach don't start by looking at what staff, travel or business costs they can reduce. Instead, they use the customer as their starting point. They design an outside-in structure: defining the best customer experience and customer journey, and then working backwards to establish a cost structure that designed to deliver that experience. That approach can still deliver cost improvements of 20% and above.

Specifically, they ask what the target experience should be for their most valuable customers, and how much it will cost to deliver that customer experience. They do that in four ways:

1. They are clear on their target customer groups and the customer experience they are seeking to deliver. They focus on their most valuable customers, the customers that drive their commercial engine. They then build a clear strategy for improving this group's experience over time.
2. They use software to map the customer journey and standardise that journey. These are set around brand principles that make sure teams stay consistent in their methods and work together. Effective customer journey mapping this removes duplication and inefficiency.
3. They listen to their customers across different channels. Indeed many have a 'Voice of The Customer' (VoC) programme in place. This helps them to identify opportunities to remove customer pain points and reduce costs associated with inefficient processes. They then use the Voice of the Customer programme to test and monitor the impact it has on customers.
4. They identify where processes are over-engineered and where they needlessly exceed customer expectations. Through these kind of customer experience measurements exercises, these companies are very clear on where they need to be outstanding and where 'good' is enough.

Leading the way

Organisations including Amazon, American Express and USAA are already showing how adopting a design perspective means they don't have to choose between cutting costs and improving customer experience:

- American Express have a very precise capability to define their target customer. Extensive segmentation and proposition development have enabled them to focus on individuals who buy into the Amex brand and wish to have a more of an emotional rather than transactional connection. Consequently Amex have designed their target customer experience around building a relationship with customers and, in the process, have abandoned a number of previously costly practices. The brand's emphasis on more authentic conversations has optimised customer loyalty leading to a 400% increase in retention^[1].
- Amazon are masters in systematically removing costs from their processes by identifying points of customer experience failure. Under the banner of "the best service is no service" they continually track reasons why their customers contact them. They zero in on why something didn't work as part of the customer experience and then use root cause analysis to design a process that works flawlessly every time, thus reducing costs to serve.
- Through a test and learn approach, voice of the customer programmes provide early warning when cost reduction programmes have negative effects on the customer and their likely future loyalty. One major airline tasked departments with cutting costs. Individually, each department made sensible decisions around its own costs. But taken together, the individual initiatives had a serious impact on its most important customers – those in first class. It wasn't until tracking of net promoter scores/ key

customer experience measures, flagged the issue that the potential damage became apparent. They now adopt a test and learn approach.

Jeopardising the long term

These businesses use an outside-in approach and are best equipped to meet the expectations of today's more demanding customers. By contrast, business that have inward facing cost structures will react to crisis or austerity by employing 'easy' short-term cuts, department by department:

- Expenses, travel and minor costs
 - The first step many organisations take to send a 'message to staff' that cost cutting measures are in place is by reducing expenses, limiting travel and generally tightening up on minor costs across the board. This route would typically see a 10% reduction
- Reducing the number of people
 - Looking to cut a further 10-20%, organisations target people. Invariably whilst the headcount is cut workload isn't. It falls on the remaining workforce who, as soon as things relax, simply re-recruit. In many instances staff made redundant come back in short order as consultants or contractors potentially driving costs up again.
- Strategic outsourcing
 - Stopping marginal business areas or closing business units is an option that could achieve cost reductions of 20% plus. But this is stressful and difficult – and can set the company back several years. Leading with these kinds of blanket cost reductions jeopardise loyalty, engagement and ultimately enterprise value and growth.

A good time to start thinking

With the UK's vote to leave the EU, British businesses are entering an extended period of volatility and unpredictability. UK CEOs[2] are rightly concerned about their future revenue growth and the investment landscape. Indeed 57% believe that the UK's ability to do business effectively will be hindered.

But Brexit also brings an opportunity to change. The cost conversation will always dominate the boardroom agenda but to discover the upside of this situation, organisations need to cast their eyes beyond the immediate cost concerns. They need to look at how it will change their industry, the wider economy but more importantly – their customers.

Case study: United Services Automobile Association (USAA)

There is no other brand in the world that epitomises customer experience best practice like USAA. This US based financial services company specialises in banking, investing and insurance to people who have served, or currently serve, in the US military.

The company was formed in 1922 by a group of US army officers, who were struggling to secure car insurance owing to the perception that they belonged in a high-risk group due to their involvement with the United States military. The officers agreed to self-insure one another, and the United Services Automobile Association was born. Today, the brand's total assets are worth an estimated \$122 billion.

USAA has described its structure as being designed for innovation and superior customer service. It is designed around customer journeys. By examining customer experience analytics, they have recognised that there are inefficiencies over a typical customer journey, which often cover multiple touchpoints managed by different parts of an organisation. They have created a target operating model and an enterprise architecture that focuses on removing duplication and inefficiency whilst improving the overall customer experience.

There are no silos. USAA's customer-centric organisational design plays a key role in its continued success. It has moved away from the rigidity of a structured organisation. Resources are deployed in the best way to meet customer needs – organising the business around the customer, managing journeys, not functions.

Their approach has proven economic and customer value. Net worth and member numbers have grown year on year to USD\$27.8bn[3] and operating costs have gone down. What's more, focus on managing the customer experience has seen them maintain their NPS leadership in 2016 for the seventh year running[4].

[1] Source: [Nunwood 2015 Customer Experience Excellence Rankings](#)

[2] Source: KPMG 2016 Global CEO Survey

[3] [USAA 2015 Report to members](#)

[4] <https://experiencematters.wordpress.com/2015/10/13/report-net-promoter-score-benchmark-study-2015/> and <http://www.marketwired.com/press-release/nordstrom-samsung-usaa-cricket-kaiser-walmart-pharmacy-lead-their-sectors-2016-net-promoterr-2138076.html>