The cost-of-living crisis is a ticking time-bomb for businesses

What can you do about it?

Table of contents

Introduction **2**

Energy prices as major driver of cost-of-living crisis **3**

Will government actions be enough? **4**

What happens when cost of living increases? **5**

Dropping consumer confidence **6**

Employees facing difficulty **6**

In a challenging environment, businesses should take an active role **7**

Businesses have an obligation to provide for employees **7**

Businesses can and should help customers **8**

What changes do businesses need to make to adapt and thrive? **8**

Real-life case study **9**

Final thoughts **10**

Connect with Sigma Connected **11**

Introduction

Across the UK, almost all households are feeling the effects of the cost-of-living crisis.

According to the Office for National Statistics (ONS), 9 in 10 adults reported their cost of living had increased compared with a year ago and the published rate of inflation confirms that.

More than 2 million households are already in debt on their electricity bills. The ONS found that 44% of adults who were responsible for energy bills were finding it 'very or somewhat' difficult to make the payments. Just under 30% said they weren't sure if they could afford mortgage and rent costs.

The inflation rate in the UK reached a 40-year high back in September 2022 at 10.1%, with politicians frank about a challenging period ahead. After the upheaval of the pandemic, households and businesses feel like they've been thrown out of the frying pan and into the fire.

This rise in inflation has led to a 'perfect storm' in pressures and strain on household expenses as it grows ever more challenging to pay for basic needs. Fuel and food prices are soaring, while rent and mortgage rates are also increasing, leaving people feeling like there's no respite from the bad financial news.

Energy prices as major driver of cost-of-living crisis

The rising energy costs worldwide have been a major driver of inflation and the corresponding cost-of-living crisis. The conflict between Russia and Ukraine has caused supply chain issues, with many European countries heavily reliant on gas from Russia. This issue has led to volatility in energy markets worldwide.

In the UK, specifically, energy bills are particularly affected by gas prices which have increased 11-fold since 2019. That's because 85% of households use gas boilers to heat their homes and around 40% of electricity is generated in gas-fired power stations.

The war's effect on the energy crisis has also been compounded by other factors. The return to normality in the wake of the shutdown of economies during the pandemic saw demand for energy soar as industries kicked back into gear. An extremely cold winter, particularly across Asia, in 2021/22 also increased demand. These two factors meant gas and energy prices were climbing well before Russia invaded Ukraine.

Supply chain issues, even a lack of lorry drivers to enable efficient distribution, have caused prices to rise. Transport also requires fuel, and so the cost of the supply chain itself has multiplied.

And finally, while renewable energy sources have been touted as a solution for decades, there still isn't enough infrastructure or investment for renewable, green energy sources to pick up the slack. The global population is still overwhelmingly dependent on fossil fuels for energy, meaning we are vulnerable to fluctuating oil and gas prices.

The price rise for energy worldwide is especially damaging as it trickles into other industries. For instance, the food industry is a massive consumer of energy, so it has to compensate for rising energy prices. That cost gets passed on to the consumer. This kind of domino effect

leads to a vicious cycle with consumers paying the ultimate price, not just in higher bills and less disposable income, but also in the strain of financial stress.

Soaring food and energy prices have resulted in 71 million people in developing countries falling into poverty. Of course, the poorest families usually bear the brunt of these crises since food and energy bills make up a more significant proportion of their monthly outgoings.

Unfortunately for everybody feeling the impact, the economic forecast looks grim. Many governments worldwide warn of a protracted cost-of-living crisis that is likely to see even more people falling into poverty worldwide.

So, what are governments doing to help relieve the strain?

Will government actions be enough?

Governments worldwide have tried to offset costs with tax cuts, discounted public transport, energy subsidies, and even direct lump sums and cash transfers.

In the UK, there is a resounding feeling of pessimism, with consumers being told they must make sacrifices and settle in for a highly challenging time ahead. With many people having less disposable income, businesses worldwide are feeling the pinch of the cost-of-living crisis, too.

This situation will put enormous pressure on many businesses' balance sheets, and that's before even contemplating that businesses themselves are vulnerable to the rising cost of overheads like energy bills.

However, despite their precarious situation, both small and large businesses have a responsibility to step up and do what they can to help consumers and their employees through a challenging time.

But what can businesses do to extend a hand? To answer that question, let's shift away from the literal monetary concerns to examine the psychology of living cost management.

What happens when cost of living increases?

Considerable research shows that poverty causes stress and leads to a plethora of negative emotions, including fear, anger, shame, and sadness. For those low-income households in the UK facing rising costs and financial stress, the cost-of-living crisis essentially amounts to a mental health crisis.

Stress brought on by financial problems can shorten your attention span. It leads to damaging, habitual behaviours above those that are motivated by goals. In other words, your decision-making is more likely to be risk-averse and short-sighted when under financial strain.

Having limited resources makes people feel like they no longer have control over their situation and do not have the power to shape their future.

In western cultures, where individualism is celebrated and the power to influence your own circumstances is often seen as a right, it is incredibly damaging to mental health to feel suddenly powerless and at the mercy of external forces. This dynamic of powerlessness is exacerbated by the overarching notion that the circumstances are no fault of their own. Consumers feel like they are being punished for something they didn't do and have no control over.

This state of mind shapes spending habits as much as the actual shortage of funds as consumers grow ever more pessimistic in their outlook.

Dropping consumer confidence

As food and energy prices go up, the lowest income households face the grim reality of seeing their monthly budgets increasingly swallowed up by the necessities. That's why community-based food banks in the UK are bracing for a "tsunami of need" as the rising cost of living leaves more families unable to afford their weekly shopping.

As consumer confidence continues to drop, spending is reduced at all sorts of businesses. People tend to cut down on buying new clothes, eating out at restaurants, and going for experiences like watching a movie at the cinema. They buy fewer new cars, delay holidays, and try to trim down their subscription services. They get fewer takeaways, take more public transport, and try to avoid nipping down the pub for a beer or two.

But, besides these purchases, there are still the daily necessities like food that customers need to buy to take care of themselves. And so finally, those in the worst-case scenarios end up falling behind on paying their energy bills, mortgage payments, or any other monthly household bills because they don't have enough money left over from their other spending commitments.

Many in the UK are turning to Buy-Now-Pay-Later loans just to cover the necessities. This increasing trend is a worry as borrowing risks spiralling out of control for the worst-off members of the population. This is the beginning of a descent into financial mismanagement that is difficult to recover from. Yet, it's a descent that many will be powerless to avoid.

Advice on debt management and financial well-being will need to be made available to consumers as the crisis worsens. The provision of help and advice from various sources will at least help consumers to navigate the challenges they face and approach their finances with more confidence, and of the various sources of support available.

Employees facing difficulty

Another aspect of the cost-of-living crisis that businesses should be aware of is the notion that employees are also experiencing financial difficulties. Your employees have had to navigate the pandemic and all its associated challenges in the workplace and at home. Then, just as the pandemic fades away, they have been presented with a new set of difficult circumstances.

The worldwide workforce was already expressing burnout with many employees taking part in the great resignation. The pandemic caused many employees to reflect on what work meant for them as they questioned the relationship between work and happiness.

Into this context, we now throw financial difficulty into the mix.

Obviously, there is a spectrum of circumstances across professions, industries, and whereabouts employees are in the UK, but the majority are facing the issue of compounded stress from the pandemic and the cost-of-living crisis. This level of stress in the workplace presents a challenging obstacle to overcome for employers.

After all, over and above the empathy you should have for employees' troubles, we also know that happy employees make productive employees. A disengaged, stressed workforce can be incredibly damaging for businesses, especially those that rely on delivering fantastic customer service.

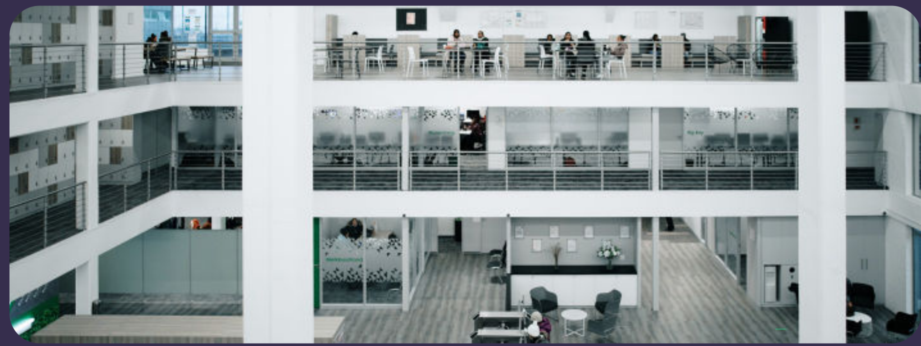
If we flip this on its head, there is an opportunity for growth through the crisis. By taking an active role in supporting employees through these challenging times, you can keep them engaged. Engaged, productive employees will act as brand ambassadors for your company in their interactions with consumers. Those who stay with the company through difficult periods can become brand advocates in the future. This statement is true for both employees and customers.

In a challenging environment, businesses should take an active role

We advocate a two-pronged approach for businesses to truly understand the crisis we are in and actively take steps to assist both customers and employees. While we may not be able to remedy the financial situation, we can ensure all parties are best equipped to deal with the mental stresses of financial strain.

Businesses have an obligation to provide for employees

Businesses are not powerless to help employees. See these potential measures in the context that your employee experience equates to your customer experience, so it always pays to invest in employee satisfaction. If you can’t keep your employees happy, then you should question how sustainable your business is.



- **Financial education:** Offering support with financial education is a great way to help employees. Raise awareness of the different support available, both within the company and from external sources. Offering this support with genuine empathy can help to show employees that you are on their side.
- **Mental well-being help:** Stress can be alleviated in several ways. A caring employer should offer a range of effective workplace mental health programmes available and ready to access remotely to help people deal with financial worries.

Businesses can and should help customers

Businesses are all aware that customers are their most valuable asset. Loyal customers are the lifeblood of businesses looking to come through this cost-of-living crisis unscathed with the potential to grow in the future.

Therefore, businesses must invest in proactive customer retention strategies throughout this crisis.

- Share initiatives to help with customer financial well-being.
- Investment in a thorough end-to-end customer experience that is hands-on from start to finish.
- Provide empathetic, well-trained customer service support to offer tangible advice and guidance to customers. Supporting them through crises is a duty.

What changes do businesses need to make to adapt and thrive?

Much like the two-pronged approach to supporting employees and customers, businesses need to be introspective and examine two potential avenues for change - cultural and structural changes.

A cultural change is necessary

Business owners must ensure they frame customers with the correct mindset. Remember that customers must be one of your primary business priorities. Loyal customers are one of your greatest assets. Successful businesses understand that customer retention is vital to business success, especially when steering the company through a cost-of-living crisis. Invest time, effort, and money into the entire customer experience to provide a holistic company experience.

The cultural shift to prioritising customers’ needs to go even further. Businesses should do so regardless of the potential reward. Giving a world-class customer experience without expecting rewards is the ultimate mindset to win and keep customers. Even though the lowest price can often be a driver for consumers in challenging times, an empathetic customer experience creates an emotional connection between consumer and company.

That emotional connection is key to customer retention.

Structural changes should follow a shifting mindset

Ensuring the right mindset is the first step. Businesses need to back that up with the infrastructure in place to carry out and deliver the optimum customer experience. Invest in the necessary resources and training for your teams and employees to empower them to deliver first-class empathetic customer services.

If this isn’t feasible due to staff shortages or employee burnout, consider outsourcing as a solution to your customer service needs.

Real-life case study

Sigma Connected was recently approached by a large energy company in the UK. The UK energy company reported a sharp rise in the number of unpaid energy bills and failed payments from customers. This was an expected challenge in response to the rising energy costs and a situation likely to worsen as we go deeper into winter.

They got in touch with Sigma Connected to see if we could reach their clients and get payments started again before they went into the collections cycle.

We ensured that we picked up all failed direct debits the day after they had failed and immediately started a 14-day proactive campaign to reach the customer and find a resolution.

Through this process, we could bring about the desired conclusion for both customers and the business, with almost 50% of those contacted back on direct debit payments (a much higher success rate than the collections cycle).

In the long run, this approach helps both customers and the business. By dealing with the issue early, customers avoid missing more payments. By investing in customer care, the business retains customers, and in fact, those customers may look more favourably on the company thanks to the support offered.

Final thoughts

At Sigma Connected, we've helped many companies upgrade their customer service experiences. By outsourcing customer care, you put trust in experts to deliver the support and empathy that so many customers are craving from the businesses they interact with.

Our highly trained and skilled agents are there to help find solutions for the customer. They approach each case with empathy to listen to each individual's specific circumstances. From this foundation of empathetic understanding, they can engage in meaningful dialogue that really connects with the customer and leads to better outcomes for all parties. By adopting this customer-centric approach, you improve your chances of customer retention at a time when consumers are looking to cut down or switch to the cheapest option.
However, it's not always easy for businesses to offer first-class, empathy-based customer services. Your customer service team may not have the capacity, you may be having recruitment challenges, or they may be facing their own stresses affecting work performance.

In these cases, outsourcing can be a solution.

Contact us at Sigma Connected to hear how we can help your business. We'd love to share our customer service best practices to help you better serve and ultimately retain your customers.

Connect with Sigma Connected

Reach out to Sigma Connected and see how we can shoulder the burden of the talent shortage for your business.

We have plenty of case studies showcasing how we've been able to fit seamlessly into other businesses and take of the customer experience for them, whether through collections, complaint management, general customer services, new customer acquisition, or a range of other helpful options.

Our trained, empathetic operators can work wonders for your business, helping you navigate the challenges you face now and guiding you forward to growth in the future.

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