Personalisation Transforming the way business connects

A report from the Economist Intelligence Unit sponsored by Cisco Systems
Preface

Personalisation: Transforming the way business connects is an Economist Intelligence Unit white paper, sponsored by Cisco Systems. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit’s editorial team executed the survey, conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. David Jacoby was the author of the report and Rama Ramaswami was the editor. Richard Zoehrer was responsible for layout and design.

Our research drew on two main initiatives. We conducted a global online survey in October and November 2006 of 328 executives from various industries. To supplement the results, we conducted in-depth interviews with executives from around the world about the level of customer engagement in their company. Our thanks are due to all survey respondents and interviewees for their time and insights.

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Three themes for the interactions economy

This white paper is one of three published in 2007 as part of a research programme that arose from the Economist Intelligence Unit’s March 2006 report for Cisco, entitled “Foresight 2020.” This report highlighted a number of important changes to the world economy over the next 15 years. The principal trends identified in the report—globalisation, demographics, atomisation, personalisation and knowledge management—will have a profound effect on the landscape of major industries and the working of the company.

In order to build on “Foresight 2020,” we identified three themes that were then developed into separate research projects investigating personalisation, collaboration and innovation. Each is intended to stand on its own and to fit with the other two, describing from different vantage points the development of the interactions economy, in which customers, suppliers, workers, owners and others go beyond mere transactions to exchange information for mutual benefit.

As companies adapt to the new forces moulding the interactions economy, they will find that personalisation, collaboration and innovation will present great challenges and opportunities. Personalisation goes beyond customisation, allowing the consumer to stamp a product or service with his or her own applications, preferences and configurations. Technology is particularly adept at enabling a high degree of personalisation, as in the case of the downloadable applications available on mobile phones or personal digital assistants. By offering a large variety of possible products, features and services, personalisation has the power to increase sales and margins enough to transform business models.

Collaboration will have a similarly profound effect on business. Broadly speaking, collaboration means to work together, and our research focuses specifically on formal collaborative arrangements at work that bridge traditional geographic, institutional, and functional boundaries. The emphasis on core competencies, the need for corporate agility and the rise of emerging markets have caused firms to focus on collaboration both within and among organisations. Collaboration among functional groups and organisations will help companies become more productive and innovative.

Innovation—defined here as the application of knowledge in a novel way, primarily for economic benefit—is becoming increasingly important for companies and governments. Business executives regard it as a vital weapon in fending off their corporate competitors. Government policy makers see the need for an innovative environment if their economies are to grow.

The three themes are linked in many different ways. Firms collaborate with customers in order to create innovative products that can be personalised. Process innovations can enhance collaboration in which carefully selected workers from around the world are brought together in teams to improve productivity. The development of the interactions economy is likely to strengthen the links among personalisation, collaboration and innovation and heighten their importance, with far-reaching implications for global business.
Personalisation: Transforming the way business connects

Executive summary

Personalised merchandise has come a long way since direct marketing legend Lillian Vernon launched her monogramming business in the 1950s. Yet personalisation still has the potential to transform a company’s fortunes, much as it did back then, when simply applying the customer’s initials to handbags and belts turned Lillian Vernon’s modest mail order operation into a multimillion dollar business. According to a worldwide survey of 328 senior executives conducted in October and November 2006 by the Economist Intelligence Unit, in cooperation with Cisco Systems, personalisation—or tailoring a product or service to the needs of each individual customer—has enormous potential to increase a company’s revenues and enhance customer loyalty. Whereas a customised product is based on a few standard options, a personalised item is unique to each user, who can configure the product to suit his or her preferences and usage patterns.

Customisation goes part-way toward personalisation, but because it creates solutions based on templates, its offerings are basically standardised. Mass customisation, the serial manufacture of one-off products or services, is similarly based on a finite combination of features and services, however large the set may be. Customerisation1, commonly defined as the marketing of products that the user can configure to his or her own needs, allows customers to make the product useful to them uniquely and personally, but typically requires active participation and effort on their part.

Personalisation, by contrast, goes beyond customisation, mass customisation and even customerisation. It allows the customer to stamp a product with his or her own applications, preferences and configurations. Technology is particularly adept at enabling a high degree of personalisation, as in the case of the downloadable applications available on mobile devices.

About our survey

In October-November 2006 the Economist Intelligence Unit conducted an online survey of 328 senior global executives on their companies’ current and planned strategies for personalising products and services. Fifty-two percent of the respondents are C-level executives including 30% who are CEOs. Respondents are from companies selling services (50%) and products (38%), with the remainder from companies selling an equal mix of products and services. Twenty-eight percent of respondents are located in North America, 27% in Western Europe, 31% in Asia-Pacific and the remainder in Latin America, Eastern Europe, the Middle East and Africa. Fifty-eight percent of the respondents report their company annual revenues are less than US$500m; 28% report revenues of US$500m to US$10bn; and 15% report revenues of US$10bn or more. In addition to the survey, we conducted 22 interviews with senior executives based in Europe, the Americas and the Asia-Pacific region.

Who are your company’s primary customers?

- Mostly businesses 58%
- Mostly consumers 19%
- Equal mix of businesses and consumers 15%
- Governments/Public sector 8%

1 The word “customerisation” was coined by Jerry Wind, a professor at the Wharton School of the University of Pennsylvania.
phones or personal digital assistants (PDAs).

There is no question that the positive effects of personalisation are significant. Two-thirds of our survey respondents report that personalisation has delivered higher or much higher revenues for their companies. Nearly a fourth believe that personalised products and services are likely to affect up to half of their firms’ revenue base. Increasingly, the traditional measures of success, cost-effectiveness and quality, are being supplanted by variety, personalisation, and speed of delivery or deployment.

The following are the key findings of our research:

- Personalised products and services are a major determinant of business success.
- Products and services will be mostly or totally personalised in five years, up from 37% today.
- Personalisation has a strong positive impact on revenue growth: 80% predict an impact in five years.
- By offering a large variety of possible products, features and services, personalisation has the power to increase sales and margins enough to transform business models.

**Information technology will be a vital component of successful personalisation in the next three to five years.** Small businesses that personalise products manually will be increasingly limited by the scale they can achieve without technology in the face of global rivals. Larger businesses will use a number of applications to personalise their products and services, including mobile telephony, video conferencing, collaborative workspace applications, business intelligence applications, unified voice/video technologies, automatic upgrades and uploads, telephone and e-mail.

**Personalisation will greatly increase the need for people and interpersonal skills.** People will be essential to listen to individual customers, ask scripted questions designed to elicit customer-specific formulas, design complex custom solutions and facilitate their implementation.

**Certain markets will adopt personalisation strategies more quickly than others.** For example, Europe will personalise products faster than Asia because of the former’s heritage of cultural, linguistic and regulatory differences. The US will adopt technologically based personalisation solutions because these are the quickest and most efficient way to serve a market of its size. Small businesses and companies with innovative cultures will take to personalisation more rapidly than large ones because of their tolerance for, and encouragement of, organic growth.

Affecting businesses and consumers worldwide, personalisation is an important trend that will influence corporate valuations, mergers and acquisitions, and business strategies. It will bind consumers and producers of products and services. It will have broader social implications for enhanced productivity and innovation by providing more appropriate tools than were available during the era of mass production.

The ripest opportunities for personalisation are ones where the cost is low, the benefit is obvious and the customer understands what personal information is being used to produce the personalised result. A low cost of implementation for the company and its customers will ensure deep market penetration. An easy-to-use solution will ensure rapid adoption. And full disclosure of any private information that is used to personalise the product or service will make customers more loyal.

The personalisation trend begs several important questions. Which technologies will best enable the spread of personalised products and services? Once people have access to all of these features through on-demand personalised solutions, will they still need pure services? And how much more efficient and innovative will the world be when everybody has tools that fit their needs more appropriately?
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