CustomerStrategy

The Forecast 2009

www.customer-strategy.co.uk/csfeatures

Welcome to The Forecast

To say we are living through a time of unprecedented economic turmoil is something of an understatement. The recession is here and now and according to economists across the world the UK will suffer the most deep, long and damaging downturn of the major global economies.

In times of economic trouble it is more important than ever for organisations to focus on their customers and their customer strategies. The mantra in 2009 is about customer retention and gaining market share rather than customer acquisition. That is why Customer Strategy is launching The Forecast at this time.

At Customer Strategy our agenda is to set the agenda for our senior level readership across the enterprise. The Forecast is an industry sector-by-sector guide to the strategies organisations will need now and in the future to gain a greater understanding of their customers' needs and to be in the best possible place for when the recovery comes - and it may take some time but the recovery will eventually come.

Whatever area of business you work in The Forecast is essential reading. In addition to our customer sector guides you will benefit from the wisdom of some of the leading economic and strategic minds in the business. Keep The Forecast to hand as you will find it an invaluable reference throughout 2009 and beyond.

Steve Hurst, Editor Customer Strategy

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Customer strategy in 2009 – it's all about market share

Leading economist Roger Martin-Fagg gives his take on the economic prospects for 2009 and sees good prospects for organisations that get their customer strategies spot on

In a word it is grim. Here is why. Most Western Banks are practically insolvent. This is because of the loss in value of houses and commercial property. If a bank has lent more than 90% of the value in the past two years then they will be charging their capital base with that loss. This reduces their ability to lend. For every £1 of provisions, the ability to lend is reduced by £10.

The rate of credit creation was running at 14% a year until August 2008, then it began to fall. Now it is barely growing at 3.8% year on year. This why the Bank of England has dropped interest rates to 2%. However LIBOR, the rate at which banks lend to each other is likely to remain at between 3 and 4 %. And it isn't price which is the problem, its the lack of capital. We need money supply to grow above 7% for a growing economy.

Customer wealth to drop by a third

Next year real GDP is likely to shrink by 2%, and unemployment will be close to three million by 2010. Most business will need to get their break-even point down by about 10 % through a combination of price increases (yes even in a recession) and head-count reductions. Retail sales volumes will be negative, and value growth will be between one and two percent. This is worse than 1990-93.

The collapse in Sterling will help exporters margins but at the same time trash importers margins. And given the global demand picture volume growth will be constrained.

The wealth of the average Brit will drop by a third in 2009. His or her income in real terms will be flat if they are still in work. They will also raise their savings rate due to fear and uncertainty. This will take about £30 Bn off consumer spending. The Government will be borrowing £140 Bn. This is the right thing to do to avoid a depression but it will not stop the recession.

So in pictorial terms it looks like the figure opposite. The chart is forecasting a U shaped recession. What does all this mean if you are responsible for a business unit, or a team of customer facing employees?

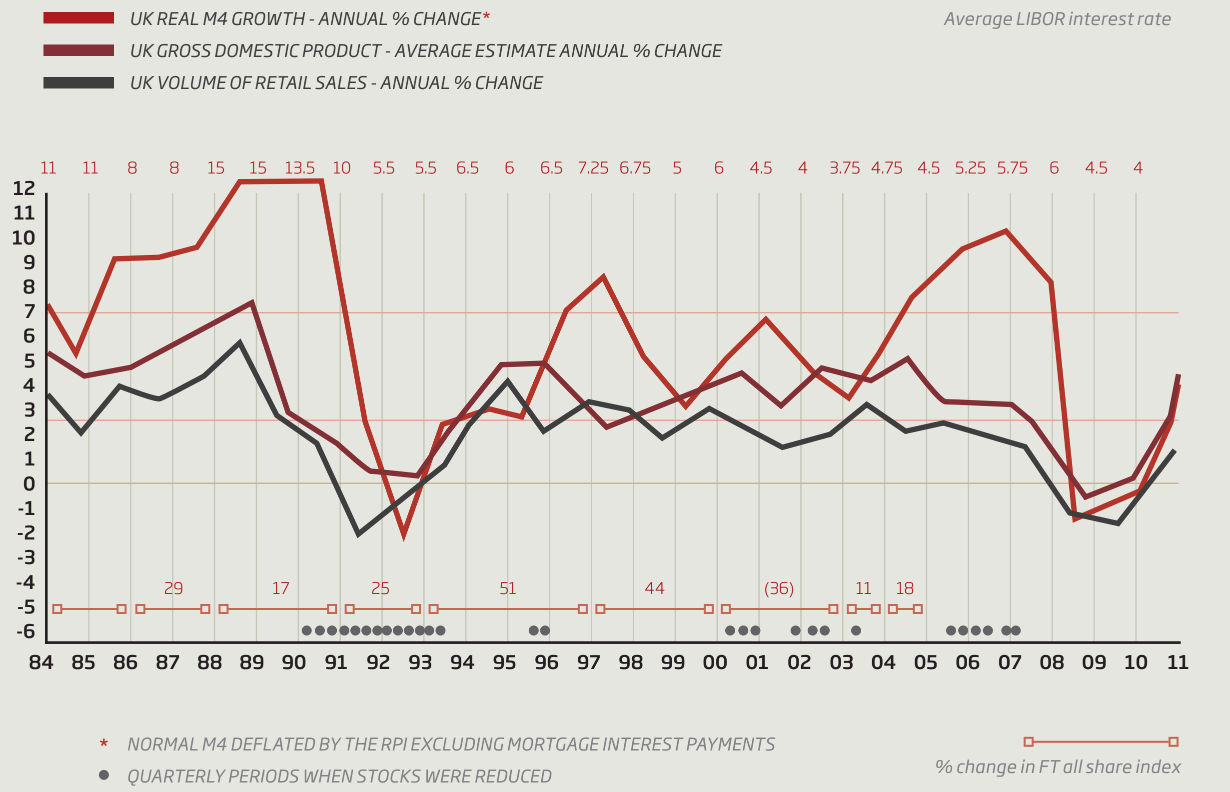
Value drives market share

Growth will be at the expense of others. It will be all about taking share by having a superior value proposition.

Now more than ever the quality of leadership will matter. There is a tendency for the Board to go into purdah because they think they must come up with *the solution*. So just when their presence is required by the employees , they are absent. The fact

The wealth of the average Brit will drop by a third in 2009. His or her income in real terms will be flat if they are still in work. They will also raise their savings rate due to fear and uncertainty. This will take about £30 billion of consumer spending. The government is borrowing £140 billion which should avoid depression but not a deep recession

U-shaped recession



is that this recession is different from previous ones and cooperative decision making is the only way success can come through. This mean Leaders have to share with the followers the situation and ask for possible solutions and then make a judgement call. The collective wisdom will always be superior to the wisdom of one. The big question will be 'how can we improve our value proposition' The toxic assumption will be' by reducing price'

And there are many alternatives, but leaders will need to get amongst their employees to find out what they are, they need to ask the questions and listen to the answers, then choose the best option. In a recession leaders tend to go left brain and become ruthlessly analytical, when what is required is a right brain, intuitive response to the customer and how they view value. To slash prices is classic left brain behaviour.

So we are entering a very tough year which will require organisations to drive innovative customer service to succeed. There will be losers, but they will release resources for the superior value creators. History shows that really good businesses make good returns in a shrinking economy.

Roger Martin-Fagg is recognised as one of the world's leading economists and thinkers. He is leading economist and director at Henley Management College

We are entering a tough year which will require organisations to drive innovative customer service There will be losers, but they will release resources for the value creators. History shows that really good businesses make healthy returns in a shrinking economy

Some customers more equal than others

Frank Kirwan from the University of Edinburgh Management School sees a long and bumpy road ahead as in true Orwellian fashion some customers will become more equal than others

The good news - and there isn't much of that - is that inflation is dropping as energy and commodity prices fall and interest rate cuts reduce mortgage payments. This process still has some way to go - and inflation may actually turn negative for a few months.

The bad news is that output is also falling. All the major components of spending, with the exception of government, are contracting. Consumers' expenditure, investment spending, inventory building and exports are all detracting from demand in the UK and US right now. These processes also have some way to go as unemployment rises, household incomes contract and uncertainty undermines confidence.

The UK government has announced a major stimulus package. In the absence of similar packages from most of its trading partners, however, much of the stimulus will leak through imports, stimulating the French and German economies as much as that of the UK.

The final piece of bad news is that the world may be at a geo-political inflection point, triggered by unprecedented instability in energy-producing countries, the unknown implications of Russia's resurgence, the continuing rise of India and China, threats to major shipping lanes and other factors. The world of 2015 may look very different from the US hegemony of the last 50 years.

It is difficult to see how things will quickly get better. While output may cease to contract - which is very different from a recovery - in 2010, there is a real danger inflation will rise again, driven by the huge injections of liquidity required by bailouts and stimulus packages. Independent central banks with mandates to control inflation are likely to react by raising interest rates, dampening any recovery in the process.

Should that happen, many governments will have little further capability to stimulate their economies. The debt and tax consequences of the 2008-9 stimulus packages will pre-empt further tax cuts or increases in public spending. There is a real danger that the second stage of this crisis will be characterised by stagflation - stagnant output and rising inflation.

Downturn set to be deeper and longer

Some fundamental political and economic issues are also likely to be brought into stark relief in the coming years, with potentially serious effects on the recovery either through the supply of credit, through industrial action, or through political conflict. Possible friction points include whether a sector as critical to society as banking can be privately-owned, and would public ownership, and consequent allocation of capital, be better at promoting stability and economic growth?

How can the international financial sector be regulated to balance risk to society and return to capitalists? Can a shrunken private sector, whose own pension provision falls well short of what is required, continue to fund index-linked, final-salary public-sector pensions?

For all the reasons set out here, it is difficult to avoid the conclusion that the depth and duration of this downturn are likely to be greater than generally appreciated. This is currently both a crisis of liquidity, where companies struggle to find enough cash or credit to pay the bills, and solvency, where assets exceed liabilities if both are marked to market. Public policy can address liquidity, and reduce the possibility of viable businesses failing due to lack of credit, much more readily than solvency.

Tackling the solvency crisis is more difficult because prices of many categories of assets are uncertain to an unprecedented degree. This is particularly the case with property and property-related financial instruments. In many cases, there are simply no buyers and prices cannot be established. Marking to market is impossible in such circumstances.

In addition, no-one is clear who holds the dud assets. This uncertainty undermines confidence and trade contracts , the current shrinking of the interbank market being the prime example. It is likely that the true scale of insolvency has yet to emerge.

Crises - lots of crises

There are calls for governments to purchase the dud assets, thereby removing the uncertainty and putting a floor on prices. But many governments have already guaranteed liabilities far in excess of their national incomes, so their scope to do more is limited. The markets have thus far not explicitly challenged governments' ability to pay if these guarantees ever have to be honoured. Should markets turn more sceptical, there might well be liquidity, solvency and currency crises simultaneously, particularly involving those currencies, such as sterling, which are not part of a major currency bloc.

Government scope to stimulate the economy further through monetary policy is limited. While central banks everywhere are reducing interest rates in an attempt to encourage consumer and investment spending, and to reduce the likelihood of debt defaults and insolvency, the scope to do so gets smaller as rates get closer

Don't recruit new customers indiscriminately. A larger percentage of those available will have been shed by your competitors, who will be working hardest to keep their best prospects. Beware of picking up their discards

Customer Service Strategies: What to do now

For a start, companies need to re-examine how customer value is assessed. The old metrics may well be misleading as the recession radically changes the distribution of disposable income. As interest rates on savings fall and stock markets and pension funds tumble, older customer segments, which have been disproportionately profitable for some firms, may see their purchasing power reduced dramatically.

Don't recruit new customers indiscriminately. A larger percentage of those available will have been shed by your competitors, who will be working hardest to keep their best prospects. Beware of picking up their discards.

Focus more of the marketing spend on generating customer referrals. Customers already on the books are the best prospects in terms of propensity to purchase and cost to acquire. Divert some of the conventional advertising budget to referral generation?

Actively manage (deter?) unprofitable existing customers, but note the caveat on historic profitability above. Price such customers out at renewal where the purchase is an annual one, such as insurance. Downgrade service to them if this can be done without damage to the brand. Force them onto automated channels.

Be acquisition-ready. Acquire the walking wounded, but beware of straying outside your own industry and expertise. Some of your competitors will fail, or make distressed sales of part of their operations. If you have husbanded your cash and managed your operations efficiently, there will be scope to capture these customers, whether through a traditional M&A route or through adept marketing as customers defect from a failing rival. But before embarking on M&A, first satisfy yourself that marketing is not be a more effective way of acquiring such customers.

to zero, which they are already nearing. Interest rates cannot go negative. While central banks are reducing rates, the sheer scale of bond issuance implied by state bailouts and budgets will tend to push interest rates up. There may be further decoupling of official from market rates as a result, with the latter being significantly higher. So, given all the challenges, how can businesses respond? Here's a five point plan:

1. *The obvious immediate step is to minimise debtors and maximise cash. Investment in creditor and debtor management is likely to be well repaid.*
2. *Make the cost base as variable as possible. Where labour costs are a large proportion of the total, exploit the scope for profit-related remuneration to the full. Use part-time and casual labour wherever possible, introduce sabbaticals and unpaid leave.*
3. *Start charging for the things that have hitherto been free, or where charges have been waived; it all bolsters cash.*
4. *Examine the basis of how your product is differentiated from the competitors. The middle-ground (neither bargain basement nor luxury) is the most likely battleground in a downturn – so don't be caught there with a 'me too' offering.*
5. *Don't cut R&D or product development; if nothing else, it's cheaper to fund as interest rates fall. There is some evidence, albeit from milder downturns, that firms able to maintain such investments see greater increases in market share and profitability in the first years of recovery than their more risk-averse, or cash-constrained, rivals.*

There will be an upturn. There always has been. But this one may take longer to emerge and may be more muted. The important thing is to be amongst those left standing when it does.

Frank Kirwan is a highly respected economist and commentator from the University of Edinburgh Management School and is a fomer business leader in his own right

Industry sectors – an overview

David Smith, chief executive Global Futures and Foresight sets the scene for a sector by sector guide to the challenges being faced and the customer strategies that need to be taken up by organisations

The UK consumer is faced with evolving changes and trends that have far reaching consequences for every business segment today. The changes and trends occurring are not random events but have their origins in a complex interplay of ever advancing technological progress, deep seated social changes and economic events.

In the summer of 1997 the UK generated enough GDP to cover its outstanding amount of consumer debt. Ten years later UK consumer debt totalled £1,345 billion, signalling a decisive societal shift towards instant gratification and deferred payment that in October 2008 culminated in a £1.44 trillion hole. With the rise in debt fuelled spending came an increase in personal insolvencies that in 1997 amounted to some 24,000 a year. By 2006 this had increased to 107,000 with estimates for the end of 2008 made at the beginning of the year around 130,000 . Furthermore it is estimated that about one million Britons have 'problem' unsecured debts that total £25bn - an average of £25,000 each . The credit crisis and declining house values across the U.K have the potential to alter the attitude that has seen these debts mount.

"I think there is a mood of austerity," Vince Cable, finance spokesman for the Liberal Democrat party, said in a recent speech, talking about society as a whole as well as the banking system. "A reaction against greed, excess, waste, tax cheating and selfish, self-indulgent behavior. " Indeed, there is evidence that Britain is tackling its debt problems now that the credit crisis is impacting the real economy. Over half (55 per cent) of UK adults are taking action to clear their debt according to a Lloyds TSB report. 32 per cent have increased the amount they pay off each month, with a further 19 per cent focusing on paying off more of their debt borrowed on higher interest rates, such as store cards.

With unemployment set to rise up to 2.7 million by late 2010 and credit remaining expensive it is far from assured that these recent consumer actions will insulate against the effects of recession. If consumer confidence is anything to judge, it would appear that the economic situation will impact U.K consumers strongly. A Gfk NOP survey charting an index measuring 'fears for personal financial wellbeing over the next 12 months' in July shows the public mood to be at the lowest point since 1994. However the feelings about the general economic situation faced in the UK are the lowest ever seen .

The new reality

The new financial reality is leading many consumers to the internet in an attempt to save money or at the very least limit expenditure. 'This is the first real economic downturn to have occurred during the Internet age, and Hitwise data provides some fascinating insights into how people are reacting,' commented Robin Goad, Research Director for Hitwise in the UK. 'As you would expect, people are using the Internet to find cheaper goods and services, but also to find information on everything from the reasons behind the credit crunch to money saving DIY tips .'

A look at the data shows UK internet visits to retail price comparison sites increased by 20 per cent between July 2007 and 2008 following a two year period of declining visits. Likewise, summer sales searches increased threefold this year compared with last, while consumers searching for discount vouchers have led to a 130 per cent increase in traffic to specialist voucher websites.

The data also reveals that internet searches for ethical consumer products such as fair trade and organic have remained static over the last 12 months, perhaps indicating price sensitivity on premium products. However searches for pragmatic money saving items have risen – terms such as 'loft insulation' and 'underfloor heating' have more than doubled over the last 12 months. Similarly, UK Internet traffic to the websites of gas and electricity providers has also doubled over the same period, as consumers hunt to find the best deal.

The use of the internet for more complex consumption and interaction will be well underway by the end of 2011. This is when Gartner believe 80 percent of active Internet users (and Fortune 500 enterprises) will have a "second life", but not necessarily in Second Life . Datamonitor similarly predicts 27.1 million Britons will be using social networking by 2012, almost a trebling of today's usage figure .

New technologies are not only allowing people a different way to track financial outgoings and search for discounted rates but are facilitating deep seated social change. A Yellow Pages survey of 2003 found that 85 per cent of respondents nationwide felt that the UK's 9-5 culture was in decline. Almost 90 per cent agreed that the UK lifestyle had become increasingly 24/7 over the last five years and 86 per cent felt that this gave them the flexibility to do what they want, when they want .

Blend rather than balance

The 24/7 society is thus characterised not so much by a work/life balance but a work/life blend. Inability to escape work, essentially through a combination of one or more new age communication mediums is leading to increasing stress. Over 50 per cent of working Britons believe their job is becoming increasingly stressful and this is set to increase already worrying figures. Work-related stress accounts for over a third of all new incidences of ill health, and in 2006/07, a total of 13.8 million working days were lost to work-related stress, depression and anxiety according to Professor Smith of the School of Psychology at Cardiff University.

The social effects of feeling time pressured and stressed are by no means confined to the office. The average Brit gets just over six-and-a-half hours of sleep every night, about 30 minutes short of the recommended amount. 26 per cent of people struggle to sleep because of work place stress. The effects of this shouldn't be underestimated; half say their lack of sleep has an effect on the quality of their work, with 53 per cent of those saying they find it hard to concentrate on their job. 48 per cent of people have little or no motivation and 35 per cent feel irritable and moody. More than 39 per cent of people argue with their partner because they are so tired . The effects for companies stemming from this one change alone are multifold. Consumers with less time, less attention span and potentially reduced rationality do not behave as economic models would dictate.Compounding these social consumer trends is one that business has yet to pay due attention to but one that will increasingly shape the U.K consumer. A minimum of twelve British towns and cities will have no single ethnic group in a majority within the next 30 years. Leicester will become the first 'super-diverse' city in 2020, then Birmingham in 2024, followed by Slough and Luton. .

Leicester has seen the proportion of its white population decrease from 70.1 per cent in 1991 to 59.5 per cent today. By 2016 the white population will make up 52.2 per cent of the population, falling to 44.5 per cent by 2026.

Britain is becoming increasingly diverse, not just as a whole but within the immigrant population itself. Individual cities are experiencing different rates, from differing regions and together this creates a complex challenge for those responsible for successfully managing the country's changing population. It also creates a challenge for those responsible for tailoring goods and services, not only in their targeting of the customer, but also the means of communicating with that segment or person.

David Smith is chief executive of the highly regarded Global Futures and Foresight group. He is the author of all the following industry sector guides in The Forecast

UK CSI Overview

	Retail - non-food	Services	Retail - food	Finance - insurance	Automotive	Finance - banks	Leisure & tourism	Government	Transport	Telecoms	Utilities	Local government
Staff appearance	7.8	7.9	7.6	7.5	7.8	8.1	7.3	7.6	7.5	7.2	7.1	7.4
Helpfulness of staff	7.8	7.9	7.6	7.6	7.7	7.8	7.3	7.4	7.2	6.9	6.8	6.8
Friendliness of staff	7.8	8.0	7.6	7.7	7.7	7.8	7.3	7.5	7.2	7.1	7.0	6.8
Competence of staff	7.6	7.8	7.4	7.6	7.6	7.6	7.1	7.3	7.2	6.7	6.7	6.6
Treated like a valued customer	7.3	7.7	7.2	7.3	7.4	7.1	6.7	6.7	6.5	6.4	6.2	5.9
Professionalism	76.5	78.4	74.9	75.4	76.1	76.4	71.2	72.9	70.9	67.8	66.4	66.5
Reputation	8.0	8.0	7.9	7.8	7.9	7.6	7.4	6.8	7.0	7.1	6.7	6.0
Price/cost	7.9	7.3	7.7	7.4	6.8	6.8	7.3	6.5	6.7	6.6	5.5	5.6
Product/service quality	8.0	7.8	7.9	7.6	7.6	7.3	7.3	7.0	6.8	7.0	6.6	6.0
Billing	8.0	7.7	7.8	7.6	7.5	7.1	7.5	7.1	7.2	7.0	6.3	6.1
Quality & Efficiency	79.4	76.6	78.5	75.7	74.4	72.8	73.2	68.2	68.7	69.4	62.4	59.8
Continuity of staff	7.4	7.7	7.2	7.1	7.4	7.3	6.7	7.0	6.9	6.2	6.2	6.3
Product/service range	8.2	7.8	8.0	7.8	7.9	7.6	7.5	7.2	7.1	7.4	6.7	6.4
Information/advice	7.7	7.7	7.6	7.6	7.6	7.4	7.3	7.2	7.0	6.8	6.5	6.4
Ease of doing business	7.9	7.9	7.9	7.7	7.6	7.3	7.6	6.9	7.3	6.6	6.4	6.0
Tangibles	7.9	7.8	7.8	7.5	7.9	7.8	7.4	7.1	7.1	7.3	6.9	6.9
Ease of doing business	78.7	77.7	77.3	76.0	76.8	74.6	73.1	70.9	70.5	68.5	65.3	63.8
Handling of enquiries	7.6	7.6	7.4	7.5	7.5	7.2	7.1	6.9	6.8	6.5	6.4	6.2
Being kept informed	7.5	7.5	7.4	7.4	7.3	7.2	7.1	6.7	6.7	6.5	6.2	5.9
The outcome of the complaint	5.5	4.5	5.4	4.2	5.4	4.5	5.1	4.1	4.1	4.8	4.3	3.8
Handling of the complaint	5.0	4.1	5.1	3.8	5.2	3.9	4.8	3.8	3.9	3.8	3.6	3.2
Problem solving	75.5	75.5	74.1	74.3	73.7	71.7	70.6	68.2	67.6	64.6	63.2	60.2
Speed of service	7.4	7.7	7.3	7.5	7.3	7.1	7.0	6.6	6.9	6.4	6.3	5.9
On time delivery/solution	7.6	7.7	7.6	7.5	7.5	7.1	7.2	6.7	6.8	6.6	6.4	5.9
Timeliness	74.1	77.0	73.7	75.1	73.8	70.9	70.9	66.2	68.6	64.7	63.7	58.7
CSI	77.4	77.3	76.1	75.5	75.4	73.9	72.0	70.2	69.7	67.5	64.4	62.6
Retention	8.4	7.8	8.4	7.4	7.6	7.6	7.7	8.0	7.4	7.0	6.4	7.1
Recommendation	8.1	7.6	8.0	7.3	7.6	6.9	7.2	7.0	6.9	6.5	5.8	5.7
Repurchase	8.4	7.5	8.3	7.1	7.6	6.8	7.5	7.2	7.0	6.3	5.5	5.8
Loyalty index	82.7	76.5	82.2	72.8	76.0	71.1	74.5	74.7	71.1	66.3	59.4	61.4
Complaints index	71.7	67.0	69.9	66.0	72.7	62.4	68.2	61.2	62.4	59.4	61.1	57.1

Financial Services

Regaining customer trust the new imperative as the sector turns to customer retention strategies

As the industry segment widely blamed for the credit crisis and impending recession, the financial services sector is undergoing creative destruction on an almost industry wide scale. The quick-fire sales or else destruction of several prominent US institutions have reshaped the global financial landscape. The lack of trust already embedded in U.K consumers relating to security of information and additional charges levied by banks is being compounded.

Research from a September 2008 survey by Mintel finds that (whilst a still low) 25 per cent of adults say they trust NS&I, only an average of 16 per cent trust high street banks. Coming at a time when banks and insurance companies are struggling to adapt to successfully incorporate new forms of technology, the increasing decline in trust represents the single biggest long term challenge for players that emerge from the crunch in the financial services industry. How to assure, build and restore trust requires such a multifaceted approach from both individual companies and regulators that the length required to do this will probably last years.

Indeed an October 2008 poll shows that UK consumers have little faith in the ability of banks and retailers to look after confidential information. 90 per cent say they don't think the personal data held by companies is completely secure. The poll, by insurer RSA, also found that 46 per cent believe banks and retailers are not doing enough to protect personal data.

In addition, people are becoming increasingly worried about their data, with 56 per cent of respondents more concerned now about identity fraud and the security of their personal information than they were six months ago. Dissatisfaction with the current banking system is a major reason behind the rise of social lending firms like Zopa. Zopa aims to sidestep banks with its "social lending" internet-enabled peer-to-peer borrowing scheme that offers better interest rates than would be found at a bank. Zopa assesses credit scores, lenders make offers and borrowers size up the rates and enter into legally binding contracts, eBay-like, with their lenders.

Between 2005 and October 2008 it facilitated loans worth some £27 million between some 200,000 users. At a time when 'bread and butter' banking is repeatedly predicted to become more prominent, it is vital that banks concerned appropriate new methods of lending. To highlight this need is the growth of Zopa during the credit crisis - Zopa says that between July and September an average of 3,700 borrowers joined per month, compared to 2,500 a month in the previous quarter and that lenders are joining at a rate of 500 a month, well up from previous standards of 300. In the U.S, peer-to-peer lending through sites such as Prosper, Loanio and Lending Club are forecast to top $5 billion a year by 2010, up from $282 million in 2006.

It would be easy to be pessimistic about the future of financial services given the rise of new forms of service and the current shakedown and subsequent government interventions. Indeed there will be winners in the industry. A Strategic Insight report suggests that as investors seek greater transparency, the mutual funds industry looks set to benefit. 'Despite lower sales and a flight to safety in the near-term, the global financial crisis is an opportunity for the many benefits of mutual funds - including transparency, liquidity and diversification - to become even more accepted worldwide,' says the report. Impending recession complicates matters but the need for new financial products and of renewed growth circa 2010 will give impetus to the sector.

The bigger issue is how they fundamentally reconnect with people. Research (November 2007) undertaken by Fujitsu Services into the experiences of retail financial services customers across Europe suggests points to potential starting points.

The issue of technical support is unsurprisingly important to many consumers. 65 per cent said that they now prefer online, with face-to-face contact in a branch (53 per cent) a close second. Call centre contact over the phone was third choice at 43 per cent. Indeed automated services were found to actually inspire loyalty - 37 per cent of all respondents said that a good

There is evidence that bank nationalisations will restore some trust. Mintel concludes that UK consumers feel more secure putting their money in government run by banks

experience of automated services was most important, with less than half that number (18 per cent) citing security of personal details as the primary factor.

While customers placed value for money (43 per cent) and customer service (41 per cent) at the top of their wish lists in characteristics of a bank, industry providers were found to believe that the range of products – and the number of products that the customer has with one provider – has the biggest impact on their customers' loyalty. Consumers strongly disagree; indeed the range of products scored as their joint lowest priority (important for 11 per cent of respondents). Understanding the core needs and wants of the customer is essential if providers are to regain the trust of consumers who have ever increasing options available thanks to the spread of technology.

Internet use is often used in researching products, and this an area where financial services could offer advice that would enable tailored products and services whilst also regaining trust. An 18 month consumer project, undertaken by Aegon, highlights advice concepts that appeal to consumers.

Helping customers to help themselves through impartial information is one area that should be looked at - possibly through a created role of 'financial guru': an independent expert providing holistic and personalised advice, who is not solely selling products. Other advice includes the introduction of 'drop in centres' where the provider offers services for people with specific problems and a 'personal shopper' who simplifies the choices available.

There is evidence that the recent bank nationalisation will restore a certain degree of trust. Mintel concludes that British consumers feel more secure putting their money into institutions backed by the Government rather than privately-run banks. Together with improved regulatory standards, better knowledge of and use of technology and an attempt to satisfy consumers wishes, this should enable the industry to restore some essential consumer trust and confidence.

Finance - Banks

	Finance - banks	first direct	RBS	Nationwide	Alliance & Leicester	Bank of Scotland	Lloyds TSB	HSBC	Halifax	Natwest	Barclays
Professionalism	76.5	82.0	86.9	78.0	76.1	76.6	77.3	76.6	75.6	76.5	75.6
Quality & Efficiency	72.8	80.0	73.1	77.3	76.4	72.9	72.7	72.9	72.7	71.7	70.6
Ease of doing business	74.6	80.5	77.0	76.9	76.1	75.4	75.1	75.0	74.6	74.1	72.9
Problem solving	71.7	79.9	75.2	72.7	73.5	73.5	71.5	72.8	70.8	71.3	70.2
Timeliness	70.9	80.7	73.8	69.1	73.2	69.9	71.8	71.4	71.4	69.8	70.9
CSI	73.9	80.8	76.0	75.8	75.4	74.3	74.3	74.2	73.4	73.2	72.6
Loyalty index	71.1	75.9	74.0	78.2	73.9	69.4	73.5	71.1	69.8	68.9	68.1

Finance - Insurance

	Finance - insurance	Saga	Tesco Personal Finance	Churchill	Zurich	AA	Esure	Direct Line	AXA	Post Office	Admiral
Professionalism	76.5	83.1	86.9	78.1	78.2	76.7	74.4	77.2	76.8	75.0	73.1
Quality & Efficiency	75.7	85.8	79.3	79.2	77.8	77.5	76.8	75.9	76.9	73.8	73.6
Ease of doing business	76.0	84.9	81.4	78.8	76.6	78.1	77.2	77.2	76.2	74.8	71.5
Problem solving	74.3	85.5	74.9	78.8	76.7	76.7	77.2	75.3	76.4	72.6	69.8
Timeliness	75.1	84.6	78.2	78.8	76.8	77.2	77.0	77.5	76.4	70.5	71.9
CSI	75.5	84.7	78.8	78.7	77.4	77.3	76.7	76.5	76.5	73.9	72.3
Loyalty index	72.8	84.8	77.8	77.3	76.5	76.8	73.2	72.8	73.1	77.7	68.1

Q&A special – Gary Schwartz, Confirmit

The key challenge for the financial services sector is maintaining customer relationships in a climate where it is more difficult to acquire new customers

Q The financial services sector is in turmoil Gary. What do you think are the key challenges the sector faces in 2009 in terms of its customer strategies?

A The key challenges for the financial services sector are maintaining customer relationships in a climate in which constrained lending standards and lower savings interest rates make it more difficult to acquire new customers. The net effect is that as customers leave, it becomes more difficult to replace them.

That makes investment in customer retention strategies paramount for 2009. The key to this is in understanding why customers leave - both on an individual and aggregate basis. One can create a compelling ROI model based on seeking customer complaints. I mention "seeking" complaints because research by TARP shows that only 2% of people proactively complain to a company who's provided poor service. Instead they reduce spend or close accounts, while telling their friends, family and colleagues.

If a large segment of a customer base is dissatisfied, we can monetise the value of keeping their business and compare that to the cost of a feedback management program that alerts the details of dissatisfied customers into the business so that they can be recaptured and saved. The ROI can be significant. A relatively small spend can bring a large return.

Q Latest Forrester research suggests UK banks receive the lowest customer advocacy scores in Europe. How can the sector begin to regain the trust of its customers?

A Trust begins with proper setting of expectations and then meeting or exceeding those expectations. Banks work hard to set customer expectations, but in order to properly measure the success of those initiatives they need to ask their customers whether they've succeeded. If they haven't, then they need to act on customer complaints, at an operational level with each disaffected customer, and at a systematic level when aggregate customer opinion indicates that they need to modify processes.

The trust comes from communicating back to customers that they've heard and are acting on the feedback. Research by Gartner indicates that while as many as 95% of companies collect feedback from customers, only 10% act on that feedback while merely 5% bother to tell their customers that they've done anything with that feedback.

Becoming part of that elite 5% is the opportunity for Financial Services providers to differentiate themselves on the basis of service quality and trust relationships.

Q Where does the FSA's Treating Customers Fairly compliance initiative fit into all of this?

A The TCF initiative mandates that financial services institutions create a process to manage customer complaints and that they can demonstrate that they follow the process. It encourages FS providers to consider in a programmatic way how they treat their customers and to consider retention as an important strategic business issue. I recently attended a meeting at a well-known high street bank at which a member of the retail board stated that for the first time they're considering customer retention at board level. TCF, combined with the current economic climate, must have had an impact on that thinking.

Q In terms of retention and acquisition strategies where do you think customer service will be positioned as a key differentiator?

A Let's take a look at car insurance. The industry has conditioned us to demand the best price possible for insurance. Comparison sites abound, and we all remember the famous "Quote me happy" ad campaign from Norwich Union. Two things about that:

First, the happiness stops on the initial quote. I've never received a renewal quote that was competitive with a quote from a new insurer. So insurers aren't conditioning us to be long term customers. That can't be good for business.

Second, there's extremely little if any differentiation on the basis of service. I think this is the opportunity for insurers going forward. A personal story - last year I renewed with my current insurer for the first time in years. They were more expensive, so why that decision?

Simple - it was based on product/service differentiation. My wife and I have young children, and my insurer was the only one who allowed specification of a 4-door car as a courtesy car while our car was in for repairs. We hope not to even need that feature!! But it was the singular reason I chose to pay more. Fortunately, their customer service is also excellent.

The opportunity to differentiate on service exists when an insurer solicits feedback after, for example, a customer's claim.

If they can learn about a poor experience with the claims department or the repair, they have more time to fix the problem and the customer's attitude before renewal. And if they do so, they'll have a much better customer experience upon which to reflect before they leave for the next company that quotes them happy.

Q What's your take on the recent Gartner and Aberdeen research into customer feedback in the sector?
Gartner reported in November that Feedback Management technologies will be the top investment made in 2009 to improve the customer experience (please see attached press release). Aberdeen's research indicates that in a year in which overall IT spend will decrease, spend on Feedback Management technologies will increase. In fact, Aberdeen demonstrates that those companies who are "best in class" with regard to implementation of feedback management strategies find a 26% increase in customer satisfaction. More importantly, they are 26 times more likely to increase customer retention as compared to those classified as "laggards"

The research indicates that enterprises take very seriously the concept that actionable customer feedback can make a significant impact on business prospects and merit spend even in a down economy. Further, they indicate that customer retention is the focus for this potentially very different economic climate.

Q Looking into your crystal ball Gary where do you think financial services and its customer strategies will be a year from now?
A From the FSA website: By the end of December 2008, all firms are expected to be able to demonstrate to us and to themselves that they are consistently treating their customers fairly and delivering against all the TCF outcomes relevant to their business.

This section provides materials, which will help firms to think about what they need to do to meet the December deadline. They will have to:

1. *Demonstrate that senior management have instilled a culture within the firm whereby they understand what the fair treatment of customers means; where they expect their staff to achieve this at all times; and where (a relatively small number of) errors are promptly found by firms, put right and learned from;*
2. *Be appropriately and accurately measuring performance against all customer fairness issues materially relevant to their business, and be acting on the results;*
3. *Be demonstrating through those measures that they are delivering fair outcomes; and*
4. *Have no serious failings – whether seen through management information (MI) or known to us directly – including in areas of particular regulatory interest previously publicised by the FSA.*

In our experience many financial services providers are using feedback management technology to assist them in meeting the standards set by the FSA. If they can successfully demonstrate that they adhere to these standards they will find an increased trust relationship between themselves and their customers, and more enduring customer relationships. I'm optimistic.

Utilities

The sector will face growing pressure to reduce its prices – likely to be resisted - while customer satisfaction is running at an all time low

Average monthly energy bills have risen by 110 per cent since 2003/04. Furthermore the domestic sector was responsible for 27 percent of UK carbon dioxide emissions in 2005 whilst energy demand in the sector grew 17.5 percent from 1990 to 2003.

Within this time frame climate change has become a major concern, solidified by the Stern Report, and by the government commitment to a 60 per cent (possibly rising to 80 per cent) cut in greenhouse gases by the middle of the century. A BBC poll shows that 70 per cent of UK consumers believe that major steps must be taken very soon to avert catastrophe whilst only 3 per cent believe that no action is necessary.

The interplay between economics and the environment has at times been a contentious one. Price sensitivity has been shown to be an issue in retail patterns to a degree it could be argued that the economic downturn is indeed having a clear impact on ethical choices. This interplay will undoubtedly shape public thought with regards to the future of utility provision.

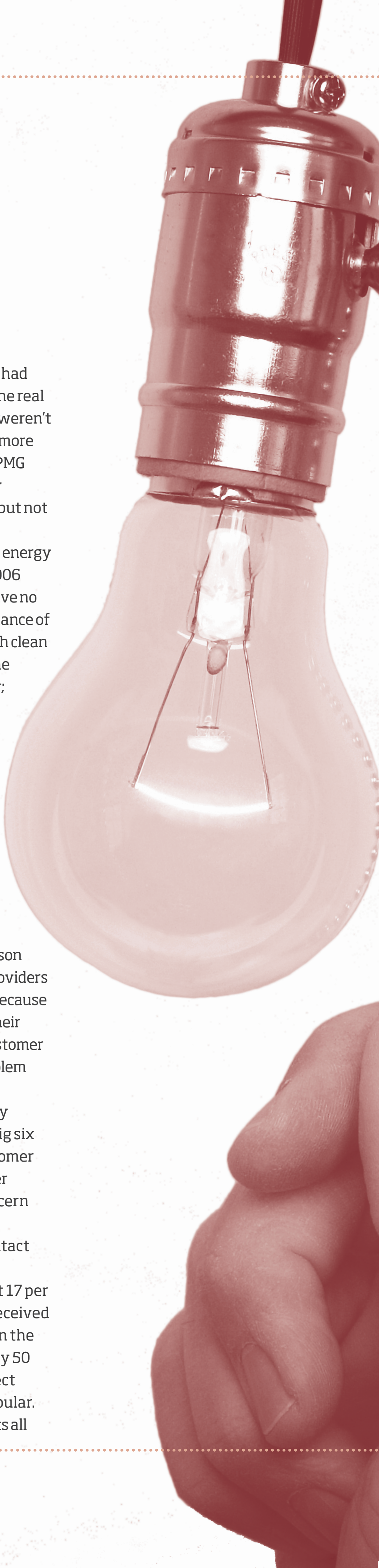
The overall sentiment has been towards nuclear and renewables in recent years. In 2005, 58 per cent of the public wanted a reduction in nuclear generating capacity, yet the figure had dropped to 38 per cent by 2007. Concern for the environment is one obvious factor in the shift, as is concerns over the continuity of energy supplies. 66 per cent cited this as a concern, ostensibly following the geo-politicisation of gas by Russia in conflicts with its neighbours.

At the same time many more people than before (42 per cent) believe nuclear is a safe source of energy. However, the one consumer concern running counter to this is cost based. Before the credit crunch had evolved into a direct threat to the real economy 44 per cent said they weren't prepared to pay a single penny more for green energy in the same KPMG survey. Green, and increasingly nuclear, are broadly supported but not necessarily at any cost.

Constant price rises that saw energy bills increase by 32 per cent in 2006 alone and 38 per cent in 2008 have no doubt reduced any public acceptance of any further rises associated with clean energy. That is not to say that the consumer is powerless however; as in many other markets, the internet is being used to save money. 51 per cent of households say that they have changed their utility supplier at least once, making savings of some £1.7 billion. uSwitch estimates that another change in supplier could reveal further savings in the region of £1 billion. It also reveals that cost savings are not the sole reason behind consumers switching providers - 9 per cent said they switched because of poor customer service with their utility provider. Indeed, poor customer service is a widely reported problem within the industry.

A September 2008 survey by Which? found that five of the big six energy companies posted customer satisfaction scores below 50 per cent. Two primary reasons concern mistakes with billing and poor channels through which to contact staff. Indeed, data gathered by moneysupermarket found that 17 per cent of people in the UK have received a utility bill with an error on it in the last three months, and that only 50 per cent check their bills as direct debit becomes increasingly popular.

Medium term future forecasts all



Further increases in fuel poverty look inevitable given the medium term forecasts and reduced consumer spending. It is unlikely that given the governement's commitment to green energy that that consumer sentiment will trump the market and its high prices

indicate rising prices throughout the utilities sector. Water bills will increase even faster than expected over the next five years due to the credit crunch raising borrowing costs for companies needing to raise the £27bn of investment they need. The projected rise in energy bills is the real concern though.

At a time when consumer energy prices are already rising, a new report from Ernst & Young - Costing the earth? - has estimated that the typical UK domestic energy bill will need to increase by an additional 20 per cent, and probably more, to pay for the cost of meeting the EU's 2020 emissions targets.

This will lead to a total annual cost of £5.3bn to UK consumers in 2020. The 20 per cent rise is the minimum additional contribution each domestic household will have to make through their energy bill, to fund the £100bn plus capital investment required for the UK to meet emissions reduction and renewable energy targets for 2020.

Indeed consumers face a triad of increased utility bills. Long term rising fuel and oil prices, the costs of climate change mitigation, and in addition, investment required to become more energy efficient - for example by insulating the home. 'However, the average consumer does not appear to realise that this additional cost is going to hit their wallets. There seems to be a worrying degree of apathy among consumers to reduce energy consumption, despite daily headlines about rising fuel bills,' says Simon Harvey of Ernst & Young.

A YouGov poll conducted on behalf of Ernst & Young echoes his sentiment. 50 per cent of British consumers were found to be unprepared to reduce their energy consumption, even if their bill was to go up by £200 or more over a year. The poll also revealed that just over two-thirds of consumers aren't prepared to pay anything more for their energy bills to combat climate change.

Such sentiment will almost certainly have to change to avoid further contraction in consumer spending, or at an extreme, to avoid fuel poverty- the heat or eat scenario. The latest official figures show that 3.5 million households in the UK were in fuel poverty in 2006, but that figure is thought to have risen to around 5 million.

Further increases in fuel poverty look inevitable given the medium term increases forecast and reduced consumer spending. It is unlikely given the government's commitment to green energy that consumer sentiment will trump the market and its high prices – indeed consumers will increasingly have to adapt their behaviour to meet the market.

Utilities

	Utilities	Scottish and Southern Energy	EDF Energy	Northern Ireland Electricity	Scottish Power	E.ON	British Gas	npower / RWE
Professionalism	76.5	72.7	86.9	70.0	68.5	67.5	64.0	60.8
Quality & Efficiency	62.4	69.0	67.2	64.0	65.5	64.3	59.1	55.9
Ease of doing business	65.3	71.8	70.0	69.0	67.5	67.2	62.5	58.4
Problem solving	63.2	69.8	68.5	71.2	65.1	66.2	59.6	56.3
Timeliness	63.7	69.9	67.4	72.2	66.2	65.7	60.6	57.8
CSI	64.4	70.7	68.9	68.5	66.9	66.2	61.4	57.9
Loyalty index	59.4	68.5	65.8	69.2	61.1	62.4	55.3	50.0

Q&A special – Mike Porter, Vertex

It is likely that the recent falls in crude oil prices will be mirrored by downward price movements in the gas and electricity markets as the recession bites harder

Q What do you think are the key customer strategy challenges for 2009 and beyond facing the energy sector Mike?

A It's likely that the recent falls in crude oil prices will be mirrored by downward price movements in the gas and electricity markets as the recession bites. Energy suppliers will come under increasing political and media pressure to pass reductions on, so I think that the main focus for businesses will centre on the twin issues of customer acquisition and retention.

This will inevitably mean that the quality of customer service provision will matter more than ever before if an energy business is to safeguard its existing consumer base while attracting and retaining new customers.

Q What are the key customer strategy challenges for 2009 and beyond for the water sector?

A I think that the overriding priority for water companies is to tell a better story to their customers about the quality and value for money of the service they provide. After all, the average UK consumer pays just 90p per day for clean and waste water supply and service. I think customers - and the media - would think this was good value for money if only the sector delivered their message across in a better way.

This should be part of a more holistic shift that water companies need to take. They need to learn from other markets about how to better engage proactively with their customers. This could improve the chance that future price increases to pay for service improvements receives a more positive response from customers.

Q The energy sector has been accused of being quick to increase prices to consumers and slow to decrease them. Do you think that this criticism is fair?

A The position adopted by the Energy Retail Association – that lower prices lag behind falls in energy wholesale costs because of forward purchasing – is a plausible one, but it's an argument that cuts little ice with consumers or the media. Why? It's an issue of trust and perception; few energy companies have been really successful in building customer loyalty and advocacy, so there is little goodwill in the bank to draw on. Neither is there much transparency around costs for different customer segments, particularly the premium that Pre-Payment customers have to pay for their energy. Yet it is much easier to contrast this with the current high profitability of energy suppliers. Make an effort to establish greater customer loyalty and advocacy, and it could be easier for suppliers to deflect criticism in this area.

Q What will be the impact of smart metering on the energy sector?

A If you accept that the advent of smart metering will ultimately assist customers to make better choices about energy usage, it will transform the business model of all energy suppliers. Driven by the need to replace margin, it's likely to be the spur that sees them evolve into broader energy services businesses – selling a mix of products that use energy more efficiently. As importantly, the switch to smart metering across the next eleven years almost certainly means that energy companies will need to replace obsolete internal billing systems as customers are migrated to new meters that are more flexible in terms of tariff support and a wider portfolio of goods and services.

Q With the water companies still in effect in a monopoly situation, what can they do in terms of creativity and innovation in their customer strategies?

A They should look beyond their sector to discover how other markets and other businesses have embraced creativity and innovation to maximise customer advocacy. As I've already mentioned, the UK's water service is a real bargain – yet the vast majority of customers have absolutely no recognition of this fact. If you probe a little deeper, water customers really aren't that demanding; what they want is predictability of service. When they call their water provider, it's usually about either their bill, or if they've moved, or some issue to do with their supply. They want their call answered promptly, and they want their query resolved in one call wherever possible.

Q What single winning strategy should organisations in the utility sector implement to gain competitive customer advantage in 2009?

A Front line customer service agents should be given the tools, techniques, technology, and the empowerment to ensure that they can effectively deliver the level of service that consumers experience and expect from virtually every other market sector they engage with.

The quality of data and the operating systems deployed by many utilities businesses remains poor, and it's often years – if not decades – out of date when compared to other industries. The reality is that customers notice this difference, and they already think that they're paying enough for this not to be the case. There's a real opportunity for pioneers in the sector to grasp this and move things forward."

Transport

Above inflation price rises will have to be countered with improved services, less overcrowding and customer focus

Unsurprisingly, given the volatile price of oil that peaked at historical levels during the summer, one of the major challenges for public transport for consumers is cost. One effect of high oil prices afflicting airlines as well as motorists, analysts pointed to the relatively cheap and environmentally friendly option of the train. However, two major consumer gripes, surrounding overcrowding and above inflation price increases are set to intensify.

In the past decade passenger numbers have grown by 45 per cent and the amount of freight carried by trains has grown by 60 per cent. But constraints on the capacity of the network have meant that the number of trains has risen by only about 20 per cent. In October the National Audit Office warned that overcrowding on London's services is going to get worse despite increases in ticket prices, at least in the medium term. A new £10billion capacity-boosting programme , comprising an extra 1,300 carriages and longer platforms is set for completion around 2014.

Until then consumers can expect anything up to a 42 per cent rise in ticket prices. By law train companies can raise regulated fares by inflation plus one per cent, based on the RPI in July, which was 5.3per cent this year. They also have a two per cent leeway to increase some fares by more so some tickets could go up by more than eight per cent. Fares on Southeastern, which serves London could even see rises of around 10 per cent in 2009.

Rises in non-regulated fares have been hovering around the six to seven per cent mark on average in previous years, according to the National Audit Office. Rising prices, overcrowding and delays conspire to what Commons Public Accounts Committee chairman Edward Leigh says is 'still too often an unpleasant experience'. Even so it is an experience that does not come cheap - a survey of train prices across Europe found the cost of a typical long-distance rail journey in Britain worked out at 55p a mile, compared with 17p a mile in France and Germany, 16p a mile in Spain and just 11p a mile in Italy. Furthermore Britons spend 15 per cent of disposable income on transport. Of that, 3.8 per cent is on fares. Both figures are roughly double the average of the quartet of continental European countries aforementioned. These statistics are mirrored in consumer opinion; 86 per cent believe that public transport costs are either 'High' or 'Very High'.

This doesn't mean that consumers will or can avoid train travel and other forms of public transport, particularly in the cities and when other options are more expensive still. For example a YouGov poll, commissioned by National Express, shows that 60 per cent of people who drive or use a car are considering using public transport owing to high fuel prices at the pump.

The figure might be higher still if it wasn't for perceived danger in using transport services. According to the Department of Transport, 11.5 per cent more journeys would be made by public (instead of private) transport if people felt safer. Investment in public transport has indeed been high, which has massively increased the number of public transport options.

Subsidising buses, has for example, resulted in the U.K being home to a quarter of all the buses in Europe with 105,000. They are however reckoned

A survey of train prices across Europe found the cost of a typical long-distance rail journey in the UK worked out at 55p a mile. compared with 17p a mile in France and Germany, 16p a mile in Spain and just 11p a mile in Italy

to be 35 per cent less productive than 20 years ago – because of limited use. Indeed Britain spends £2.5bn of public money on bus services, but excluding London, councils have little say in what or how services are provided. Bus operators are free to set the fares, routes and vehicle. Analysts believe 'this needs to change if we are to get value for money in return for public investment and provide the stability, reliability and affordability that is needed to turn around decades of declining bus use.'

National Express forecasts that by 2020 travel within the UK is forecast to increase by a further 19 per cent. The need for the majority of this to be via public transport is pressing when one considers the Climate Change Bill; the U.K is committed to CO_2 reduction of 20 per cent below 1990 levels by 2010 and a 60 per cent reduction by 2050.

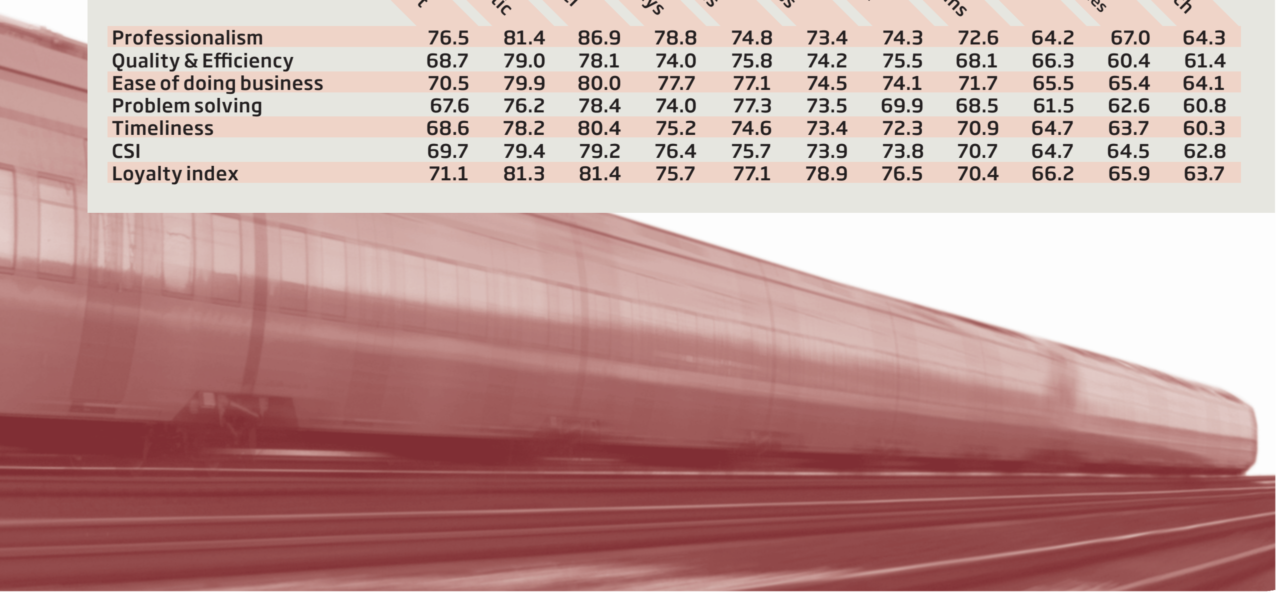
Even though road transport accounts for about 84 per cent of CO_2 emissions from transport, air travel has attracted far more media attention. By 2020 aviation will be contributing 10 per cent of the UK's carbon dioxide emissions, whilst expansion plans have been mooted for London's Stansted, Heathrow and City airports. Current EUROCONTROL long-term growth forecasts that the number of flights per year in UK airspace could increase by between 50 per cent and 90 per cent by 2025, indicating heightened consumer and commercial demand. As much publicity as it attracts however, the issue of carbon is overwhelmingly one of road transportation.

Second generation biofuels might help reduce the impact of automotive's majority share of Co_2 emissions but with ever increasing road congestion, the consumer will become ever more receptive to public transport should it meet certain criteria. Affordability, punctuality and an adequate provision of services are needed to ensure this.

Signs of this emerging do exist; the UK transport system is gradually introducing new technologies for example. Although transport ICT expenditure is low in comparison to other public sector areas, the rate of increase is high. Total ICT expenditure is forecast at 10 per cent per annum, reaching £1.2bn by 2009/10.

Transport

	Transport	Virgin Atlantic	Eurotunnel	British Airways	Brittany Ferries	National Express	Easyjet	Virgin Trains	Ryanair	First Group - rail companies	Stagecoach
Professionalism	76.5	81.4	86.9	78.8	74.8	73.4	74.3	72.6	64.2	67.0	64.3
Quality & Efficiency	68.7	79.0	78.1	74.0	75.8	74.2	75.5	68.1	66.3	60.4	61.4
Ease of doing business	70.5	79.9	80.0	77.7	77.1	74.5	74.1	71.7	65.5	65.4	64.1
Problem solving	67.6	76.2	78.4	74.0	77.3	73.5	69.9	68.5	61.5	62.6	60.8
Timeliness	68.6	78.2	80.4	75.2	74.6	73.4	72.3	70.9	64.7	63.7	60.3
CSI	69.7	79.4	79.2	76.4	75.7	73.9	73.8	70.7	64.7	64.5	62.8
Loyalty index	71.1	81.3	81.4	75.7	77.1	78.9	76.5	70.4	66.2	65.9	63.7



Retail

The lack of consumer spending power will further decimate the sector - with online growth benefitting from low cost and green credentials

UK consumer spending power has fallen substantially due to a large rise in the cost of living, research by Ernst & Young suggests. Results from the Annual Discretionary Income Study reveal the average household is 15 per cent worse off than it was five years ago. After household bills and tax, it found the typical family had less than 20 per cent of its gross income remaining - compared with 28 per cent in 2003. In monetary terms this equates to £772.79, compared with £909.84 in 2003. With necessities such as transport, housing and utilities all largely fixed to a certain point in their cost, retail is emerging as a victim of the enforced cutbacks in spending. Signs of impaired consumer spending appeared before the financial turmoil of the late summer. For example department store chain John Lewis announced that sales were down 8.3 per cent during the week to 28 June compared with the same week last year, with home and electrical goods seeing the largest falls. At the same time Marks and Spencer similarly reported a 5.3 per cent drop in like-for-like UK sales in the prior three months. Indeed Stuart Rose believes consumer spending will remain pressured for two years. Electrical FMCG DSG, owner of Currys, Dixons and PC World for example reported its like-for-like sales were down seven per cent in the 24 weeks to 18 October with computer sales falling 11 per cent.

Recession is far from systemic however, as evidence is emerging of price sensitivity in the food retail sector that is driving increased traffic at discount stores. Overall the amount of food and drink bought in supermarkets and other stores fell 0.1 per cent in the three months from June to September compared with the same period last year.

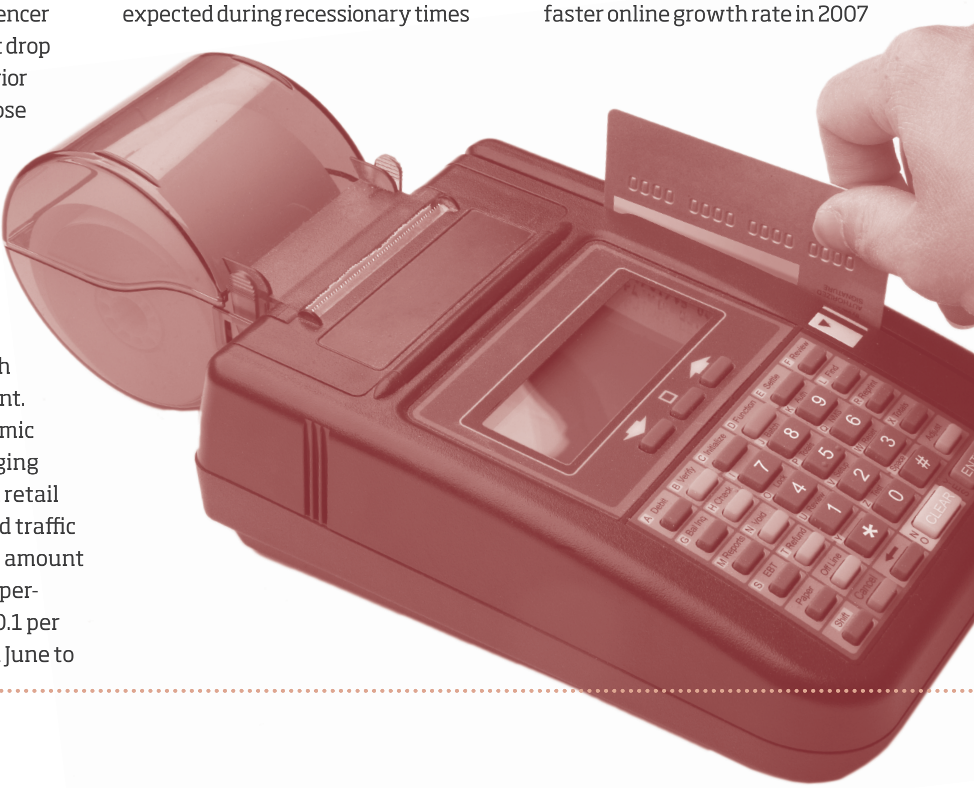
However Aldi has registered 20 per cent growth and Lidl and Netto have also reported promising figures, with almost a third of Britons changing to discount stores. The shift towards thrift is further illustrated in those that haven't traded down in terms of location, a new GfK NOP survey found 42 per cent have changed to buying supermarket own brands rather than branded goods. Premium sectors within the grocery market are also showing signs of slowdown.

The UK has the third largest market for organic food and drink in Europe with total sales worth £1.9bn in 2007. Sales are expected to slow to 5 per cent growth this year, well ahead of the industry average of 1-2 per cent but far below the 30 per cent growth registered in previous years.

Well established changes are set to deepen, in particular, the role of the internet is set to expand. The accentuation of this which is to be expected during recessionary times does not bode well for companies who still largely rely on a physical presence. Retailers in the U.K expect 22.4 per cent of turnover by 2012-15 to be via internet sales. Even if purchases remain predominantly in-store, especially with future technological additions, the contribution of the internet shouldn't be dismissed. 45.3 per cent of consumers are thought to carry out pre-purchase research using the Internet and this is expected to rise to 71.3 per cent by 2012-15.

The number of internet shoppers is unsurprisingly at an all time high with online spending growing at its fastest rate for six years. In 2007, online spending by consumers on retail purchases totalled £14.7 billion, an increase of 35 per cent. Importantly this growth rate was almost 10 times higher than that experienced by the total UK retail market at this time, indicating increasing consumer awareness of price and convenience offered online.

Analysts forecast strong online growth is set to continue reaching £44.9 billion by 2012. The breakdown of online activity is also telling; the electricals and food and grocery segments made up just under half of all online retail spending in 2007, with electricals accounting for a majority 25.1 per cent share. However, with a faster online growth rate in 2007



and much lower maturity, the food and grocery sector is on course to succeed electricals as the top seller, with a share of 29 per cent of all online sales in 2012 compared to 22 per cent for electrical. Online sales will quadruple to £162bn by 2020.

Part of the increase in spend is undoubtedly associated with value available on online goods. Average online savings average 13 per cent on grocery items, 21 per cent on services and 15 per cent on travel and leisure activities. It is estimated that UK consumers could save as much as £13bn annually by shopping online – which equates to a £500 saving per household. The advent of recession is already witnessing increasing hits on price comparison sites and is likely to accelerate this trend in the short term.

Despite the overwhelming influence economic and technological trends are imparting upon the industry, the environment is another factor that retailers should increasingly consider. According to a Nielsen Global Food Packaging survey, nearly one in two global consumers would give up all forms of packaging provided for convenience purposes if it would benefit the environment. The poll of Internet respondents from 48 nations showed that wasteful food packaging is among the fastest-growing environmental concerns for shoppers worldwide with most consumers willing to cut back.

A study by Mintel backs Nielsen's findings further. British consumers, it says, are more interested in seeing recycling information on food labels than fat, sugar and calorie information. 84 per cent of respondents saying they are now looking at recycling details.

With the economy souring and the habit of shopping on the internet already ingrained in price conscious consumers, the internet may have an even more central role to play in future retail. Recession may well ensure price becoming more important than ever. For that reason alone and for the environmental consciousness increasingly established in the public, packaging and other environmental issues will continue to shape the industry as going green benefits the bottom line.

Well establshed changes are set to continue, in particular the role of the internet is set to expand. The accelerating trend in this time of recession does not bode well for companies who still rely largely on a physical presence

Retail - Food

	Retail - food	Waitrose	Marks & Spencer	ASDA	Sainsbury's	Morrisons	Aldi	Tesco	Lidl	Iceland	Co-op
Professionalism	76.5	86.9	86.9	77.2	75.8	74.7	74.4	72.6	71.6	70.3	71.6
Quality & Efficiency	78.5	83.4	84.0	81.9	77.1	78.4	79.6	76.8	81.1	80.1	70.9
Ease of doing business	77.3	85.8	86.1	79.0	78.3	77.2	73.8	76.6	73.1	74.3	70.4
Problem solving	74.1	83.4	85.0	75.8	74.7	72.7	77.8	72.0	72.5	73.9	69.7
Timeliness	73.7	83.6	81.8	75.4	73.2	71.6	75.2	72.9	71.8	72.7	67.1
CSI	76.1	85.2	84.6	78.4	76.3	75.7	75.4	74.5	74.1	74.1	70.6
Loyalty index	82.2	89.4	91.6	84.3	81.5	82.9	83.0	80.3	86.2	83.7	74.8

Retail - Non Food

	Retail - non-food	John Lewis	Lloyds Pharmacy	Boots	Marks & Spencer	HMV	Superdrug	Dorothy Perkins/ Top Shop / Evans / Miss Selfridge	Ikea	Debenhams	Argos
Professionalism	76.5	88.6	86.9	84.6	83.4	79.3	76.0	78.9	75.6	77.9	75.3
Quality & Efficiency	79.4	88.0	84.8	84.2	82.7	79.1	82.1	76.5	81.6	78.0	80.0
Ease of doing business	78.7	89.2	86.0	85.5	83.0	82.8	77.5	79.6	78.8	78.9	78.7
Problem solving	75.5	87.3	84.0	83.8	80.1	80.6	76.8	77.2	76.3	74.7	75.1
Timeliness	74.1	88.1	80.8	82.1	79.6	80.7	76.1	74.6	73.3	74.5	74.0
CSI	77.4	88.4	85.3	84.4	82.5	80.4	77.9	77.9	77.6	77.5	77.0
Loyalty index	82.7	92.1	88.1	90.6	87.1	81.6	86.1	89.9	86.1	83.0	82.1

Leisure & Tourism

Ageing population presents challenges and opportunities with growth in eco-tourism and customer demand for personalisation

As the world ages, family structures change, and rising individual affluence creates an increasing demand for personalisation, the expectations and use of tourism are changing at a rapid rate. Overseas travel grew from 25 million tourists in 1950 to 803 million in 2005, and by 2030 it is estimated that there will be 1.9 billion international travellers spending US $2 trillion. US $5 billion will be spent every day by tourists, with US$2 billion being spent in Europe and US$1.5 billion in Asia. Cost and consumers' increasing desire for new experiences will shift tourism consumption ever eastward, and by 2030 no part of the globe will remain untouched.

One of the largest consumer-led changes will be the ageing of British society. By 2030, almost 50 per cent of the world's population will be over 50, and this cohort will hold 75 per cent of the UK's wealth. The continued rise of international tourism combined with increasing percentages of baby boomer held wealth provides immense challenges and opportunities to those in the industry.

Major technological, logistical and infrastructural adaptations will need to be incorporated in order to handle this demographic shift. The industry will also need to adjust its mediums of communication in order to effectively engage these consumers. Another consideration is the restructuring of families from being horizontal to vertical, with Brits having fewer children, but also being more inclined to go on multigenerational holidays. Destinations will need to be able to accommodate all ages if they are to retain broad appeal.

In the adoption of 24/7 culture the boundaries between play and work have become increasingly blurred. If this trend accentuates further, a likely outcome is for people to take more breaks of shorter duration, as they juggle demanding work and schedules. If improvements in transportation evolve swiftly, this may little alter present tourism patterns on its own, but if the social trend outpaces the rate of technology there is the potential for a realignment of the industry, with local and regional markets set to benefit assuming their offering is in line with demand.

According to the "World of Travel" study conducted in 2006, tourism will shift to being more "experience-driven", with a desire to "do" rather than "have" which will coincide with the doubling of consumers flying. The experience economy will fragment the travel and tourism industry, accentuating some of its niche segments. Emotional and cultural experiences, such as quality time with family, or an authentic experience with different cultures will be the new "luxury."

As a result, travel companies will need to reinvent their luxury packages to being less product-driven and more focused on the particular desires and passions of the individual. Providing trips full of "what money can't buy", that not only fulfils customers on a deeper level but also bypasses the stresses of modern travel, will be a new niche for luxury travel.

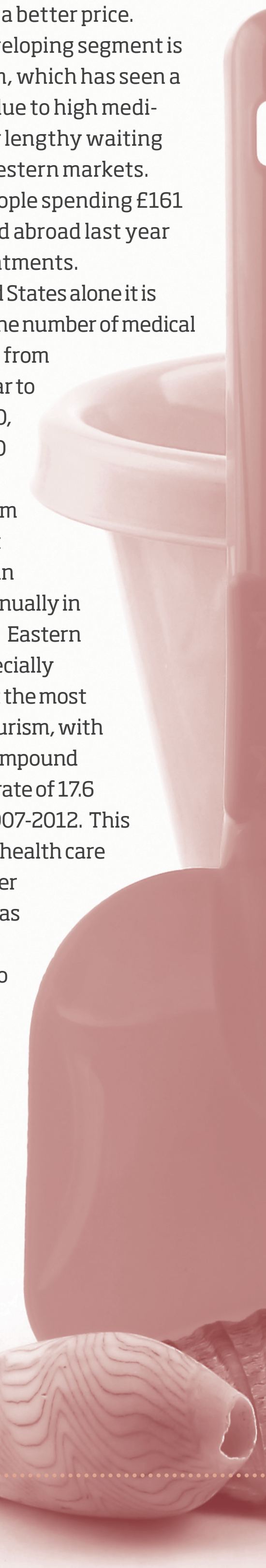
Eco-tourism is an increasingly mainstream example of a hither-to niche segment that has experienced major growth. Increased media coverage of climate change and the loss of pristine habitats worldwide are major catalysts in this market. 5 percent of consumers will head for sustainable destinations by 2024, and many will go to places that protect or benefit the environment.

However British travellers are four times more price sensitive than they were a year ago, and despite ethical tourism being fashionable, many consumers unashamedly seek out the lowest prices and cheapest deals. With greater choice come greater expectations not only of being able to express individual beliefs and morals, but also of being able to find more convenience at a better price.

Another developing segment is medical tourism, which has seen a rapid increase due to high medical costs and/or lengthy waiting times in core Western markets. Over 50,000 people spending £161 million travelled abroad last year for medical treatments.

In the United States alone it is predicted that the number of medical tourists will rise from 750,000 last year to 6 million by 2010, and will reach 10 million by 2012. The revenue from this core market alone will bring in US$21 billion annually in four years' time. Eastern Europe and especially Asia will benefit the most from medical tourism, with Asia having a compound annual growth rate of 17.6 per cent from 2007-2012. This consumption of health care will radically alter tourist markets as holiday time is often inbuilt into the package to help the patient recuperate.

The eastward shift of travel and tourism has many implications. Consumers will desire



to travel to places that up until recently would not have been considered as destinations, particularly in the east. This eastward shift has the potential to not only create new destinations, but to also engender cultural clashes. In 1995, long-haul travel accounted for 18 per cent of all international trips. By 2020, it will be 24 per cent.

Owing to cultural complexity and differences, Western consumers will increasingly find that they may no longer be the target market at destinations. By 2020, China will provide over 100 million outbound tourists. The reorientation of airline travel to the east could result in a reorganisation in the balance of aviation power, resulting in unforeseen implications for hubs such as London, and consequently for Western travellers.

The UN's World Tourism Organisation, or UNTWO, summarises the challenges lying ahead for the industry. Given tourism's importance in the global challenges of climate change and poverty reduction it says, there is a need to urgently adopt a range of policies which encourages truly sustainable tourism that reflects a "quadruple bottom line" of environment, social, economic and climate responsiveness.

Fitting these priorities with those of the consumer and their wish for personalization, new experiences and a low cost will determine the winners and losers in the industry in the 21st century.

Travel companies will have to reinvent their luxury packages to being less product-driven and more focused on the particular desires and passions of the individual. Providing trips full of 'what money can't buy' fulfilling customers on a deeper level will be a new niche

Leisure & Tourism

	Leisure and tourism	Premier Inn	Hilton	Marriott	your local restaurant	Starbucks	Toby Carvery	Costa Coffee	Travelodge	David Lloyd	Local health/ fitness club
Professionalism	76.5	83.6	86.9	83.1	81.7	81.4	77.6	75.8	73.9	74.6	76.4
Quality & Efficiency	73.2	82.9	81.6	80.5	81.7	76.2	81	75.3	79.7	72.5	72.6
Ease of doing business	73.1	82.2	82.6	82.1	80.3	81.6	76.3	77.5	74.8	78.3	74.3
Problem solving	70.6	83.3	80.5	79.8	79.2	80.7	75.1	72.7	75.9	74.4	72.9
Timeliness	70.9	82.1	82.1	79.4	79.3	80	76	75.2	75.4	75.4	71.0
CSI	72.0	82.9	82.1	81.4	80.8	80	77.9	76	75.9	75.1	74.0
Loyalty index	74.5	86.1	83.0	82.8	85.2	78.9	83.9	78.1	77.3	71.2	75.2

Public Sector

Social networks to become more influential with increasing citizen power through greater transparency and information sharing

When Tony Blair left office, 60 per cent of voters did not trust politicians, whilst an October 2008 study puts the figure at a startling 97 per cent. The hollowing out of trust runs concurrently with a decline in voter turnout with a Mori poll suggesting only 39 per cent of 18 to 24-year-olds voted in the general election of 2001. The issue of how to reconnect with voters has drawn heavily on the concept of e-democracy, or e-government.

Indeed, the government has promised 'Universal access to high quality, public service content through appropriate mechanisms for a converged digital age.' Even so, research has indicated that only 10.8 per cent of all MPs use social networking sites.

Furthermore the May 2008 data shows that 32.4 per cent of social networking sites were provided by MPs in marginal seats, yet only 13.6 per cent of all seats can be classified as such. Co-author Dr Lilleker states that "Only a few MPs are using their social networking site as a strategic communication tool to enter into two-way dialogue with constituents on local issues of interest such as post office closures, and it is no surprise that it is these sites which have most traffic." The authors also pointed out that whilst a close election might see increased use of such sites, they are unlikely to eclipse politicians personal websites as the hours needed to maintain social networks are numerous and cannot really be delegated.

Nevertheless, analysts at Gartner believe that social networks will complement and in some instances replace some government functions. Governmental divisions and boundaries are blurring at every level which is driving the uptake of social computing as a means of sharing information.

Horizontal business processes such as financial management, HR and procurement are subject to increased sharing across agencies and even jurisdictions, resulting in a loss of ownership or control on behalf of government agencies and in some cases, the government itself.

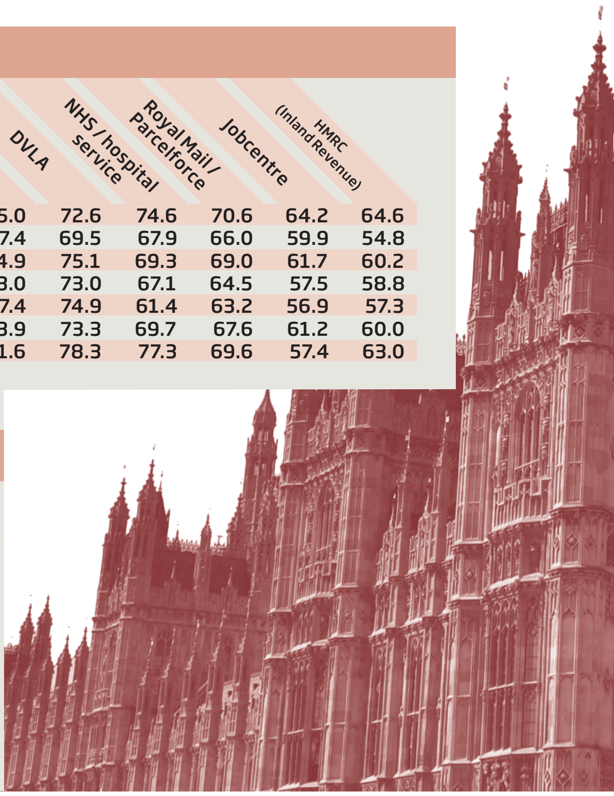
Instead they are becoming clients to other organisations leading to increased adoption of social media according to Gartner. "The future of government is a very different government and, in some cases, no government at all," says Mr Di Maio, vp at Gartner. He cites government initiatives such as Diplopedia, a wiki created by the US State Department to support collaboration across intelligence and foreign affairs agencies, as well as external startups such as 'time banks' that through volunteering provide an array of social services. However in restoring public trust more must be done than using these mediums well.

Public Sector

	Government	Ambulance Service	GP surgery / health centre	Post Office	Identity & Passport Service	DVLA	NHS / hospital service	Royal Mail / Parcelforce	Jobcentre	HMRC (Inland Revenue)
Professionalism	76.5	89.5	86.9	76.7	75.0	72.6	74.6	70.6	64.2	64.6
Quality & Efficiency	68.2	86.7	77.1	73.4	67.4	69.5	67.9	66.0	59.9	54.8
Ease of doing business	70.9	86.7	77.2	74.9	74.9	75.1	69.3	69.0	61.7	60.2
Problem solving	68.2	85.5	74.9	73.9	73.0	73.0	67.1	64.5	57.5	58.8
Timeliness	66.2	83.9	70.6	71.2	77.4	74.9	61.4	63.2	56.9	57.3
CSI	70.2	87.3	76.1	74.5	73.9	73.3	69.7	67.6	61.2	60.0
Loyalty index	74.7	91.0	81.8	77.9	81.6	78.3	77.3	69.6	57.4	63.0

Public Sector (continued)

	Local government	Local fire service	Local police service	Local council
Professionalism	76.5	88.0	86.9	61.9
Quality & Efficiency	59.8	89.5	65.8	54.4
Ease of doing business	63.8	87.4	68.1	59.9
Problem solving	60.2	88.4	63.9	56.4
Timeliness	58.7	89.9	61.9	54.7
CSI	62.6	88.3	67.8	58.0
Loyalty index	61.4	94.4	66.7	56.8



Results from the Citizenship Survey that concluded in March 2008 reveal that in the last year just 38 per cent of respondents felt able to influence decisions in their local area. Only 1 per cent more were involved in some kind of civic participation.

Despite, or perhaps because of this, more councils are becoming actively engaged in developing online community techniques within councils' own web services. For example, Redbridge has used online polls and interactive forums to track feedback on post office closures. The effect on the public hasn't as yet been quantified, but any expansion of medium such as web 2.0 through which people can have their say is surely a beneficial one.

Councils are indeed increasingly using social media to engage with hitherto unreached age cohorts. Durham County Council for example recently used Facebook in an attempt to get residents not to use their cars for a day. The 'Do it different day' was part of a collaborative initiative with Channel Four.

Likewise Essex County Council used Facebook to lobby for support in its campaign against Post Office closures. The council created group 'Fighting for Essex's Post Offices' allowed residents and others opposed to post office closure to register their discontent following the Post Office's announced plans to close 31 branches throughout the county.

Further evidence of an emerging two way dialogue between local government and residents is in more councils having blogs. CivicSurf is the name of a campaign by Norfolk County Council that is attempting to get councillors blogging - a move increasingly used throughout the country.

Increasing volumes of online bureaucratic contact are clearly welcomed by the public. Over 80 per cent of employers have filed their end-of-year returns online says HHM Revenue & Customs- an increase of around 10 per cent compared to the 2007 figure.

This does not however indicate the extent of the government's ostensible desire for e-government. The Prime Ministers plan centres on the creation of a massive programme of data sharing between government departments. The collated volumes of information allows the government to create a notionally 'personalised' service for public-service users.

Jill Kirby of the Centre for Policy Studies says that the underpinning philosophy of the strategy is 'that there is no need to break down the monolithic structures of Whitehall-managed public services because information technology will provide the substitute for personal contact'.

The government's Information Sharing Vision Statement 18 months ago, said it is 'important that people are confident that their personal data is kept safe and secure'. Following the loss of 25 million records by HM Revenue & Customers, such confidence appears in short supply. Surveys suggest that only 22 per cent of people are happy with the prospect of the data recording whilst a mere 11 per cent trust the data will be kept confidential.

In fact, serious flaws in the reliability of the technology and its implementation have all but mothballed the prospect of e-voting in the UK. "Serious concerns persist about the security and transparency of e-voting systems and their vulnerability to organised fraud."

Government must clearly pick the correct technology for the situation and not use it for its own sake if at every level, trust is to be restored and a two way dialogue established with the population.

Automotive

Sector under intense pressure through customers no longer buying new cars and using public transport – trend towards hybrid and electric vehicles

The automotive sector is a major part of the British economy, employing some 600,000 people in over 69,000 businesses. 33 million vehicles are on the roads as of June 2008, signifying the reliance on personal transportation of the British economy. Two factors point to higher ownership rates in the future. The first is a growing population; the Office for National Statistics (ONS) estimates a figure of 71 million by 2031. The second is an increasing rate of ownership per 1,000 people; in 2002 it stood at 515 vehicles per 1,000 people and this is forecast to rise to 685 per 1,000. There are however five variables that may alter this consumer behaviour – road congestion, environmental issues, rising running costs and the provision of public transport. The last is the impact of recession.

Commuting times have doubled in the last five years, with 20 per cent of all journey times now spent at a standstill. The frustration of gridlock has led to the UK having the world's second highest rate of road rage (after South Africa), with 80 per cent of drivers having experienced road rage in some form. Right-wing think-tank Policy Exchange, estimates traffic congestion is costing the UK economy £20 billion a year.

A Department for Transport report suggests this figure may climb to £22 billion by 2025. Offsetting these losses is obviously advantageous to both the consumer and government – requiring either a radical re-think on toll roads for example; over 50 per cent believe a national system of road user charging would make them use their cars less.

A huge shift to public transport or else a rapidly expanded road network are other possible solutions. Consideration and successful implementation of any of these solutions is however, unlikely to evolve quickly enough to deal with the immediate problem. In the short to medium term, congestion may therefore be a disliked yet unavoidable feature for consumers.

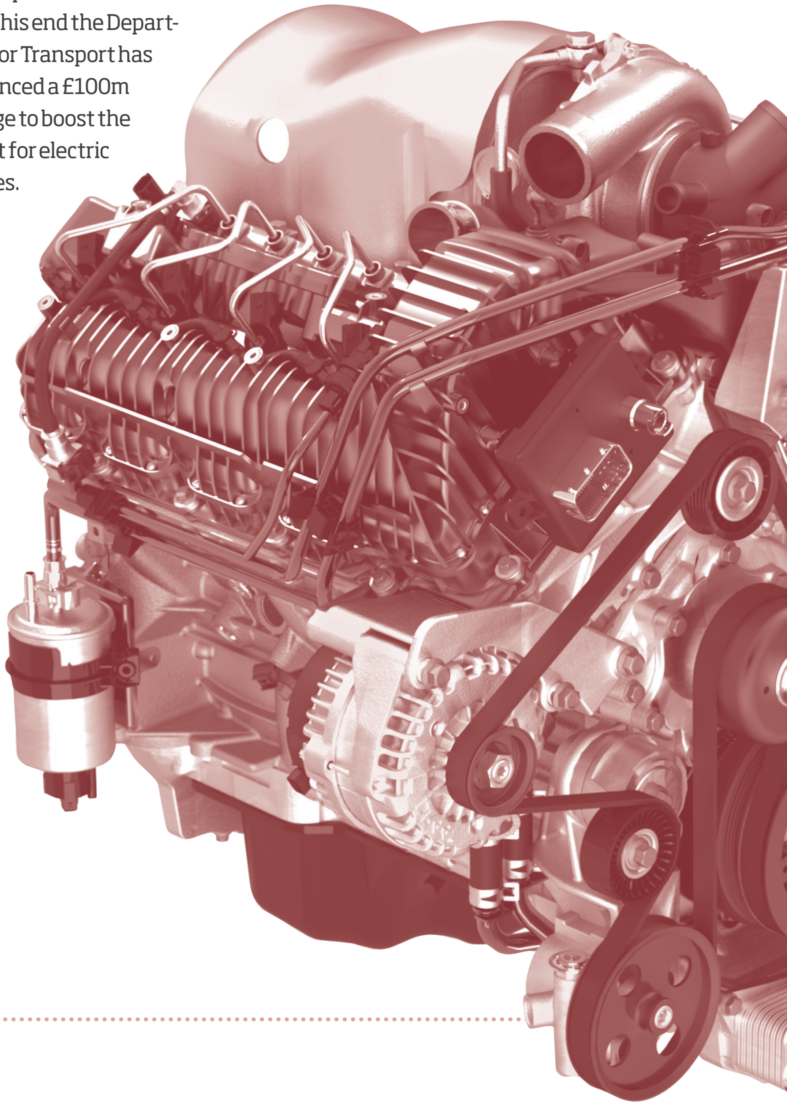
However the high contribution of road transport, stationary or otherwise, to the UK's carbon emission total has lead to government intervention. Around 22 per cent of the UK's CO2 emissions come from transport, with 13 per cent of these from private cars. Gordon Brown has suggested that punitive taxation will help ensure that by 2020 all new cars sold in Britain will be electric, or hybrid vehicles producing less than 100 grams of carbon dioxide per kilometre.

To this end the Department for Transport has announced a £100m package to boost the market for electric vehicles.

Consumer sentiment it would appear is largely supportive of such actions, with data showing 41 per cent of adults (18.9 million people in total) would pay more for a vehicle that pumped lower emissions. 85 per cent see reducing car use as 'important' or 'very important' in combating climate change.

Rising running costs may well speed up the drive to electric and hybrid models. Research from eSure released in October shows 48 per cent of UK motorists are being forced to consider downscaling to just one vehicle per household, in an effort to combat the rising costs of running a car. Research from the RAC notes that heightened petrol and diesel costs have contributed to a 17 per cent increase on last year's overall cost of motoring.

Combined with the credit crunches myriad effects, this has led to increasing depreciation by a massive 35 per



Automotive

	Automotive	Honda	Mercedes Benz	Toyota	BMW/Mini	Volvo	Audi	VW	Nissan	Ford	Citroen
Professionalism	76.5	80.5	86.9	80.9	79.8	78.1	74.9	74.5	75.9	75.2	75.7
Quality & Efficiency	74.4	81.2	78.8	79.0	77.9	74.2	74.9	73.9	74.0	73.7	73.5
Ease of doing business	76.8	82.3	83.3	81.3	81.0	79.8	77.8	76.4	75.2	75.8	74.9
Problem solving	73.7	80.5	78.0	78.8	78.4	77.1	75.4	71.2	72.5	72.1	72.8
Timeliness	73.8	80.4	79.3	79.6	78.5	76.0	73.3	75.0	70.6	71.7	71.6
CSI	75.4	81.2	80.6	80.2	79.3	77.0	75.5	74.9	74.4	74.3	74.3
Loyalty index	76.0	83.7	78.7	82.5	80.8	80.2	78.2	79.0	77.2	76.4	73.1

cent. The net result is that motorists are facing an increased average overall cost of motoring of £6,133 to keep a car on the road - a 19 per cent increase from 2007. The current cost of running a car is estimated to be £47 a week. A rise to £68, the RAC believes, would be enough for the average driver to consider giving up their car. Indeed, consumer behaviour has already shifted in reaction to higher costs. Recent falls in price of oil can only be seen as temporary measures, as demand is expected to put pressure on supplies once again and prices at the pumps will inevitably rise again. World demand for energy, and oil in particular, will be driven by fast growing economies like China, India, Russia, Mexico and Indonesia.

In 2006, 60 per cent of journeys were single occupancy rising to 85 per cent for both commuting and business car trips according to the Department for Transport statistics.

The RAC report notes a 25 per cent now share their car more with friends and family whilst 43 per cent of UK motorist would consider car-sharing. A higher proportion is considering (36 per cent) is considering buying a car that is cheaper to run than their current model.

More far reaching changes are also being considered by the public. The YouGov poll, commissioned by National Express in the summer of 2008, shows that 60 per cent of people who drive or use a car are considering using public transport due to escalating costs. In a slight twist, 83 per cent say they would happily use their cars less if public transport was improved. To what extent these sentiments are enacted depends precisely upon public transport improvements, which might not be forthcoming for train services at least until 2014.

The last factor is recession. New car purchases dropped some 19 per cent between August 2007 and September 2008 and overall sales this year are forecast to be some 100,000 lower than this year at 2.16 million. The depth and severity of the recession will complicate all other factors aforementioned and to this extent is an unknown. However it is clear that the consumers' relationship with the automobile will undergo some profound changes in the coming years and the situation is a complex one.

A shift to cleaner models is a given, both owing to government pressure and public displeasure at our exposure to the possibility of high petrol prices again. Whether congestion can be effectively managed will ultimately decide the future of personal transportation in the UK as consumers measure time, cost and convenience against an increasingly investment rich public transport.

Commuting times have doubled in the last five years with 20 per cent of all journey times now at a standstill. The UK now has the world's second highest rate of road rage (after South Africa) with four in five drivers having experienced road rage in some shape or form

Services

Recession will depress demand with the decline that set in during 2008 set to continue throughout the year - move towards the experiential economy

The UK's service economy, encompassing such diverse segments as real estate, environmental consultancy, anti-aging and information services is worth some £1 trillion. This translates to some 75 per cent of the economy and it has considerable room to improve this figure as the Treasury reckons it to be a third less productive than manufacturing. Any imminent expansion would appear fanciful however, as declining service demand is leading the UK recession.

Underpinning Britain's consumer spending power has been the relentless rise in house prices. The value of UK private housing stock more than tripled between 1997 and 2007 to reach a total of £4 trillion (£4,000 billion) at the end of 2007. This huge increase in worth translates to an average UK price rose of more than £130,000 in the same period and as such had a huge impact on consumer spending.

As consumer spending is the biggest component of Aggregate Demand, accounting for 66 per cent, increasing house prices lead indirectly to higher rates of economic growth. However the crash in housing has resulted in the average house being worth 14.6 per cent less than it was a year ago in October 2007 – an equivalent of £30,000. New housing starts are at their lowest levels for 60 years thanks to tightening credit markets which promise to drive the price down further. Indeed some economists believe a further 10 per cent fall is likely in 2009.

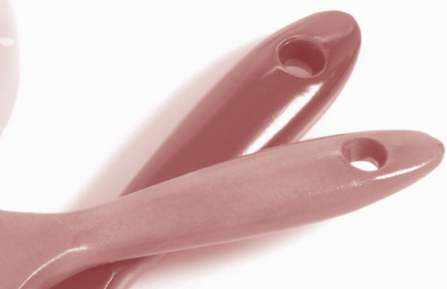
The effect on services is already being felt, not least, unsurprisingly, in real estate. Construction sector output has declined by a respective 0.5 and 0.8 per cent in quarters 2 and 3 of 2008. Distribution, hotels and restaurants fell by 1.7 per cent alone in Q3- in fact the only service sector to record any growth in Q3 was the 'government and other services'.

As a whole, the services sector has been in decline for five straight months through October. Any broad improvement in the services sector is likely to depend on a housing recovery which is not expected to reach peak 2007 levels again until 2013, leaving some 2.5 million homeowners in negative equity. There is reason to believe that consumers will not have to wait this long to increase service sector spending however as the housing market is due to begin recovering in 2010.

It is uncertain however if a business as usual scenario will prevail after the credit-crises subsides, indeed Mervyn King, the governor of the Bank of England, has repeatedly said he would like to see a 'rebalancing' of the economy. His sentiments are echoed by others at the Bank; Andrew Sentance, one of the independent members of the Bank's Monetary Policy Committee believes that 'strong domestic demand and a strong pound need to give way to a period of weaker growth of domestic demand, accompanied by a more competitive currency'. He added: 'This process of rebalancing is likely to benefit sectors more heavily dependent on overseas demand, such as manufacturing industry.'

Macro-economic restructuring may well benefit certain service sector organisations and re-orient consumer spending. Steve Radley, chief economist at the EEF

Services will obviously remain immensely important but with social, technological, economic, environmental and even political changes influencing the consumer, successful future services will more than ever need to personalise their offerings



explains that 'Manufacturers don't just produce goods any more. They also offer services, and are focusing more on innovation and design. The lines are becoming blurred between companies manufacturing and companies that offer services.'

The UK's target of 15 per cent renewable energy by 2020, an increased recycling rate of 50 per cent against the present rate of 27 per cent and other environmental oriented goals are likely to require environmental consultancy services as well as technological prowess. In the short term this sector is forecast to be worth some £21 billion by 2010.

Other sectors that will benefit from a blurring of service and product will be the £51.9 billion communications sector which, given the correct circumstances, could grow by as much as £35 billion by 2018 according to eSkills. A general shift towards green consumption and a desire to have quicker, more holistic communication mediums do not have a monopoly on future consumer wants though. Whilst aging is becoming a major concern for pension funds, business succession planning and those who face an increased tax bill through higher dependency ratios, the service market is set to benefit enormously.

Globally the anti-aging industry is worth an estimated worth US$97 billion at present – a figure that is set to increase by 2010 to US$115.5 billion. A 2008 YouGov poll reveals only 4 per cent of British women are opting to undergo cosmetic surgery but that 40 per cent would consider it in the future. Furthermore the global spa industry is estimated to be worth some $255 billion and in the U.S alone predictions abound of a $400 billion to $1 trillion market in "wellness lifestyles" that will comprise segments of the health, beauty, food, fitness, medicine, spirituality and, of course, spa industries.

Services will obviously remain immensely important but with social, technological, economic, environmental and even political changes influencing the consumer, successful future services will more than ever need to personalize their offerings.

Ultimately in 2020 'the top quintile of consumers will increasingly rank their time and leisure over their money, and reward businesses that recognise this. They will value products and services that are tailored to lifestyle and life-stage needs, particularly health and ageing,' believes Global Agenda magazine. Consumers will 'despite a growing disparity among incomes, increasingly, at every level exhibit crossover behaviours,' ensuring well defined market segments harder than ever to identify.

Services, regardless of their field, that choose the correct technologies on offer and balance it with ever more tailored options have the potential to prosper. As the business organisation evolves, it is probable for the majority of services that their marketing needs to transform the most in order to meet the experiential economy.

Services

	Services	Local shoe repairer / key cutter	your local hairdresser	Autoglass	BUPA	Local painter & decorator	Virgin Holidays	Local travel agent	Local electrician	Local dry cleaner	Thomson
Professionalism	76.5	85.2	86.9	82.9	84	82.7	82.2	81.1	80.6	78.3	79.9
Quality & Efficiency	76.6	86.8	82.7	83.5	79.6	80.7	80.1	77.8	77.0	78.7	77.7
Ease of doing business	77.7	85.0	84.2	83	82.7	82.1	81.2	80.0	80.0	79.3	79.5
Problem solving	75.5	85.2	82.6	82.3	81	81.7	80.1	77.7	77.1	77.2	77.0
Timeliness	77.0	87.4	83.0	85.4	81.1	81.1	80.1	79.8	78.1	79.7	77.9
CSI	77.3	85.6	84.0	83.3	82	81.7	81	79.4	79.0	78.8	78.7
Loyalty index	76.5	91.4	85.6	82.8	80.4	84.8	80.7	78.0	78.3	79.7	80.3

Telecoms

Technology advances blurring the sector and the distinction between customers' work and play as convergence is the name of the game

The shift in use to modern mobile telecoms has long had a strong social utility – in 2000 Ipsos MORI reported that 81 per cent of 15-24 year-old used SMS to coordinate social arrangements. This has helped propel the 24/7 lifestyle to the point where telecommunication accessories accompany many an executive on holiday, blurring the distinction between work and play.

However Moore's law, promising exponential technological progress has long outstripped social acceptance of the possibilities springing forth. Key issues revolve not around what is actually possible but to where the public is happy to let the telecoms 2.0 era take them.

Convergence, 'the merging of the individual communications industries (IT, broadcasting, telecommunications etc) into single converged market' has long been the talk of the technological world. The tools of convergence are already with us, as witnessed in applications such as the mobile internet. Indeed they are already supplanting the old world of telecoms with Mintel announcing in 2008 a weakening in demand for fixed line services.

This comes as little surprise with 85 per cent of the British population owning a mobile phone. This figure means some nine million people, or 16 per cent of the United Kingdom's population, do not own a mobile phone, leaving those that do with an average 1.44 mobile phones each.

Broadband connection amongst UK households now stands at 56 per cent, up from 51 per cent a year ago, according to the Office for National Statistics. Including dial-up services 16.46m (65 per cent) UK household have access to the web, an increase of 1.23m last year, with the vast majority (86 per cent) being broadband connections. eMarketer estimates that by 2011, Britain's broadband penetration will increase to nearly 76.8 per cent, or 20 million households.

The 2008 National Statistic Omnibus said that 15 per cent of people access the web via a GPRS mobile phone with a further 4 per cent via 3G mobile. As internet penetration increases so the cost of internet enabled telephony will decrease, in a trend that will surely see the mobile internet rise amongst consumers craving on-demand information, connectivity and access. Google has stated in the past that they believe that mobile search would soon generate the highest advertising revenue in the future.

Indeed, figures released by comScore reveal that mobile search has grown in leaps and bounds over the last year. According to comScore, 20.8 million users in the U.S. and 4.5 million users in Europe used mobile search in the month of June 2008. This equates to a 68 per cent and 38 per cent growth of mobile search over the last year in the two regions respectively.

New report from Juniper Research supports the claim of rising use of applications on mobiles. The report says that more than 330m mobile users worldwide will own broadcast TV-enabled handsets by 2013, but

estimates that less than 14 per cent will opt for mobile pay TV services. This still equates to a mobile broadcast TV market of some $2.7 billion by 2013. Either way consumer preference will decide the fate of the market.

Depending upon levels of technological uptake amongst businesses and consumers in general, it has been estimated that the coverged IT/telecoms industry could generate £35 billion over the decade to 2018. Given that current market size is some £51.7 billion, the market could well become a major vector of growth in the UK.

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Still several consumer issues remain for the telecoms industry. The first is to acknowledge different rates of social acceptance amongst differing demographic groups. A revoo.com survey of some 30,000 mobile phone users suggests, for example, that look and size are the most important features for many when purchasing a new mobile phone; the lesson for the industry is clear in that basics and usability must not be forsaken for the availability of applications.

Another issue surrounds the sheers size of demand being generated and the need to increase bandwidth. Phil Smith, chief executive of Cisco in Ireland and the UK, notes the significant challenge that Europe faces in terms of IP growth. Citing a statistic that claims by 2012 the internet will be 75 times its size in 2000 with over 400 times the traffic , his warning is one noted by others. Some industry insiders suggest $130bn of investment is needed improve the network worldwide to avoid reaching the physical capacity of the internet by 2010.

Privacy matters are also a prime concern of consumers. A converging infrastructure threatens to spread the risks inherent in the internet. Cybercrime in the UK rose by more than 9 per cent in 2007, according to a new report produced by online identity firm Garlik's. It claims that more than 3.5 million online crimes were committed in the UK last year.

The second privacy concern arises from government plans for a database that would amongst other things, require a passport to be shown when purchasing a mobile phone. The huge proposed telecoms database of all phone and e-mail traffic remains deeply unpopular with surveys suggesting that only 22 per cent of people are happy with the prospect of the data recording whilst a mere 11 per cent trust the data will be kept confidential.

Privacy of data is an absolute must if telecoms is to complete its convergence with I.T – the future of several consumer sectors such as mobile banking, not to mention the prospects of telecoms themselves, rest on this.

Telecoms

	Telecoms	O2	T-Mobile	3	Vodafone	Virgin Media	Orange	Talk Talk / Carphone Warehouse	BT
Professionalism	76.5	75.2	86.9	71.4	69.0	68.6	69.0	62.4	62.5
Quality & Efficiency	69.4	77.3	72.1	72.8	68.9	69.1	70.1	69.3	63.5
Ease of doing business	68.5	76.2	72.1	69.6	70.2	69.9	69.2	63.3	63.1
Problem solving	64.6	73.1	69.4	65.1	65.9	66.0	65.1	56.9	59.1
Timeliness	64.7	73.4	71.5	68.8	67.2	65.0	65.2	57.4	58.7
CSI	67.5	75.4	72.0	69.7	68.7	68.2	68.1	63.1	61.9
Loyalty index	66.3	77.5	71.8	70.7	67.4	66.3	67.9	61.6	58.5

The Forecast – The Killer Question

Here at The Forecast we asked a number of key industry figures for their response to the big question on everybody's lips in 2009 - that question is:

What in your view is the single biggest challenge facing organisations in developing their customer strategies in times of economic uncertainty and how can they best meet that challenge?

Here are their answers

Organisations, not just in the UK, but across the world, will have to overcome some daunting challenges in 2009 if they are to survive and thrive. If 2008 has taught us anything, I think it's that the unthinkable can actually happen. This means that new ways of working must be on the agenda if businesses are going to move forward, and radical strategies that would have never been considered seriously before might just be the real catalyst for future success.

I think that the scale of the challenge ahead would also indicate that organisations simply can't do it all on their own. No one company can excel in every function that's critical to their future development, and no one company has access to limitless funds or sources of expertise to be brilliant at things that potential partners specialise in. So, as strategic partners, Vertex is excited by 2009 and beyond. We think the rules of the game are being re-written, and we're already seeing a shift in the mindset of businesses who're recognising that creative thinking around effective partnerships is part of their future strategic development - and we're looking forward to playing a part in helping them get there.

Mike Porter, managing director, Vertex

For many organisations the biggest challenge is going to be deciding where they should focus customer strategies. In a year in which spend seems to be set to reduce across the board the key is to maximise the impact of any spend, particularly on marketing technology. Given that customer acquisition costs more than customer retention we think that the biggest return on investment will be in customer retention strategies.

We are already seeing this in the case of high street banks who have told us that for the first time they consider customer retention as a key business imperative.

The best way for companies to meet this challenge and to differentiate themselves from their competition is to proactively solicit customer feedback in order to measure each customer experience. The differentiation is achieved by being one of the only 5% of companies who actually respond to the feedback they receive.

Enterprise Feedback Management technology has developed to the point that the entire workflow process can be automated, and in most cases without IT involvement. The value of recapturing customers at risk of defecting is measurable and can be significant.

Gary Schwartz, SVP marketing, Confirmit

Therein lies the rub. There is no single biggest challenge - but there are lots of smaller ones! If an organisation is still developing its customer strategies then it's probably too late for this particular recession. And, if an organisation thinks it needs a different customer strategy for a recession, then it probably doesn't have the right customer strategy in the first place.

OK, during a recession, customer strategies will probably need to be tweaked round the edges but the basics remain as always – do best what matters most to customers. That means paying real attention to strategy & culture, people and processes.

Ask yourself these questions:

STRATEGY & CULTURE

- *Are the top people committed to superb customer service?*
- *Does the whole organisation really live its Mission, Vision and Values – and not just have a wall poster?*
- *Is internal customer service just as important as external service?*
- *Is service delivery measured in robust ways?*
- *Are we really customer-centric or will it do until the next fad comes along?*
- *Do we keep our promises – no matter how tough?*
- *Do we empower our people to do what's right?*
- *How well do we react to complaints?*
- *Do we value and protect our reputation?*

PEOPLE

- *Are we just interested in bums on seats or do we really recruit for attitude and train for skills?*
- *How well do we induct our people into the organisation? Do we just shake their hand and put them in front of customers?*
- *Do we make sure we take them from competent to excellent?*
- *Do we do everything in our power to keep our best people?*
- *Do we have retention strategies for everyone (not just the CEO)?*
- *Is service part of the reward package?*
- *How often have you heard of companies who espouse the service philosophy……and then reward only sales!!!*

PROCESSES

- *Are our processes designed around the customer or around our own requirements?*
- *Have we created an environment where continuous improvement flourishes?*

So, these are the things we need to concentrate on, whether we are in a recession or not. Yes, in a recession, we need to pay more attention to good housekeeping but customers don't come back to us because we've cut down on loo rolls.

They come to us because we have great people, because we put the customer first and because we work hard to keep their business.

Robert Crawford, chief executive
Institute of Customer Service

Innovation is the key. A period of economic downturn can be the worst of times and the best of times. Cutting costs, prices and margins and pushing for sales is tough and not necessarily the best environment in which to innovate, but innovate we must. Offering our customers the same products and services at discounted rates, and even at lower quality to achieve this, can only take us so far. This is a time to rethink our propositions, to understand our customers new pressures and needs and meet those new needs through innovative offers, channels and charging models. In the B-2-B world successful providers will be able to demonstrate how they have adapted their offers to align themselves with their clients new business paradigm. They will be able to offer insight on how to help their customers customer during the economic downturn and add real value by so doing. For organisations with offers direct to consumers, the opportunity exists for new products and services that address their customers new situation and answer their unarticulated needs for solutions to their new circumstances. In downturn we are likely to be under economic pressure, but it is a time when we can draw breath, take in the new opportunities the situation presents and apply our wisdom and knowledge to finding new products and services our markets will want.

David Smith, chief executive
Global Futures and Foresight

The overall spend in the UK economy has grown consistently since 1992 at 6% year on year. For the next three years this growth rate will drop to no better than 2% as unemployment soars to over 3 million by 2012, and households begin to save again.

The big challenge is to guess how this big change in economic conditions will effect the customers definition of value for money. Will they become very price sensitive, (ie price moves up the reason to purchase list) Or will they become less price sensitive but look for outstanding service and spend more per item but less frequently. In previous recessions it was the middle, undifferentiated market which suffered most. The reassuringly expensive and the cheap as chips markets both did relatively better.

All companies need to be completely clear on their value proposition, and ensure that all customer facing employees know what this proposition means for their behaviour. Ryanair have the clearest value proposition; a cheap safe seat. Poundland also, every item a pound. But what was Woolworths value proposition? And MFI? I suggest they didn't have a clearly articulated one and they have lost to better competitors.

Beware the toxic assumption. This is the assumption that is made about what customers value which is passed between employees but has never been tested or revisited. The only survivors over the next three years will be those who have tested and adjusted their value proposition so that they have a sustainable advantage."

Roger Martin-Fagg, leading economist and Director
Henley Management College

Recession acting as a fillip to customer service

Customer service is improving across the UK – and as organisations are being forced to concentrate on customer retention and market share the recession looks like being an important contributory factor

With consumers seeking value-for-money products and services, companies are making greater efforts to impress their customers, keep them happy and prevent them slipping into the clutches of competitors.

The first signs of real service improvement appear in a major new survey from the Institute of Customer Service (ICS) – the most wide-reaching measure of customer satisfaction throughout the UK. Despite concerns over the economy, more customers say they are pleased with the way they are treated.

Customer service key to survival

With satisfied customers much more likely to return and remain loyal, good customer service is vital to survive the recession, says ICS executive director Robert Crawford.

"This rise in customer satisfaction shows that companies are getting serious about service – as they must be – and are taking steps to improve. Offering excellent customer service is the only differentiator left today. Consumers are increasingly looking for better value-for-money, so providing great service is the best way to ensure they choose a business ahead of its competitors."

And Britain is best worldwide according to the survey, with 42% rating the UK as the best country and only the USA achieving a notable share of the vote with 31%.

The UK Customer Satisfaction Index (UKCSI) asked more than 24,000 people to rate how well or how badly companies and organisations performed in 12 key public and private sectors. Overall satisfaction levels continue to increase to a UKCSI of 72 out of 100, compared to a score of 71 when the previous index was published in July 2008.

Still not there yet

The survey reveals 72% of consumers expect organisations to improve further in the coming months. And although 26 organisations received a CSI over 80, Robert Crawford believes an average satisfaction level of 80 must be achieved before the UK can claim to provide world-class service. The survey asked consumers to rate businesses and organisations on key areas such as complaint handling, professionalism, quality, and competence and friendliness of staff. Graham Clark, from Cranfield Business School, said: "In any economic climate, organisations that succeed are built on sound management principles. The latest UKCSI provides compelling evidence for continuing investment in service excellence - it should convince managers to concentrate on service development rather than take knee-jerk decisions to concentrate on cutting costs.

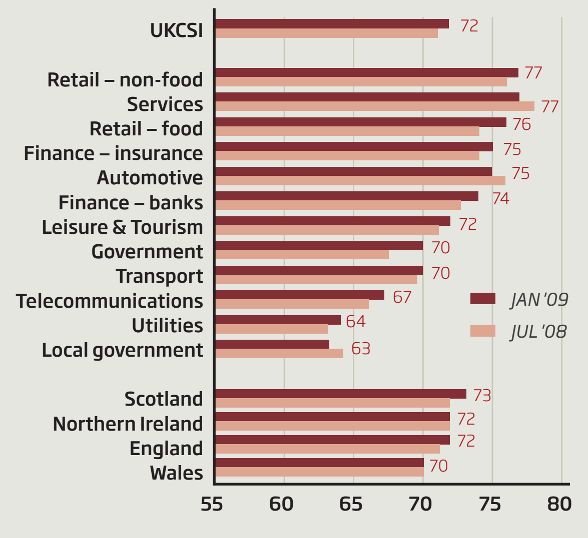
Success stories

The top 10 highest scoring organisations measured for UKCSI are:

- *John Lewis (88)*
- *The Ambulance Service (87)*
- *Lloyds Pharmacy (85)*
- *Waitrose (85)*
- *Saga (85)*
- *Marks & Spencer (food) (85)*
- *Boots (84)*
- *Autoglass (83)*
- *Premier Inn (83)*
- *Marks & Spencer (non-food) (83)*

The full results of the survey are available online at www.ukcsi.com.

UK CSI League Table

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