VENDIGITAL®

REDEFINING CUSTOMER RELATIONSHIPS IN A CHANGING MARKET

Contents

Introduction

Customer relationships have been in a constant state of flux over the last 18 months as a result of disruption caused by Brexit and COVID-19 as well as ongoing challenges such as energy and material price increases. While many businesses have experienced forced downtime, others have been striving to meet unprecedented levels of demand, despite significant market disruption – and customer relationships have been feeling the strain.

Business leaders across industry sectors have had to work harder to understand their customers' needs and the challenges they are facing, often in rapidly changing situations. They have had to adapt how their businesses operate, manage supply chain relationships differently and, where appropriate, find ways to innovate to give customers what they want. They have had to achieve this at pace, while keeping costs under control, and in a prevailing climate of uncertainty.

Due to the extraordinary challenges before them, most businesses have struggled to drive significant value despite adapting their supply chains and business models to innovate new products and services. As economies rebound, many will now be wondering whether customer behaviours will switch back, or if some of the changes seen over the last few years will turn out to be permanent. Another consideration will be whether further unforeseen changes in customer demand or behaviours could scupper the recovery.

This white paper provides insights from research conducted with 151 C-Suite executives at UK-based companies about their response to dramatic changes in customer demand and behaviours linked to Brexit and COVID-19, shedding light on some of the lessons learned.

Helping businesses to thrive in recovery, this paper also sets out some key questions they should ask themselves to ensure their operating models are able to accommodate changing customer needs while controlling costs on a sustained basis.
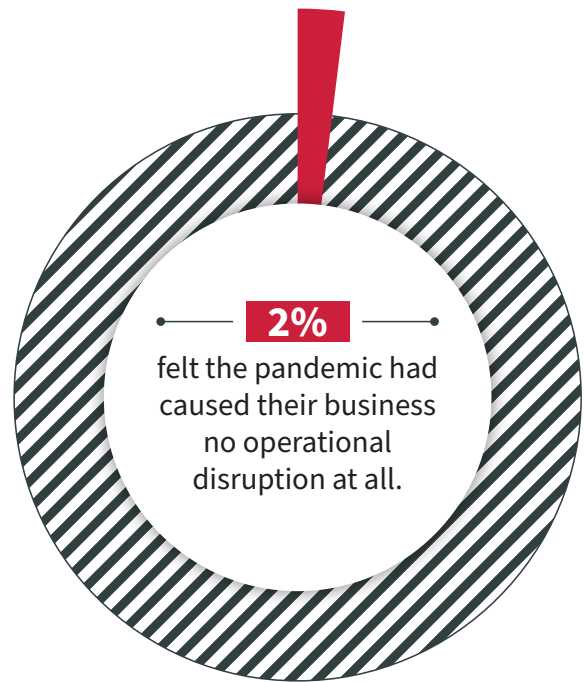
Customer relationships:
What's changed?

Research commissioned by Vendigital reveals that more than half - 54% - of C-Suite executives believe that customer relationships have fared well, actually growing stronger during the pandemic and in the aftermath of Brexit, despite facing significant operational disruption. Of these respondents, the majority think this positive change is a direct result of their focus on continuous improvement and their agile response in adapting their operating model to meet shifts in customer demand and behaviour. Other factors deemed to have had a positive effect on customer relationships included greater focus on collaboration and sharing availability and/or demand data in a more proactive and transparent way.

However, not all respondents share this positive experience; one in five or 21% think customer relationships are weaker now than they were before the market shocks caused by the pandemic and Brexit. Most of these respondents believe this is due to less face-to-face contact, but others referred to the knock-on effect of missed deadlines, more price competition and the strain placed on relationships due to unpredictable levels of demand.

When comparing the strain placed on customer relationships by Brexit and COVID-19, both were identified as significant disruptors. However, more respondents felt their customer relationships had been affected by COVID-19 and only 2% felt the pandemic had caused their business no operational disruption at all.

2%

felt the pandemic had caused their business no operational disruption at all.

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It has been great to see businesses reporting that their customer relationships have grown in strength, and we've seen improved communication playing a big role here. Scattered demand signals and uncertainty have necessitated more regular check-ins and the development of an open, two-way channel of communication between businesses and their customers, which in turn has helped those relationships to grow. For businesses that have seen a negative impact on customer relationships, it is important that they become more agile in the way they think about this communication and realise that what worked in the past may not be enough for their customers going forward.

Paul Adams, Director, Vendigital

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The top five changes in customer behaviour over the last 18 months were identified by C-Suite executives as follows:

The **top five** changes in customer behaviour

01   Increased demand for a specific product or service

02   Increased customer anxiety impacting demand forecasting and creating an ongoing risk of operational disruption

03   More business activity being done online

**04**   Greater focus on the reliability of service or product provision

05   Shedding customers due to travel restrictions and other operational disruption

Despite the fact that meeting many of the above changes in customer needs will require investment from a business, it is important that they find a way of doing this without letting costs spiral for the customer. Over 70% of respondents did not agree that customers were less concerned about securing the best price in the current climate than previously, suggesting that it will still be essential for businesses to remain competitive when it comes to pricing.
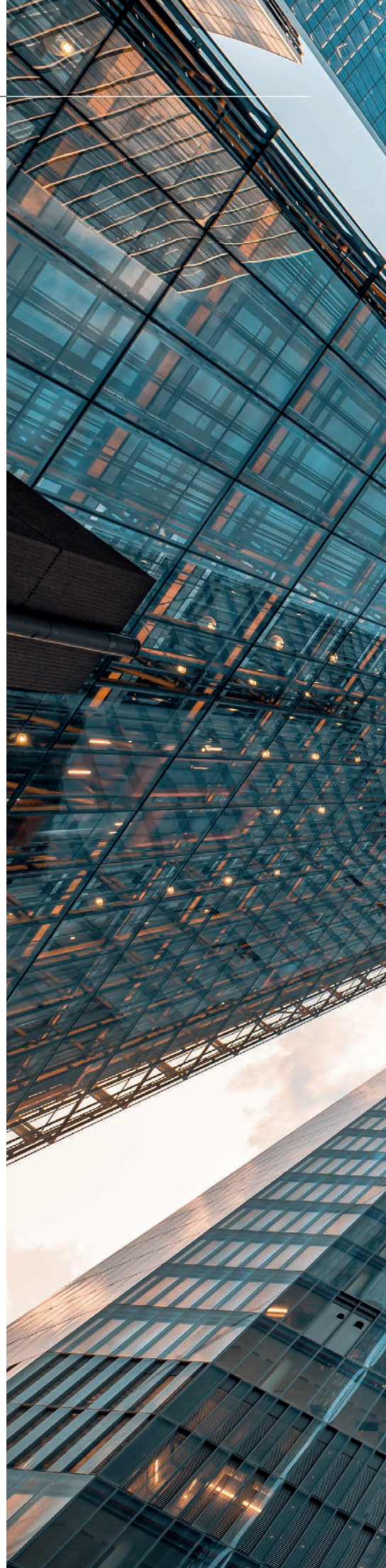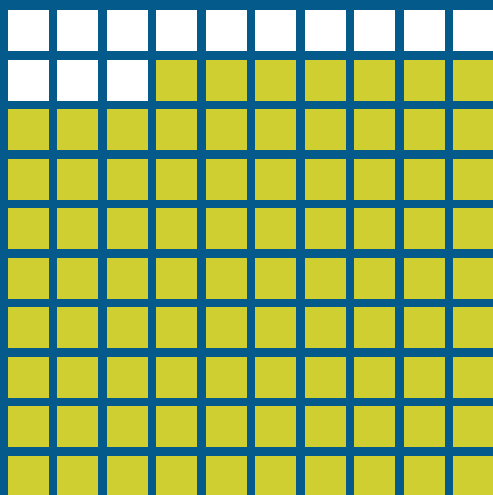
Top five most revealing statistics
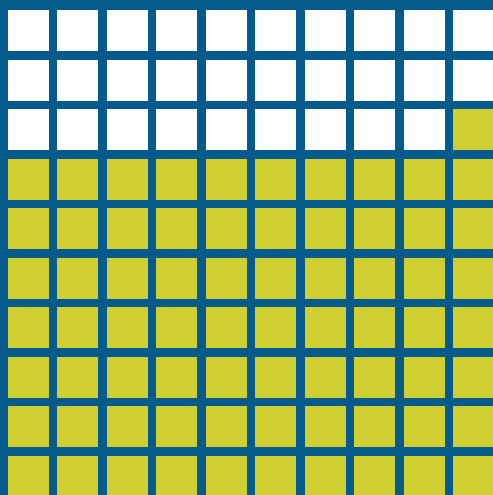
Here are the five most revealing statistics from our research:

01

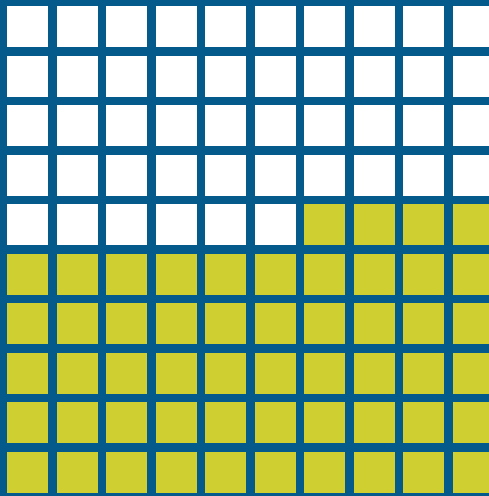**87% of C-Suite executives said managing customer relationships, while keeping a close eye on costs, is key to survival in the year ahead.**

02

71% of C-Suite executives are intending to invest in customer relationship management in the year ahead and the majority see this as a long-term investment.

03

More than half of respondents – 54% – think customer relationships have grown stronger over the last 18 months.

04
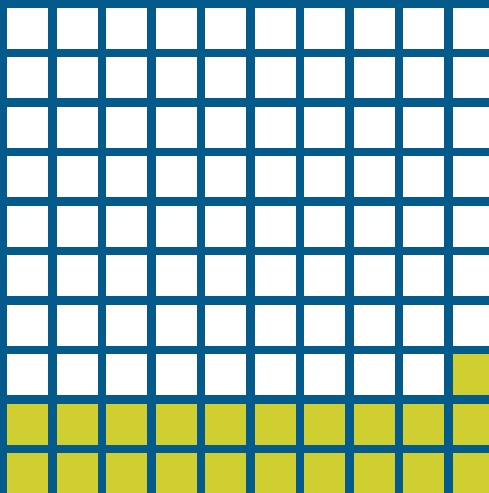
One in five respondents – 21% – think customer relationships have been negatively affected by disruption caused by the pandemic and Brexit.

05
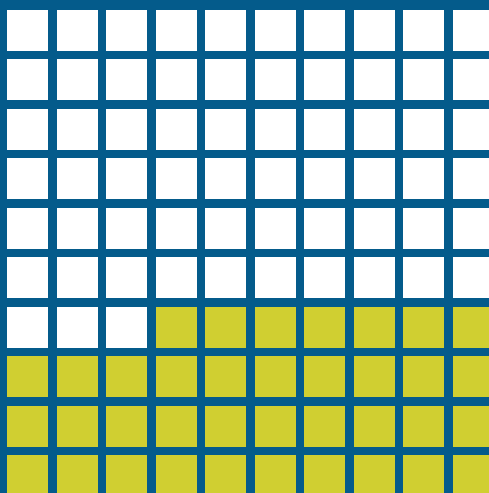
More than one in three C-Suite executives – 37% – noted that recent shocks have contributed to heightened customer anxiety about unpredictable demand and the risk of further operational disruption.

These statistics show us that the need to address changing customer relationships is widely recognised and being given a high priority as businesses plan for the future.

There is a growing recognition of the need to work more closely with customers to drive cost savings while maintaining service levels. This is made more challenging by the fact that businesses will need to keep their services and offerings flexible to address increasingly less predictable demand patterns.

> **When a business operates with a high level of flexibility, they are in a much better position to respond to changes in demand and customer needs. There has been a huge rise in the popularity of various technologies that support this in different ways, such as technology that helps businesses communicate better internally and with their customers, providing real time data. Utilising technology to ensure that when making rapid changes, they have the right data and insight to make an informed decision - for example technology that supports more accurate demand forecasting.**
>
> **Julie Neal, Director, Vendigital**

Balancing customer
needs and costs

Board-level executives know that in order to grow, the business must continue to innovate to meet customers' needs, while keeping a keen eye on controlling costs. However, 79% of respondents think this has become more challenging due to heightened risk of global supply chain disruption, uncertainty surrounding the path of the pandemic and ongoing market and geopolitical volatility.

The research revealed a significant difference in the boardroom priorities of businesses that saw revenues rise during the pandemic, compared to those that saw them fall. Of the 45% of C-Suite executives who said that revenues had dipped during the pandemic, the majority reported that cost control had risen to the top of the boardroom agenda. By contrast, of the 29% of C-Suite executives who saw an uptick in revenues during the pandemic, the management team's priority was investing in innovation to meet customers' current and future demands.

As markets open up, 87% of C-Suite executives saw an opportunity to build back better supply chain relationships, which are rooted in a robust understanding of end customers' needs and allow data to be shared transparently. Some also recognised that there might be an opportunity to consolidate and/or diversify their customer and offerings base in order to decrease supply chain risk. 71% of respondents said they intend to review their customer relationship management systems in the year ahead.

> As markets open up, 87% of C-Suite executives saw an opportunity to build back better supply chain relationships, which are rooted in a robust understanding of end customers' needs and allow data to be shared transparently.

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> **Balancing different challenges, demands and priorities won't be a new concept for any business leadership team, but in a time of such great uncertainty it may be that the way they approached this task in the past no longer feels right. Taking a step back and being willing to totally re-adapt the business model to meet current demand is essential. One example that springs to mind for me is from my last role overseeing ground handling operations at various airports. We made the decision to pivot some of our services and take a team of specialised aeroplane cleaners – who had no work due to the pandemic and were therefore not driving any revenue – into factories and public venues to offer deep cleaning services to protect against the virus. In parallel, our ground handling teams were deployed to help unload essential PPE while their normal duties were suspended.**
>
> **Jeff Kennelly, Director, Vendigital**
>
> "

As businesses pursue growth in recovery, the spectre of ongoing market and geopolitical volatility means some cautiousness remains, and strong supply chain relationships could be key to survival. With customer relationships in particular, there is little room for error, as overestimating demand could lead to businesses gearing up too quickly, forcing costs to spiral out of control. Underestimating demand on the other hand, could limit the company's growth potential.

Going forward, balancing customer needs and costs will be important to businesses across industry sectors, helping them to secure a sustainable return to growth. Finding the right balance is likely to be challenging, particularly as some businesses may still feel that they are in 'firefighting' mode, or simply have little confidence in what the future could look like.

Later in this white paper, we've set out some of the questions to help businesses to gain a better understanding of customers' needs, but it is also important to be aware of some of the challenges that common customer demands create.
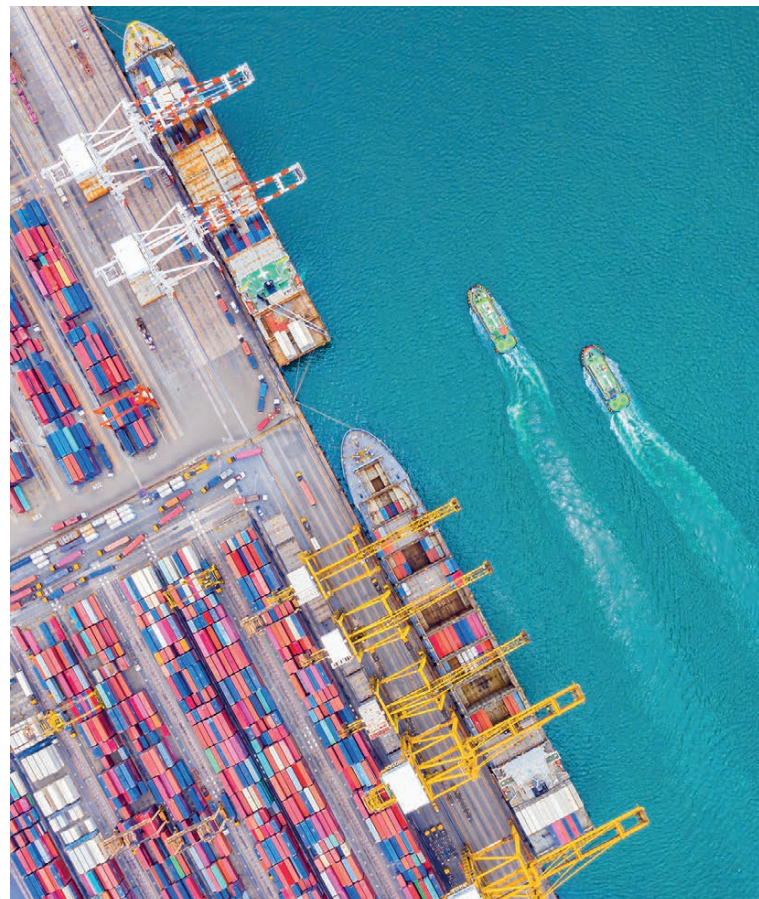
Challenges at the coalface: Balancing changing customer demands with operational cost

The following cross-industry trends, identified by Vendigital's consultants, provide an insight into the pressures that businesses are currently facing as they respond to customers' shifting demands and behaviours:

Customer demands/behaviours		Operational/cost challenges

More choice and more flexibility

Customers across industry sectors want more choice and flexibility from the companies they choose to buy from. This is evident in the transport sector, for example, as operators attempt to adapt services to meet significantly reduced and unpredictable levels of passenger demand.

VS

Unpredictable demand

Offering customers more choice and flexibility makes it harder to predict demand - but operational costs don't change when compared to pre-Covid levels. When demand is significantly reduced profit margins get eroded, and this can leave businesses vulnerable.

Customer demands/behaviours

Operational/cost challenges

Competitive pricing

At a time of rising costs and supply shortages, customers are on the look-out for lower cost and/or more convenient products or services that give them what they need more cheaply. This is having a knock-on effect across industry supply chains and many markets remain ripe for disruption.

VS

Need to balance rising costs

While businesses will want to remain competitive, they will have to weigh up the decision of passing on increasing costs - for example the rising cost of raw materials. Passing these costs on to the customer will ultimately impact opportunity to sell, but not doing so can impact profit margins.

Seeking sustainable alternatives

In adapting to shifting customer demands, many businesses have identified an opportunity to strengthen their proposition by seeking a sustainability advantage. Understanding that customers increasingly want to buy from companies that share their ethics and commitment to protecting the environment by reducing their carbon footprint lies at the heart of this trend.

VS

Prioritising Investments

Being environmentally-conscious is becoming more important to customers and businesses alike. Businesses that make early changes to how they operate will have the competitive advantage, but they will have to consider how to prioritise this alongside other investments and financial demands.

Immediacy in delivery

A growing desire amongst both consumers and businesses in recent years has been the desire to 'have things now'. For customers, services offering same day delivery on goods and groceries have set the bar high, and this mentality has spilled over into the business world, where customers expect the rapid delivery of goods and services.

VS

Managing Logistics and protecting working capital

As customers seem to become less and less patient, business are left trying to meet their demands by offering faster delivery. This creates obvious logistical challenges, but also leaves the business at risk of reducing working capital, as it gets tied up in stock. Coupled with unpredictable demand, this could quickly leave businesses without a cash buffer to protect themselves.

Innovation and quality

Customers have always sought out high quality offerings, but they are increasingly pairing this need for quality with a need for innovation. Rapid advances in technology may drive this desire, and businesses will be expected to keep up with 'industry frontrunners' when it comes to innovation.

VS

Spending uncertainty

While some businesses are willing to invest in scaling up or innovating based on predictions that pre-pandemic demand levels will return, others are taking a more measured and cautious approach. For example, Airbus's decision to ramp up production of its A320 single aisle body aircraft indicates confidence that air passenger numbers will rebound.

Customer relationships
of the future

While it may not yet be apparent in all sectors, market shocks brought on by Brexit and the pandemic have redefined customer relationships and accentuated the importance of close cooperation.

Having got this far in terms of dealing with Brexit and navigating the pandemic, business leaders know that customer and supplier relationships have faced intense pressure. Some of these relationships have grown closer and more transparent than they were two years ago, whereas others may have fallen by the wayside. Where relationships have stuck and grown stronger, customers are less focused on driving down costs and more willing to collaborate with the businesses they buy from to find ways to improve supply chain resilience.

Tackling problems in a more collaborative way ensures the best outcome for all in the long-term and requires recognition from both the business and customer of the commercial and financial terms in place, and how those impact each party. For example, if a customer is in distress, they may look to extend the payment terms with which they pay suppliers. However, this could have a knock-on effect and cause problems for the supplier, particularly as they are likely to be experiencing challenges of their own.

Tackling problems in a more collaborative way ensures the best outcome for all in the long-term and requires recognition from both the business and customer of the commercial and financial terms in place, and how those impact each party.

If your sole supplier in a particular area is forced to go out of business, this will cause more problems down the line, so it is in customers' best interests to discuss payment terms with their suppliers in the first instance, to find a mutually beneficial solution.

As part of its research, Vendigital asked C-Suite executives to rank the attributes of a fully-optimised customer relationship. The top attribute was shown to be greater focus on mutual viability and resilience.

Where relationships have stuck and grown stronger, customers are less focused on driving down costs and more willing to collaborate with the business they buy from.

Top attributes for a fully-optimised customer relationship

01 Greater focus on mutual viability and resilience

02 Streamlined ordering / inventory management, based on customers' needs

03 Businesses that are more likely to innovate together

04 Seamless information sharing about availability and demand

05 Greater willingness to share costs

**06** Agility built into management processes and systems

Adapting operating models to meet changing customer relationships: 15 key questions to consider

When it comes to developing the right operating model to meet customers' needs, there is no clear answer. It will be down to each business to find a balance that achieves their own objectives, as well as adapting to the changing landscape.

Here we've laid out 15 critical questions to help businesses to review each stage of their operating model through a customer-focused lens.
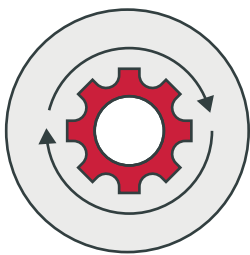
Core business processes

Have your priorities changed, and is this change permanent?

At a time when so much is uncertain, it can be easy to skew processes to prioritise one attribute, such as efficiency or flexibility, just to keep the business running. In the long-term however, it's important to find the right balance, that works for both the business and its customers.

Have you updated or reviewed your core business process documentation for the current market?

Taking the time to review and understand what processes are core to the basic running of the business, and what is being done on top of that to drive growth, is essential to guide strategic decision making.

Have any of your core business processes experienced interruption in the last 18 months, and what could the long-term impacts be?

All businesses have been affected by recent disruptions to differing degrees, but it's important to look back and consider what can be done to mitigate any lasting impacts. If sales and marketing efforts have slowed and the business has relied on existing revenue channels, it may now be necessary to implement a strategy to build a fresh sales pipeline.

Technology and operations infrastructure

### Is your existing infrastructure agile enough to meet changing needs?

For some companies, the technology and operations they had in place a few years ago may already be outdated. Rather than updating them to meet current needs, it's important to consider the agility of the systems that the business is putting in place, to ensure they can continue to meet the needs of customers as they evolve.

What are industry disruptors doing, and will they cannibalise your audiences?

At a time of great change, every industry is seeing disruptors coming to the surface with new technologies and ideas that may draw customers away from traditional models. Analysing what these industry disruptors are doing, and using this intelligence to inform decision making, can help to ensure the business continues to meet customers' needs.

Will your current infrastructure support you if you decide to expand your revenue channels?

One thing that has underpinned many business's success stories over the last few years has been an ability to quickly pivot to a new offering – traditional restaurants becoming takeaways, for example. Ensuring your technology and operations can adapt to support a new offering can help the business to act quickly if the need arises.
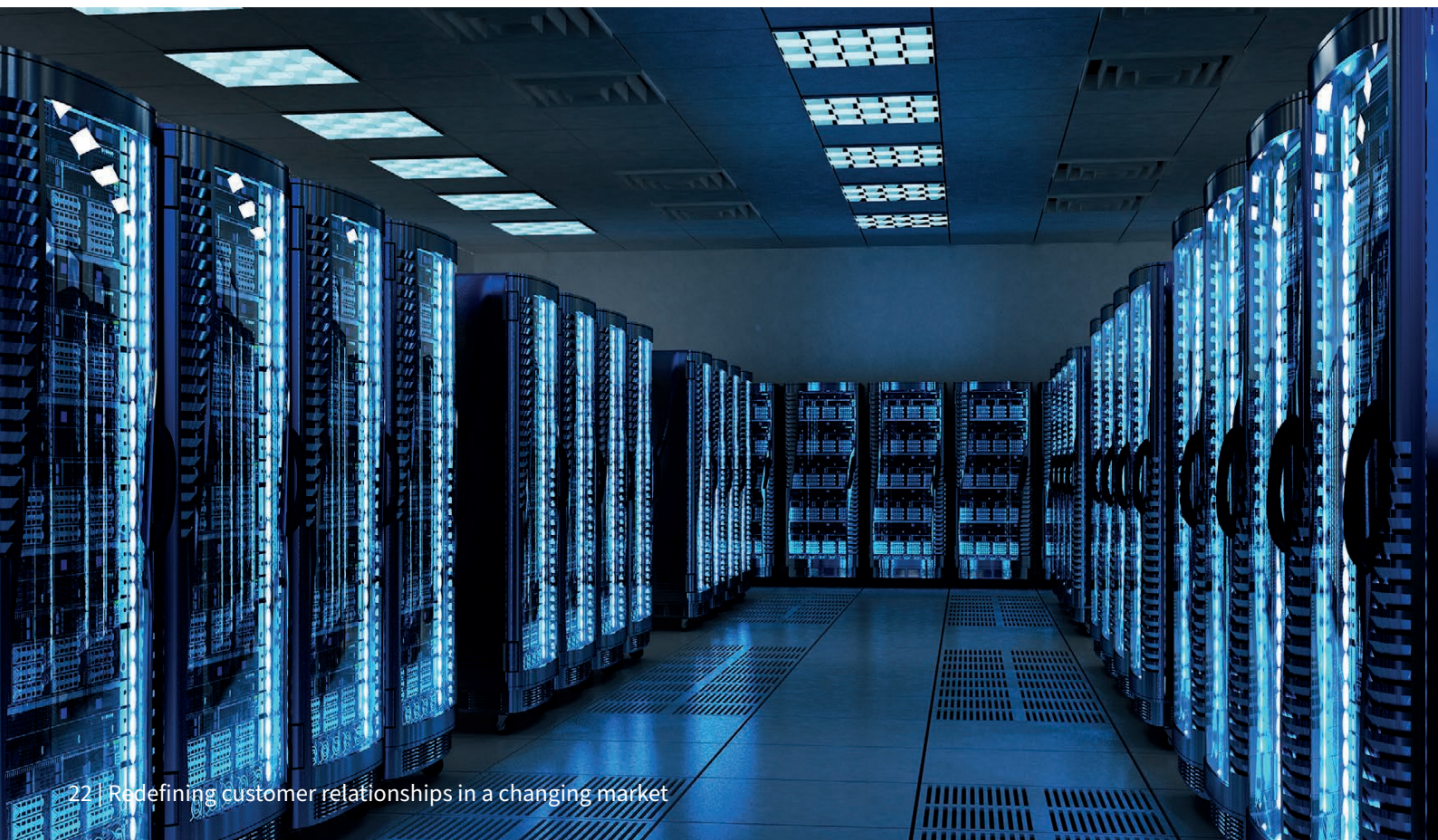
Structure, governance and risk control

Are you struggling to make quick, strategic decisions?

A huge part of staying relevant in a changing market is the organisation's ability to react quickly to changing market trends. If internal bureaucracy means that it often takes weeks or months to finalise decisions, it's worth reviewing how these decisions are made.

Have you seen an increase in complaints/returns in areas where you've had to adapt?

One challenge businesses often face when they have to adapt at speed is that their existing governance falls short of new processes. There may be a simple remedy, or a wider rethink may be required.

Have you reassessed risk appetite and tolerance?

If it hasn't already done so, the business should reassess the risk appetite of the Board and tolerance levels in light of the changes of the past few years. This will help to establish where 'red lines' should lie now, bearing in mind the potential impact on customers.

People and culture

**Have you changed the way you work as a team?**

A huge rise in remote and hybrid working has changed the way that many teams work, and if not properly managed this could have a knock-on effect on customer service. It is important to communicate new ways of working with customers, and ensure the right measures are in place to avoid potential delays or miscommunication.

Do you have channels in place that allow deeper customer relationships to form?

In the absence or reduction of in-person interactions, it may be harder for internal teams to develop deep relationships with the customers they are working with. Promoting the right internal culture and offering the freedom to build relationships in new ways can help prevent a disconnect.

How have your teams reacted to internal change?

If teams have responded well to change in the past, it is likely to be easier to maintain that agility even if things become more uncertain. With a culture that is resistant to change, the business may struggle to respond to customer demands in a timely manner, so it is important to make sure all employees are comfortable with change and feel they are well equipped, in terms of communication and resources, to adapt.
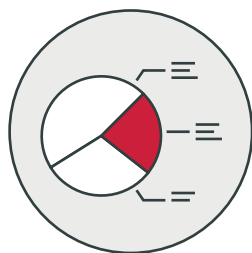
Data, measures and KPIs

How much have you used data to guide your decisions over the past two years?

In many cases, the changes businesses have faced in recent years have been unprecedented. Companies that have fared well are often those who have been successful in extracting meaningful data and using it to shape their decisions, particularly when it comes to customer sentiment.

Do you have clearly defined processes on how to convert data into actionable insights?

For many businesses, gathering and reviewing data isn't a challenge, but problems can start when they try and convert that data into clear insights and actions. Layering business data with human insights and the experience of dealing with customers will lead to the best outcomes.

Are you involved in/do you have access to wider industry data sharing?

Reliable data is incredibly useful in guiding business decisions, but in uncertain times, it's also important to have access to good quality data on the wider industry.

Conclusion

Recent market shocks have accentuated the importance of customer relationships and there is no going back.

Based on the research, it is clear that C-Suite executives are aware that the ongoing threat of market and geopolitical volatility could bring further shocks, potentially undermining their growth plans – but are they ready? While three quarters – 74% - said they were prepared for further supply chain and market shocks it remains to be seen whether their preparations are sufficient. A further 6% of C-Suite executives admitted to being underprepared or not prepared at all.

In order to thrive in recovery, businesses need to learn from their experiences over the past two years by taking proactive steps to remodel their customer relationships. While a continued focus on innovating to meet customers' needs is vital, this must be achieved while keeping a careful eye on costs.

Being aware of industry trends will help businesses to keep up with customers' evolving requirements while nurturing valuable, long-lasting relationships. A focus on mutual viability and resilience has also come to the fore during the pandemic.

Keeping track of trends and using Vendigital's suggested questions to improve customer understanding, will help businesses to optimise their operating strategies and ensure they are better equipped to navigate any further market or geopolitical shocks that might lie ahead.

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> **Understanding customers' needs is essential to the performance of any industrial business and this can be achieved by identifying trends and asking the right questions. To achieve growth in such uncertain times is challenging and close customer relationships are critical.**
>
> **Imran Nazir, Principal Consultant, Vendigital**
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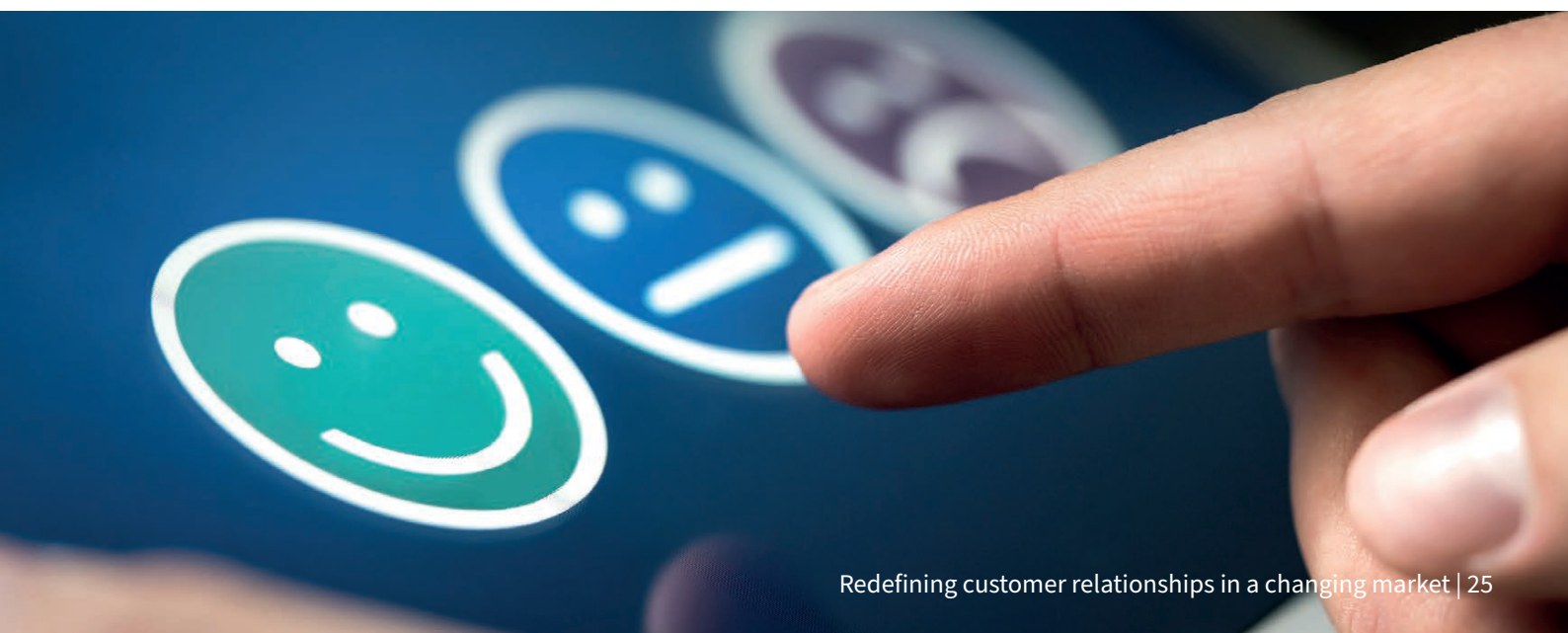
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About Vendigital

At Vendigital, we deliver data-led accelerated cost transformation. We achieve this by combining multi-disciplinary consulting expertise and our proprietary digital platform – through our Insights360 methodology – to generate and embed client-specific operational insights.

An award-winning UK top-20 management consultancy, we work across procurement and supply chain; operating strategy; cost and value engineering; and portfolio management to deliver tangible, quantifiable cost benefits for clients.

Core to our approach is our deep industry and operational expertise, and in-house data science capability – importantly, this is underpinned by our extensive business transformation and implementation experience.

Our consultants are industry specialists with extensive experience of working within the sectors we serve – aerospace and defence; automotive; consumer products; industrial manufacturing; private equity; technology, media and telecoms; and transportation and infrastructure.

Whether you're looking to make longer-term strategic cost decisions or drive operational efficiencies at pace, we work as part of your team to deliver measurable and sustainable results.

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