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Article

Interactions and the Customer
Part 1: Customers will demand more personalized services

By the Economist Intelligence Unit for Cisco

"Any color so long as it's black."

We've come a long way since Henry Ford popularized mass production in 1908. Products and services have proliferated and undergone mass customization to the point where we can buy nearly anything we want in any color, size, and configuration.

The range of customer *transactions* is infinite, but the variety of *interactions* for today's consumer is decidedly monochrome. Granted, there are a few types of mass-produced customer services such as automated teller machines that have spread to every bank, airport and convenience store. But many such services seem to be aimed solely at cost reduction, not at enhancing the customer's experience.

Few consumers have been able to avoid the frustrating experience of listening to telephone menus for three or five minutes only to give up in disgust. When online, we key in our most personal information and create a username (that hasn't already been taken) and password (with at least eight characters, of which at least one must be a number and two must be capital letters) in order to view our latest phone bill or mutual fund statement. And we call our healthcare providers, who may have no e-mail or web presence, during *their* office hours, identify ourselves by our social security numbers, and fill out forms with information the doctor already has, in order to obtain a referral.

Mass customization - the large-scale production of goods and services to individual customer's needs - has been applied to the back end of the supply chain, but certainly not to the front end. The quality of customer services has not progressed beyond the era of mass production. It should be no surprise therefore that customer loyalty is waning. The trend certainly keeps managers up at night. In a global survey of 1,656 executives conducted by the Economist Intelligence Unit at the end of 2005, half of respondents say this anticipated decline in loyalty is the largest risk facing their companies over the next 15 years.

Foresight 2020

Shaping the Future of Global Business

The Economist Intelligence Unit (EIU), in association with Cisco, conducted Foresight 2020, an online global survey to understand the long-term forecasts and scenarios that are critical to understanding economic issues shaping the future of global business.

More than 1600 executives, analysts, and policy makers provided their views on how their companies, and the environment in which they operate, would change over the next 15 years.

Top-level Results

- Increasing competitive pressures will lead companies to improve efficiencies and costs using technology to automate processes and transactions as well as employ outsourcing.

- Companies will look to create high-value interactions and customer experiences through customized products and quality customer services as points of differentiation and competitive advantage.

- As production processes and transactions become more commoditized and automated, value will lie in personal interactions made possible through technology that enables collaboration, high-value services, and knowledge workers

For more information, visit www.cisco.com/go/foresight2020

From Transactions to Interactions

"The world is moving from transactions, [which focus on] costs and efficiency, to interactions, in order to harness the knowledge workers and smart people that will be located anywhere," declares Rob Lloyd, Senior Vice President of Cisco's U.S. and Canada Field Operations. "The new competitive battleground will be the customer experience."

Firms are beginning to move beyond mass production and to personalize their offering. They are facilitating product options, tailoring channel options, and adding valuable, customized services. Here are some examples of personalization currently being used: Nationwide insurance company offers customers the ability to view, trade, and transfer their assets by means of their PDA's, no matter where they are in the world. 3D Property and other technology companies enables potential property buyers to tour real estate via real-time three-dimensional webcasts. Chevy Chase Bank and Dollar Bank are processing loan approvals via the web. At a hospital in Birmingham, England, inpatients receive accurate diagnoses and treatment because they are identified and monitored via radio frequency identification (RFID) bracelets.

In the future, many other examples of personalization are foreseeable, such as: Unlucky drivers will be able to upload accident insurance documentation and photos of accident scenes to a claim file within minutes of an accident. Shoppers will be able to walk out of stores without stopping at the cash till, as payments are transacted automatically from their debit cards, thanks to RFID tags on the items in their baskets. In the home, appliances will be activated by PDAs and even other appliances. This will be facilitated with RFID tags in your key-fob and in the lamps..

All these early indicators are a sign that the strongest bulwark against competitors is to enrich in some way, however small, each personal interaction with the customer. Gary Bridge, Cisco's Senior Vice President, Internet Business Solutions Group, defines an "interaction" as an incident in which a customer experience adds information beyond what is required for the transaction, and when that information is used to improve subsequent exchanges, and when all this leads to the expectation of future exchanges.

Almost 59% of survey respondents say that the "capacity to customize products and services" – to create interactions from transactions – is a critical or very important source of competitive advantage. Furthermore, 52% of those surveyed say it will be one of the three most important factors to their customers in 2020, compared with 34% who say it is of great importance today. In addition, recent studies show that customer satisfaction increases the more that companies personalize their products. Huffman and Kahn found that customers perceive higher value when a series of products is presented in a way that conforms to their personal sense of organization.[1]

The Service Life Cycle

The new "interactions economy" has extended the concept of the product life cycle. Philip Kotler, a marketing theorist, identifies product, channel, value-added services, and personnel as variables that help companies

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[1] Huffman and Kahn, 1998.

differentiate themselves from their competitors. Based on Kotler's ideas, the product life cycle can be viewed as stages of evolution of any service or product.

- Stage 1 ("production"): companies differentiate their products. In the 1920s, General Motors formed Pontiac, Oldsmobile, Chevrolet, and Buick. Today, nearly every business from mortgage brokering to wedding gown sales has multiplied its product range several times over.

- Stage 2 ("distribution"): firms expand the ways and the places in which the product(s) can be acquired. For example, it may be bought in single units or combinations/multi-packs (pens), purchased from the manufacturer or through a distributor (computers), bought or leased (cars), etc.

- Stage 3 ("servicing"): companies provide value-added services to the original offering. For a small fee, Wal-Mart associates will assemble bicycles sold in the store. Banks send customers alerts when their account balance falls too low. And insurance companies offer automatic renewal of policies to save their customers time and increase the chances of renewal.

- Stage 4 ("personalizing"): companies let the customer specify the product and/or service attributes and change them at will. Such customer-centric flexibility builds loyalty to the brand. Personalization can most easily be delivered via the Internet, as in the case of customizable web portals (e.g., My Yahoo!), or through interactive chat (e.g., physician-patient messaging or Interactive Help/Live Agent that is currently offered by many software and Internet Service Providers).

The human element is critical. Eighty-eight percent of respondents to the EIU survey say that complex interpersonal interactions are important to the performance of customer service. And 85% say these interactions are important to the performance of marketing and sales activities. Road Runner Sports, a marketer of sports footwear, takes note of which races its customers intend to run. After the sneaker purchase, it helps them prepare for the race, and it congratulates them on completing it when the race is over. Dreams plc, a UK bed retailer, places mints on the pillows of its newly delivered beds. "Delivery men leave a sachet or aroma therapy candle on the new bed to give the customer a good feeling. We want the customer to buy into the company's personality," says Greg Suthern, Marketing and Buying Director at Dream. The high-end consumer products retailing arm of Dunhill videotapes and analyzes the interactions between its counter salespeople and customers, with the goal of standardizing and enhancing the "moment of truth[2]" with the customer.

The transition to Stage Four and beyond will be a challenge for most companies. Developing personalized offerings requires a fundamental change in the marketing department, where many remain wedded to traditional ways of "pushing" products and services on to the customer. Also, gathering the customer-specific information needed to offer these personalization solutions is not easy, because the information is often dispersed across departments and across companies. Finally, most companies' customer service representatives and other customer-facing staff are rewarded according to the volume of transactions or calls handled, reflecting the old "mass production" mentality.

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[2] Carlzon, 1987.

Recommended Actions

Most companies need to accomplish three transformations to be in a position to cultivate high-value, personalized relationships with their customers: 1) change the new product development model from pushing products to developing individualized customer solutions; 2) build systems to gather and process customer data in a form that helps to design strategies for customer-specific sales and servicing; and 3) update incentive systems to reward creativity when dealing with customers.

Changing the Paradigm. One key aspect of personalization will be combining products and services in new ways that allow the customer to configure the product – for example, vehicles with telematics (OnStar) and cell phones with downloadable applications. But the change won't happen without support from senior managers for increased collaboration. Ninety-two percent of survey respondents say they will provide incentives to their employees to collaborate more effectively across functions within the organization over the next 15 years. And 85-90% say they will involve their suppliers more closely in new product/service development and share more data with them than before.

Building the Systems. Most personalized solutions will require a core database of customer profile, preference, and usage information. But often this information resides in third parties such as internet service providers (eg. in some consumer electronics web sites) or insurance companies (eg, some healthcare providers). Companies must identify the data integrations needed to present a unified and personalized view from the customer's perspective – one that makes each customer feel unique and valued, every time. Data security and protection will be paramount: 42% of respondents say that security concerns over sharing information externally will be their most significant barrier to improved relationships with customers and suppliers.

Updating Recognition and Reward Systems. Moving from a transactional model to an interactional model will require many companies to measure and monitor new indicators of performance. Repeat purchases, customer loyalty, and innovation in service delivery are hard to measure, but will be central to gauging success in using personalization strategies. In addition, many companies will need to update their compensation systems to reward creativity at the point of contact with the customer.

"The right product in the right place at the right time" used to be for the way to make a sale, but it won't be good enough in 2020. Customers will increasingly demand "sticky," personalized relationships, with more control over the product or service delivery than today. And the race is on for sellers to provide them with a unique experience.

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