



Creating competitive advantage through digital customer experience

Tom Wood. November 2009

This paper discusses the economic and cultural conditions which now create the opportunity for competitive advantage through online customer experience. It also explores the activities that organisations need to undertake in order to create a valuable and differentiated customer experience.

Introduction

User experience and usability disciplines are widely accepted as important by companies competing in online marketplaces. However, they are generally seen as tactical measures:

- Used to **tune** existing sales journeys and service processes for maximum yield or throughput
- Used to **de-risk** design by checking what's being built with end users before launch

It's well established that customer research and testing is effective at driving out dramatic marginal return from digital sales and service environments*. This is especially true when these techniques are used as part of an iterative process for improving a digital environment: the classic test-learn-improve cycle of user-centred design.

But this paper focuses on how customer experience can be engineered beyond simple best practice. How can an organisation create leadership and competitive advantage through the experience it creates for customers online? How does customer experience become a strategic, rather than tactical discipline?

Socio-economic drivers

Only a handful of brands have been successful in differentiating through customer experience – and many of these are in high-margin, high-touch sectors like luxury retail and automotive. Customer experience has long been treated as a hygiene factor within the marketing process. In the face of cost-control pressures, brands seek to benchmark the customer experience to an acceptable standard, rather than try to outflank the competition through their service proposition.

But changing socio-economic factors create the opportunity to re-appraise this. It is now feasible to create customer experiences within digital environments that drive a dramatic increase in customer value, but which don't carry a heavy ongoing cost burden. Furthermore, these same changes are starting to undermine the traditional strategic options for organisations seeking to build and maintain market-share.

*Usability Return on Investment, Nielsen Norman Group 2008



The most important drivers are:

1. Electronic distribution has had a deeply commoditising effect: It is becoming extremely hard to create and maintain differentiation through price or product features. Comparison content and aggregators are slowly perfecting markets – or at least giving consumers the illusion that they are. Manufacturers and service providers are denied the opportunity to build differentiated brands when comparison content defines the price and product characteristics which consumers use to inform their purchase decisions. In the UK general insurance market, probably the longest running case study for the effects of digital aggregation, no single brand has a more than 10% market share amongst internet users*.

For all that brands say they are different, search and comparison content exposes the stark similarities between products and prices.

2. The cost of customer service is falling rapidly: Before the digital age, high-quality customer experience was expensive and difficult to coordinate. Few major corporations created a consistent customer experience without also creating a 'Stepford Wives' feel to their customer interaction.

When the internet arrived many organisations seized on digital channels as a new way to lower acquisition and service costs. It was seen as a way to do 'the same thing, cheaper'. Early enterprise management solutions were, relatively speaking, expensive and unsophisticated. The return-on-investment case for building web-centric business systems was not compelling, especially as consumers' commitment to the channel was unproven.

But this is changing. As organisations consider second- or third-generation ebusiness platforms, far more is possible at a far lower cost. Customers too have changed. They are open to having more of their customer relationship handled in digital environments. Initial resistance to being 'pushed' online has turned into 'pull', with greater numbers of consumers seeing online as the natural centre-of-gravity for their relationships with companies.

Current technology now allows not just 'the same thing, cheaper', but 'better, cheaper'.

3. The price of advertising media has not dropped in line with its falling effectiveness: The play-book strategic response to commoditisation is differentiation through image. Advertising and marketing messages create a personality and platform for a brand which make it seem different (and more valuable) than its competition. Put bluntly, it has been cheaper to *seem* different and better, than to go to the expense of *being* different and better.

But new forms of media and media-consumption are undermining this traditional model. Consumers are still exposed to messages from traditional bought-and-paid-for advertising – but they are far easier to avoid thanks to developments like Sky+, YouTube and TV-on-Demand. What's more, consumers are much more empowered to balance this formal content about brands with informal, user-generated content like review sites, social networks, fan sites, blogs and discussion boards. The media landscape now creates a more objective view of companies and their products than at any time since the beginning of commercial broadcasting. Could British Airways resurrect its claim to be "The World's Favourite Airline"? The campaign would collapse under an avalanche of negative comment within weeks.

The price of advertising has not yet fallen to reflect this new reality in marketing. Why?

Partly because of a superb rear-guard action by the media and creative industries who continue to convince senior executives (who grew up with traditional mass-media marketing) that their model still works. It is also, in part, because the organisational changes required to support alternative approaches are often profound. Few established organisations have had the appetite to re-engineer themselves in support of a channel that they, and their shareholders, do not yet fully understand.



Yet the fact remains that some of the world's most valuable corporations, like Google and Amazon, managed to build attention and loyalty with little or no traditional advertising activity, relying instead on the power of their online customer experience.

To sum up, in the golden age of mass communication:

Image = Reality

In the new fragmented, aggregated age:

Reality = Reality

The question is: how do you make the reality of dealing with your organisation substantially better and more valuable to customers?

Three workstreams for creating differentiated customer experience

Every business that has created a differentiated customer experience online has solved three challenges. These can be summarised as:

- Creating a vision for customer experience
- Devising a technological platform for delivering it
- Changing the operating model to support it

The order in which these things are done can have a dramatic impact on the speed and value of the final result:

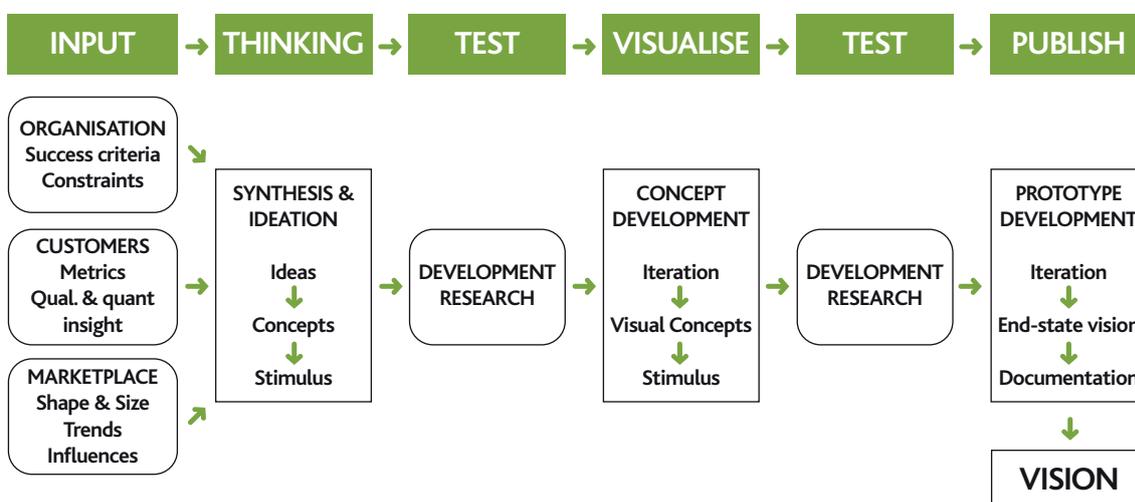
- **Start all three together.** This is the most effective approach because it requires sponsorship by the most senior executives in the organisation. The creation of the vision for customers is tempered (and improved) by the realities and capabilities of the business. The whole company gets to come on the journey of improving online service – and tying this into a multi-channel experience for the customer.
- **Start with vision.** This is the second best approach. A relatively small team of people can, at relatively low cost, gather an understanding of emerging customer needs and create a vision for how to meet those needs. This can quickly give the wider business a focus for its discussions (and its concerns). However, without executive support these 'Vision-led' initiatives can sometimes falter as they draw the criticism from business divisions which are threatened by the organisational changes they demand.
- **Start with technology.** This is still a surprisingly common starting point for organisations, despite a glaring problem in the logic of beginning here: if you don't know what you want to use a technology platform for, how do you know whether you're building too little or too much capability (and cost) into the solution?
- **Start with operating model.** This is rarely a starting point. Historically it is outside influences like changing customer needs or technological change which catalyse change within organisations. Without these pressures few organisations feel the need to re-invent themselves. Turkeys don't tend to vote for Christmas.



Creating a vision for customer experience

Businesses following either of the first two paths outlined above will need to create a valuable, actionable vision for customer experience against which a return-on-investment case can be built. The final part of this paper looks at the component parts of a process which allows organisations to develop such a vision for a customer experience which yields strategic competitive advantage.

The most important principle behind the process is that creative thinking is required from both the company and its customers. However, both parties tend to be limited or biased in their own perceptions, needs and beliefs about what is possible. The purpose of the process described below is therefore to create an iterative process through which a company and its customers can collaborate to create valuable and viable ideas for their future relationship.



This model is striking mainly because of the amount of effort it requires in terms of gathering customer insight and feedback. Our diagram describes a six-stage process:

1. Input

- It is very easy for organisational needs and wants to dominate the early inputs to projects of this type. But these need to be balanced by an understanding of consumer needs, behaviours, preferences, beliefs and expectations. Inferring these only from existing sales data, market research and analytics can be dangerous. We always encourage organisations to invest in a deeper understanding of their target audience (often through ethnographic research like diary studies) in order to bring genuine insight into the project. In particular, it's important to know how people think and act within digital environments. Socio-demographics are useful, but the ergonomic aspects of how people actually interact with digital environments is at least as important, if not more so. Those usability people currently toiling at the very end of your design process may be the key to creating innovative interaction ideas.
- It's also useful to gather separate insight about the marketplace – the market infrastructure which allows people to discover and evaluate products and services, as distinct from the target consumers themselves. In recent years it is the rapid change in markets (rather than changes in consumer psychology) that has presented the greatest threat to organisations. If you don't understand where and how people shop it is very hard to create a compelling and valuable digital experience.



2. Thinking

- Once you have a clear understanding of what both the organisation and the customer want from the digital experience it's surprisingly easy to start to generate ideas that are valuable to both parties. It feels less like 'creative thinking' (which most people find daunting) and more like 'problem solving' (which most people are happy to get involved with). Ideas for new interactions, services, products, content and tools can start to flow. We'll often do this quite intensively in off-site workshops.

3. Test

- The strongest ideas from the previous phase can now be shared with customers. It's important to restrain an instinct to rush into polished creative stimulus. Low-fi ideas (words, clip art, interaction sketches) allow customers the freedom to participate and contribute during research. It allows them to add their creativity to yours. Development research also allows you to capture important requirements ('This would be good if it did this, this and this...but I wouldn't bother using if it was like that, that or that'). If interaction ideas are too polished they shut down this kind of discussion and exploration.
- This first phase of testing ideas is particularly valuable if it can be done 'in-line' with the creative thinking described above. We'll often arrange for customer focus groups to take place in the evening after a day's idea generation, allowing the team to reconvene the following day to develop the strongest ideas further and add more detail. Equally, bad ideas can be quickly and quietly discarded before they have cost too much time and money to develop. Or before stakeholders become too emotionally attached to them.

4. Visualise

- Now the creative people can get involved. What's been learned and developed in the three previous stages will form the basis of a very precise creative brief to develop some more formal interaction concepts. In our experience, while creative people initially resent being held back in earlier phases, they tend to appreciate the clarity and detail of the brief they receive at this stage.

5. Test

- More detailed interaction design can now be shared with customers. Depth interviews are usually the appropriate method for doing this: they allow a more intimate discussion to drive out the detail of how to improve ideas.
- If the ideas represent a major investment for the organisation the stimulus can also be tested within quantitative surveys (either using unmoderated remote testing or by embedding stills and movies of the ideas into a web-based survey). This can deliver data on things like potential usage and satisfaction which can be used to drive a formal business case for investment.

6. Publish

- The process culminates in a documented vision for the future customer experience. It can include detailed examples of how the new customer experience would work. Business, technical and customer requirements can also be documented. These deliverables are made all the more compelling by the supporting evidence from customers about their interest and enthusiasm for the ideas – often a crucial factor in gathering support from stakeholders and the business as a whole. The vision of the future customer experience has not been developed in an ivory tower by a collection of designers, visionaries and consultants...but in close collaboration with customers



Conclusion

Most corporate customer experiences online are a simple reflection of the traditional financial and operational constraints of the organisations that produce them. Graphic design, user experience and usability skills are used tactically to try to resolve the differences between what customers and businesses want out of digital environments. In the modern vernacular, they are the lipstick being applied to the pig.

In the future we suggest that the opportunity to differentiate through product, price and particularly brand will decrease. Instead companies will focus more attention on creating high-value experience for customers delivered to a consistent standard at a relatively low cost. The key to this is to gather a deep understanding of customer behaviour within digital environments: not just who is coming online, but what they are doing and what drives service usage and satisfaction. This intelligence can be used to devise valuable new experiences and to iterate their development with customers.

This inclusive process minimises risk because design decisions and assumptions are tested with customers at every step of the process. It also maximises return because it allows innovative, differentiated experiences to reach the market.

About Foolproof

Foolproof is an experience design consultancy. Its core competencies are around developing customer insight and facilitating a creative dialogue between its clients and their customers. Foolproof works with some of the world's biggest corporations helping them to create and refine all aspects of the customer relationship which are served online. It offers a variety of different methodologies for generating ideas which allow organisations to create competitive advantage in online markets.