

## **CUSTOMER SERVICE IN THE NEW NORMAL**

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### **1. INTRODUCTION**

Over the past few decades, supply chains have evolved to meet the needs and requirements of customers. Nowadays, with the digital generations entering the market, the challenge for the structures and traditional models of operations is tremendous. Those consumers are empowered by their connections on social medias, availability of information and a huge diversity of product/service offer, which gives them a great power of choice.

Characteristics such as immediacy and a global view is changing customer expectations, leading to an enormous challenge for companies. The Customer Centric approach emerges in business and academic discussions as being essential to understand the preferences of these consumers and to drive the allocation of capacities and resources.

In 2020, with the coronavirus (Sars-CoV-2) pandemic, one of the greatest health crises ever experienced by humanity, a series of measures needed to be taken to contain the virus, such as social distancing. Several cities around the world experienced a forced quarantine with billions of people isolated at their homes, creating some changes in consumption habits in several countries.

Before the pandemic, a major transformation on Customer Service concepts and practices was already underway pushed by changings on consumer expectations captained by millennials and centennials. Now structures and services need to be adapted and reorganized once again.

During this article, it is going to be addressed the following topics: characteristics of the new consumer, how covid-19 pandemic affected their consumption expectations and the main challenges faced by companies, how the omnichannel model and last mile practices were leveraged and also which changes in operations should remain in the post-pandemic, considering a Customer Centric approach.

### **2. THE NEW CONSUMER**

In order to understand the transformations that the Supply Chain Management (SCM) has been through, in response to changes on consumer habits, it is important to analyze the impact on consumer expectation considering the service dimensions. Those changes lead to transformations on SCM driven by structures adaptation, adoption of new technologies and implementation of new logistics services.

Regarding the **Speed** dimension, the immediacy shaped by the easy access to information and real time communication causes a desire for a faster service. It is necessary to rethink the structure of the supply chain, since the traditional flow “industry - factory DC - retail DC - transit point” until reaching the point of sale (POS), or even at the customer's home, is no longer appropriate to deliver orders on the same day or the next day, for example.

For the **Quality** dimension, the product offer diversity and the amplification of the consumer's voice on social networks and on public complaints websites means that failures are not acceptable or very costly, implying the loss of the customer or damage to the brand's image. For this reason, it becomes necessary to establish a sophisticated order processing method to avoid errors, considering technology to process many individualized orders originated by online platforms.

In the **Reliability** dimension, product availability, always considered a top priority in Customer Service surveys, becomes even more relevant in a scenario where most companies are diversifying their portfolio with new categories in an environment without a recognized leadership brand. In the past, the cost of stockout was associated with the loss of that specific sale. Now, without the consumer's preference completely defined, the rupture may cause a worst consequence: the loss of the consumer and the strengthening of competitors.

When dealing with **Flexibility**, the reduction in the average size of families, and the increase in the number of couples with a single child, reinforces aspects of individuality in those new generations. That scenario creates a consumer that wants to be treated as “unique” and requires customization of products and services. It is already possible to identify product customization at the individual level, such as the cosmetics industry.

Considering the conditions mentioned on all the above dimensions, the **Cost** dimension is challenged. In a pre-pandemic stage, the excess of “cheap” money with very low and even negative interest rates in some developed markets, such as Japan and Germany, was crucial to the technological development and new services investments to meet the high service expectation.

Thus, until the beginning of this year, there were favorable conditions for the development of new solutions based on digitalization and technology. In the past, the technology was oriented to increase productivity, but now it is oriented to meet service requirements and maintain competitiveness.

The Covid-19 pandemic, a virus whose rate of transmissibility and mortality is still unknown, forced the governments to adopt measures of social isolation in order to prevent the overburden on health system. Among the most severe measures, the closure of a large part of the traditional commerce, which is the main consumer supply channel, had a important impact on supply chains.

On the demand side, the restriction to access some products and services generated a spike in demand through digital channels, such as websites, applications, telesales and marketplaces. Consumers were not used to buy through these channels, as people in their 50s or more, were suddenly forced to buy from these channels to access their suppliers. The result was a considerable growth in online commerce, pressure on physical retail to adopt new sales mechanisms and a visible change in the consumption behavior.

On the infrastructure side, the supply chain is designed to meet the demand through the traditional channel, since e-commerce represents less than 5% of total retail in Brazil. With covid-19 pandemic, the operational structures had to process more fragmented orders and to adapt stores' operations to serve customer by WhatsApp and phone. The stores main function changed from a place to display products to an advanced distribution center, taking, separating and shipping orders to deliver.

Another relevant impact during covid-19 pandemic was the collapse of traditional urban delivery structures as a result of the abrupt growth in orders. The consequence in customer service was a considerable increase in delivery time, fostering the growth of new urban delivery solutions, such as Loggi, Uber and Rappi.

During covid-19 pandemic, customers seem to accept the worsening on the service provided, due to the difficulties and restrictions faced by retail companies. They understand that they will not be able to have everything: the quality they want, the availability and the flexibility they need, with the speed they would like at a low price. It is understandable that they will have to give up on some of those dimensions. For example, if they're focused on cost, longer delivery times will be acceptable in order to get cheaper shipping. In cases where the item is critical, they will accept buying from local stores and paying more to have flexibility and speed.



Figure 1 – The five dimensions of service were affected during the pandemic

Source: ILOS.

### 3. CHALLENGES DURING COVID-19 PANDEMIC AND OPERATIONAL REQUIREMENTS

With the changes on demand profile, purchasing channels, capacity restrictions and service expectation, it is essential to identify the challenges faced by companies to propose actions that can deliver value to the customer. Otherwise, the countless logistics failures reported by the media in recent weeks will remain, reinforcing the existence of an inconsistency between expectations, promises and practices.

In order to identify the service challenges at this time and address efficient solutions, the five GAPS model from Parasuraman, Zeithalm and Berry was applied. The model defines that the problem of customer dissatisfaction is related to the difference between the perceived service and the expected service and helps to map the opportunity for adjustment on service's conception and/or execution phases. It also takes in consideration the intrinsic characteristics of service operations, such as intangibility, perishability, simultaneity and heterogeneity.

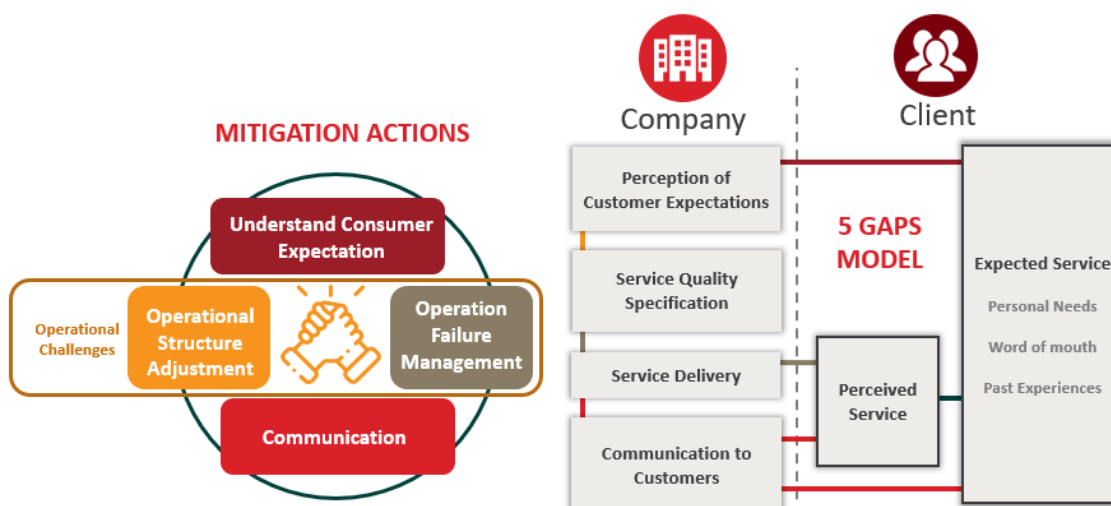


Figure 2 – Five GAPS Model to identify failures and propose mitigation actions.

Source: ILOS; adapted from Parasuraman, Zeithalm e Berry (1985).

After applying the model to identify the four gaps that result in customer dissatisfaction, there is a list of possible failures and respective mitigation actions:

- **Gap 1: Customer Expectation vs. Management Perception:** as mentioned before, the change in the customer profile within each channel, especially in digital, and the operational restrictions seen in supply chains operations, lead to change in customer expectations, which can vary immensely between different categories of products and channel. Some appropriate actions to deal with this challenge are:
  - Customer segmentation criteria review, in order to prioritize existing resources. In a period of reduced demand for many companies and enormous operational challenges, mapping the most valuable customers and offering them an adequate level of service is key to profitability. Some criteria for prioritizing

- service: order size, purchase data, propensity-to-buy, ethnographic characteristics and / or profitability;
- Offer channels with distinct advantages so the customers can select according to their preference. For example: WhatsApp orders are delivered in a few hours from stores, but presents a reduced product mix and a high unavailability rate, while orders made on websites are shipped from a DC, with a longer delivery time, but providing a big and diverse product mix, where availability is guaranteed; and
  - Adapt the service model to mitigate pandemic uncertainties. Considering B2B companies, for instance, since the variability caused in their demand do not allow customers to place their order in advance, it may be necessary to be more flexible, concerning the minimal order quantity and faster deliveries.
- **Gap 2 - *Inadequate operational structure*:** companies' structure was not prepared to face the challenges brought by the pandemic. However, it is not possible to redesign the supply chain network to perfectly adapt the operational resources in a short term. Thus, it is necessary to make emergency adjustments based on the segmentation criteria discussed in the previous topic, such as:
    - Use stores to address orders, advancing inventory closer to the customer, therefore enabling a more agile and flexible response;
    - Review the product mix available in each channel, simplifying complexity and reducing demand forecast errors;
    - Increase the processing capacity by hiring additional teams on distribution centers;
    - Reduce the order cycle time by using fast and flexible transport solutions, such as air carriers, premium carriers and urban delivery partners.
  - **Gap 3 – *Operational Problems*:** failures in operations will be more frequent, requiring companies to develop solution mechanisms. During this time, communicate everything with transparency to the customer. In this sense, it is recommended:
    - Empower operational teams to make quick decisions and adapt to challenges. However, in order to maintain the services standardization provided by the different operational units (DCs and stores), the PDCA cycles must be accelerated. It is mandatory to map best practices and replicate them;
    - Create a multidisciplinary team in a “War Room of Failures” to take care of the issues, allowing managers to remain focused on the regular processes; and
    - Map the causes of the main failures, create response protocols and act to eliminate them.
  - **Gap 4 – *Communication failures*:** while isolated at home, consumers feel more fragile and worried about health, which drives companies to invest on communication mechanisms and frequently align expectations through the following actions:
    - Increase humanized contacts with the client, communicating concern for their financial situation and physical and mental health;
    - Inform customers about each step of the order fulfillment process, reducing uncertainties and allowing corrective actions;

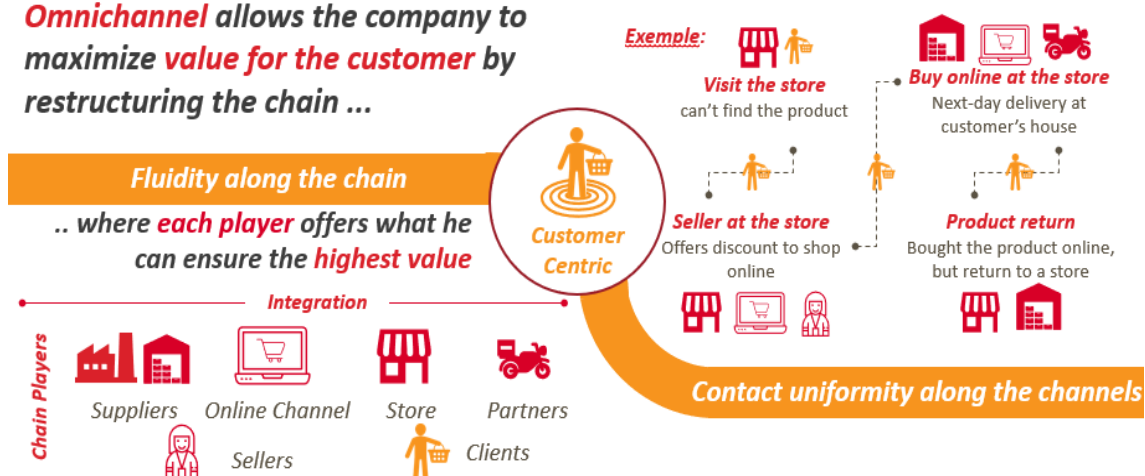
- Ensure transparency about operational problems, such as delays and lack of products. The key is to anticipate as much information as possible for the customer, to enable adjustment on the order made;
- Inform service conditions such as availability and delivery times for each channel, allowing customers to choose what is more important to him/her;
- Manage customer expectations, promise an achievable service quality and send commemorative messages whenever this is accomplished.

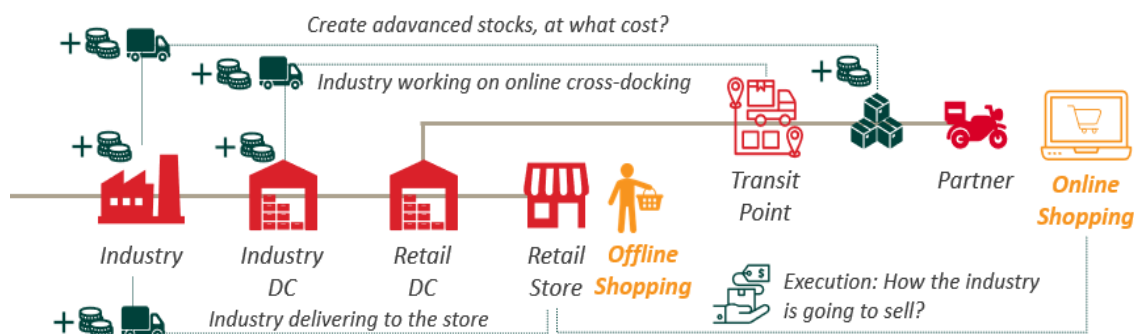
#### 4. OMNICHANNEL PRACTICES AND THE CHALLENGE OF LAST MILE

Another aspect that affected the perception of value among the logistics service during this pandemic was the adoption of Omnichannel practices, such as dark stores/kitchens, pickup store, ship from store, drive-thrus, among others. To understand the impact on customers' perception and the problems experienced in this period of social isolation, it is necessary to remind the meaning of Omnichannel. It proposes a convergence of channels based on a consumer-centered approach, providing a seamless shopping experience for customers through both traditional and digital channels. For example, the customer can search for information on an online platform, visit a traditional store to check the product, and then buy from a marketplace that is more cost-effective.

Companies need to ensure that, regardless of the channel used by its customers, whether to seek information or to make a purchase, he or she will have the same perception on customer service, which is a huge challenge in terms of operational and tax in Brazil. Share inventory information, review the function of each player on the supply chain and consider a systemic integration is king in order to deliver a true Omnichannel experience (Figure 3).

**Omnichannel allows the company to maximize value for the customer by restructuring the chain ...**





**Impacts on Supply Chain**

**In addition to the impacts on retail, the role of industry in the omnichannel chain is also important**

Figure 3 – Omnichannel and the impacts on the supply chain operations.

Source: ILOS.

Owing the fact that the stores are closed, many retailers had to accelerate some practices that were being discussed under the Omnichannel concept, in order to review the function of their traditional stores. However, with time constraints to make adaptations, to deploy technological tools and to develop the necessary capabilities, many problems were perceived by customers in these operations, such as product unavailability, order fulfillment problems, delays and disorganized stores.

The management of a traditional in-store purchase operation and the online orders processing at the same time and location is not a simple task and requires major adaptations in the retail structure, such as the use of technologies and systems used in distribution centers. In addition to that, it is mandatory to change the store layout to safeguard the customer's experience on site while the online picking and processing takes place.

Therefore, this scenario brought great pressure on last mile operations, which resulted in longer delivery times and an increase in operation costs due to the amount of LTL deliveries. ILOS Report - Last Mile shows that the cost of the last mile can be up to 3x more expensive than FTL deliveries in retail and wholesale.

**5. CUSTOMER SERVICE TRENDS**

The Customer Service trends in the post-pandemic “New Normal” requires the adoption of the Customer Centric approach, since consumers gain even more power with the increase of digitalization and the income reduction from eminent economic crisis. Placing customers in the center of the decision-making process is fundamental if companies want to go beyond a mere service policies review. It is crucial to review the entire operation and aggregate new service capabilities through partnerships, in order to meet customers service requirements.

To achieve this challenge, it will be essential to pursue the Supply Chain digitalization, which will help understanding customers’ needs and expectations and connecting companies to



a network of partners that will expand companies' service capabilities, offering flexibility to the customer.

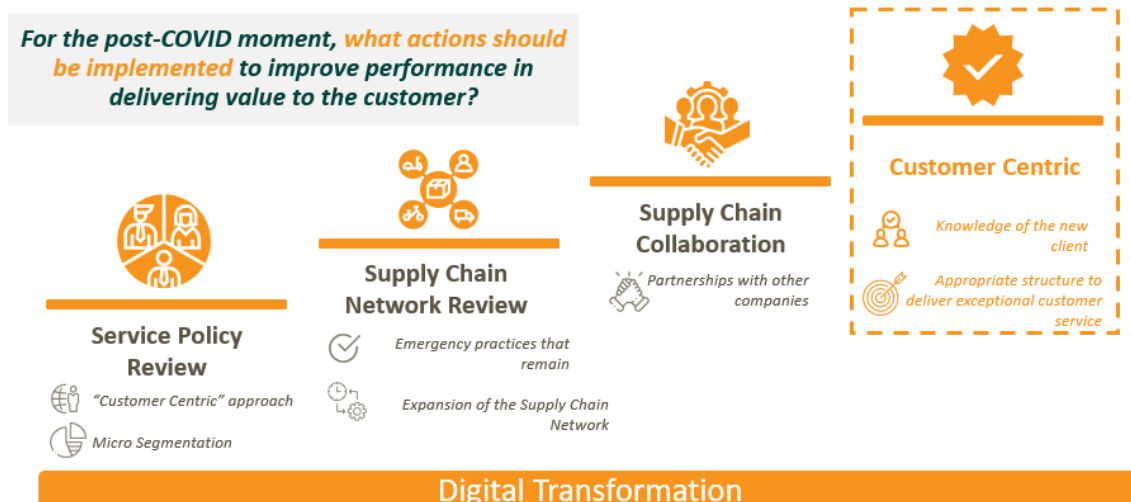


Figure 4 – Transformation of *Customer Service*.

Source: ILOS.

The customer service policy, in most companies, is predominantly guided by the operational resources available and not by what customers really wants. This scenario can be illustrated by: having a fixed day to place the order with the visit of the salesman, a portfolio segmentation defined by channel, a payment period of a few days and credit limited by financial risk, fixed delivery time defined by the distance from the DC, service indicators according to operational matters, such as On Time In Full (OTIF), among countless other evidences. Even companies that use more sophisticated mechanisms, such as Menu Pricing, the service options presented to the customer are always based on the availability and costs of resources, which limits the options offered to the client.

However, it is possible to achieve a completely different scenario of Customer Service based on a digitization of the Supply Chain and integration with chain partners:

- **Portfolio:** Based on a micro segmentation of customers, using exogenous information, such as urban ecology, store size and exhibition area, it will be possible to offer a personalized portfolio that suggest an order that maximizes customers' profitability, considering margin contribution and inventory turnover. Artificial Intelligence and Machine Learning technologies will play a fundamental role in data analysis and order suggestions at this ultra-granular level;
- **Order:** It is important to give flexibility to customers to order when it is most convenient and to change the order according to the variability in the day to day business. Enabling the use of apps, joining marketplaces, and generating incentives to engage with merchandising and execution activities will be fundamental;
- **Credit and Payment:** As companies' portfolios expand, new payment and credit formats are needed to finance it. Countless digital payment solutions are being developed that could extend payment terms, which is usually a few days or weeks;



- Delivery:** Delivery parameters, such as delivery target and frequency, are generally determined by costs and companies resource availability. Even when some flexibility is offered, through Menu Pricing, such as express freight or emergency delivery, it is based on companies’ operational capacity, which may not meet customers’ needs. The complexity of the portfolio, channel and competition leads to uncertainties in customer demand, making it difficult to order with the same frequency. To give more flexibility it is necessary to expand the supply chain structure, considering, for instance, inventories that are already in other customers and last mile delivery partners, which requires greater collaboration and digital integration;
- Performance e indicators:** There is a huge gap between the measurement of operational indicators, such as DIFOTAI, OTIF and Fill Rate, and a customer-centered view, effectively pointing out the opportunities for revenue growth. Even a high OTIF can hide an inadequacy in customer service and missed opportunities. This indicator does not consider, for example, if visits to all potential customers were planned, if it was possible to visit all consumers that were planned, if visits were not converted into sales or if some sales were not processed due to lack of customer credit. The potential would be much higher if those parameters were taken into consideration to measure performance, developing a focus on customers. That would also allow greater engagement in financial and commercial areas.

Based on this review and expansion on the supply chain structure, where partners complement companies’ skills and resources and metrics are oriented towards an expanded view of order-to-cash, the concept of Customer Centric can be successfully applied and offer an exceptional level of customer service.

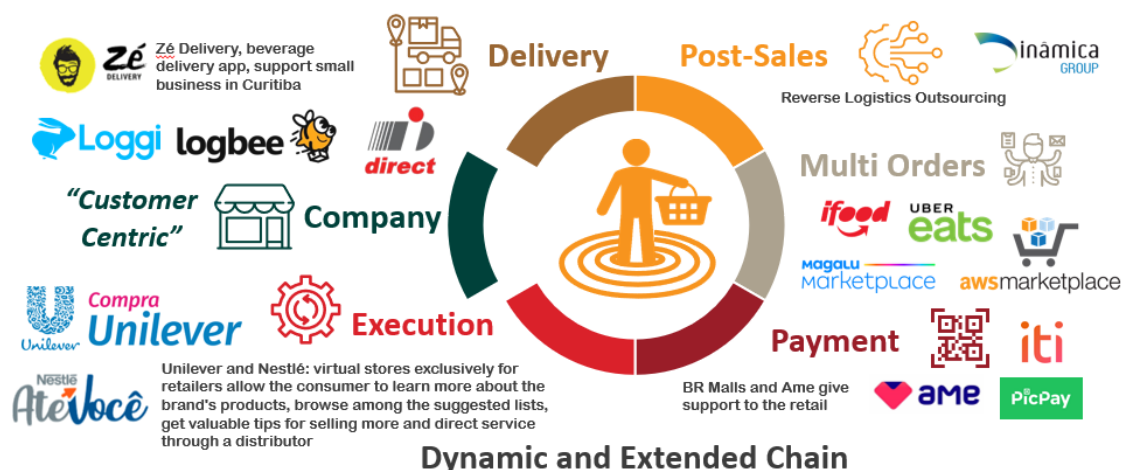


Figure 5 – Reconceptualization and expansion on the supply chain structure.

Source: ILOS; Unilever; Nestlé; Ambev; Loggi; Magazine Luiza; LASA; Dinâmica Group; Ifood; Uber Eats; Amazon; Ame; Pic Pay; Itaú;

## 6. CONCLUSION

Changes that were already underway, such as companies making investments and changing their structures to meet new consumers expectations, were accelerated due to the Covid-19 crisis. The Customer Centric approach will become more important, due to changes in expectations caused by social isolation and economic restrictions.

During the first half of 2020, companies made emergency adaptations in service delivery, which led to failures and dissatisfaction. From now on, a complete analysis will be necessary to identify the core purpose and competencies of each company, seeking partners that complement their operational skills and capabilities. These partnerships will allow companies to meet these new customers service requirements and effectively place them at the center of Supply Chain decisions.

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