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Customer Experience Practice

Elevating customer experience excellence in the next normal

Companies that make the right investments now could build an enduring advantage in serving customers. Three priorities will be key.

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The impact of COVID-19 on customer behavior has been sweeping and immediate. Spending across most industries is down, purchases have shifted from in-person to digital channels, and public safety has become a top priority for companies and consumers alike. Executives who had carefully crafted omnichannel strategies to create unique, compelling customer experiences have had to throw out their playbooks and improvise to keep pace.

As companies prepare for the long haul—what we refer to as the "next normal"—the path forward is anything but clear. The situation continues to change by the week and can vary dramatically by region. Among the most vexing challenges is determining which customer behaviors and trends are here to stay and which ones will eventually recede. Companies that invest in the wrong capabilities could find themselves on the outside as competitors that can offer exemplary customer experiences cement their advantage.

To win in the next normal, companies need to identify the current behaviors that will define customer experience in the near term. They must then ensure that these opportunities are aligned with their business strategies and capabilities. We believe three priorities will define customer experience in the post-pandemic era: digital excellence, safe and contactless engagement, and dynamic customer insights. Each organization will pursue these priorities differently based on its industry and starting point as well as competitive landscape. Many companies are already demonstrating their understanding of what matters to customers as well as innovative ways to meet their old and new expectations. These early movers offer a valuable point of reference for how to proceed.

Emerging trends in consumer behavior

Customers are significantly scaling back their spending across nearly all categories, anticipating tougher times ahead. This trend is likely to continue. As the crisis peaked across Western economies, more than one-third of Europeans and Americans said their income has been negatively affected by COVID-19. In fact, one-half reported reducing their spending in the past two weeks, and 40 percent of Americans and 44 percent of Europeans expected to continue spending less in the next two weeks. Overall spending is expected to decrease by 50 percent across all consumer categories, but certain shelter-in-place necessities will rise: groceries (up 14 percent), entertainment (up 13 percent), and household supplies (up 3 percent).[1]

China, which is several weeks ahead of other countries in the COVID-19 crisis, has yet to see consumer spending return to normal. McKinsey research found discretionary spending has fallen 30 to 60 percent, and retail transactions have dropped by 20 to 50 percent. These movements are accompanied by diminished foot traffic in retail outlets and an increased reliance on convenience-focused digital channels.

Increased traffic in online channels

While financial flexibility may be increasingly limited, many customers now face a surplus of time. Shelter-in-place requirements have stimulated record-high engagement for online and digital platforms, and customers are quickly replacing or complementing physical and in-person activities with digital equivalents. Customers are spending significantly more time online: nearly half of consumers have started or increased online streaming since the onset of the pandemic. At the same time, demand for data and bandwidth have spiked; in fact, a recent review of web analytics reveals a fourfold increase in Google searches for "data plan upgrade."

Around the world, companies have moved quickly to accommodate the massive shift to digital channels. Every possible activity—from meals and groceries, to finance and education, to fitness—now has a digital or online equivalent, many of which have seen soaring usership. Nearly all organizations, whether traditional companies or start-ups, are reorienting their business models to be more digital. It's highly likely that consumers will prefer to use many of these digital offerings after the crisis. For example, China's market anticipates that online penetration will see a permanent bump of three to six percentage points due to embedded COVID-19 behaviors.

[1] McKinsey COVID-19 US Consumer Pulse Survey, April 2020.

A greater emphasis on health and safety

The pandemic's massive health implications and associated public-health policies have normalized physical distancing and the need for constant sanitation. Indeed, McKinsey research shows that most of customers' main concerns about COVID-19 are related to health and safety, so companies must keep these issues front of mind as they plan their transitions to the next normal.

Such concerns have led customers to rapidly change how they want to engage with the world, with safe and contactless operations a top priority. In immediate response to the pandemic, some companies instituted policies to safeguard customers. Grocery stores have designated certain hours for elderly shoppers. Urgent-care clinics have established drive-through service to allow passengers to get fast, safe COVID-19 testing without physically entering a health facility. In many cities, customers can now have their cars repaired via a mobile service or car pick-up. Companies that have made these adjustments have clearly demonstrated their understanding of what matters to customers and their willingness to adapt. Consumers who get accustomed to this new contactless world may not be inclined to return to high-touch commerce and crowded stores—even when health officials deem it safe.

Behaviors that are here to stay

The shifting customer behaviors brought on by COVID-19 reflect the acceleration of anticipated trends, the emergence of new preferences, and a complete reversal of some long-held routines. Together, this mix will continue to evolve and form the foundation of the next normal. The good news is that companies have the potential to not only guide future customer behavior through "nudging"—proactively encouraging behaviors that are likely to endure after the pandemic—but also position themselves at the vanguard of shaping customer experience in the next normal.

The most successful companies to date have been adept at understanding which behaviors and experiences are picking up steam and making targeted investments to address them. This approach is easier said than done: companies must simultaneously monitor consumer trends, adapt their business models, plan for business continuity, and ensure their employees are safe and healthy—all while managing the chaos and ambiguity of the crisis. In this environment, executives must have the skills to prioritize what is most important and avoid the temptation to simply chase the latest news or become distracted by shiny objects. The wave of products and apps to meet coronavirus-specific demand may soon oversaturate the market, and we are likely to see standout offerings rise to the top while others fail to capture significant traffic.

To get a better understanding of the next normal's contours, our analysis evaluated consumer trends along two criteria: user growth since the pandemic hit and the likelihood that these behaviors will continue (exhibit). With these lenses, we segmented activities into four quadrants:

— *Return to old normal*—mature or less-relevant experiences that may not sustain COVID-19 growth spurts

— *Exciting . . . for now*—stopgap solutions with the potential for user erosion after the pandemic

— *Potential to stick*—new experiences with momentum and the potential to be cemented in the next normal

— *Fast accelerators*—high-performing replacements for traditional in-person experiences that will likely persist in the next normal

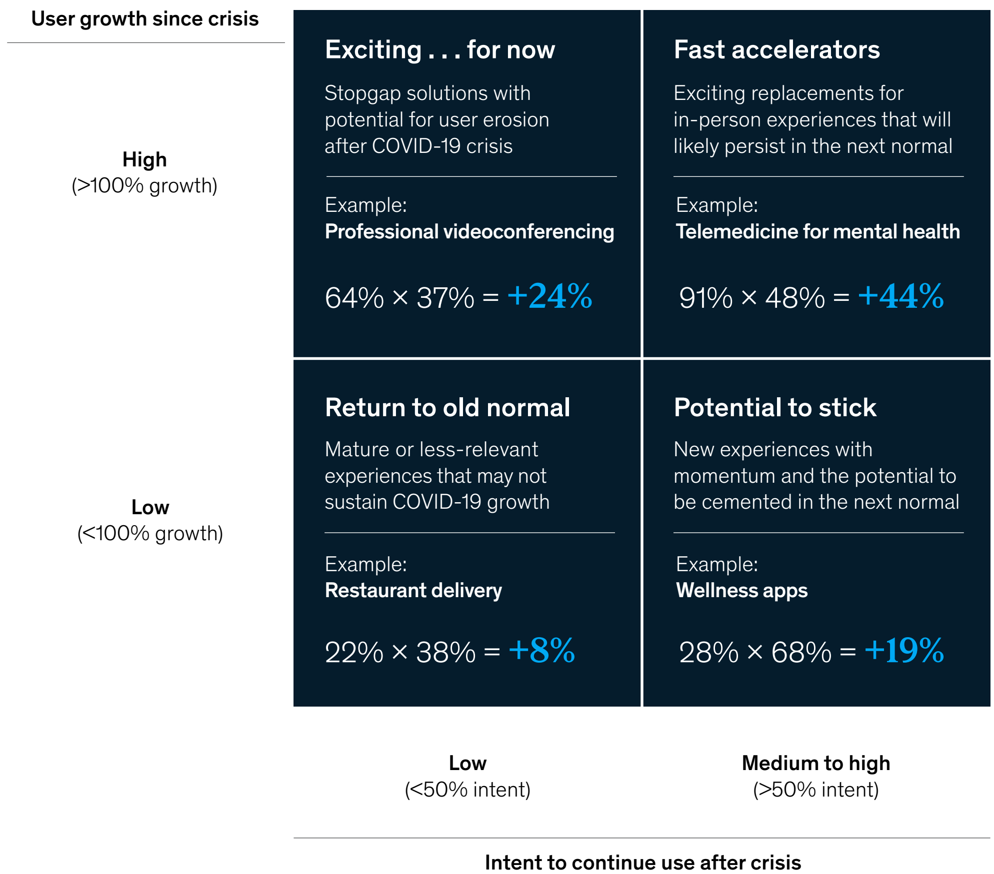
Fast accelerators, which include offerings such as telemedicine, have grown 91 percent since the pandemic hit, with 48 percent of consumers expressing an intent to embrace them in the longer term. Potential-to-stick services, such as wellness apps, have experienced comparatively slower growth but are the most likely to become embedded in the next normal.

As companies seek to ensure that their products and services are firmly positioned in the right-hand quadrants, they will have to balance competing factors. For example, convenience will continue

Exhibit

A framework can help classify behavioral changes for the next normal.

XX% growth × XX% intent to continue = XX% potential next normal usership



Source: McKinsey Consumer Sentiment Study, April 2020

to be a priority for consumers, but people are also craving the return of quality engagement. Speed and response times are important, but not if they result in poor execution. And on top of it all, companies need to figure out new ways to create a differentiated customer experience.

A focus on three priorities

In the next normal, winning companies will capitalize on opportunities to adapt to evolving customer behaviors, deliver short-term business success, and strengthen their long-term strategic positions. These efforts require executives to reimagine and reform customer experience through thoughtful, targeted investment, starting with three priorities. Companies that have already laid the groundwork prior to the crisis will have an advantage, but all organizations can make meaningful progress with careful decision making.

Prepare for a digital recovery

Digital channels will help companies both meet changing customer needs and expectations and prepare for future industry disruption. The bar for digital excellence, already high before the pandemic, has gone through the roof.

Many companies, from mobile carriers to food-delivery services, have made targeted investments to build or augment their digital capabilities. Several themes have emerged. Successful companies have used an agile, iterative approach and design thinking to identify new digital opportunities beyond their comfort zone. These companies also emphasize digital opportunities that strengthen the core business and lay the groundwork for a larger digital transformation. Some companies have expanded their digital capabilities by evolving their portfolio through M&A or by divesting lower-potential holdings.

Tesla's sustained commitment to reinventing the car-buying process using digital has proved especially prescient. Its state-of-the-art digital showroom and virtual user guide offer customers an immersive online experience, and the contactless car delivery is tailor-made for the current environment. An active online community of owners augments Tesla's customer support. To broaden its online reach in China, the carmaker partnered with Alibaba on a Tmall online store. From December 2019 to March 2020, Tesla saw its sales in China double while other carmakers experienced a 50 percent drop over the same period.

In Poland, Orange designed and implemented Flex, a fully digital operator with no shops and no call center. Customers can use an app to handle all requests, from onboarding to service, roaming, and package changes. Orange redesigned the product for simplicity and a customer experience that could be intuitive and satisfactory while remote. In April 2020, Flex sales grew by more than 80 percent.

Companies that accelerate their digital offerings can see increased engagement now—digitization forces simplification, which customers love—and be prepared for lower-cost operations in the years ahead. They should focus on creating a virtual, digital experience that is on par with—or even better than—the in-person experience. Success in digital channels also has the potential to reduce the costs for in-person sales and increase reach: the greater shareability of virtual experience enables satisfied customers to become advocates. To expand their virtual presence, companies will need to assess their capabilities and then determine how best to augment them. Even retailers without a strong digital presence, for example, could partner with online marketplaces or delivery services.

Accept a safe and contactless customer journey as your default

Given embedded fears about public health and excitement about innovations in contactless operations, safe approaches to offering products and services will be critical. Customers will continue to recalibrate their expectations for safety during the pandemic, so companies must respond accordingly. Simple adjustments, such as methods to facilitate physical distancing in stores, have already become ubiquitous, if not compulsory. However, companies that offer creative alternatives to fully in-person journeys can improve customer experience and increase return on investment.

To determine where to invest, companies should first identify in-person interactions in their value chain that may need to be addressed. By developing and prioritizing risks based on safety as well as operational and financial risks, companies can develop a road map and execute immediate and longer-term solutions. The environment and customer preferences will continue to evolve, so companies should be prepared to adapt, iterate, and operationalize changes across the organization.

Companies across industries have redesigned their processes to increase safety and demonstrate their commitment to both customers and employees. Delivery companies have instituted touch-free packing and shipping as well as text notifications to avoid face-to-face contact. Leading retailers have moved quickly to offer online ordering with delivery or safe pickup.

Kroger has implemented a range of measures to meet the increased expectation for safety. The grocery chain designed a fully "click and collect" store to fulfill online-order pickup. For customers shopping in-store, the company offers Kroger Pay, a contactless payment tool rolled out before the pandemic. On the employee side, Kroger instituted a "hero bonus" raise for frontline employees working during the pandemic. And its partnership with Ocado to launch robotic grocery warehouses, initially rolled out a year ago, has enhanced its resilience. Collectively, these measures have contributed to strong outcomes: Kroger announced that same-store sales increased 30 percent in

March 2020, and its stock price has climbed by the same percentage since October 2019.

Companies seeking to emphasize safety should focus on designing a contactless end-to-end journey, but with thoughtful human touches. For example, one food-delivery service includes the name of the person dropping off the meals, conveying that the company values the well-being of both employees and consumers. By doubling down on ease of access and use across digital and physical channels, companies can improve both customer safety and satisfaction.

Anticipate, don't just ask for, customer feedback
The increase of digital also means that companies will have more dynamic data at their fingertips. Now is the time to make investments in the data, technology, and systems required to deliver exceptional experiences in a rapidly changing environment. These investments should aim to anticipate and predict customer sentiment and customer value. This often means being more proactive and responding in real time, requiring companies to harness data and analytics tools that can extract immediate customer-experience insights and overcome the short-sighted and reactive nature of surveys.

One airline, for example, developed a data-driven system using machine learning to predict and act on customer satisfaction and revenue performance. The predictive insight from the system allows a broad range of use cases, from near-real-time performance measurement, to strategic planning, to proactive engagement strategies like personalization and "surprise and delight" programs. An early application allowed the team to respond to delays and cancellations more effectively. By acting based on predicted customer sentiment and outcomes, the airline was able to more effectively focus its effort on customers that were most at risk of defecting and achieved an 800 percent rise in customer satisfaction and a nearly 60 percent decrease in intent to churn.

Investments in these types of comprehensive, predictive, data-driven systems could allow organizations to gather insight and respond more quickly to customer needs during times of crisis. Companies that capture all customer data, not just that of survey respondents, will gain a more accurate view of customer needs and expectations. With these insights, they can provide more meaningful interventions to sustain and build customer confidence while increasing customer lifetime value and reducing cost to serve.

The next normal will be anything but static. The customer experience landscape is evolving with each passing week, so companies can't "set it and forget it" and still expect to stand out. Instead, executives should consistently monitor business trends—what is growing, stagnating, and declining—against their current business strategies to identify new opportunities in the fast-accelerator and potential-to-stick quadrants. To respond quickly to a constantly changing environment, companies will need to have a broad base of employees that know how to empathize with the customer, apply customer insights, and redesign the experience through digital excellence and contactless engagement. More than ever before, this is the time for organizations to invest in building these capabilities and taking advantage of all digital-learning tools that are now available to us.

Companies that review the digital portfolio, map out core interactions on the value chain, and focus on key customer-experience issues will be well positioned to please customers regardless of how expectations and preferences evolve.

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