Executive Brief

The Customer Experience Transformation Imperative

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June 2017

IDC OPINION

Much has been made of the importance of digital transformation. But digital transformation is increasingly inseparable from customer experience (CX). CX is the overriding business benefit outcome enterprises seek from their digital transformation initiatives. IDC believes that over time digital transformation will evolve into CX transformation, which itself will become a business imperative for ensuring competitiveness and delivering customer value.

- Contemporary CRM tools are siloed and provide disjointed and unsatisfactory customer experiences. They are designed for internal management and specialist operational functions rather than delivering end-to-end sustainable superior customer experiences.

- A new generation of more holistic customer-centric cloud-based CX tools is emerging that incorporate artificial intelligence (AI), machine learning, the Internet of Things (IoT), chatbots, and messaging that offer significant advantages.

- These new tools require a new way of thinking, valuing, and obsessing about the customers and their experiences. This may require significant cultural and strategic change.

- CX is no longer an option for those enterprises wishing to embrace change and thrive in the new era of digital disruptors and hyper-competition.

IN THIS EXECUTIVE BRIEF

This IDC Executive Brief discusses the emerging requirement for enterprise CX transformation. Existing CRM tools have failed to deliver sustainable CX improvements for many enterprises and radical reinvention of customer experience systems, processes, and strategies is urgently needed.

In this paper IDC reviews the current state of play of the CX software and services market, and envisions a future where a new era of CX solutions will transform the experiences not only of customers, but also of staff and business partners. In support of our findings, IDC has referenced several recent 2017 IDC proprietary studies, including an IDC EMEA customer experience survey completed in February 2017.

IDC sees some challenges in deploying the new generation of CX solutions to deliver superior customer experiences. These challenges are less to do with software and services, and more to do with the cultural, strategic, and mindset changes that are required both of management and staff. The market opportunity far outweighs the risk of failure, however, as for many enterprises their long-term existence will depend on delivering CX transformation.

FIGURE 1

Marketing's View of the Importance of CX Across Enterprise Departments

Q. On a scale of 1 to 5 where 1 is "not at all a priority" and 5 is "essential," how much of a priority in your business agenda is customer experience for each of the following departments? High or essential:
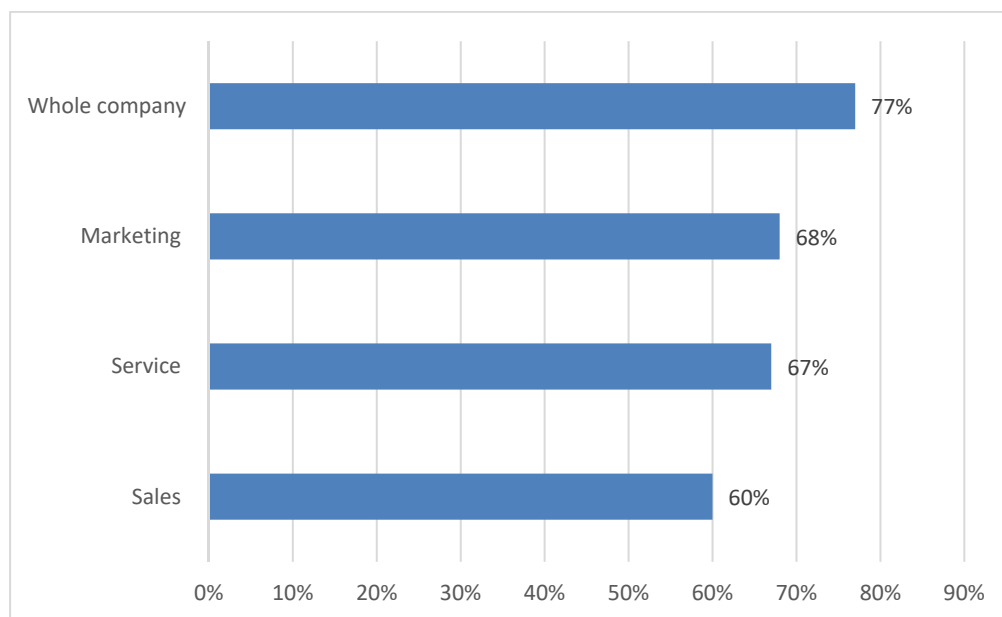
n = 300

Source: IDC EMEA Customer Experience (CX) Survey, February 2017

Customer experience is fast becoming a key priority for enterprises globally. In February 2017, we asked 300 senior marketing, digital, and customer experience respondents in businesses with 250+ employees to rate the importance of customer experiences for their enterprise and for each of the primary customer-facing departments: marketing, service, and sales. A significant 77% considered CX to be an "essential" or "high priority" business agenda for the whole company, and over 60% considered CX to be "essential" or "high priority" for marketing (68%), service (67%), and sales (60%).

These findings reinforce conclusions from other IDC studies. For example, in a recent (2017) global research of 600 customer experience and IT leaders, 71% considered CX to be a "very" or "extremely" important digital initiative.

In many ways these findings are unsurprising. Traditional "CRM" tools for the use of marketing, sales, service, and contact center are suboptimal in terms of delivering sustainable and meaningful CX improvements. Many enterprises still operate these tools in four separate silos with separate departmental customer databases, disconnected from other operations. The tools are not designed for holistic business improvement but rather for improving front-line customer engagement. Hence enterprise business processes largely remain unchanged, and enterprise content flows remain blocked. Root causes of customer dissatisfaction remain unaddressed.

The quality of customer encounters has been dependent on the individual call center agent, marketer, salesperson, or service engineer's own motivation, technical, and social skills. The result is an uneven and disjointed brand experience from a customer point of view, proven by the fact that customer perceptions of CX generally have barely risen over the past five years.

In the meantime, customer expectations are rising, driven by the experience of frictionless consumer apps, and 24 x 7 access to information and services on the internet. This has resulted in frustrated and angry customers who have suffered inconsistent, impersonal brand service experiences offering little predictability of outcomes.

For customer-facing staff this is disheartening, as they continue to battle to deliver excellent customer experiences, hampered by inappropriate tools and a lack of a complete view of customer information, needs, preferences, and interactions with the enterprise. The result has been disengaged employees, poor CX performance, and high turnover of customer-facing staff.

FIGURE 2

Business and Technology Drivers are Creating the CX Transformation Imperative
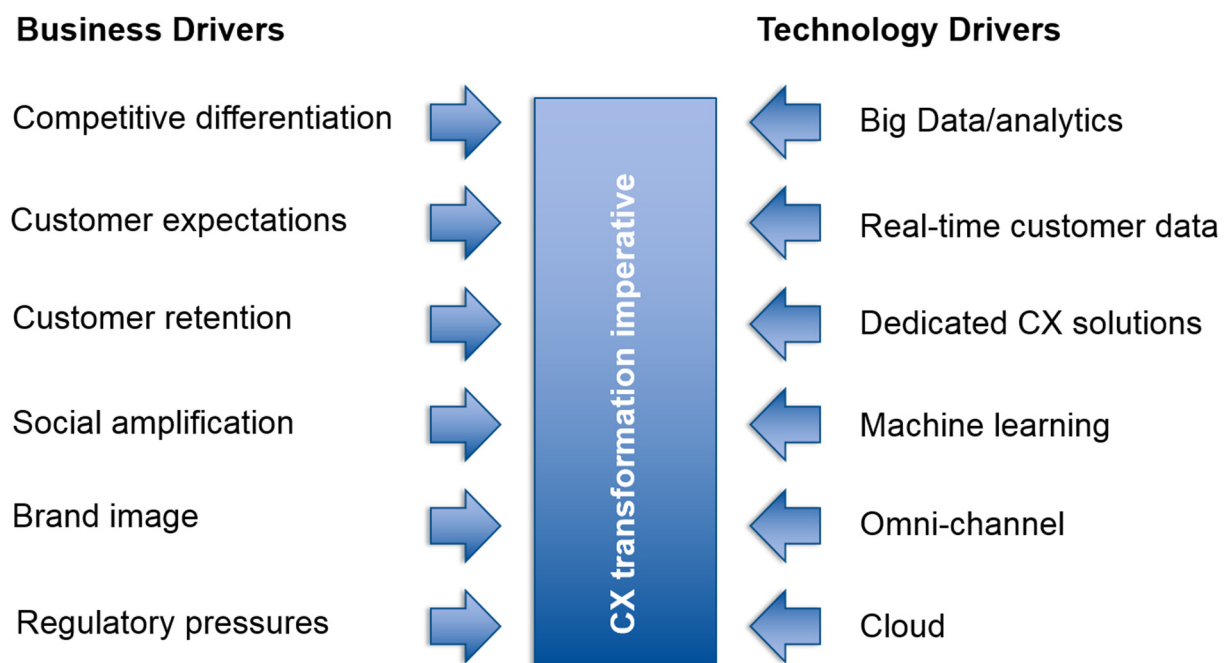
Source: IDC, 2017

Aside from the customer and staff pressures mentioned above, there are many other business and technology drivers that are stimulating demand for customer experience. Product and price are no longer effective as market differentiators and superior CX is the method that most businesses now choose to differentiate their brand offer. CX maps to rising customer expectations in regards to the quality of speed and service required, especially for digitally savvy gen Y and gen Z customers. Customer retention using CX as a weapon is now key — and CX is also an effective defense against the incursions of the rising tide of low-cost digital disruptors that are entering every industry.

CX is also seen as an opportunity to extend word-of-mouth recommendations through social amplification — and to contain being publicly humiliated through adverse social media comment.

CX is also synergistic with the new "caring" corporate image that brands are trying to project both externally to customers and stakeholders, and internally to staff to encourage retention, evangelism, and employee engagement. Finally, the growing level of regulatory pressures, such as GDPR and data privacy, increasingly demand a customer-first approach.

On the technology side, the availability of Big Data/analytics technology enables large-scale analysis of customer data like never before, and increasingly this customer data is available in real time, so that companies can enact "in the moment" marketing, sales, and service actions that can satisfy customers at the point of need. New CX technologies such as customer journey management and customer journey analytics take a more holistic and customer-oriented approach which is superior to the piecemeal tactical "fixes" of CRM solutions that front-line staff have typically used in the past.

Machine learning increasingly improves the accuracy and relevance of customer-facing executions at scale, and removes much of the front-line administrative drudgery, enabling agents to focus on innovating and serving the customer, rather than managing the customer paper trail. Omni-channel technology is the platform for receiving and delivering seamless communications using the most appropriate mix of channels preferred by the customer.

Cloud-based CX software enables systems to be more flexible and constantly updated with the latest technical advancements, and permits new customer experience innovations and improvements to be more rapidly deployed than traditional on-premise systems. Cloud solutions push the responsibility for affordable data security, systems management, and support to the service provider so that staff can concentrate on delivering superior customer experiences, rather than struggling to cope with IT-related issues. IDC research shows that cloud is now the platform of choice to accelerate the delivery of enterprise digital transformation and CX initiatives.

FUTURE OUTLOOK

### Digital Transformation and CX Transformation Will Continue to Coalesce

Across many different IDC research studies, when enterprise business leaders were asked what their desired business outcomes were from digital transformation initiatives, the overwhelming answer is "superior customer experiences." Digital by its nature is customer-facing, and so the answer is to some degree obvious. Digital transformation is the technological means to deliver the business benefit of customer experience transformation which in turn provides the customer advocacy, retention, and loyalty demanded by the enterprise.

This finding was emphasized by the IDC research study results previously mentioned. When asked "is your organization currently measuring or planning to measure the impact of digital transformation programs on customer experience?", 63% of marketers answered that they currently measured this, 30% planned to, and only 7% had no plans to. Marketers therefore see a direct "means to an ends" connection between digital transformation and customer experience improvements.

Marketing, Sales, and Services are Embracing Collaborative Data and Tools

FIGURE 3

Marketing, Sales, and Service are Sharing Customer Records and Tools
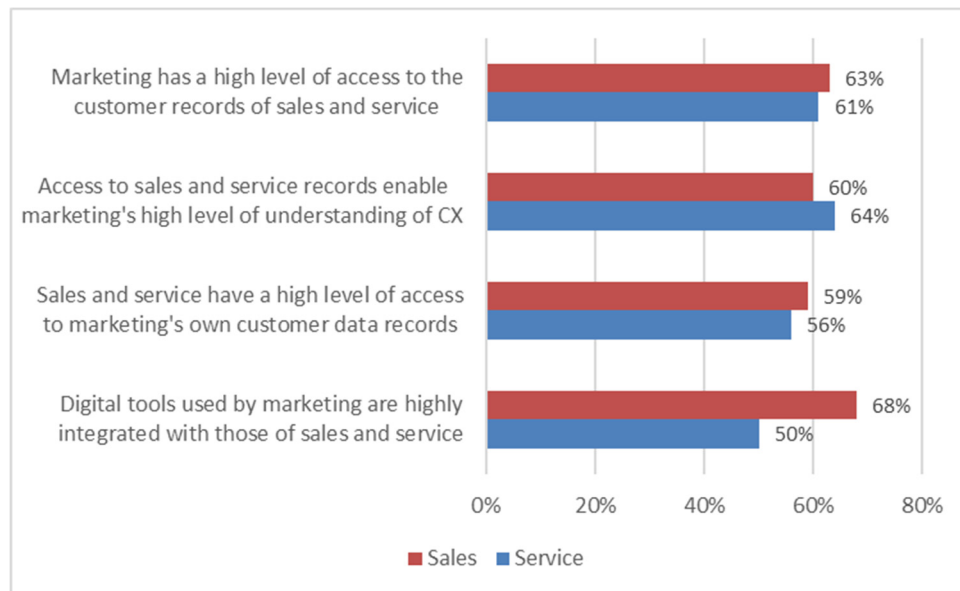
n = 300

Source: IDC EMEA Customer Experience (CX) Survey, February 2017

IDC asked marketers to rate their answers to questions on a 1 to 5 scale, with 1 being "none" and 5 being "completely." The data in Figure 3 refers to those responses rated 4 or 5 by marketers.

Nearly two-thirds (62%) of marketers report they have a high level or complete access to the customer records of sales and service departments. This access to customer data has a profound effect on marketing's understanding of CX (64% rating for customer service records and 60% rating for sales records), so access to other departments' customer records clearly improves marketing's overall understanding of CX requirements. Marketing is also providing a high level of access to its own customer data records to sales (59%) and service (56%) departments, which suggests that sales and service will also be benefitting from a greater understanding of CX. These data points reveal that larger enterprises are increasingly moving toward a "single customer data view" which involves consolidating the customer data records from marketing, sales, and customer service as end-to-end CX replaces traditional siloed working methods. And this movement is happening now. When asked "to what extent does marketing have access to a single customer view that spans all marketing/sales/service customer encounters?" 74% of marketers responded with a 4 or 5 rating.

In addition, marketing's digital tools are also being integrated with those of sales (68%) and service (50%). This suggests that digital toolsets are being rationalized, consolidated, and integrated across marketing, sales, and service into a CX platform encompassing digital marketing, CRM, customer service, and contact center. Enterprises are increasingly seeking single platform solutions from larger and more secure suppliers that can offer a robust, secure CX data hub as a centerpiece of their CX platform offering.

Customers want a holistic solution as a foundation, but as every CX requirement is different, an off-the-shelf solution rarely fits the requirement perfectly, and some customization and prioritization for deployment is usually needed. For this reason IT professional services vendors leveraging new agile digital development methodologies are playing a key role in CX solutions delivery, in tandem with digital agencies that play a critical creative role in designing user and customer experiences.

CX Methods Need a Higher Level of Sophistication and Performance

Customer engagement has moved from being predominantly a voice-focused activity to an omni-channel, orchestrated customer journey process. CX software and services are pivotal to the delivery of this ambition. Existing processes, technology, and people also need to be adapted or transformed to ensure alignment. Omni-channel is a case in point. IDC research reveals that many enterprises today consider the future of omni-channel to be a necessary cost of doing business rather than a source of competitive advantage. Many omni-channel systems require structural reform so that end-to-end business processes align with the transactional communications inputs and outputs of omni-channel, which in many cases are missing today.

Content marketing and management is another area that needs to be reinvented. The availability of relevant and compelling content in the appropriate media format is integral to driving customer engagement, customer journey management, and overall customer experience. However, customer-facing personnel rarely have the content volume, variety, or the execution capability to deliver the "best fit" content in customer encounters to resolution or conversion. Content needs to align with the transactional execution elements of frontline marketing, sales, and service systems using "systems of interactive customer engagement" rather than traditional static "systems of customer record" databases.

Only 49% of marketers today consider that collaborative systems are currently aligned with a business outcome. Collaborative applications and tools need to be available and directed toward CX business outcomes using facilitated communication, ideation, and sharing of knowledge. Only then can bi-directional customer-responsive and customer-focused end-to-end processes be fully enacted across the enterprise. The removal of siloed operations and systems that so hamper collaboration will free up provision of a single unified brand experience for customers that is so essential for the modern enterprise.

CX measurement systems will need to be reinvented to reflect the new CX operating reality. Most organizations still use customer satisfaction and customer surveys as their primary measure of customer experience. Forward thinking enterprises are more likely to use net promoter score (NPS), and now customer effort scoring is gaining in popularity. However, the measurement of CX and customer journey effectiveness is still an emerging art, and de facto standards across many areas of customer experience are few. New metrics need to emerge so that sustainable CX performance improvements for individual customers, customer segments, and personas, and all customers collectively can be continuously and accurately measured and managed.

Customer Self-Service is Central to the New CX Operating Model

Customer self-service is now becoming a necessity as the proliferation of channels (omni-channels) is making channel management by the service provider an increasingly difficult and complex task. In addition, IDC research shows that customer satisfaction is generally higher when customers use self-service digital tools. From a service provider perspective, self-service digital tools require little staff involvement, so headcount efficiencies can be gained. Making product knowledge available to both staff and customers using digital technology self-service, such as FAQs on a website portal, provides a win-win by reducing the cost to serve and improving customer satisfaction.

Customers can be empowered by providing their own data back to them, such as by providing a view of a bank balance on a banking mobile app, so that customers can self-serve. This deflection into self-service digital channels not only reduces costs, but also provides customer digital data trails that can be used to better understand customer needs and intercept and predict potential customer purchasing or churn decisions.

Increasingly service providers need to serve customers on the customers' own terms, providing choice and room for customer preference, rather than mandating the channel and method of engagement. For example, social media is now an essential channel to customer services which must be provided for. Other self-service channels that need to be offered include online knowledge bases, customer portals, text/SMS, online communities/discussion forums, online and mobile chat, social platforms, and mobile apps.

An omni-channel strategy should be designed to offer seamless movement between channels, both inbound and outbound, with the goal of reducing customer effort and improving customer satisfaction and NPS. Younger customers are now highly digitally connected and prefer to connect digitally rather than using traditional offline channels. This provides the opportunity to offer "intelligent" digital self-services which can predict and drive communications to trigger customer needs, thus reducing customer search and analysis efforts and increasing opportunities for sales conversion.

Customer-Facing Staff Motivation and Management Defines the Brand Image

Communication with customers is of critical importance as is "taking the customer with you" on the service journey. The quality of service interactions makes a huge difference to brand perceptions. Service representatives should be thought of as brand ambassadors delivering not only superior service experiences, but also the authentic tone of the brand promise in the way they work and communicate with the customer. IDC research shows that "motivated personnel who are capable and friendly" is considered the most important enabler of superior customer experiences.

Systems that enable operatives to be informed and knowledgeable when interacting with the customer will likely result in mutual friendliness and respect between the operative and the customer to the benefit and value of both organization and customer. Service operatives should therefore also be considered as "customers" in the same way as paying end customers are.

This means paying great attention to "internal experience" (IX) including UX and usability, and providing a unified desktop and a single customer data view that is optimized for the task of the operative. This will increase the propensity for both agents and customers to become brand ambassadors and advocates. Hence it is important to connect internal management actions with external customer satisfaction, particularly in the areas of education, training, coaching, collaboration, performance measurement and recognition of the delivery of excellent customer experiences.

CHALLENGES/OPPORTUNITIES

In a recent global study conducted by IDC, the top customer challenges that organizations had experienced in regards to delivering superior customer experiences were, in priority order:

1. Measuring the quality of customer experience as it happens
2. Embedding the need for a CX ethos across the organization
3. Responding promptly to CX problems and opportunities

CX software and service solutions will go some way to resolving these challenges, but change itself is the constant challenge in today's hyper-competitive business operating environment. CX software and service solutions also need to be in a continual state of development. For example, innovation accelerators such as IoT, artificial intelligence (AI), machine learning, chatbots and messaging, micro services, and micro apps are now being blended into CX solutions to provide new contemporary freshness and functionality. Many other new technologies will emerge to augment CX solutions as the CX marketplace evolves.

Technology adaption will need to be mirrored by adaption, and in some cases transformation, of corporate culture, talent management, change management processes, business process change, and operating model change. For example, the roles of marketing and sales are radically changing. The first 60% to 70% of decision-making processes typically now do not involve sales people at all, as customers go online to research and analyze their options. The customer is empowered with data and bargaining power, rather than the supplier. Sales' days of hard closing are over, and sales needs to take more of a facilitating and nurturing role, as does marketing.

Customer services now have more opportunity to influence the customer rather than sales and marketing, due to their position of trust. A juxtaposition is taking place. Service is becoming the new sales, marketing is becoming the new service, and sales is becoming the new marketing in the perception of some commentators. Hence organizations need to reinvent their sales, marketing, and customer services processes to align with new more mature CX realities that are resulting from fast-changing market dynamics and the evolution of customer behavior.

In short, CX is not a short-term fix, but a long-term strategy that needs to be constantly adapted to changing environmental factors including internal enterprise processes, structure, and strategy, as well as external technology innovations, customer needs, competitive moves, and regulatory changes. According to IDC, the foundation for a strong CX strategy should be based on:

1. Universally defining the quality and type of customer experience required
2. Overcoming departmental boundaries and internal product silos
3. Managing CX from a data and systems perspective

CONCLUSION

The customer experience (CX) market is still at its inception stage, and IDC forecasts global market growth will continue through to 2025. In the near term the introduction of machine learning and analytics-driven hyper-personalization, segmentation, and customer journey management will herald a step-change in the efficacy of CX solutions. New emerging CX solutions will combine and unify CRM systems (across marketing, sales, service, and contact center), content management systems, and collaborative tools into an end-to-end set of bi-directional enterprise-customer services that will feature the following attributes:

- Inbound communications routed to the right person (or machine) at the right place armed with the right information to serve the customer need.
- The availability of compelling outbound marketing content in rich media formats mapped to all customer journey stages, and triggered for release by machine-based predictions of customer needs, and aligned to customer channel and content preferences.
- Collaborative networked systems of engagement that serve staff, business partners, and customers, and encourage continuous co-creation and co-innovation.

Enlightened enterprises are increasingly pivoting their business orientation toward external customer experience rather than an internal focus on margin, short-term profit, and financial accounting. For example, recent IDC research reveals that large enterprise innovation is now more

focused on external customer-centric collaboration and market-responsive co-innovation, as opposed to traditional internal creative ideas generation and research and development. Enterprises are realigning their processes and systems to externally and proactively serve the customer, and CX platform software and services are central to this shift in emphasis.

Customer experience is fast reaching a tipping point where those enterprises that are reticent to invest will likely become less relevant. Investment in CX transformation will differentiate enterprise thrivers from merely survivors. Digital disruptors will continue to threaten traditional enterprise business models, and those that fail to adapt, as in Darwin's world, will become extinct through acquisition, merger, or terminal decline.

Those that take up the challenges posed by CX transformation need to be know that CX initiatives take time to bed down and build momentum both internally as a company ethos and externally as brand recognition of superior customer experience. The key dependencies for enterprise success include:

- Alignment of corporate goals with CX
- Orchestration of internal business processes toward serving the customer
- The ability to provide for, manage, and optimize customer experiences end to end

About IDC

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