The Need for Integrated Customer Experience Management

The Next Great Opportunity for Service Providers

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Highlights

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Executive Summary

A funny thing happened on the way to the customer experience revolution. For nearly a decade, brands, vendors, and service providers alike have sworn allegiance to the goal of improving customer experiences in order to attract and retain increasingly empowered and fickle consumers. And yet, three major international surveys recently found that consumers are less satisfied with the experiences they are offered.[1]

Despite all of the effort and expense, customer experience management (CEM) is stuck in neutral, if not actually going backwards.

We believe this situation exposes the limitations of first-generation customer CEM, in which experiences are conceived of as isolated, disconnected environments (the site, the app, the call center, the store, etc.) that are created (by equally isolated, disconnected teams) and offered for consumption, with little regard for how (or if) they fit together.

In contrast, finally making progress with CEM and beginning to keep up with consumers' rapidly evolving expectations requires that brands, service providers, and vendors alike understand experience *from the customer's perspective*, namely as a *totality* – an integrated *system* of interrelated and interdependent elements that constitute the customer's overall perception of the company or brand.

This holistic perspective on CEM demands a fundamentally different approach to how companies understand, design, create, deliver, and support customer experiences. This report explores the massive opportunity this shift represents for service providers that have the skills, vision, and dedication to partner with clients in creating and nurturing these integrated experiences.

The Shocking Failure of CEM

The empowerment of buyers by ubiquitous access to information has created "the age of the customer" – the reign of "outside-in," customer-obsessed business strategy. It's the dawn of a revolutionary new era in which companies aim to compete and differentiate by virtue of the quality of the experiences they offer.[2]

And yet, despite the furious expenditure of time, money, and expertise, improvements remain elusive. In fact, according to consumers – and, in the age of the customer, no other perspective really matters – companies and brands are getting worse, not better, at meeting their expectations for superior experiences.

In the last two years, three major international studies documented this curious inability to make progress with customer experience. On the basis of a survey of
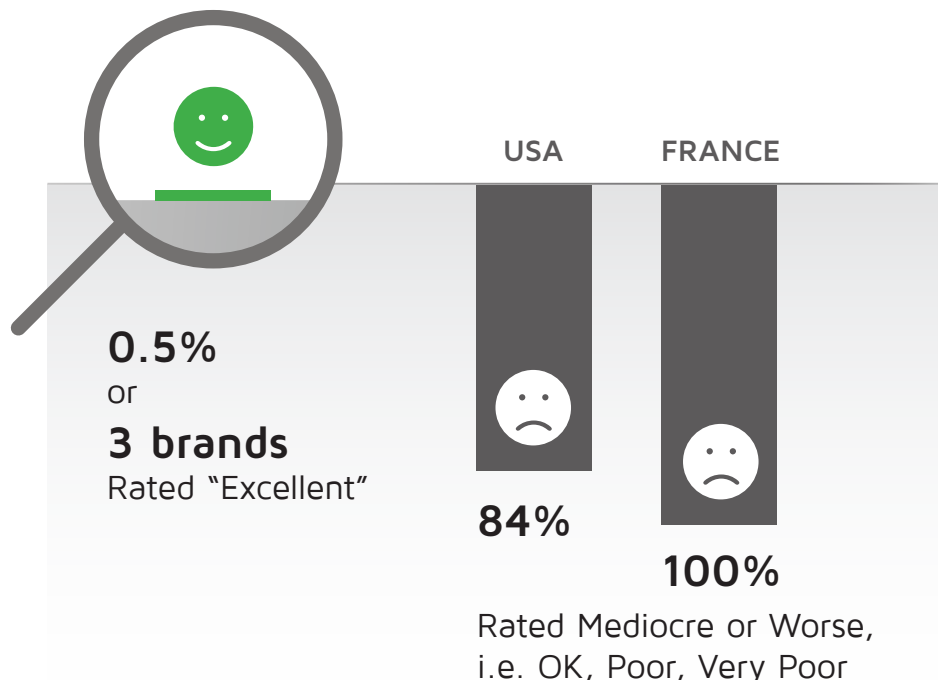
16,000 consumers in 32 countries for the 2015 "World Retail Banking Report," Capgemini bluntly observed: "Stagnating customer experience and deteriorating profitable customer behaviors."[3]

Similarly, Accenture's latest "Global Consumer Pulse Research" survey found that only one quarter said they felt "very loyal" to providers, and 64% had switched due to poor experiences –figures that have remained virtually unchanged in the last five years.[4]

The clearest evidence that CEM is floundering came from Forrester's "2015 CX Index" reports. After evaluating consumers' attitudes about 299 brands in the United States and 203 brands in Europe, Forrester found that only 1% of US firms – and zero firms in Germany, France, or the UK – achieved an "excellent" score.[5] (See Figure 1.) In fact, 84% of the brands in the United States and Germany, 87%

Figure 1.

In Forrester's 2015 CX Index for 502 brands in the US and Europe

USA   FRANCE

0.5%
or
3 brands
Rated "Excellent"

84%

100%

Rated Mediocre or Worse,
i.e. OK, Poor, Very Poor

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in the UK, and an astonishing 100% in France were rated *mediocre or worse* (i.e., OK, poor, or very poor). And, in the six months between the Q1 and Q3 2015 surveys in the United States, only 2.3% of the brands improved their ratings, while nearly a third (28.5%) *got worse.*

Faced with the most fundamental shift in business and market dynamics since the rise of the industrial era – that is, the digital empowerment of consumers and the resulting demand for improved experiences – most companies and brands have failed to rise to the challenge.

To be sure, numerous firms have achieved large increases in customer satisfaction and loyalty through a focus on optimizing at least some aspects of CEM. The case studies can be impressive – but they remain outliers and exceptions to the rule. On a global scale, as demonstrated by the recent consumer surveys, the inability of companies to improve customer experience is pervasive, if not universal. The persistence and evident intractability of the problem points beyond a lack of will – in the form of budget constraints, executive short-term thinking, or mundane fear to change – to *deep structural barriers or limitations* as firms struggle to come to terms with CEM.

Misunderstanding the problem of CEM

In a seminal article from 2000, "Meeting the Challenge of Disruptive Change," Clayton Christensen wrote, "Understanding a problem is the most crucial step in solving it."[6] That sounds initially like a banal truism, but we believe that the prevalent fragmented, non-strategic approach to customer experience management betrays a basic misunderstanding of *the problem of customer experience* – and thus of what it takes to improve it. Today's trend of breaking down the barriers between experience silos – by sharing data, deploying intelligent and reusable content, and coordinating stories and messages, etc. – will be of some value. But having a real impact on the customer's experience requires, as one agency head told us, "system-level integration, i.e., system design of an end-to-end value chain that includes not only the software components, but also the processes, people, skills, and services that are needed to support it."

Designing integrated experiences – the case of Apple

This approach to the design of customer experience is epitomized by Jony Ive and Apple. Commenting on the launch of Apple Watch, for example, the business analyst Horace Dediu remarked:

> "Think of it this way. When they designed the Watch, they designed how to sell it. They designed how to display it. They designed how to charge it (also while it is in the store). They designed how to light it. They designed the [display] table itself and all of the wood and the grain. They designed how to teach the people to sell it. . . . They designed how to help people try it on."[7]

" Faced with the most fundamental shift in business and market dynamics since the rise of the industrial era, most companies and brands have failed to rise to the challenge. "

The Watch is displayed in the Apple Store – the most successful retail endeavor in history – which itself is based on the "triple convergence" of premium locations, hyper-knowledgeable staff, and unique, immersive architecture. And at the highest level, Apple has become the most profitable company on Earth by virtue of its unmatched integration of hardware, software, and services.[8]

The point is not that every company should be like Apple. In fact, even Apple is not "Apple," a perfect brand that can do no wrong. However, the failures and slipups – the fiasco of Apple Maps in 2012, the lingering dimwittedness of Siri, the daily insults of the App Store – are forgiven or overlooked (or not even *noticed*), thanks to the exceptional quality – which is to say, the *exceptionally integrated design* – of the overall Apple experience.

To see what this means for how companies and their service provider partners should approach customer experience management, consider Stan Shih's "smiling curve."

The Smiling Curve, Integrated CEM, and the Opportunity for Service Providers

Stan Shih is a co-founder and long-time senior executive at Acer, the Taiwanese electronics conglomerate.[9] In the 1990s, Shih proposed the "smiling curve" in order to illustrate how and where value was created in the PC industry. (See Figure 2.) With the smiling curve, Shih argued that Acer (and, by extension, overall Taiwanese industrial policy) needed to shift from the increasingly commoditized, low-value assembly phase of the PC value chain to higher-value design and logistic functions.

The smiling curve has since been applied to numerous other industries or value chains, including advertising agencies, publishers, and automobile manufacturers.[10] What if we use it to model the way in which customer experiences are typically conceived and built today? (See Figure 3.)

As the title of Figure 3 indicates, this model originates in the legacy realm of technology projects, where the service provider partner is asked to "build
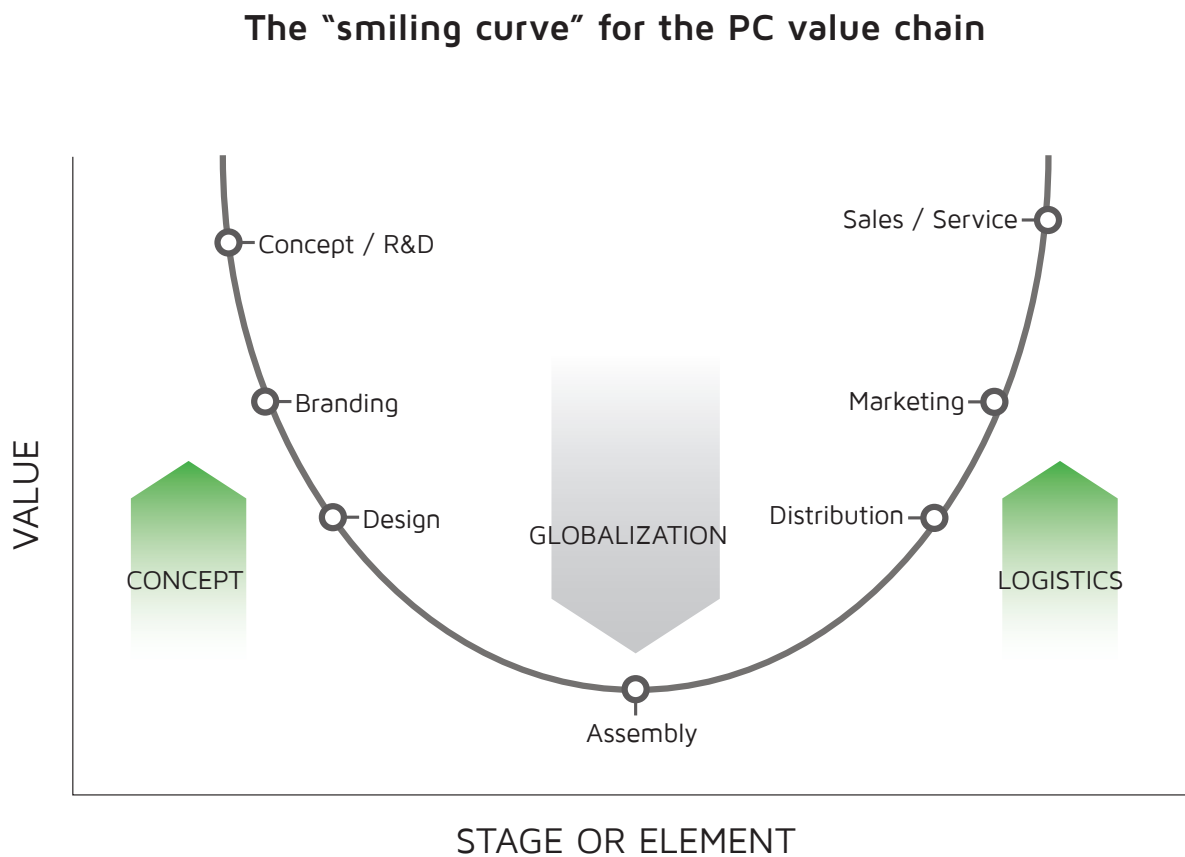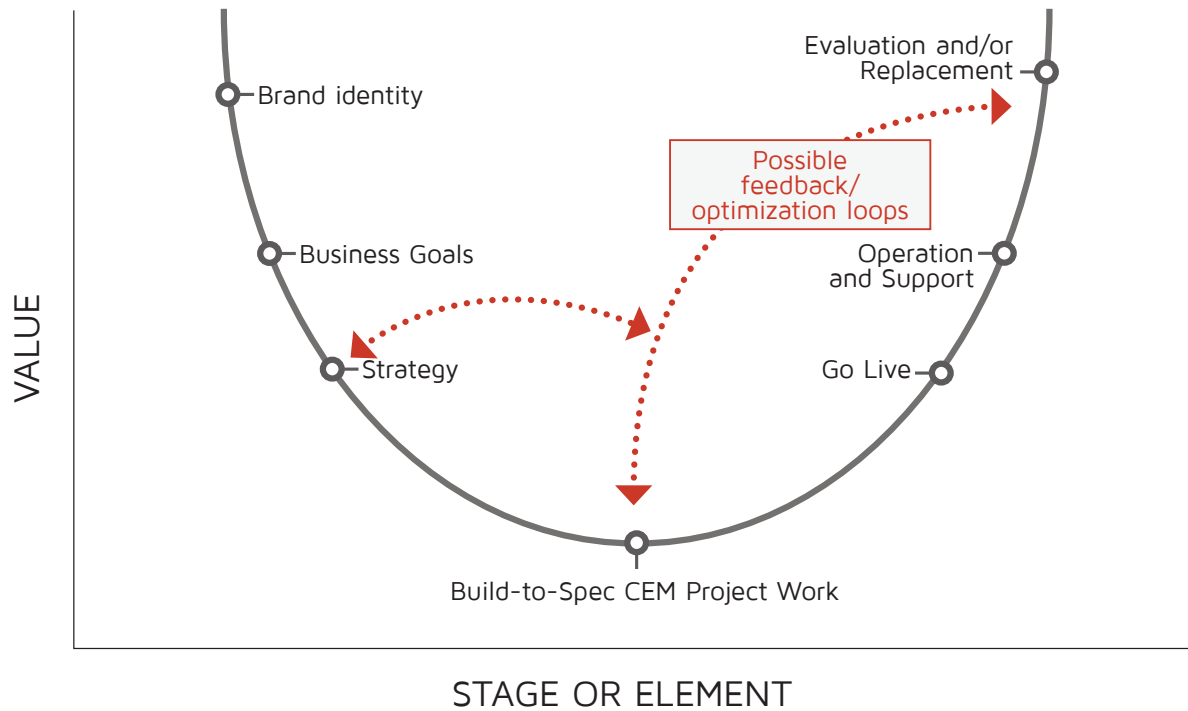
Figure 2.

The "smiling curve" for the PC value chain

Figure 3.

The 'build-to-spec' approach to CEM

to spec" in the creation, implementation, or integration of software components. By extension, that spec work could now be any service that contributes (or is believed to contribute) to customer experience, such as search-engine optimization (SEO), ad buying, content creation, or even tightly proscribed creative work.

The build-to-spec approach has the following effects:

- **Value is depressed in the "commoditized middle."** The budget for a scope of work project may be large, but it is subject to price-war bidding and/or the client's increasing use of procurement-driven selections. In addition, technology project revenue remains constrained by the outdated perception that development and implementation work should not exceed a certain multiple of the software license costs.

- **The value provided is chained to the value received.** Because the project work in the middle of the curve is commoditized (or believed to be), it not only offers relatively less revenue, but it also represents little opportunity for service providers to demonstrate *differentiated value* and exceptional skills. Client firms rob themselves of the opportunity to *nurture and expand* a relationship (potentially into a strategic partnership) by treating service providers as interchangeable.

- **Service providers aim to climb the walls of the curve.** Service partners are incentivized to escape the commoditized middle by pitching services for higher-value services indicated by the orange arrows. This creates tension during an RFP stage, as clients seek to treat all bidders equally. Increasingly, service providers tell us it also leads to them "qualifying out" of a selection process if they are denied sufficient insight into the drivers and goals of the overall project. That means that the best qualified service providers might never enter the clients' competition.

In short, this approach doesn't work *even when it works*. That is, even if a company attracts a highly-skilled and dedicated service partner in a bid-driven, build-to-spec selection, the work is done on time, and everyone is happy with the output, it's still an isolated, disconnected experience "environment," the problems of which were exposed above. In fact, in the age of digital business and systems of engagement, when every component should be as intelligent and integrated as possible, this model no longer makes sense even for IT projects. Perpetuating it today for CEM is, we believe, a central reason that consumers remain unimpressed with the quality of the experiences they're offered.

A flattened smile for integrated CEM

If real progress with CEM depends on integrated experiences, it calls for a fundamentally different approach to their design and creation – one that

Figure 4.

Integrated CEM requires a "flattened" curve and comprehensive services from SP partners
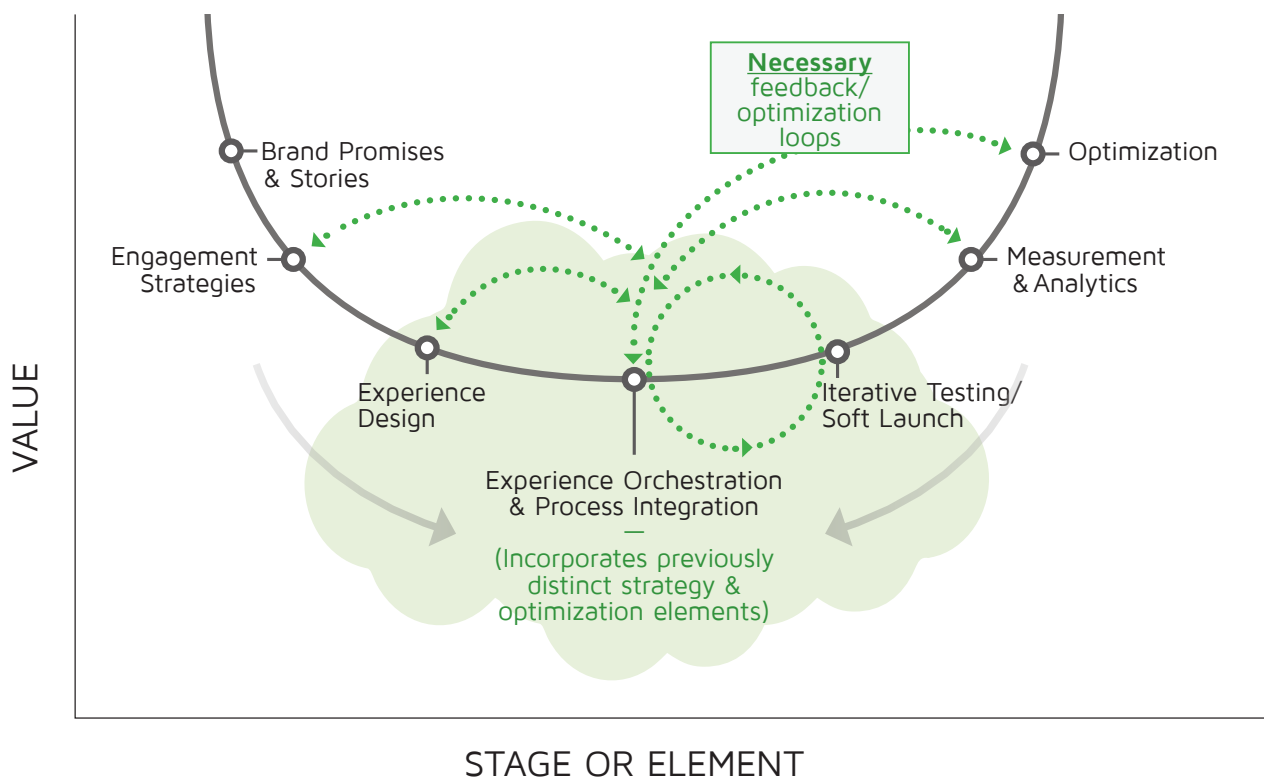
overcomes the extreme asymmetries of the current value chain. (See Figure 4.)

This "flattened" smile illustrates several crucial elements of second-generation, integrated CEM.

- **Strategy and optimization are parts of the "build."** The elevation of the formerly "commoditized middle" does not necessarily indicate more or more expensive software or development work is required. In fact, especially in the context of CEM, *the more software you use, the less important it becomes to the overall success*. That's because complex and complicated experiences depend ever more on the dynamic and constantly evolving *interconnectivity of the whole*, including definitively non-technical elements such as articulation of brand promises and optimization decisions.[11] Thus, the elevation of the middle is due to the fact that these strategic and optimization stages have run "down the slope" to contribute to what was previously the build/create phase. (Indicated by the gray arrows in Figure 4.)

- **Feedback loops become indispensable.** Similarly, note that what are today still optional and rather lax feedback and optimization loops multiply and become *indispensible* for integrated CEM. (In fact, one of the key reasons that customer experience needs to be understood as a system is that *it only makes sense* as a living, dynamic, constantly changing, and constantly nurtured whole that is greater than the sum of its parts.)

- **Orchestration is the key to success.** Orchestration is a particularly apt analogy for the creation of integrated customer experiences. Orchestration is ultimately about understanding how all of the elements – the notes, the instruments, the skills of the musicians – will come together in the performance. In addition, just as there are a limited number of notes, companies very rarely offer unique experiences that can create a sustainable advantage. Rather, while drawing on the same resources as everyone else, success depends on how the experience is composed (designed) and performed (delivered) – which in turn requires the right combination of instruments (technologies) and musical skills (expertise).

The flattened curve also illustrates how holistic CEM amounts to the creation of substantial additional value in the overall value chain. Ultimately, this value will flow from companies and brands to their service provider partners (or to expanded internal teams). Today's complaints about insufficient budgets will fade in the face of the existential threat posed by inadequate customer experiences. (And the first to get it right will capture substantial additional revenue and attention.)

" The 'flattened' smiling curve illustrates how a holistic approach to customer experience management creates substantial additional opportunities for service provider partners in the overall CEM value chain. "

The 10 core competencies for CEM

What skills and capabilities are necessary to design, orchestrate, deliver, and continually optimize integrated, holistic customer experience management? DCG has identified 10 core competencies for CEM. (See Figure 5.)

The 10 competencies cover a wide range of expertise and skills, many of which are in short supply, newly emerging, or beyond the scope of a single enterprise. Moreover, even if an organization is large and

innovative enough to have each competency already, it may not make business sense to bring all those resources to bear on CEM projects 100% of the time. Plus, the organization may have resources within each competency but not a sufficient number of experts to staff the number of projects underway.

In short, second-generation CEM requires firms to take a hard and honest look at their internal capabilities, to carefully identify and vet service provider partners with the appropriate supplementary competencies – and then to have the

Figure 5.

The 10 core competencies for CEM

courage to commit to deep, on-going, strategic partnerships with those providers. The current trends of frequent account reviews, retreat from the agency-of-record model, and procurement-driven selections might have made sense as long as CEM was (falsely) understood as little more than digitally supercharged marketing and sales. When successful CEM depends on an integrated approach, the responsible teams must be equally well integrated and represent all required competencies. (For more information, see our detailed report.[12])

Conclusion: A Massive Opportunity for Service Providers

Integrated CEM represents the greatest business opportunity for service providers since the advent of the commercial Internet in the 1990s. The attempt by companies and brands to squeeze CEM into the "containers of the past" – by offering isolated, disconnected experiences – has, unsurprisingly, failed to impress consumers.[13] The next attempt – which we call *second-generation CEM* – may be the last chance for most firms. That realization will loosen the funding and commitments necessary for

the design and support of integrated interactions that, finally, represent and improve the *customer's experience*.

The transition will, no doubt, be rocky and raucous. But if established firms are to survive, and the agency and consulting industries to continue providing valuable services, they also need to establish a new and profoundly different relationship in the support of CEM. (See Figure 6.)

Figure 5.

Holistic CEM transforms the client-service provider relationship

Area	Established IT project approach	Integrated CEM
SP's core expertise	Technology dev/project work	Strategy, optimization, process interconnectivity
Client-SP engagement model	Ad-hoc, project-based, cost-driven, siloed	On-going strategic partnerships
SP compensation model	Project-based	Performance based
Technologies deployed	Owned, on-premise	Cloud-based, SaaS & PaaS
Source of integration	Product suites, software integration	Experience design and orchestration
Focus on change management	Projects and project management	Organizational, system-level transformation

The size of the opportunity presented by integrated CEM is a reflection of the investment that firms will have to make to adapt to the new environment. But it also results from the fact that few service providers in the large and diverse SP landscape are currently well positioned to deliver the comprehensive services clients really need (as opposed to what they ask for.) Broadly speaking, legacy systems integrators lack deep expertise with customer experience and buyers' journeys. Conversely, those with a digital agency background have less proficiency with the internal processes and systems of record that need to be part of an integrated, systematic approach to CEM. Service providers that want to survive and thrive in this new environment should move quickly to:

- **Embrace and support a new notion of systems integration.** Instead of the narrow focus on implementing and integrating software components, the emphasis now shifts to the overall system and to ensuring that the customer's experience works as a comprehensive whole. This was, for example, the logic of Capital One's acquisition of the design firm Adaptive Path. It was done not in order to trim budget by in-sourcing a supplier, but to ensure that design and design-thinking permeated every customer touchpoint and interaction.

- **Offer comprehensive – not "end-to-end" – services.** It follows that the number or breadth of services that a provider offers is less important than the demonstrable ability to make them work together as a comprehensive, integrated whole. In addition, service providers should consult an inventory like Digital Clarity Group's 10 core competencies and make intelligent, strategic bets on where they want to focus in the service of their target clients and markets. The claim to offer all "end-to-end" services has never been believable; going forward, the pace and unpredictability of change makes it utterly impossible. The ability to smartly, quickly, and flexibly partner with other SPs to support client needs may be a key differentiator.

- **Provide expertise with the technologies and platforms that matter most.** Integrated CEM does not diminish the role of technology expertise. On the contrary, it makes it more important. But, as with other services, the need now shifts from which vendors a service provider supports to whether it can deploy software to rapidly, repeatedly, and relentlessly respond to changes in market dynamics, customer desires, or competitive

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moves. Given this inescapable and central demand for speed, openness, and flexibility, we expect the current interest in cloud platforms, open source technologies, and loosely coupled architectures will continue to gain momentum and significance.

In the age of the customer, the buyers are king. They are not kind and benevolent monarchs. Irrelevant communications, inconsistent touchpoints, and disconnected experiences are punished mercilessly; Accenture now estimates that the amount of revenue put into play globally by consumers switching providers exceeds $6,000,000,000,000 – *six trillion dollars.*[14]

In other words, businesses that finally get it right will be richly rewarded. Those that are slow to respond, hesitate to disrupt established structures and habits, refuse to invest, or make faulty strategic choices will struggle to remain competitive. Firms and service providers should start now to support the integrated, systematic experiences that customers have always craved and will enthusiastically embrace.

" Given the inescapable and central demand for speed, openness, and flexibility, we expect the current interest in cloud platforms, open source technologies, and loosely coupled architectures will continue to gain momentum and significance. "

Endnotes

1. See notes 3, 4, and 5.

2. In July and August 2014, Gartner surveyed 315 companies with headquarters in North America and the U.K. The full report, "Presentation for CMO Spend Survey 2015: Eye on the Buyer" is not freely available. An abridged version can be downloaded (after registration) at https://www.gartner.com/marketing/digital/research/digital-marketing-spend/cmo-spend-2015/.

3. See Capgemini's "2015 World Retail Banking Report" at https://www.worldretailbankingreport.com/download.

4. Accenture's "Global Customer Pulse Research" study annually surveys over 20,000 consumers in 33 countries. See "Customer 2020: Are You Future Ready or Reliving the Past?" available at https://www.accenture.com/t20151012T060803__w__/us-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_6/Accenture-Customer-2020-Future-Ready-Reliving-Past.pdf#zoom=50. The 2015 report on the retail insurance industry is available at https://www.accenture.com/us-en/insight-insurance-customer-of-tomorrow.aspx.

5. Forrester surveyed 46,000 consumers in order evaluate the CX performance of 299 US brands across 17 industries. In a change from previous CX Indexes, "excellence" was reserved for those brands that "design and deliver a CX that actually helps the business by creating and sustaining customer loyalty." The Q1 2015 CX Index was published April 20, 2015; the Q3 report was published September 28, 2015. See Michael Gazala's blog analysis of the declining scores at http://blogs.forrester.com/michael_gazala/15-10-06-forresters_customer_experience_index_q3_2015_its_hard_being_an_optimist. Joana van den Brink-Quintanilha's October 5, 2015 blog post makes it clear that Forrester interprets an "OK" rating as "mediocre," rather than as "not bad." See http://blogs.forrester.com/joana_van_den_brink_quintanilha/15-09-28-which_french_german_and_uk_brands_create_the_most_loyalty_with_their_customer_expe.

6. Clayton Christensen co-authored the article with Michael Overdorf. See https://hbr.org/2000/03/meeting-the-challenge-of-disruptive-change/ar/1.

7. The passage is cited from episode 145 of Horace Dediu's The Critical Path podcast, available at http://5by5.tv/criticalpath/145. See my analysis of the implications of this approach to customer experience, "Apple Watch and a new kind of 'systems integration' for CEM" at http://www.digitalclaritygroup.com/apple-watch-and-cem/.

8. For further analysis of how integration (and attention to the "jobs" that people hire Apple to do), see my post "How does Apple avoid disruption? (And what does it mean for CEM?)" at http://www.digitalclaritygroup.com/apple-disruption-cem/.

9. Stan Shih's biography is on Wikipedia: https://en.wikipedia.org/wiki/Stan_Shih.

10. For an excellent smiling-curve analysis of the publishing industry in the digital era, see Ben Thompson, "Publishers and the Smiling Curve," at https://stratechery. com/2014/publishers-smiling-curve/.

11. See my DCG Insight Paper, "The CEM Imperative: Customer Experience in the Age of the Empowered Consumer," available at http://www.digitalclaritygroup.com/ the-cem-imperative-customer-experience-in-the-age-of-the-empowered-consumer/.

12. See the DCG Insight Paper by Jill Finger Gibson, "Are You Ready For CEM? The ten core competencies every organization needs to execute a CEM strategy," available at http://www.digitalclaritygroup.com/are-you-ready-for-customer- experience-management/.

13. I borrow this phrase from the advertising and marketing strategist Rishad Tobaccowala, who cautions that "the future does not fit in the containers of the past." See https://rishadt.wordpress.com/2013/04/27/the-future-does-not-fit-in-the- containers-of-the-past/.

14. For an explanation of Accenture's calculation of the "switching economy," see https://newsroom.accenture.com/subjects/strategy/us-switching-economy-up-29- percent-since-2010-as-companies-struggle-to-keep-up-with-the-nonstop-customer- finds-accenture.htm.

About Digital Clarity Group

Digital Clarity Group is a research-based advisory firm focused on the content, technologies, and practices that drive world-class customer experience. Global organizations depend on our insight, reports, and consulting services to help them turn digital disruption into digital advantage. As analysts, we cover the customer experience management (CEM) footprint — those organizational capabilities and competencies that impact the experience delivered to customers and prospects. In our view, the CEM footprint overlays content management, marketing automation, e-commerce, social media management, collaboration, customer relationship management, localization, business process management, analytics, and search. As consultants, we believe that education and advice leading to successful CEM is only possible by actively engaging with all participants in the CEM solutions ecosystem. In keeping with this philosophy, we work with enterprise adopters of CEM solutions, technology vendors that develop and market CEM systems and tools, and service providers who implement solutions, including systems integrators and digital agencies. For more information about DCG, visit www.digitalclaritygroup.com or email info@digitalclaritygroup.com.

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