

NEW THINKING



The experience revolution: The game is on

Game on

Businesses across multiple industries are feeling the heat from disruptors who are using digital to revolutionize how customers interact with brands. Armed with these new experiences, customers are becoming increasingly impatient with incumbents who don't keep up. Helping customers easily find what they need, simplifying sign-up, driving personalization and streamlining access to support—across all channels—is now critical to retain customers. Increasingly, the way customers experience a product or service is as important as the product or service itself.

Technology has always enabled companies to reinvent how they engage with customers. But now we are seeing a profound shift: the convergence of physical and digital customer interaction. This leads to new, often disruptive experiences that can quickly supplant incumbents and shift the competitive landscape of industries.

To better understand these emerging dynamics, IBM's Institute for Business Value (IBV) is conducting a Customer Experience study using numerous surveys over the next 12 months, with a timely drumbeat of data results and commentary created in partnership with THINK Leaders. In this research brief, our first set of findings from a survey of 338 executives across multiple regions and industries, we offer an assessment of the current state of play in this experience revolution.¹

Four clear messages stand out:

1

Companies need to think more broadly about experience

2

The world will be radically different in 12 months

3

What you don't measure, you won't get

4

You need to build an ecosystem of talent

For each of these areas, we also address the implications for executives and potential responses, which we'll explore in more detail in follow up articles.

Ask an expert

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Customer experience: The game is on!

Forward thinking companies have always pushed the boundaries of technology, insights and design to reimagine the experiences they want customers to have. Today, we are crossing a new threshold as businesses from all types of industries adopt a host of digital technologies that are reinventing how they interact with customers across physical as well as digital environments. This is leading to innovative, often disruptive experiences that can quickly supplant incumbents and shift the competitive landscape.

For example, instead of buying a car that's sitting on a dealership lot, customers can now use a virtual showroom to view a car in 3D, customize it with a click of a screen, and checkout with a swipe of their smartphone. Mobile apps and payments, the Internet of Things (IoT), wearables, voice command—these new capabilities are fundamentally changing how people interact and transact with brands and businesses everywhere.

Our study examines how companies across all industries are building their playbooks to address this shift and the challenges they face. What we learn is that the game is shaping up fast, and most companies are playing hard to win. In doing so, they are also discovering new rules along the way in areas such as the teams they need to build, and the goals they need to set. Four themes stand out.

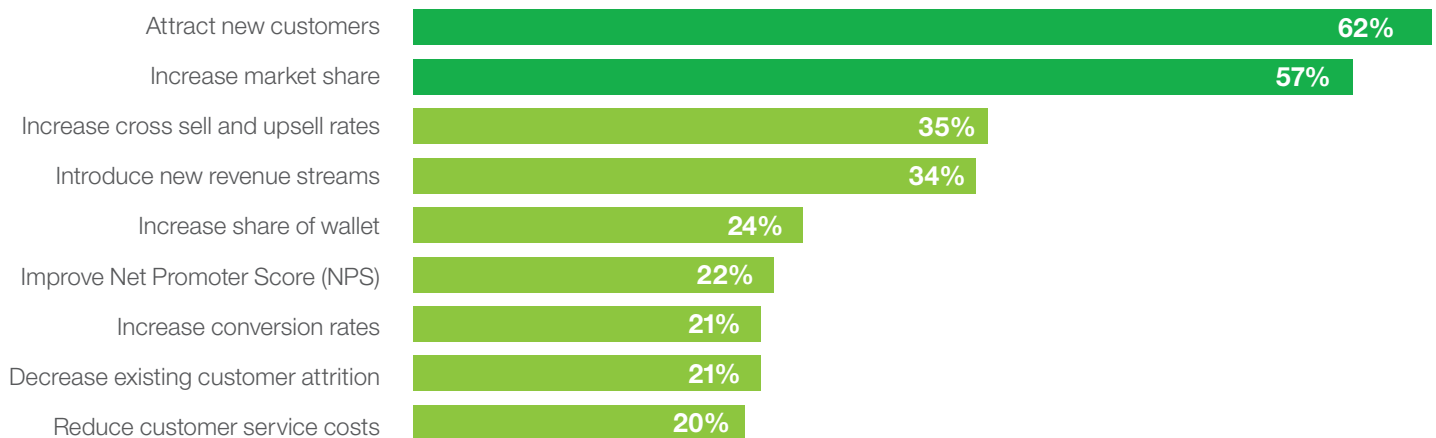
1. Companies need to think more broadly about experience

Why are companies focusing on digitally enhancing the customer experience? The reason comes through loud and clear from our survey respondents, who overwhelmingly cite the need to drive revenue by attracting new customers (62 percent) and increasing share (57 percent) (see Figure 1). Far fewer see the goal as cost reduction, or even a chance to improve loyalty.

However, we see this as a false choice. On the practical side, in a world of online price transparency and rising marketing costs, thinking about cost and customer retention is critical. More fundamentally, many of the disruptions caused by digital reinvention come from a rewriting of the rules. Companies used to talk of “deciding what you wanted to be known for,” with an implicit assumption that you had to choose between delivering a great experience or a low cost service. Providing a great experience implicitly implied a higher cost. Today's winners think differently.

Employing technologies such as mobile and real-time analytics can, and should, be used to enhance customer engagement and drive revenue. But these types of capabilities can also replace infrastructure, streamline

Figure 1: Metrics driving customer engagement strategyⁱⁱ



There are numerous reasons why organizations want to improve customer engagement. Which metrics are driving your organization's customer engagement strategy? N=338

processes and enable personalized relationships at scale without high cost. Netflix now delivers media with an almost unlimited assortment and unparalleled personalizationⁱⁱⁱ, all at a price far below many cable competitors.^{iv} At Tangerine bank, you can sign up for an account in minutes through a mobile app, eliminating human touches from the process, while delivering a great customer experience.^v

Cognitive computing is another horizon that will accelerate this trend. Cognitive is enabling companies to re-think the role of non-human channels, by allowing all channels to be “human-like” and even tailored to individual customers’ desires. For example, cognitive can guide people through complex decisions, such as choosing tax efficient investments, using natural language to learn about and advise the customer, all while considering an exhaustive set of options. For large companies, this can drive significant cost benefits while actually improving customer satisfaction.

Digital opens up a whole new frontier in delivering great customer experiences, often without the associated high cost of times gone by. As a result, leaders need to think more broadly about what a differentiated experience means for their industry. Inventing a great experience based on your current business is necessary but not sufficient. It will keep you in the game at best. Doing what the best of Silicon Valley does—re-inventing how to deliver a product or service from scratch—is what will set you up to win.

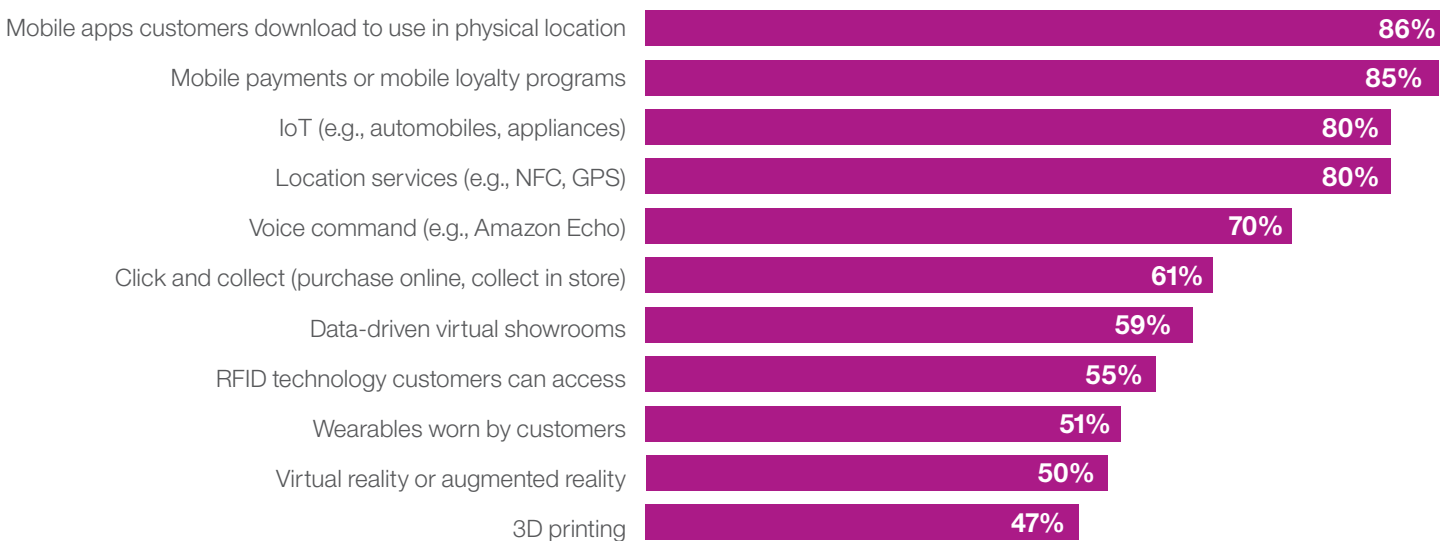
2. The world will be radically different in 12 months

There are lots of digital innovations available to enhance customer engagement—and companies are eager to try them. We were surprised to find almost 4 in 5 companies that we surveyed are planning to have IoT applications in the field in the next 12 months. Similarly, almost 60 percent of respondents are piloting virtual showrooms and nearly half are getting ready to implement 3D printing (see Figure 2). Companies are in a race to exploit the digital trend and placing their bets wide.

Mobile is clearly THE space. Within the next 12 months, a surprising 86 percent of respondents plan to provide customers with mobile apps that enhance their visit to a brands’ physical location. Likewise, mobile payments and mobile loyalty programs are well on their way to becoming ubiquitous. More surprising is the speed at which companies are deploying mobile sensors that interact with mobile devices, Near Field Communication (NFC), and even voice-controlled experiences. If you aren’t already making headway in these areas, this may be uncomfortable news.

However, we advise a measured approach in the race to update and innovate. Perhaps one of the most common complaints we hear from companies is that they see a lot of digital activity, but it is not coordinated across the enterprise

Figure 2: Customer engagement initiatives that companies are implementing within the next 12 months^{vi}



To what extent is your organization implementing the following customer engagement initiatives within the next 12 months? N=338

or focused against initiatives that will have broad impact. It is tempting to get caught up in the potential of the latest gear, but it is often hard to predict how doing so will affect the balance of the game. When Nordstrom—one of the most respected digital leaders—scaled back its innovation group earlier this year, it was to put the skills closer to where they could make a difference: near the customer.^{vii}

The fact is, digital innovation has the biggest impact when it creates experiences that solve a deeply rooted need in a way that is personalized and removes friction from the experience. To achieve that, you need to build your company DNA around integrating the customer point of view into everything you do. Take time to learn your customers' needs, find the biggest challenges, and place your bets accordingly.

3. What you don't measure, you won't get

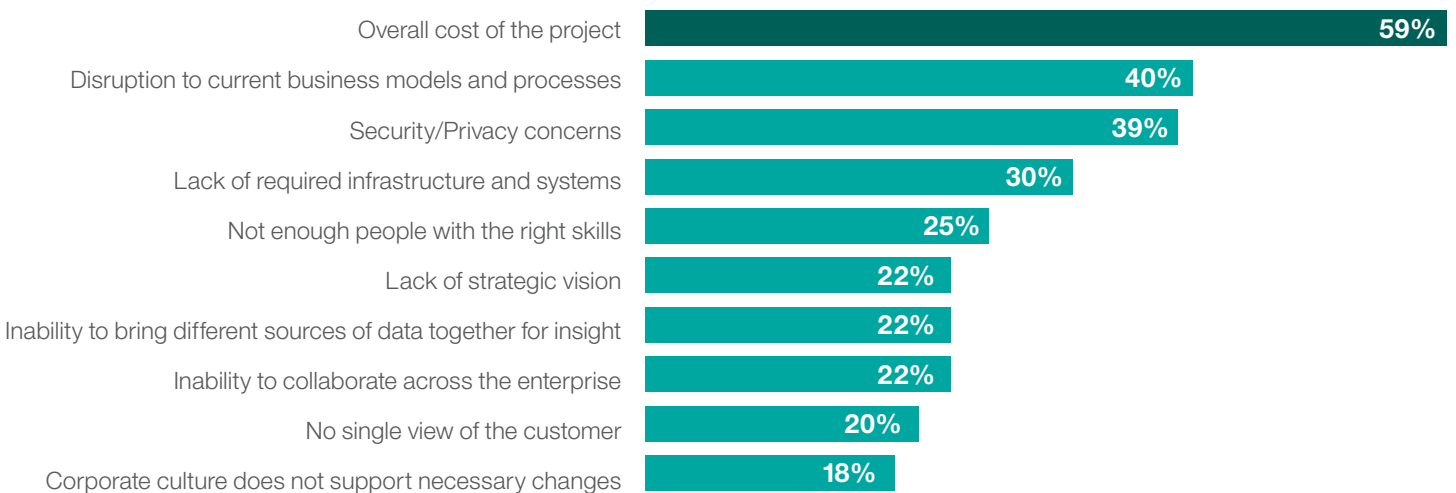
When integrating physical and digital experiences, companies are bumping up against a number of new obstacles. The top challenge cited by respondents across all industries and regions is justifying the cost of the project (see Figure 3). Given the strategic importance of digital transformation, we found this alarming, but not surprising. Omni-channel projects are by their nature complex and

cross-functional. The initial implementation costs can be high, and coordinating multi-departmental budgets is complex. Without taking a full view of the benefit, to both revenue and cost, large scale initiatives can be hard to justify.

Solving for this is not easy. First, the value of a new experience is hard to measure and even harder to predict. Certainly, measuring the impact of individual touchpoints to model the whole system is a complex process that is subject to statistical challenges. Where there is a clear “purchase” event, the process is simpler, but when looking at multiple touches and “influence,” the equation becomes subjective. Another approach is to align on specific objectives within the scope of design and then use testing and measurement to show results through the program execution. Benchmarks and estimates can be used in the business planning process to justify investment, and then these metrics can be refined during delivery as results become clearer. An important thing to remember—in this digitally enabled world—is that you are never done; you must always iterate to achieve more.

There are other, practical levers too. First, calculating the cost benefits, which are often more tangible, can be critical to justifying the project. Second, calculating the cost of waiting on the sidelines is an important and often overlooked

Figure 3: Companies' challenges integrating digital and physical customer experiences^{viii}



What are your organization's biggest challenges with regard to the integration of digital and physical customer experiences? N=338

consideration. Margins soon erode when there are small drops in sales through physical channels, and the risk of disruption increases. Doing nothing has a cost. Finally, you need to consider long-term as well as short-term benefits.

Designing the right governance for digital initiatives to facilitate collaboration across the business is another factor that can help drive momentum. Encouragingly, our survey suggests that companies are largely aligned around the mission of creating seamless, digitally enabled experiences. Problems of culture and lack of strategic direction do not come to the fore. But acting on the experience imperative is complex, and making sure there is a clear narrative about the benefit is an important part of success.

4. Build your ecosystem of talent

Finding the right team is essential, and the fight for talent continues to intensify. Only a little more than half of companies we surveyed feel they have a bench deep enough for their needs. Interestingly, companies are focused on buying their talent versus renting it. The top three talent concerns all revolve around identifying and developing, or hiring new talent. Using partners to plug skill gaps is less of a priority — by almost 50 percent (see Figure 4).

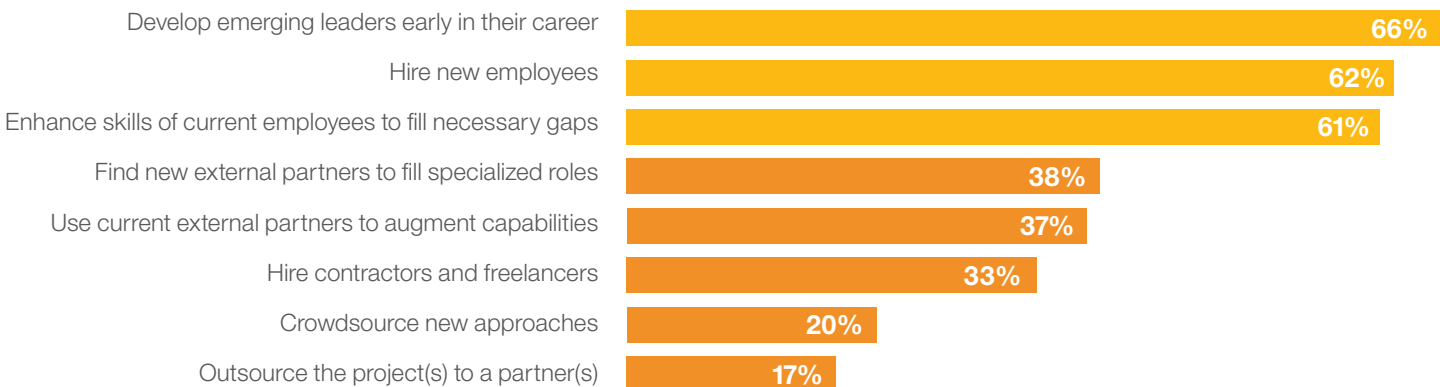
This response is understandable. Businesses realize that customer experience is a core differentiator, and you cannot entirely rely on third parties to drive that. For example, with

the importance of using data to drive marketing performance, companies now need digitally minded managers who can work closely with agencies to create a more symbiotic relationship. Digital means companies need capable internal leaders who can set the digital agenda, drive innovation and act as a catalyst for change both inside an outside their organization.

That said, we firmly believe that building an ecosystem of partners to compliment internal digital expertise is also vital in today's fast moving world. Doing so facilitates access to customers, data, skills and technology, which helps you stay current with the latest innovations and be more agile than if you do everything yourself. The important thing is to develop close relationships between each member of your extended team, internal and external, and effectively manage expectations so that incentives are aligned to the needs of a constantly evolving discipline.

That is why strong managers are essential, and cross-functional talent — people who can speak the language of business, marketing and IT— are even more so. But, just as in sports, the team itself is only one part of being successful. There is a whole ecosystem required to support them: trainers, groundskeepers and talent scouts. It's also worth remembering that without fans, it's not really worth playing the game at all. Keeping the customer happy is what it's all about really.

Figure 4: Filling the skills gap^{ix}



Consider the customer engagement initiatives you expect to execute over the next year. How are you ensuring you have people with the right skills to get the job done? N=338

Implications to consider

1. Beware of false choices.

Growth and cost efficiencies aren't mutually exclusive. New digital engagement models can grow revenue and loyalty by delivering speed, convenience, immediate access to information and personalization. All good. But as well as disrupting customer-facing processes, think about disrupting internal ones at the same time to build frictionless engagement for both customers and employees. Great experiences often drive revenue **and** cost reduction, and incentives should be aligned accordingly.

2. Make Customer Experience an integral part of your business strategy.

There are many components to a company's strategy. Customer experience should be a core one. In this era of digital disruption, companies that do not address this at a pan-organizational level are taking a major risk. It is also the only way to navigate the myriad of new experience investment choices available. Take your customers' vantage point and ruthlessly assess and improve your end-to-end delivery model against customers' ever-rising expectations. Your products and services will be more differentiated, your customers more loyal, and your company will be safer for it.

3. Start a new dialog on value.

Companies need an integrated view on value creation from experience initiatives. This view should cover revenue and cost opportunities. Creating a data foundation to have hard discussions about impact and results is an important part of this. However, granular measurement can be a challenge and may take time to implement; setting clear metrics for specific experience enhancements and testing results is critical to drive focus and identify successful strategies.

4. Manage the internal/external paradox.

The most visible talent pain point for executives will be ensuring the organization has the people it needs. But if you focus only on hiring internally, you'll miss the value that comes from being part of an ecosystem where you can pull in the right skills and knowledge from multiple sources in an efficient, flexible way. Manage what happens inside and outside the organization to tap into inspiration and innovation from every direction.

What to expect next

Highlighting these customer experience trends, their complexities and implications for business leaders is just the start of our exploration. Throughout 2016, the IBV is partnering with THINK Leaders and IBM Interactive Experience to bring you a continual drumbeat of findings from the IBV's latest data-driven research, going deep into what businesses are doing to enhance customer experience. We'll look at what it takes to win and explore how to do it—from the technologies involved to the strategic and organizational considerations and ultimate impact on customers.

Discover more

Want to be part of the study? If you are a CEO, CMO, Chief Customer Officer, Chief Digital Officer, or have similar responsibilities, you can join a panel of select THINK Leaders to share your point of view on customer experience topics. Contact us at tteam@us.ibm.com.

Sources

- i Data findings in this article are based on a 2015 IBV survey, issued in partnership with The Economist Intelligence Unit (EIU), to 338 CEOs, CMOs, Chief Customer Officers, Chief Digital Officers and other executives with similar responsibilities, most of whom reside in the following countries: Brazil, China, France, Germany, India, Japan, United Kingdom and United States. Primary industries represented include: Automotive, Banking, Consumer Products, Insurance, Retail, Telecommunications and Travel and Transportation.
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- ix Ibid.

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GBF03065-USEN-00