



# MANAGEMENT ESSENTIALS

## Don't Let Layoffs Ruin Customer Service

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Committed and motivated employees serve customers better; customers happy with your company's products or services are likely to express their satisfaction, making your employees feel better about their work. It's a virtuous circle.

But it's a circle that can be broken by the cost cutting a recession often demands. When there are fewer employees to share the load and those employees are anxious and demotivated after seeing their colleagues laid off, service quality can suffer, prompting customers to leave you for a competitor.

In a recessionary economy, you have to find ways to cut costs without undermining either the quality of your service or the morale of your workforce. To get smaller and still serve your employees and your customers well, avoid the false dichotomy between these two groups. You can still support both your employees and your customers even if you can't devote as many resources as you'd like to either.

Thinking strategically about both groups and treating them respectfully ensures that the virtuous circle — the vital link between engaged employees and satisfied customers — remains unbroken. And it positions your company for greater success when the economy turns around.

**If you have to lay off employees, do it with the customer experience in mind** First, the harsh reality: "Loyalty doesn't mean taking care of an employee who's not producing value," says Frederick Reichheld, a Fellow of Bain & Company (Boston) and author of

*The Ultimate Question: Driving Good Profits and True Growth* (Harvard Business School Press, 2006). "That's just being paternal, and doing that is a recipe for disaster. Loyalty means putting the welfare of customers and employees ahead of shortterm interests." Acknowledging this reality can help you identify easy places to trim payroll in a downturn, although Reichheld insists that you should be doing it in good times as well as in bad. But the more complicated scenario is when you're forced to contemplate laying off productive employees.

It's not inherently disloyal to employees to let them go during tough times, but experts suggest doing so only after other avenues have been fully explored — and after you've clearly communicated what is happening.

"Those who take the easy, immediate approach of downsizing without sizing up opportunities to do something more imaginative are going to have problems," says James L. Heskett, professor emeritus at Harvard Business School. *The Service Profit Chain* (Free Press, 1997), a book he coauthored with W. Earl Sasser Jr. and Leonard A. Schlesinger, describes the positive feedback loop that results when companies have both satisfied customers and motivated employees.

Not surprisingly, then, Heskett says it's a big mistake to lay off employees without carefully considering the effect on service quality.

"The smartest companies today, even when they're in trouble, are moving employees around, having them share jobs, having them work reduced hours so the company can preserve jobs," he says. "Although the jobs may be different and may not add up to the same number of hours or amount of compensation employees enjoyed during the best of times, at least these people are still working. That creates trust between employees and management, and that's going to affect how these employees deal with customers. Tough times are a great time to reinforce to everyone in the organization that they are there to serve customers — that the company isn't going to abandon customers either."

"Everyone has done layoffs," notes Patricia Seybold, CEO of the Patricia Seybold Group in Boston and author of *Outside Innovation: How Your Customers Will Co-Design Your Company's Future* (HarperCollins, 2006). But the best companies focus on keeping customers happy. "They're convinced that keeping the quality of customer experience front and center is the key to survivability, then viability, then profitability,"

Seybold says. As a result, she says that she's seeing more companies make the quality of the customer experience a significant factor in determining performance-based pay. Companies that do this swear by it, says Seybold, "because it helps focus employees on the customer."

It also helps if you can scrounge up some extra money for the employees left on board, advises Heskett. For those who must go, the best procedure is to "lay off people as if they were future customers," he says. "When you let someone go, try to put together a safety net, do the best you can do, provide relocation support. Treat these people as potential future customers and potential future employees — as if they will one day be in a position to send business to your company."

Customers pay attention to how the companies they patronize treat their employees, adds Heskett. Down the road, when customers are able to dig more deeply into their pockets for a purchase, they will remember which company tried hard to keep employees on board and which sacrificed workers to the company's stockholders.

**Consider laying off nonproducing customers, too** All the talk about downsizing could make one forget about another helpful measure: firing certain customers. Granted, companies need demanding customers if they want to become great companies. Fred Wiersema, a consultant and author of *The New Market Leaders: Who's Winning and How in the Battle for Customers* (Simon & Schuster, 2002), calls these demanding clients "stretch customers." Not all stretch customers are profitable for a company — nor should they be. Rather, they tend to be forerunners of the demand that the market will show eventually," says Wiersema. "If a company can satisfy a stretch customer, it will get better at what it does. This is why stretch customers are incredibly important for a company in the long term.

"But it's important to differentiate between that kind of customer and a lagging customer a company shouldn't spend time on," he continues, "because lagging customers can disrupt the business. You have to size up your customers and decide who you can serve. If you have customers who don't offer substantial revenue, if they're not strategically important, if they're more trouble than they're worth, then your employees should not be devoting too much time to them. It frustrates the employee and doesn't do anything for the company."

Just as laying off employees shouldn't be a kneejerk reaction, neither should letting go of your less profitable customers. "You have to be open and honest with suppliers and customers when they come up short, rather than just bolting or dropping them," says Reichheld. "This is a time to remind all your partners what you stand for, what your principles are. You have to explain how the actions you're taking are consistent with your principles, that you're not bending the rules when times are tough."

**A downturn is an opportunity to built loyalty** There's an upside to the downturn, says Reichheld. In flush times, when employees think they can leave and get a raise, or threaten to leave and get a raise, companies have a hard time getting loyalty right. "Now, corporate leaders have much more leverage, not just to think about the next quarterly profit, but also to think about core principles and loyalty. Unfortunately most leaders can't tell you what it means to be loyal — that failure has led to mediocre service and high prices that alienate customers and employees alike."

While Reichheld seeks to build loyalty by tending to employees first, Wiersema maintains that customers are the scarcest thing out there. In bad times, customers show a flight to quality, and it's the companies that have a clear customer orientation that will thrive and gain employee loyalty. Employees who feel their company has its act together find dealing with customers a pleasure, even in bad times."

Keeping one group happy will often make both groups happy, says Marc Drizin, founder and chief instigator of Employee Hold'em™,<sup>1</sup> which advises companies about their relationships with employees and customers. It doesn't take a genius, he says, to recognize why Southwest has consistently outperformed other airlines. "It consistently does the right thing; that's why it has the strongest employee and customer loyalty in the industry." Happy customers and happy employees reinforce one another.

"Customers and employees are so intimately connected," Drizin says, "I don't know how you can separate them."

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<sup>1</sup> Note to reader: This constitutes an editing change from the original blog entry found here: <http://blogs.harvardbusiness.org/hmu/2009/03/dont-let-layoffs-ruin-customer.php>.