RESEARCH
Influence and insight
through social media

Digital Businesses Will Compete on the

CUSTOMER EXPERIENCE

WHITE PAPER

Prepared by
Zeus Kerravala

SECTION I: DIGITIZATION REDEFINES THE CUSTOMER EXPERIENCE

ZK Research defines digitization as the application of technology to build new operating models or processes by leveraging the convergence of people, business and things. Digital advancements are creating new product and services opportunities as well as transforming business operations, enabling organizations to generate more revenue, lower costs and achieve higher levels of efficiency to gain an advantage over their competitors.

Historically, maintaining a competitive advantage was based on having the best product, the lowest prices or the best people. However, this is no longer the case. In the digital business era, sustainable market leadership is based on an organization's ability to recognize shifts in the market landscape and adapt quickly. According to a famous quote summarizing Charles Darwin's 1859 book, *The Origin of Species*, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change." Never has this statement been truer in the business world.

Consequently, digital transformation—the process of becoming a digital enterprise—must be at the top of every IT and business leader's priority list. It is imperative that all businesses start becoming digital organizations now, or else they risk struggling to survive or perhaps even going out of business.
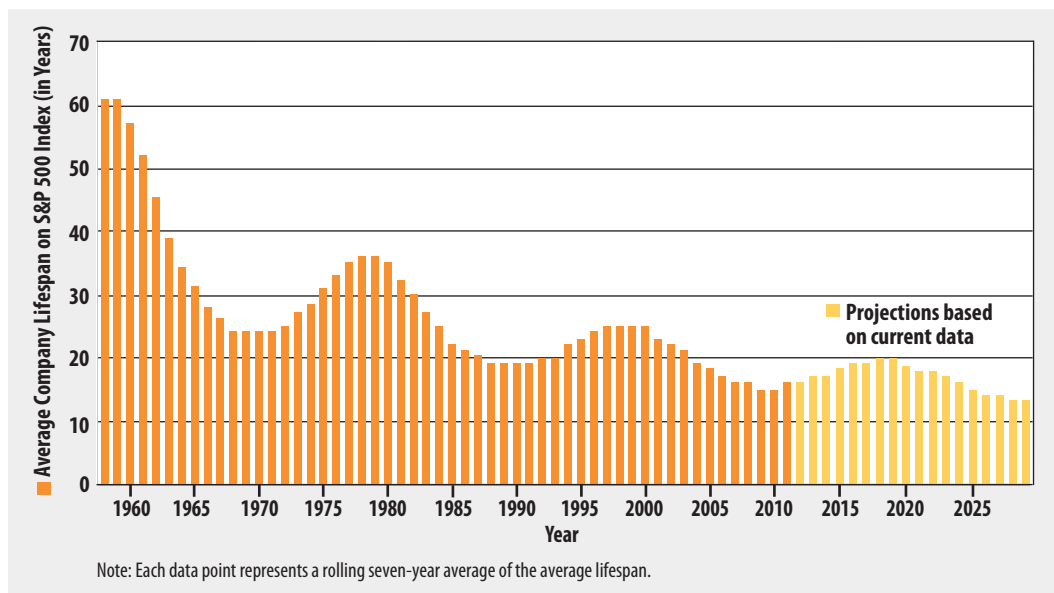
In fact, this has always been true, but changes in market leadership used to take decades to occur. For example, in the 1970s and 1980s, Walmart completely redefined the retail vertical by reinventing supply chain and inventory management, and it's now one of the largest companies in the world. However, today Amazon is disrupting Walmart by making the process of purchasing goods online fast and easy.

Exhibit 1 shows a seven-year rolling average of the S&P 500 Index tracked since the late 1950s. The chart shows that in 1960, businesses remained on the index for 50 to 60 years. By the 1980s, the speed of churn had doubled. Based on these trends, by 2025, businesses are forecast to stay on the index for only 12 years. ZK Research predicts that 75% of the S&P 500, which are market-leading companies, will turn over in the next 10 years.

Another interesting data point comes from Mark Hurd, CEO of Oracle. At the 2016 Oracle Modern Customer Experience conference in Las Vegas, he stated that 70% of the Fortune 500 has either gone bankrupt, merged or been acquired. He continued and stated that since 2000, more than 50% of all companies have gone down the same road. The reason he made those comments is that, according to Hurd, customer expectations have changed drastically and quickly. Customer sentiment is changing; most modern customers are willing to pay more for better service, and they care more about the overall experience than they do about the price.

The customer experience has become the new battleground for differentiation in the digital business era. According to a Walker study, by the year 2020, the customer experience will overtake price and product as the key brand differentiator. Another interesting point underscoring the

ABOUT THE AUTHOR

Zeus Kerravala is the founder and principal analyst with ZK Research. Kerravala provides tactical advice and strategic guidance to help his clients in both the current business climate and the long term. He delivers research and insight to the following constituents: end-user IT and network managers; vendors of IT hardware, software and services; and members of the financial community looking to invest in the companies that he covers.

Exhibit 1: Digital Transformation Is Changing the Business Landscape Faster than Ever

Note: Each data point represents a rolling seven-year average of the average lifespan.

Innosight, Richard N. Foster, Standard & Poor's

importance of the customer experience comes from Gartner, which found that 89% of companies compete primarily on the basis of the customer experience today versus 36% only four years ago.

Digital transformation must be a top initiative for all businesses, and they should start by redefining the customer experience. Organizations that understand this and can make the shift to delivering a digital customer experience will thrive and become leaders in their industries, while those that cannot will struggle greatly to remain competitive.

SECTION II: DEFINING A DIGITAL CUSTOMER EXPERIENCE

Competing in the digital era is becoming increasingly difficult. Technology is advancing faster than ever, and established companies must combat their traditional peers as well as new digital native competitors (Exhibit 2).

For example, the financial services industry is filled with many strong, established and trusted brands such as Visa and American Express. Therefore, one might think there is no room for new entrants. However, mobile payment companies such as Zopa, Square, Apple Pay and Esurance have disrupted the entire industry. Another vertical that has been disrupted by digitization is retail. This industry has historically been dominated by department stores and big chains, but recently it's seen increased competition from a number of online retailers such as Amazon, eBay and Zappos.

The fact is, no industry is immune. Digitization will transform every vertical and quickly reshape the competitive landscape. The biggest question for today's CEO is how to differentiate in an increasingly crowded field. Historically, businesses competed on product leadership or having the

**Exhibit 2: The Digital Competitive Landscape Is Crowded**

ZK Research, 2016

lowest cost, but this approach is no longer sustainable. Quality products are table stakes today, and maintaining the lowest price means having paper-thin margins—making it more difficult to innovate in order to remain a market leader.

In the digital era, the customer experience will be the key to acquiring and sustaining market leadership. Improving the customer experience isn't something that can be put off for a year or more. Customers are switching loyalties on the basis of customer experience *today*. Accenture surveyed approximately 13,000 consumers in 33 different countries and found that 66% have switched providers due to poor customer experiences.

Understanding what a superior customer experience is first requires knowledge of the problems customers face. With most services, the consumer ends up being the integration point for several providers across the customer lifecycle (Exhibit 3). Also, if the customer requires multiple services, typically he/she must seek out several providers to meet his/her needs. For example, with

Exhibit 3: The Customer Lifecycle
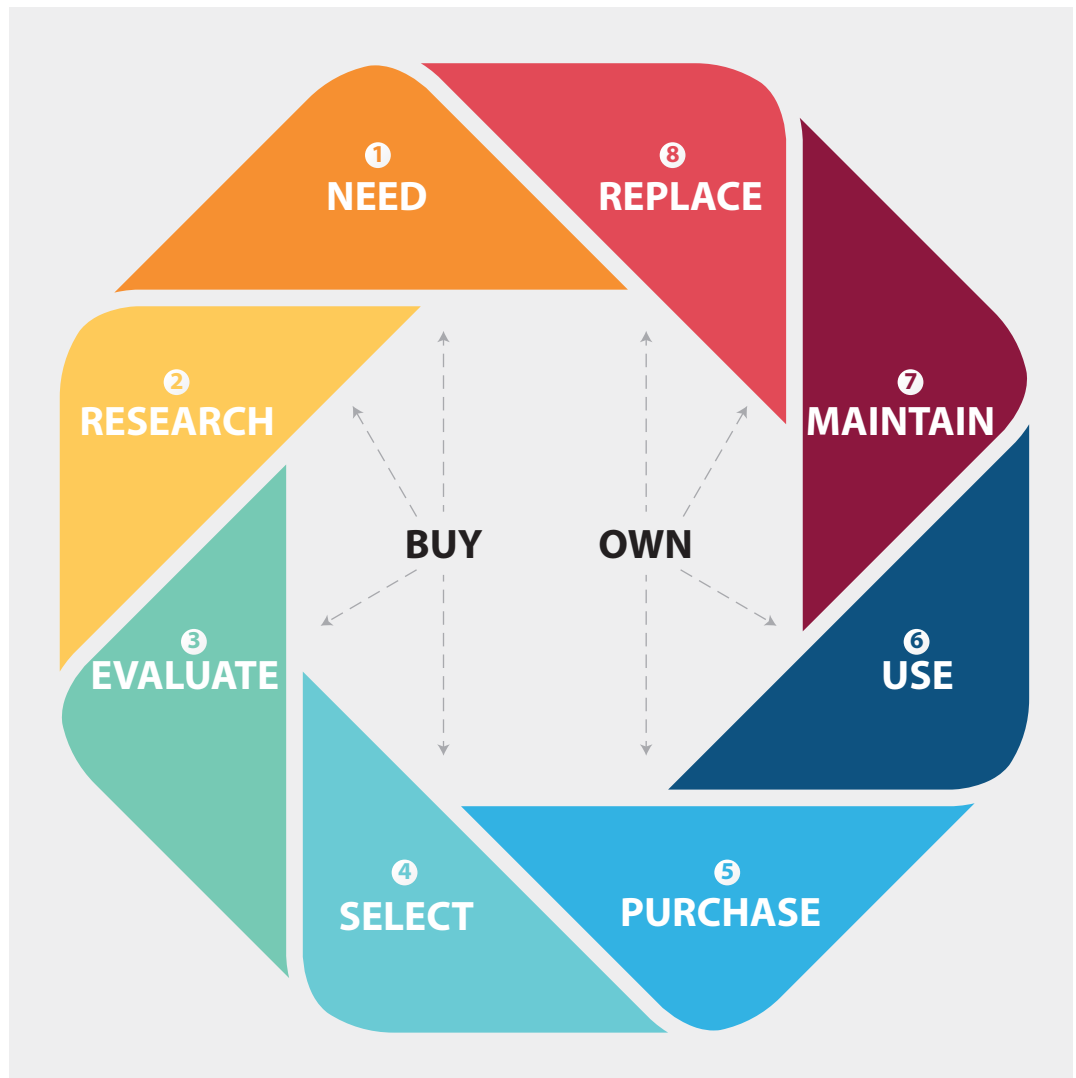
ZK Research, 2016

banking, a customer may use a different service provider for a checking account, retirement plan, mortgage, car loan and other needs. Even if a single institution offers all of these services, the customer must deal with each department independently. A superior experience would give customers unified access to all of the services they need in a single place.

Also, consumers want to use the channel of their choice and the tool of their choice to communicate with providers whenever they want. This might include making a phone call in the morning while driving, sending text messages when on a train and participating in a video meeting at the office. Therefore, it's crucial that businesses build an omnichannel strategy to interact with customers. This can help companies stay at the top of the customer's mind and capture the Zero Moment of Truth (ZMOT)—when the decision of what product to buy or what service to use is being made.

ZMOT is defined as the moment when a consumer searches for information about products and brands and makes a decision.

Developing a strategy centered on delivering a superior customer experience requires businesses to think differently about the way they interact with customers. Their focus needs to shift from making individual transactions to building long-lasting, trusted relationships that can accommodate all aspects of the customer lifecycle. A strong proof point for this comes from Watermark Consulting's 2015 Customer Experience ROI Study. The research found that the stock performance from customer experience leaders outperformed that of customer experience laggards by a factor of about 4-to-1 and outperformed the S&P Index by 50%.

Exhibit 4 highlights the keys to building a customer experience that can capitalize on the opportunities created in the digital era, which are also summarized below:

Build an omnichannel experience. The "multichannel" concept has been well adopted. This enables businesses to talk to customers over any channel including video, voice, text message, chat or any other medium. Omnichannel differs in that the communication across the channels is fully integrated. For example, if a retailer implements omnichannel communications, an in-store representative could access historical information as easily as someone on the phone could.

Create an enhanced user experience. Regardless of which channel a customer chooses to use, organizations should ensure the experience delights the customer. This includes developing a best-in-class experience across mobile- and web-based interfaces.

Exhibit 4: Keys to Building a Customer Experience in the Digital Era

WHAT CUSTOMERS WANT

Consistent information across channels

Easy, intuitive experience at every touchpoint

Personalized service to meet their needs

HOW TO DELIVER

Build omnichannel experience

Create an enhanced user experience

Predict behavior

ZK Research, 2016

Cisco is developing technologies through the lens of the customer.

Predict behavior. In today's competitive business environment, it's critical that businesses understand their customers better than ever before. Businesses should invest in gathering several different types of data—including social information and purchasing behaviors—and analyze the data to predict what customers will want.

Following are some examples of businesses that have delivered innovative customer experiences:

NCR's Interactive Teller: "The ATM of the Future": The NCR Interactive Teller enables banks to offer customers the benefits of self-service banking and full-service banking through a single experience. The ATM combines video collaboration and remote transaction processing to let customers start with a traditional ATM experience and then connect with a remote teller in a highly personalized, two-way audio/video interaction.

Rebecca Minkoff Digital Mirror: Fashion designer Rebecca Minkoff has created an entirely new approach to the retail experience by integrating technology into the in-store shopping experience. Stores have been outfitted with interactive mirrors that greet the shopper and invite them to approach. Once customers tap the screen, they are offered a free beverage and a few pieces of clothing to try on. Shoppers can browse the inventory and select other items as well. After a product is chosen, a store employee delivers the item to a dressing room and texts the customer to let he/she know the fitting room is ready. While in the dressing room, customers can request different sizes and new clothing, and they can place the items they want to purchase in a virtual cart. When customers are finished, they can review all the items in a mobile application, pay for them and pick them up on the way out.

KLM Royal Dutch Airlines Facebook Integration: Most airlines have developed robust mobile applications to enable customers to perform tasks such as accessing a flight's status or checking in for a flight. KLM took a different approach by using Facebook Messenger to interact with customers. KLM now gives passengers the option to receive flight updates through Messenger. Also, if the customer agrees during the booking process, KLM will start a chat thread in which booking confirmations will be sent, flight status can be checked and scheduling changes are posted. KLM will also send boarding passes through Messenger that passengers can use to get through security and board a flight. Lastly, KLM customers can chat directly with KLM support inside of Messenger instead of having to use a separate application.

John Lewis 3D Printing Virtual Furniture: John Lewis, the UK department store, is using 3D printing technology to change the in-store customer experience. The company has combined 3D printing with RFID tagging to help customers choose new sofas. The interactive "sofa studio" will enable customers to choose from a wide variety of 3D-printed sofa models to see what an item will

look like. The sofa is then placed on a "smart table" that detects the RFID tag to show the item on a computer screen. A fabric swatch can then be placed next to the smart table, and a mockup of the finished product will appear on a screen. As customers choose different fabrics, the on-screen product will change in real time.

Burberry Digitizes Luxury Shopping: Luxury retailer Burberry is widely regarded as one of the top digital retailers. The traditional "brick and mortar" company now has flashy floor-to-ceiling digital screens and catwalks in many of its stores. Also, it recently rolled out a Customer 1-2-1 tool that allows salespeople to create and view customer profiles, including a virtual wardrobe and global transaction history for online and offline use. Also, the retailer's Covent Garden location in London now includes the Beauty Box concept that allows customers to virtually try on new colors. Burberry also recently introduced "in-Tweet" purchasing as it looks to embrace social media for more than advertising.

SECTION III: CISCO DELIVERS A DIGITAL CUSTOMER EXPERIENCE

The digital business era has put an emphasis on building a superior customer experience. However, most organizations do not have the skills or the time to develop the necessary solutions to capitalize on market opportunities quickly. For the first time ever, Cisco is developing technologies through the lens of the customer. The result is solutions that seamlessly tie in its different architectures, services and global partner ecosystem to deliver a truly exceptional end-to-end customer experience.

Cisco has developed a number of turnkey solutions to enable businesses to deploy state-of-the-art customer experience solutions quickly. The portfolio of services aims to improve the way businesses interact with their customers and increase satisfaction and loyalty. The Customer Experience portfolio comprises the following offerings that can help businesses meet the demands of creating an omnichannel experience, creating an enhanced user experience and predicting behavior.

Virtual Expertise

Cisco's Virtual Expertise solution gives businesses the capability to connect customers with virtual experts. By using this technology, customers can talk to a remote expert in a local branch, at home or on the go using a mobile device immediately instead of having to wait in line or schedule an in-person meeting at a later date. The solution takes what would normally be an impersonal transaction and turns it into a highly personalized interaction. Virtual Expertise gives customers a high-quality mobile video experience anywhere, any time, on any device.

Nationwide Building Society is a mortgage lender that is using this solution to enable customers in branch offices to communicate with a pool of "virtual advisors." This enables the bank to better manage ad-hoc and scheduled meetings and give its customers instant access to banking representatives on the

Cisco has developed a number of turnkey solutions to enable businesses to deploy state-of-the-art customer experience solutions quickly.

customers' terms. The net result has been a two-thirds increase in new mortgage business and a double-digit improvement in customer net satisfaction along with a two-thirds reduction in the cost of sale.

Mobile Experience

Cisco's Mobile Experience solution enables retailers, hotels and other customer-facing businesses to provide a uniquely mobile experience in order to increase loyalty and engagement. Today, more people are going online to shop and to research products and stores even when they are in a physical store. Often, customers will look up information before stepping into the store.

The Mobile Experience solution leverages location-based services from the WiFi network. Retailers can use the solution to engage with customers using loyalty points, shopping patterns, wayfinding features and demographic information. The solution enables personalized interactions that will delight customers and make their experience more relevant and valuable. It also improves the mobile experience by pushing more appropriate information.

The Hyatt Regency Santa Clara is a large hotel located in the heart of Silicon Valley. The hotel is using Cisco's Mobile Experience solution to identify guest location and dwell times in order to deliver personalized contextual services. The wayfinding capabilities and location-based services enable Hyatt to advertise to its guests on a personal level. Also, Hyatt is using location and dwell time analytics to enhance service delivery and revenue growth. The result has been a 15% to 20% increase in non-room revenue and a 65-point increase in customer satisfaction, raising the property from being in the bottom 5% to the top 5% of Hyatt hotels. In addition, spending at the lobby bar has increased between 25% and 40% since free WiFi was introduced. The hotel has also seen its Net Promoter score increase by 37% since the implementation of Cisco's Mobile Experience solution.

Intelligent Branch

Cisco's Intelligent Branch solution helps simplify technology in remote locations by consolidating network services—such as routing, switching, security, compute, storage and application services—into a single platform with a "pay as you grow" model. Branch locations are typically a complicated mess of IT and building assets that have put pressure on organizations to consolidate infrastructure. Digital innovation is making the complexity problem worse, as most customers use mobile devices to go online, look up information and make purchases in person. Also, all of the building blocks of digitization—such as mobility, video, cloud computing and the Internet of Things (IoT)—are network centric. This is putting a strain on the network to deliver a high-quality, consistent, omnichannel experience that provides customers with differentiated services.

The consolidated Intelligent Branch platform enables organizations to standardize on-branch technology to create a consistent experience. The solution also helps reduce risk and meet compliance challenges. Lastly, applications can be integrated into the Cisco Intelligent Branch Platform without disrupting customer-facing resources or branch staff. The solution provides organizations with everything required to create rich and secure experiences quickly across a wide range of applications.

Cisco's Intelligent Branch solution helps simplify technology in remote locations by consolidating network services into a single platform with a "pay as you grow" model.

Cisco offers a broad set of services to help customers make the digital journey.

State Bank of India was looking to target customers in the Smart Affluent and Gen Y segments. To accomplish this, the bank needed to implement a number of new services such as WiFi, remote experts and contact center capabilities in each branch. However, deploying these technologies with traditional infrastructure could be difficult for branch locations that have little to no IT staff. Cisco's Intelligent Branch solution was used to help reduce the technology footprint and improve operations. This enabled the bank to implement virtual expert services for wealth management and high-net-worth clients. The benefits to the bank were better resource utilization, faster processing time and increased customer acquisitions and cross-selling.

In addition to the solutions, Cisco offers a broad set of services to help customers make the digital journey. Each customer and its journeys are unique, as are Cisco's technology solutions. The services span the deployment lifecycle and include the following:

Consulting services: Align IT projects with business objectives, and identify the best solution design based on industry best practices and customer requirements.

Advanced services: Prove, pilot and design; build and measure outcomes; and optimize and secure solutions.

Cloud and managed services: Provide flexible consumption options, including managed or cloud and on or off premises.

Technical services: Provide 24x7 global access, proactive monitoring and business continuity.

SECTION IV: CONCLUSION AND RECOMMENDATIONS

The digital business era has arrived, and it is changing the very nature of competition. Historically, organizations competed by having the best product or the lowest prices. Today, though, all businesses must have good products, and the tactic of continually lowering prices is not scalable.

In the digital era, companies will compete for customers by delivering the best customer experience. Businesses that understand this will thrive, be more profitable and drive customer loyalty to an all-time high. Those that do not will struggle to compete and will have their very existence threatened. Improving the customer experience must be a top initiative for all business and IT leaders, and it's something that needs attention now. Consequently, ZK Research makes the following recommendations:

Be laser focused on the customer experience. Customers demand a great experience today, whether it's in a store, at home or on a mobile device. Ensure the process of interacting with the business is simple and provides a quality experience to capture the ZMOT. A bad experience will send that customer to a competitor.

Make omnichannel a goal. When it comes to which channel a customer may prefer to use to communicate with the business, there is no right answer. Some will choose the phone, others the web and many will prefer the mobile device. Businesses should be prepared to service any customer request over any channel and integrate the information across channels to simplify the customer experience.

Choose a technology partner that can deliver turnkey solutions. The process of buying disparate technology components and integrating them to build a custom solution is slow and expensive, and it rarely leads to the desired result and the expected budget. The ZK Research 2016 Network Purchase Intention Study found that 90% of IT projects are completed late, are canceled or cost more than initially anticipated. In this digital era, where speed and agility fuel business growth, IT can no longer afford to run with legacy processes. Turnkey solutions that are validated, tested and fully integrated can deliver predictable results with a measurable return on investment. Therefore, businesses should choose a partner that can provide digital solutions that can be deployed quickly and securely.

CONTACT

zeus@zkresearch.com
Cell: 301-775-7447
Office: 978-252-5314