

A Crisis in Customer Confidence

Rebuilding Company Image

The Challenge

A multi-year rate freeze, established under a state-mandated electric de-regulation agreement, had prevented normal utility rate increases for a number of years. As the end of the freeze period approached, it became apparent that rates would increase substantially, due to the significant increases in fuel and electric commodity prices that had occurred during the freeze period. Intense media attention was focused on the magnitude of the expected increases, generating severe reactions from consumer advocacy groups, and a dramatic decline in customer satisfaction ratings. Our client needed to regain the support of these key constituencies in order to reduce the likelihood of legislative and regulatory actions which could threaten the financial viability of the utility.

Our Approach

Rich Consulting was retained to work with a client team in understanding the underlying root causes of the dramatic drop in customer satisfaction ratings and developing an action plan to directly address these issues. We analyzed recent customer satisfaction data, relevant pricing-response information and various peer benchmark comparisons to fully understand the problem. We then developed a customized survey of a cross-section of the customer population to accurately gauge the depth of the problem, and also identify any residual sources of goodwill which might form the basis for a recovery program. Lastly, we researched other *Crisis-in-Customer-Confidence* situations to capture lessons learned. This wide range of input provided the basis for a robust action plan to rebuild and sustain customer confidence.

Defining the Problem

As most utilities do, our client routinely conducted customer satisfaction surveys using two different vendors with two different methodologies to maintain a broad perspective on customer satisfaction. As shown in the diagram below, company's satisfaction ratings, which had been stable for several years, showed a steep drop in customer satisfaction coincident with the announcements of imminent rate increases.

Listening to the Customer

Rich Consulting collaborated with the client to develop and administer a customized survey to gain further insight into the problem. A representative sample of 600 customers across gender, age, and location (urban/ suburban) demographics was surveyed. Responses were candid and helpful, illustrating gaps and opportunities. It was learned that key attributes underlying company image – *'being honest and open'*, *'showing concern for low income customers'*, and *'being trustworthy'* were positively viewed by only 25% of the customers surveyed. In asking how the company could help restore confidence, *'keeping us*

informed, *'seeking lower-cost sources of power* and *'providing conservation advice*' were suggested by 60% of the respondents.

Examples in Crisis Management

Our research indicated that management's response to a crisis in customer confidence directly impacts the company's long-term business performance. Although the events triggering a crisis may be beyond the control of the company, the company's association with the issue can cause a customer backlash. We studied companies with exemplary crisis interventions such as Johnson & Johnson's response in the Tylenol case, as well as cases which illustrate the consequences of a poor response, such as Merck's performance in the recent Vioxx case.

The Tylenol Case: Getting it Right Pays Dividends

- β In 1982, several bottles of Tylenol were contaminated with cyanide, eventually killing 7 people. Determined to protect its customers, J&J immediately issues warnings to the public through media, and recalled more than 31 million bottles of the painkiller from all retail outlets, at a cost of \$100 million. The easily opened capsules were replaced with tablets, and a new tamper resistant "triple safety-seal system" was developed to prevent future contamination. Consumers were kept well informed and became engaged in the dramatic investigation that followed the incident.
- β The aggressive campaign launched to directly and publicly address customer concerns, and implement remedial actions, carried the day. Customer confidence was not only restored but enhanced by the company's response. Tylenol more than gained back its lost market share and today remains the leading non-aspirin pain reliever.

The Ford Explorer / Firestone Tire Case: A Similar Response

- β In 2000, the National Highway Traffic Safety Administration (NHTSA) contacted Ford and Firestone about the high incidence of tire failure on Ford Explorers equipped with Firestone tires. Ford's investigations found that certain models of Firestone tires had very high failure rates.
- β Ford responded quickly and provided extensive reports on tire failure and vehicle accidents to show the Explorer was not the problem. They also took quick action in the interest of their customers and recalled 27.4 million Firestone tires, and followed with a communications campaign highlighting safety of SUVs and of the Ford Explorer in particular. Ford Explorer remained the number one selling SUV in its class from 1990 when it was introduced, through 2005.

The Merc / Vioxx Case: The Consequences of Inaction are Severe

- β In August, 2004, a report in a medical journal showed that the arthritis painkiller Vioxx increased the risk of stroke and heart attack among its users. Initial concerns were compounded when it was discovered that Merck had withheld information that would have affected the conclusions of an earlier study on the risks of sustained Vioxx usage.

- β Merck waited more than a month to remove the drug from the market, and then ran full page ads in various newspapers defending its delayed actions. Some reports suggested the drug maker should have pulled Vioxx years earlier, which might have avoided thousands of heart attacks.

- β Despite an eventual complete recall of the drug, the failure to issue timely disclosures and warnings resulted in over 13,000 lawsuits, a cost of some \$50 billion, the closing of facilities, and loss of thousands of jobs. Merck continues to receive criticism for mishandling crucial data.

Lesson Learned: A major Crisis Requires Bold Action

The lessons from these and other research cases can be summarized as follows:

- ✓ Act quickly
- ✓ Address the big issues directly and decisively
- ✓ Combine corrective actions with comprehensive communications
- ✓ Use a key management executive to communicate issues and actions
- ✓ Partner with relevant stakeholders and commit to long-term efforts
- ✓ Measure impact of the recovery program and adjust as appropriate

Our Recommended Client Response Strategy

Working with our client, we designed a comprehensive program to be launched immediately, including clear action plans, an aggressive timeline, and specific goals. The four key elements were:

1. Launch communications that quickly and directly address key themes customers care about. Test the messages first and track the results. The key messages include:
 - We Actively Seek Low Cost Power – Promote the company's aggressive approach to bidding for the lowest cost energy sources under stable, long-term contracts.

 - We Assist Low Income Customers and Support our Community Educate customers on the company's role in making assistance available to those who need it. Publicize on-going support of numerous charitable agencies and public interest groups.

 - We Support Conservation– Publicize and promote conservation initiatives the company has developed, and provide conservation advice.

- *We Are Working to Earn Your Trust* – Appoint a highly credible trusted senior executive to regularly communicate company actions to support its customers and the communities it serves.
2. Maintain a continued focus on the basics of improving the safety and reliability of the energy delivery system. Where there is opportunity, emphasize the significant capital investments the company is making to further improve the system.
 3. Develop and implement additional conservation alternatives. Several options were developed based on industry opportunities and best practices.
 4. Design and launch other targeted programs such as pricing alternatives, or innovative low income assistance approaches.

Moving Forward

The executive leadership team quickly embraced the initiatives and appointed a cross-organizational SWAT team and began to move the initiatives forward. A process for monitoring progress was built in to ensure focus and momentum.

Reflection

Customer satisfaction and confidence, built carefully over time, can be quickly lost. Unfortunately, it can take a long time to re-build. By recognizing the signs and addressing them quickly and decisively, the company is preventing further erosion of their image and is on track to restore customer confidence.