SERVICE 2020: MEGATRENDS FOR THE DECADE AHEAD

A BDO report, written by the Economist Intelligence Unit

SUMMER 2011

Written by
Economist Intelligence Unit The Economist

BDO

ABOUT THE RESEARCH

Service 2020: *Megatrends for the decade ahead* is an Economist Intelligence Unit report, sponsored by BDO. It draws upon two primary inputs: :

- A wide-ranging survey of 479 business leaders in Europe, the Middle East, Africa and Asia Pacific, spanning all industries and all revenue brackets. All respondents were in management functions, while over half hailed from the C-suite or board level.
- Interviews with eight experts and executives representing various industries. Our thanks are due to the following for their time and insight (listed alphabetically by company):

JEAN-LUC CHRÉTIEN
Executive Vice President: Sales, Distribution and Loyalty, Accor

DR NICOLA MILLARD
Customer Experience Futurologist, BT

JIM MCCOLL
Chairman, David Brown

JO CAUSON
CEO, Institute of Customer Service

RATHEESAN YOGANATHAN
CEO, Lebara

MARK SEBBA
CEO, Net-a-Porter

JONATHAN ACKERMAN
Customer Services Director, Pick 'n' Pay

BRIAN MILLAR
Director of Strategy, Sense Worldwide

The report was written by James Watson and edited by Monica Woodley.

BDO

FOREWORD

International and domestic business is more connected and competitive than ever before. As a result the demands of beating customer's expectations in the 21st century are only getting greater. Organisations will need to adapt or risk dying.

At BDO, service is something we are passionate about. Our clients tell us we already know quite a bit about this: 96% would recommend our service to their colleagues and a similar percentage see themselves still with us in three years. But you can never get too good at service. The minute you believe you are 'good enough'; the chances are someone else is trying harder. So it is essential to keep looking and learning.

We want to improve the service our clients receive and help our clients improve the service they deliver. Continuously identifying, developing and implementing exceptional service delivery is the key thrust of our business strategy.

That is why we have commissioned this report. Covering both business-to-business and business-to-consumer models, it explores how successful organisations have built and subsequently sustained excellent client service and, most excitingly, looks at future developments and provides a blueprint for the prioritisation of service development opportunities.

We are delighted the report findings confirm that service is vital and will become even more so in the future. And also that some things do not change: for example, no matter what technological innovations come and go, customers will always value a personal touch.

Technology will, nevertheless, have an impact on how we can and should deliver service, if nothing else because web-wise customers have the social tools to make or break our reputation.

That is why we need to study our customers carefully and make sure our service matches their expectations, whether in helping them achieve their aims more quickly or providing differentiated product offerings.

There is plenty more here to interest anyone keen to improve customer service and understand what new service opportunities our changing society can provide.

We will be using the findings to review and redefine our own service proposition. And we would relish the opportunity to speak to you about the opportunities it offers for your business too.

SIMON MICHAELS
Managing Partner, BDO

ECONOMIST INTELLIGENCE UNIT

INTRODUCTION

What is your idea of perfect customer service? Responses from people will vary considerably, depending on the type of the transaction being conducted, whether it is shopping for clothes, trying to get an error corrected in a phone bill or seeking help from a supplier at work.

In some contexts, most people are more than happy with simply finding an item in stock at a reasonable price. In other contexts, a highly personalised experience might switch people off, perhaps because it feels like the provider somehow knows too much about a person. Sometimes many choices are required; in other environments, no choice at all can be perfectly blissful, such as when trying a chef's tasting menu.

Despite these considerable variations, everyone knows good (or bad) service when they get it. But the factors driving change in customer service have shifted radically from just a decade ago. Most strikingly, technology is playing a huge role through the emergence of social media and the now ubiquitous mobile phone, for example. Equally, globalisation has taken deeper hold, providing both significant new consumer markets and aggressive new global rivals.

Given these forces and others, how will customer service change in the coming decade? Gathering a deeper understanding of that question is the aim of this report, which draws on a survey of 479 business leaders to identify trends, as well as in-depth interviews with numerous experts and senior executives - see 'about the research' (previous page) for more detail.

Although the kinds of customer service options and norms that might be encountered in 2020 can not be so precisely predicted, it is possible to outline some of the factors driving change in the decade ahead. To this end, this report outlines eight megatrends that are likely be occur.

CUSTOMER SERVICE MEGATREND 01

GLOBAL COMPETITION WILL DRIVE UP SERVICE STANDARDS

HISTORICALLY, SERVICE STANDARDS HAVE RISEN AND FALLEN IN LINE WITH PEAKS AND TROUGHS IN SUPPLY AND DEMAND.

When demand for a product far outstrips supply, the firm in question will often, understandably, simply focus on delivering the goods. But in an increasingly commoditised and competitive global marketplace, with aggressive new emerging market rivals expanding rapidly, customer service will be used by a rising number of firms as a competitive differentiator. Increased global competition is seen as the number one driver of customer service for the decade ahead overall.

This is particularly true for business-to-business (B2B) firms. Consumer-oriented, or business-to-consumer (B2C) firms also see competition as a key driver, but it jostles along with other major issues such as the growth of the middle class in emerging markets and the creation of new technologies.

This competition is driving an important change: a tighter focus on customer service. While quality is seen today as the key means of standing out from the crowd, especially for B2B firms, service will be the clear focus for firms of all shapes and sizes by 2020. More than half (55%) expect to compete on this basis in 2020, well ahead of quality (33%), while price is seen as relatively insignificant (9%).

The shift is even more striking in the B2B market, where it nearly doubles from 32% competing on that basis today to 57% by 2020. Regardless of the sector, then, customer service specialists will be in demand. Many already are: about seven in 10 firms agree that excellent customer service is a competitive differentiator for them in their industry. "Ultimately, service is the only differentiator," argues Jo Causon, CEO of the Institute of Customer Service (ICS), an independent, professional membership body for customer service.

It would be rash to consider price immaterial, however: for many interviewees, price is simply one of the barriers to entry in their markets. "Price is a very important factor," says Ratheesan Yoganathan, CEO of Lebara, a European low-cost mobile operator. "But once [our customers] like the price, we want them to be happy with our service, so that they don't move for half a pence cheaper."

Some industries are clearly more price-centric than others, but to avoid being caught in a race to the bottom in terms of price, service will be used to stand out. Many will even use this as a means of potentially charging more: two-thirds of firms think premium products will be linked to premium service in 2020. This will lead to a rise in new product niches, as outlined in the seventh megatrend.

WE'RE ALL (SORT OF) GOOD AT CUSTOMER SERVICE

Much like male car drivers, many of whom believe they are excellent drivers, most (nearly seven in 10) firms consider themselves to be "above average" when it comes to customer service, although relatively few (16%) regard themselves as excellent. Some of these, however, appear to be getting slightly ahead of themselves. Just six in 10 have a defined strategy for tracking customer feedback and complaints, while even fewer (55%) have a system for identifying service gaps, and less than four in 10 think they do a good job of addressing customer feedback. In many areas, B2C firms appear to be doing more than their B2B peers.

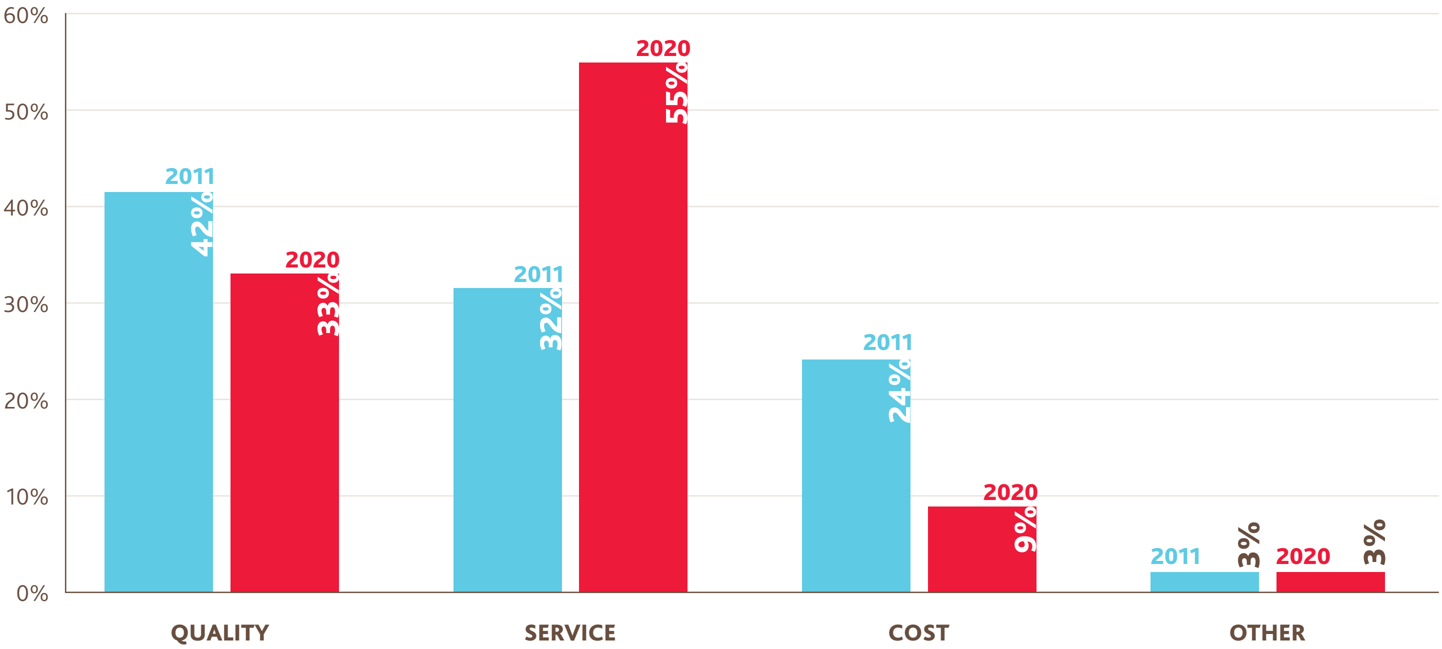
For example, while a similar amount of firms in both categories have a defined strategy for tracking customer feedback and complaints, nearly twice as many B2C firms are working on installing one (27% compared with 15%).

However, less than half of firms overall (47%) even have clearly defined service goals and processes. If service is indeed going to be a competitive differentiator in 2020, many firms have a lot more work to do.

> *Ultimately service is the only differentiator*
>
> JO CAUSON
> CEO, Institute of Customer Service

CHART 1*

Q: *"On what basis does your company primarily compete now, and what do you expect in 2020?"*



* source: Economist Intelligence Unit

CUSTOMER SERVICE MEGATREND 02

COMPANIES MUST MAINTAIN SERVICE STANDARDS IN THE FACE OF *"the need for speed"*

TODAY'S INSTANT-GRATIFICATION ONLINE SOCIETY HAS SHARPLY CHANGED PERCEPTIONS OF CUSTOMER SERVICE.

While a majority of firms (61%) think expectations from their clients have risen, and a similar proportion (63%) agree that customers expect more personalisation, the stand-out metric is speed: 82% of firms believe that clients expect a faster service than five years ago.

For an online-only retailer like Net-a-Porter, this is a crucial part of its offering: order a dress online by 1pm in London or Manhattan, and have it delivered to your door before the end of the day. "We think that speed is very important, and our customers think it's important too," says Mark Sebba, the firm's CEO. Similarly, for customers who do not like the item, Net-a-Porter will collect it again free of charge. "Our customers are busy people and time is the new luxury," acknowledges Mr Sebba. "Something that helps them avoid having to wait in a post office is important." The firm is planning to open a third distribution centre in Hong Kong so that it can deliver more rapidly on new demand from Asian clients. "With that, we'll be no more than 24 hours from any metropolitan centre in the world," confirms Mr Sebba.

In short, speed has become a competitive differentiator. Firms that will be able to help their customers save time will leverage this to stand out from their rivals.

Another example is Accor, the global hotel chain that includes a large range of brands, from Sofitel to All Seasons to Formule 1. It hopes this decade to link its loyalty scheme to its door keys, so that customers can check in online, as they do with their flights, and simply use their loyalty card to access their room, bypassing any wasted time at check-in altogether. "In our economy hotels, we will move more to self check-in and web check-in, so that you can move into your room quickly," confirms Jean-Luc Chrétien, Accor's executive vice president for sales, distribution and loyalty.

The same will apply at more upscale hotels, so that guests can check in online or via their mobile devices and go direct to their rooms, but will also include a greater range of options.

> *Our customers are **busy people**, and **time** is the new luxury*

MARK SEBBA
CEO, Net-a-Porter

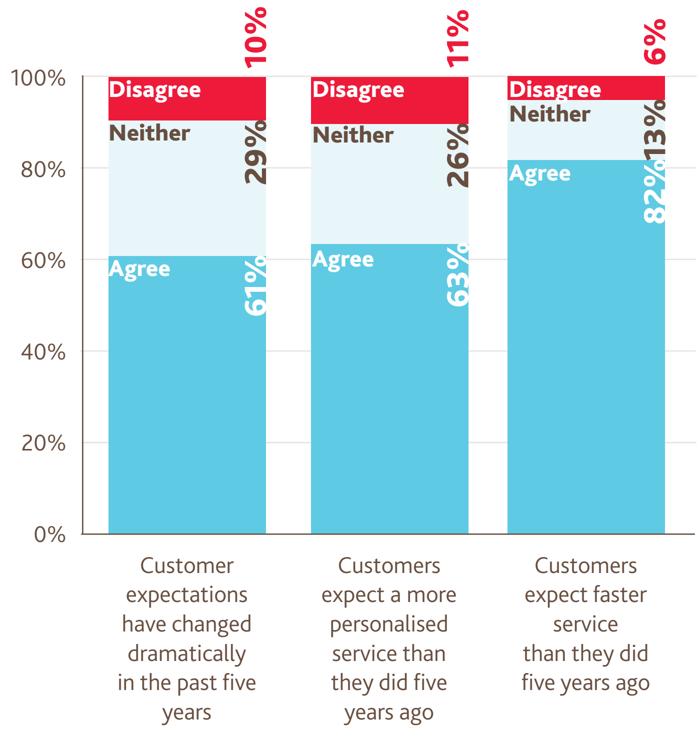
The need for speed is seen most obviously in the retail and service industries, but consumers used to getting what they want quickly in their personal lives are also coming to expect the same in their working lives. This has implications for B2B service providers and is reflected in the survey results - while 83% of B2C respondents agree their customers now expect a faster service than they did five years ago, the B2B respondents were not far behind, with 77% agreeing.

The key challenge for B2B is the inherent tension between providing a faster service and maintaining quality levels. Companies will have to figure out where in their business processes they are able to speed up service delivery and where they will need to push back on the "need for speed" and manage client expectations.

Of course, there are limits. Speed may not mean everything to everyone. Retired consumers among Europe's rapidly ageing population, for example, may not be as concerned about speed as their children, who may be in full-time employment, with children of their own and, in general, have many obligations on their time.

Similarly, in some contexts, speed may not be an important factor, and could even be a deterrent. The self-titled 'Slow Food' movement, for example, literally seeks to offer products that are opposite to fast-food alternatives. But for the most part, firms will face pressure to pick up pace.

CHART 2*:
Q: *"Do you agree or disagree with the following statements?"*



CUSTOMER SERVICE MEGATREND 03

FIRMS MUST LEARN TO USE THE INCREASED TRANSPARENCY BROUGHT BY SOCIAL MEDIA TO THEIR ADVANTAGE

THE NEAR UBIQUITOUS ADOPTION OF SOCIAL MEDIA PLATFORMS IN JUST A FEW YEARS - FACEBOOK WAS ONLY LAUNCHED IN 2004, WHILE TWITTER FOLLOWED TWO YEARS LATER - HAS ALREADY HAD A MULTI-TIERED EFFECT ON BUSINESS.

Their influence will develop and expand in the coming decade, as social media replaces the press as the primary consumer watchdog. In turn, this is making firms more transparent than ever before, although just a quarter (26%) of survey respondents believe social media has improved customer relations. "If things go spectacularly wrong, it comes out and goes on Google and Twitter," says Dr Nicola Millard, a customer experience futurologist at BT, one of the world's leading communications services companies. "That transparency hasn't happened before. It is now searchable and enduring, and it may even end up on YouTube."

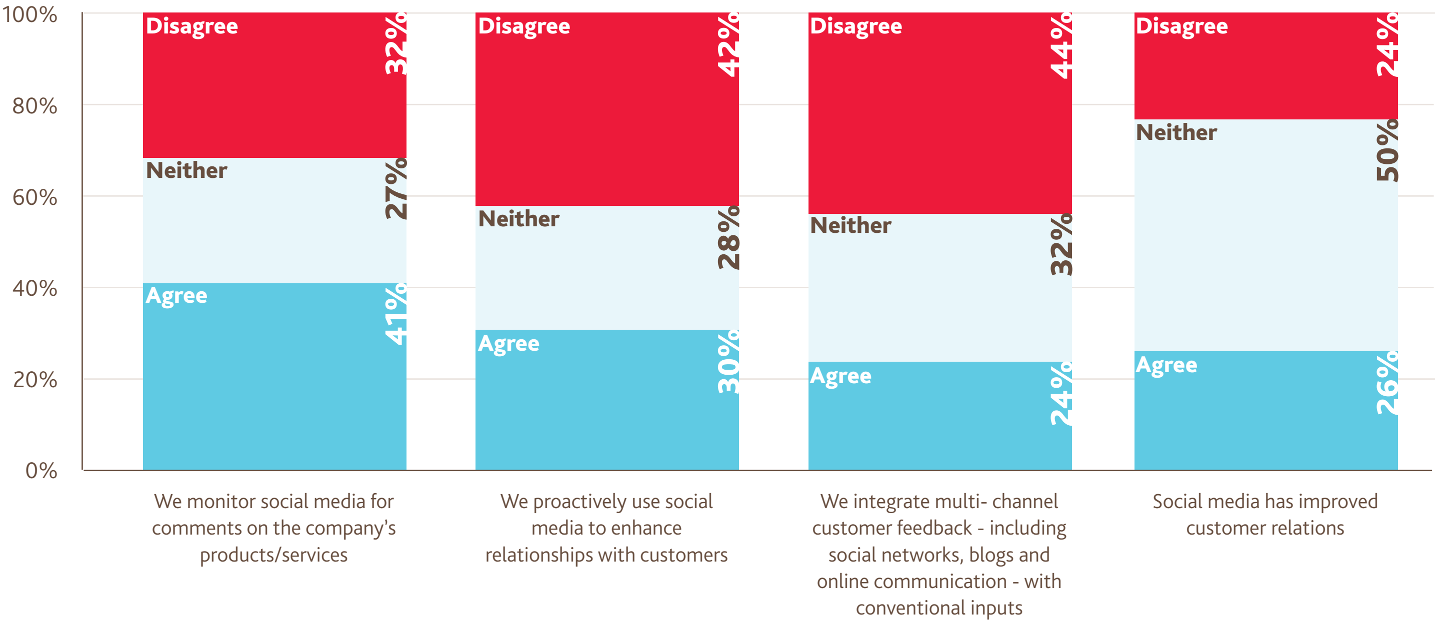
One high-profile example of this is a 2009 YouTube video entitled "United breaks guitars", posted by a disenchanted airline passenger who battled with the airline's customer service department. So far, it has received nearly 10.5 million views, spawned several additional versions and been widely profiled in the mainstream media. Quite simply, every customer now has an instant, global and searchable means of broadcasting their feedback, good or bad. In addition, customers are also more willing to complain about bad service than before, notes Ms Causon. The ICS runs an annual customer satisfaction index, which has charted this rise. "In 2000, 50% of people were willing to complain. By 2010, 75% were willing to do so, while people are also more likely to tell others about bad service too," she says.

All this is accelerating the move away from the mainstream media acting as a consumer watchdog towards a more crowd-sourced approach. For Jim McColl, chairman of David Brown, an engineering firm, social media means that firms in his sector will have to up their game if they want to remain competitive. "It makes it kind of difficult to hide if you don't do a good job," says Mr McColl. "The way it's developing, it's forcing people like us to provide better service. If you really annoy a customer, he'll go and put a message out saying 'don't deal with this firm'. It's forcing people to be more attentive to the quality of their products and their service."

Accordingly, four in 10 firms polled already actively monitor social media for feedback on their service. BT has even built a software tool that automates the process of monitoring social media, filtering and prioritising feedback for the firm's customer services team, based on factors such as emotional or viral level of the content.

Service staff already respond to some Twitter complaints directly. In some instances, this goes all the way to the CEO's office, prompting a direct client call. "You can't control the dance floor, but you can go and dance," explains Dr Millard of her firm's efforts to embrace such tools. Many others are dancing too: one-third (30%) of firms polled are using social media as a tool for enhancing client relationships.

CHART 3*:
Q: *"Do you agree or disagree with the following statements?"*



CASE STUDY: ACCOR EMBRACES TRANSPARENCY

Social media is also changing the way consumers select products and services, based on the real-time views of others. In industries such a travel and tourism, this is already starting to make annually published guidebooks seem redundant, as tourists skip to third-party sites to see up-to-date guest ratings for a hotel or destination.

Accor, a hotel operator with a broad portfolio of brands globally, has taken a leap of faith in the quality of its customer service by directly integrating live, unfiltered TripAdvisor comments into its main hotel portal. Jean-Luc Chrétien, Accor's executive vice president for sales, distribution and loyalty, believes this will push the hotel brand to enhance its service overall anyway—so why not make the process easier for its clients? "To an extent, social media is a very healthy thing. It has forced us to revisit some of the ways we do some things, and not to be so complacent," he says.

Of course, directly publicising unfiltered feedback and ratings, both good and bad, was a tough decision to take. In the end, the hotel believed that public comments were unlikely to deviate widely from the detailed internal data it already tracks (see the fourth megatrend). So far, this has worked: "This has been a bold move. But customers send us emails, saying that they appreciate this," says Mr Chrétien. In the coming decade, the hotel will take this further, looking for ways to deepen its client interactions on social networks and create more of a dialogue with its guests. Others will surely be looking to do the same.

DR. **NICOLA MILLARD**

*if things go **spectacularly** wrong it comes out and goes on **Google** and **Twitter***

Customer Experience Futurologist, BT

* source: Economist Intelligence Unit

CUSTOMER SERVICE MEGATREND 04

COMPANIES MUST USE NEW SOURCES AND TYPES OF DATA TO RETHINK THE WAY THEY TRACK AND PERSONALISE THEIR SERVICE

A RANGE OF NEW DATA, SOURCED FROM CUSTOMERS' SOCIAL MEDIA FEEDS, SMART PHONES, AND OTHER SOURCES, WILL CHANGE THE WAY THAT FIRMS TRACK THEIR CUSTOMER FEEDBACK AND COMPLAINTS.

Such systems, at least formal ones, are far from ubiquitous: just six in 10 firms have a formal enterprise-wide system in place for this today. The rest are evenly split between either "working on it" or simply not having it. Fewer still (55%) have a system in place to identify trouble spots in customer service provision, although for many (25%) this is still a work in progress.

Overall, less than four in 10 (37%) firms agree that they do an excellent job of collecting and addressing customer feedback. But as social media makes firms more externally transparent, this will have an impact on the way that businesses currently track their performance, or else make them start to do so. The risk of failing to do so, and thus being unable to respond systematically to issues, will simply become too high: imagine the impact if the first Google search result for a firm was a now-viral customer rant, rather than the home page.

Accor already runs a web-based platform for monitoring guest satisfaction, used by all of its brands, and based on guest surveys. This allows it to monitor performance in a range of ways: by country, hotel brand, city or specific hotel. "We can measure by seeing if brand satisfaction is being affected by a problem in a specific country or hotel or network," confirms Mr Chrétien.

Increasingly, however, social media is being fed directly into the same tracking system, acting as an additional supplement to existing data. Such systems do not have to be hugely complex—and crowd-sourced information could easily be gathered offline too. For example, Pick 'n Pay, a nationwide grocery retailer in South Africa, has a pilot programme to install a button on its till points with a smiley or sad face; pressing it sends an SMS to the store manager, giving clients an instant feedback mechanism about the service they are receiving.

Overall, the rapidly increasing volumes of data will provide new opportunities for firms to better understand their clients and personalise their services accordingly. Nearly half (46%) of firms plan to use analytics to do so in the decade ahead, while 43% plan to use analytics to assess customer behaviour. This is not new: developed-market firms have long used loyalty cards as one means of gathering more information about their clients, and emerging markets are rapidly catching up.

Pick 'n Pay launched a loyalty card this year, adding some 3 million members in the first six weeks alone. "Using the data from those smart cards, along with our [customer relationship management] technology, will be a key way of tracking and personalising our service," confirms Jonathan Ackerman, the firm's customer services director. One goal is to link its loyalty card to the till feedback system, enabling store managers to identify the customer for a follow-up.

Beyond this, however, the rise of always-on, location-aware smart phones, combined with social media tools, is adding reams of new data for firms to tap into and potentially use for customer services. Location is one obvious aspect, but new tools and applications are being constantly added, ranging from augmented reality using a phone's camera, to apps that link e-commerce with customers' social networks.

New applications are only starting to emerge to make use of this information, ranging from Foursquare, which explicitly links customer location and behaviour with commercial offers, to Blippy, which publishes a customer's purchases via Twitter. "There are organisations using [such data] and treating this as the new kind of loyalty," says BT's Dr Millard.

But these shifts will also challenge firms to think more deeply about their relationship with consumers and the fine line between useful and creepy in terms of exploiting customer behaviour. Facebook and Google already battle regular complaints over the degree to which they uphold customers' privacy. And these are the data leaders. By contrast, relatively few companies see themselves as good at using technology to understand their customers: just 4% describe themselves as excellent, and nearly one in five regard themselves as below average, at best.

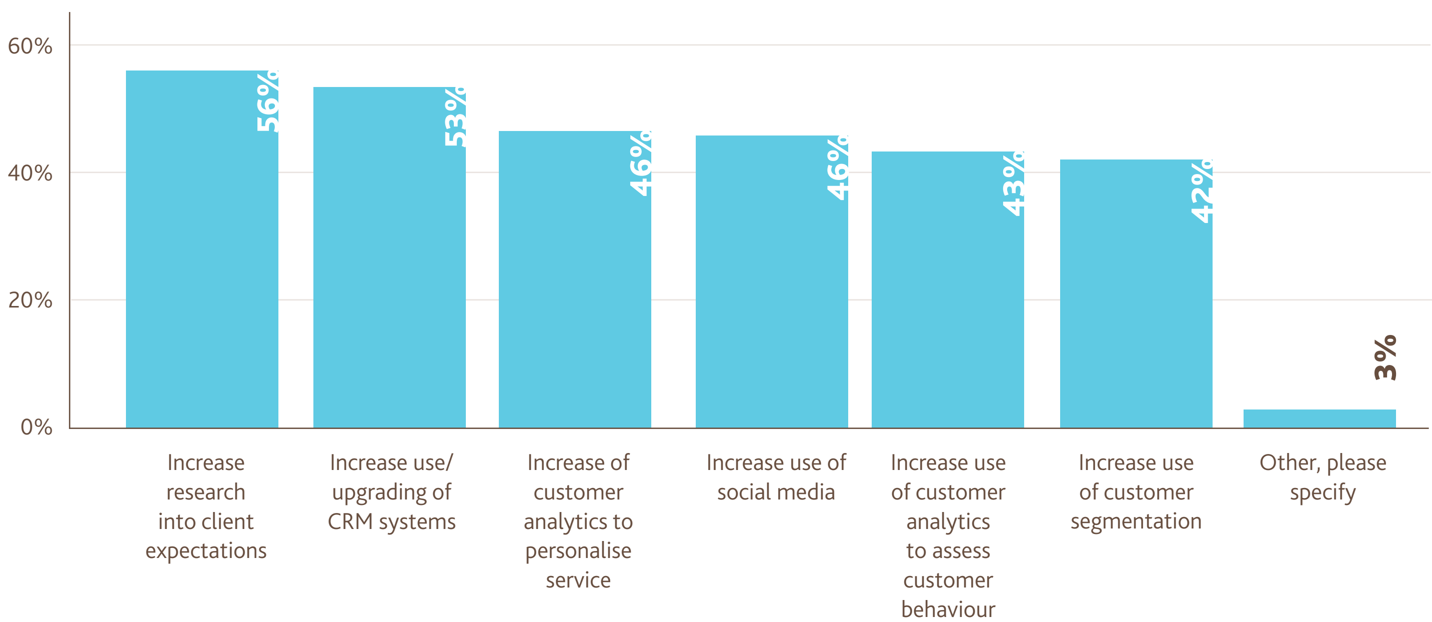
> *We can measure by seeing if* ***brand satisfaction*** *is being affected by a problem in a specific* **country** *a specific* **hotel** *a specific* **network**

JEAN-LUC CHRÉTIEN

Executive Vice President: Sales, Distribution and Loyalty, Accor

CHART 4*

Q: *"How will companies in your industry adapt to meet customer expectations in 2020? Select all that apply."*



* source: Economist Intelligence Unit

CUSTOMER SERVICE MEGATREND 05

GOOD EMPLOYEES WILL REMAIN FUNDAMENTAL TO GOOD SERVICE BUT WITH TECHNOLOGY AS AN ENABLER

WHILE SOME INDUSTRIES HAVE AUTOMATED ASPECTS OF THEIR SERVICE NEEDS - ALLOWING PASSENGERS TO CHECK THEMSELVES IN FOR A FLIGHT, FOR EXAMPLE - GOOD STAFF ARE FAR AND AWAY THE MOST CRUCIAL ELEMENT OF GOOD SERVICE.

Nearly seven in 10 respondents chose people as what matters most in delivering good service, well ahead of process (18%) and technology (14%). Executives do see a shift in the future, with processes and technology becoming more important, but clearly recognise that ultimately good employees are intrinsic to good customer service. Lebara is one clear example. It has invested heavily in its employees, in order to ensure that although it can reel in new customers with its attractive pricing, it never loses them because of poor service (see case study on page 14).

Indeed, the vast majority (82%) of firms polled believe that no matter what technological innovations are in the pipeline, customers will always expect some form of personal interaction in customer service. Of course, technology may well be an enabler here, to help automate some routine aspects of service, allowing service staff to focus on more complex interactions.

Transactional queries to staff or call centres are expected to disappear, as highly informed consumers will do their research before any major purchase, and will only bother to contact a firm for any queries or issues that they are not able to resolve easily themselves. The remaining queries will be about issues that customers are not able to easily resolve on their own: whether a complex mortgage query, or a niche technical issue.

“We’ve created a monster,” warns Dr Millard. “These customers are very well informed, they’ve done their homework and they now need reassurance about their choice, or advice. The implication is that the only queries you’re left with are the complex stuff, or the emotional stuff, which are very value sensitive.”

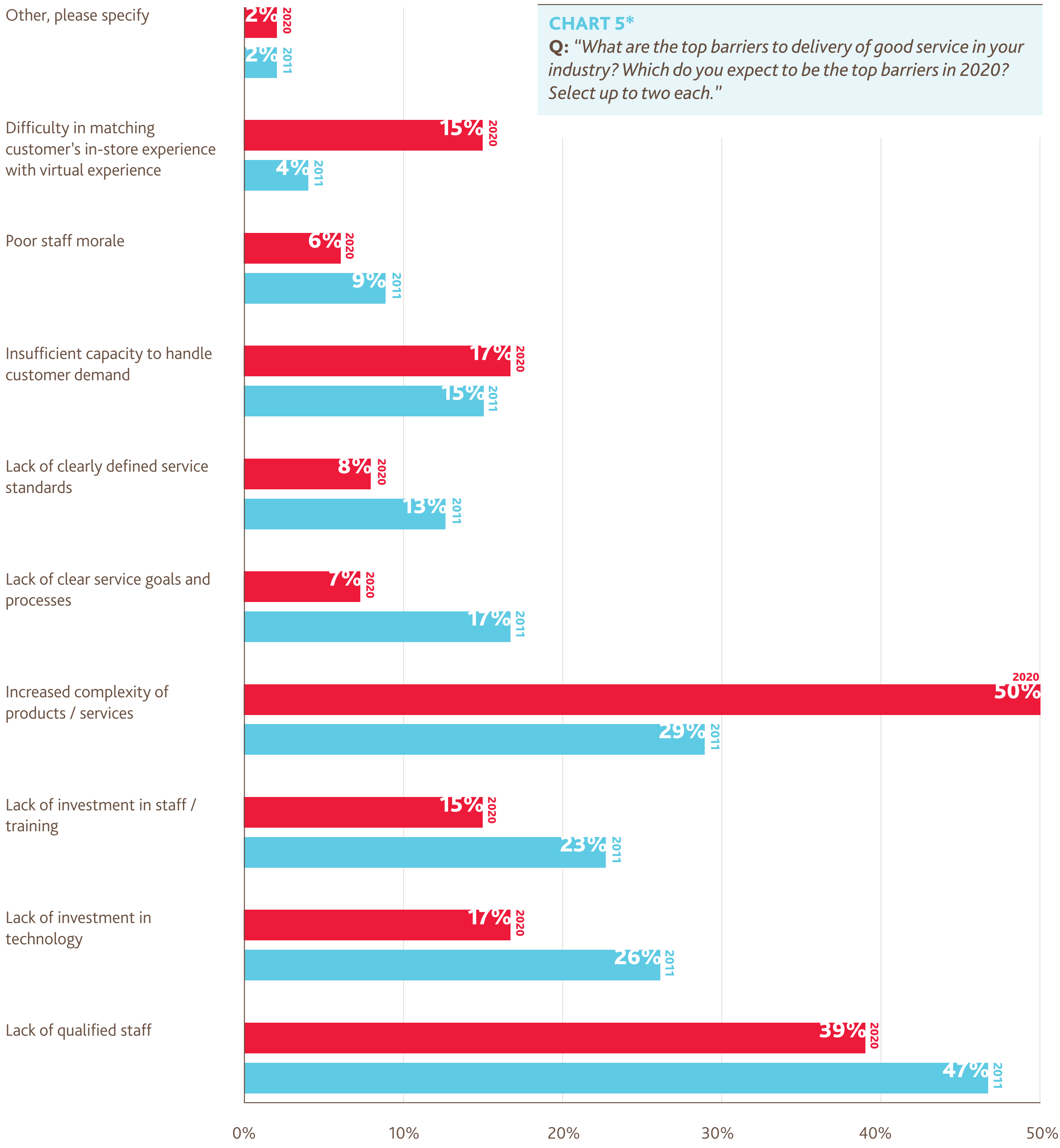
It is good that technology can play a supporting role, as the number of complex issues that need the human touch is likely to increase. Once relatively simple products, such as televisions or even fridges, now come with a growing number of connectivity standards and processors inside. Similarly, while the cars of yester-year could be serviced by any competent mechanic, today’s models come with millions of lines of code, requiring specially trained staff and equipment.

This challenge is reflected in our survey: firms see increased complexity as the number one challenge from a service perspective in 2020. This is a sharp rise from today, supplanting the current (and related) top concern, which is a lack of qualified staff. Indeed, in coping with this complexity, firms will need to work harder to attract and retain smart, well-trained employees - whether internal or external.

... continued overleaf

CHART 5*

Q: *"What are the top barriers to delivery of good service in your industry? Which do you expect to be the top barriers in 2020? Select up to two each."*



CUSTOMER SERVICE MEGATREND 05 *continued*

GOOD EMPLOYEES WILL REMAIN FUNDAMENTAL TO GOOD SERVICE BUT WITH TECHNOLOGY AS AN ENABLER

For some firms, however, complexity can also be turned into an opportunity. For example, David Brown, a global engineering firm headquartered in the UK, has set up its own academy to train people on gear technology, whether its own staff and engineers, or those of its clients. "It's the only place you can get a masters degree in gears," says Mr McColl. The course not only enables clients to better cope with the complex machinery the firm sells, but also acts as an excellent marketing tool for the firm.

Beyond the obvious divide of automation handling simple enquiries, allowing employees to focus on more complex problems, the use of technology is likely to become more context-relevant. Customers may like checking in online, but still want a personal touch while waiting in the lounge, for example.

The challenge for firms will lie in identifying where their customers will be happy to interact with technology and where they still expect the human touch. "You need to cater to the different moods and modes of consumers," says Brian Millar, director of strategy at Sense Worldwide, a global marketing and advertising consultancy headquartered in the UK. "Giving people the option is crucial, with different payoffs in terms of investment of time or effort." He also warns of the need to ensure that machine-interactions feel distinct from human ones, rather than trying to pretend to be human. "You need to keep the right tone. Be clear that this is a machine, doing a machine thing."

DR. NICOLA MILLARD *We've created* **A MONSTER...** *...the **only** queries you're left with are the complex stuff, or the emotional stuff, which are **very value sensitive***

Customer Experience Futurologist, BT

CASE STUDY: LEBARA'S CUSTOMER-CENTRIC SERVICE OFFERING

Lebara is one of the fastest growing private companies in Europe, originally set up in the Netherlands. Targeted at immigrants, it offers low-cost mobile phone calls to international destinations. But while others might balance this with low-cost service and support, Lebara instead focuses its efforts on never losing its customers by providing excellent service and support, despite the additional costs required. The firm has won several customer service awards, most recently for best customer service at the 2011 UK Mobile News Awards.

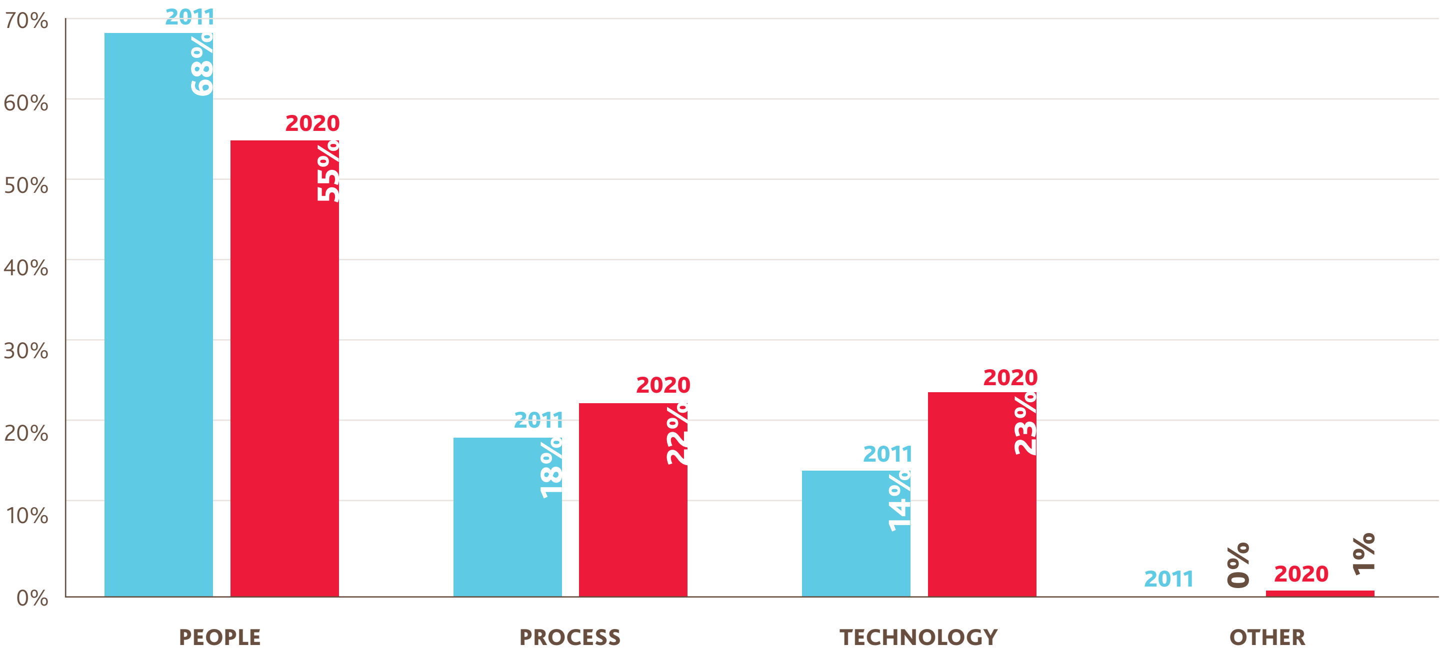
The CEO, Ratheesan Yoganathan, says his firm sees its employees as its most crucial asset, especially within its call centres where all client interaction takes place. Instead of measuring how many calls staff take, for example, or how quickly they finish them, staff are measured on how successfully they delivered a positive service outcome for a customer without having to transfer the call or keep clients on hold. Overall, Mr Yoganathan is resolute on the crucial role that employees play in his firm's service delivery. "Our staff are part of Lebara's identity, as they're our customer touch-point," he says.

This realisation has led to some unusual decisions. For one, Lebara's main call centre is located right in the heart of London, at significant cost. In Mr Yoganathan's view, this allows his firm to hire the best possible talent, including staff with a wide range of language skills, by being able to tap into a huge skills base. "You get really talented people, so staff in our call centres often move on to other departments, such as IT or marketing.

They're really high quality." This is not just idle talk: Lebara even hosts an annual contest for all employees, entitled "Dream big", whereby anyone can pitch new business ideas to the management committee. The winning pitch is given an investment of £100,000. "Last year the options were so good, we had to select two people," says Mr Yoganathan.

CHART 6*

Q: *"Which of the following matter most to delivering good service in your industry, now and in 2020?"*



CUSTOMER SERVICE MEGATREND 06

MORE FIRMS WILL OUTSOURCE (ASPECTS OF CUSTOMER SERVICE) TO NEW KINDS OF SPECIALISTS

TODAY, NEARLY ALL FIRMS (87%) TAKE CARE OF THEIR SERVICE OFFERING IN-HOUSE. IN THE DECADE AHEAD, HOWEVER, SPECIALIST OUTSOURCED CUSTOMER SERVICE PROVIDERS ARE LIKELY TO BE IN DEMAND.

Nearly four in 10 firms plan to outsource their service needs to an external partner, ideally in their home market, up from just one in ten today. On the surface of it, this seems counterintuitive, given the rising importance of customer service to firms—and the fact that this could easily exacerbate service complexity concerns. But for many, external partners can help them cope by allowing them to tap into a pool of specialist resources. "What you need now are experts who can bring skills that firms don't have," says BT's Dr Millard, citing as a hypothetical example a pharmaceutical firm that might not necessarily have a specialist pool of medical experts on tap to staff a customer services division, but wants to provide a resource to help with specialist queries.

Advances in communication technology are helping firms tap into such resources more easily, irrespective of their location. Dr Millard cites one US firm that employs a huge number of freelance experts, mostly working from home, to provide specialist expertise over the phone, paying them on a per call basis. Employees are free to work when it suits them, by simply logging into the system whenever they wish to work. "This is not the norm, but there's clearly potential to add a very value-added service," says Dr Millard, who likens the experience to a form of speed dating, only for customer service.

Clearly, such outsourcing will not appeal to all firms, but in trying to cope with complexity, new opportunities for specialist outsourcing providers will emerge. In some areas, dedicated support and services firms have even built custom applications to help a company's in-house staff to deliver a better support function.

For example, B2X Care Solutions has created an application that allows a mobile phone provider's front-end staff to run automated scans to determine what is wrong with a phone, rather than send it off unnecessarily to specialists for repair. It is now building a smart phone app that aims to help consumers scan and repair simple faults on their own devices, to avoid having to use a support centre at all.

A related trend, which is arguably a form of outsourcing in the form of crowd-sourcing, will be for firms to involve their customers in new product development. This co-creation can do wonders to boost customer loyalty, argues the ICS's Ms Causon. She gives an example of Starbucks, which has asked customers to help come up with new recipes. "People want to be involved in the development of products and services. Not just giving feedback, but actually helping to create," she says.

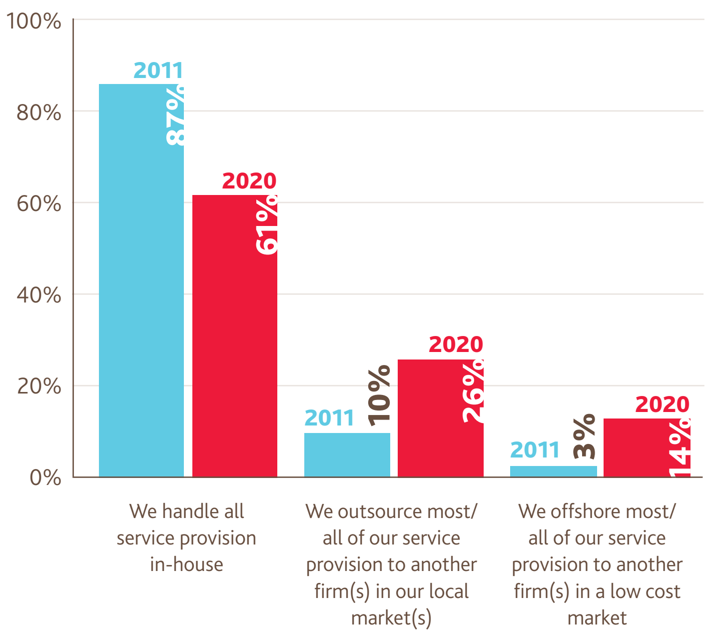
What you need now are **experts** *who can bring* **skills** *that firms don't have*

DR. NICOLA MILLARD

Customer Experience Futurologist, BT

CHART 7*

Q: *"Which of the following best captures your firm's approach to service provision and customer support? And which is it most likely to employ in 2020?"*



CUSTOMER SERVICE MEGATREND 07

THE RISE OF THE MASS AFFLUENT AND OTHER CUSTOMER SEGMENTS WILL FORCE COMPANIES TO FIND NEW PRODUCT OR SERVICE NICHES

BOOMING EMERGING MARKET ECONOMIES HAVE DONE A LOT TO RAISE THE INCOMES OF THE POOR ACROSS MUCH OF THE WORLD, MAKING THE "MIDDLE CLASS" A SYNONYM FOR NEW OPPORTUNITIES, ESPECIALLY IN EMERGING MARKETS.

By 2030, the World Bank estimates there will be some 1.2 billion middle-class consumers globally and overall emerging markets will play a larger role.

This widening band, a broad classification that hundreds of millions of people in Asia especially will join during this decade, is largely an aspirational one, as per capita incomes will remain relatively low in many places. Nevertheless, the growing middle class of consumers was cited by survey respondents as a top five driver of changing customer expectations by 2020.

The newly affluent will put new demands on firms: consumers wealthy enough to want a premium product or experience, but not rich enough to take the full-fat version, whether a first-class airline seat or a truly high-end shopping experience.

This has already led to a rise of new product categories, such as "premium economy" in many airlines, as a means of targeting this middle ground.

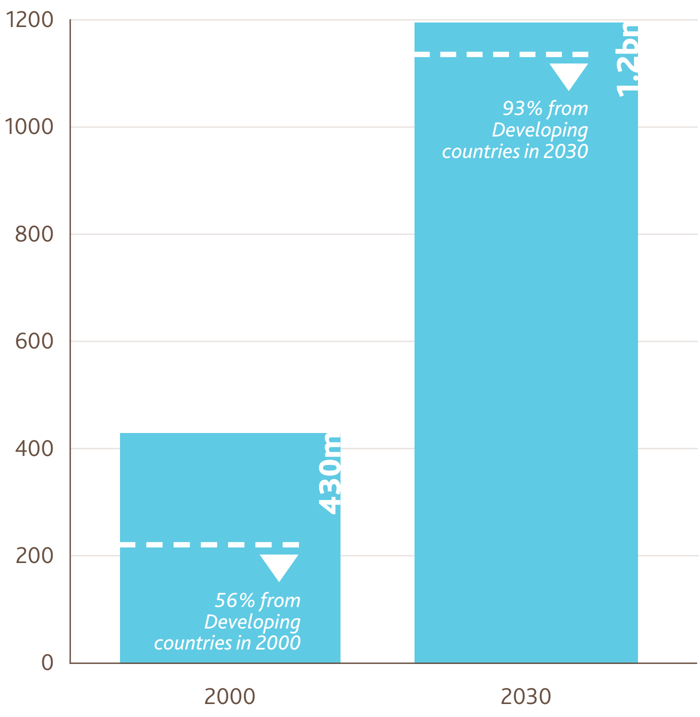
Other airlines may keep the same seats, but offer smaller upgrades for small additional charges to bolster their margins, such as better meals, or the chance to select a seat ahead of others. In the coming decade, many other industries will seek to find their variation of this middle ground. It will not be easy, however. "This presents a huge service opportunity, but it is also a challenge for companies to treat people individually and make them feel special, while making this massively scalable," says Sense Worldwide's Mr Millar.

For many, this will become a challenge of providing smart ways to deliver what looks and feels like personalised service, even if it is available to a mass audience. This challenge also extends into virtual channels, as well as physical stores, as highlighted by our next megatrend.

Of course, the band of truly wealthy consumers is widening too, challenging firms to find new ways to cater to their needs and provide services that stand out from being merely good.

... continued overleaf

CHART 8: Estimated size of the 'Global Middle Class' *



BRIAN MILLAR

This presents a huge service opportunity, but it is also a challenge for companies to treat people in a ***special way*** *and make them* ***feel special*** *while making this* ***massively scalable***

Director of Strategy, Sense Worldwide

* source: World Bank. 'Global Middle Class' define as individuals earnings an income falling between per capita income of Brazil and Italy

CUSTOMER SERVICE MEGATREND 07 *continued*

THE RISE OF THE MASS AFFLUENT AND OTHER CUSTOMER SEGMENTS WILL FORCE COMPANIES TO FIND NEW PRODUCT OR SERVICE NICHES

One area is credit cards, which are largely ubiquitous in developed markets. To stand out, firms need to find unique customer service offerings to bundle in with their cards, such as concierge services. Mr Millar cites a related example of Vertu phones, a luxury mobile phone. These are obviously well-designed and built, but the really premium feature is a concierge button, allowing users to easily arrange things in an unfamiliar city, for example.

Although the concept of mass affluence obviously does not apply to companies targeting business purchasers, there is still a lesson here for B2B providers. New client segments that will pay for enhanced services might lead to the emergence of new services or new delivery models. B2B survey respondents seem better prepared on this front than their B2C counterparts. Almost a third (31%) already use customer segmentation based on actual customer behaviour and/or other qualitative factors. Another fifth (19%) use segmentation based on both demographic information and customer behaviour and/or other qualitative factors, and another 13% use segmentation based on basic demographic information in order to give a more specialised service. Just over a quarter (27%) of B2B respondents say their service provision is standard for all customers, compared to 40% of B2C respondents.

Similarly, B2B respondents are more likely than their B2C counterparts to modify their service model for the different geographic markets in which they operate, with 42% adapting their standard model compared to 29% of B2C respondents, and 17% having bespoke service provision based on local customer expectations compared to 12% of B2C respondents.

CHART 9*

Q: *"What do you believe will be the main driver of changing customer expectations by 2020?"*

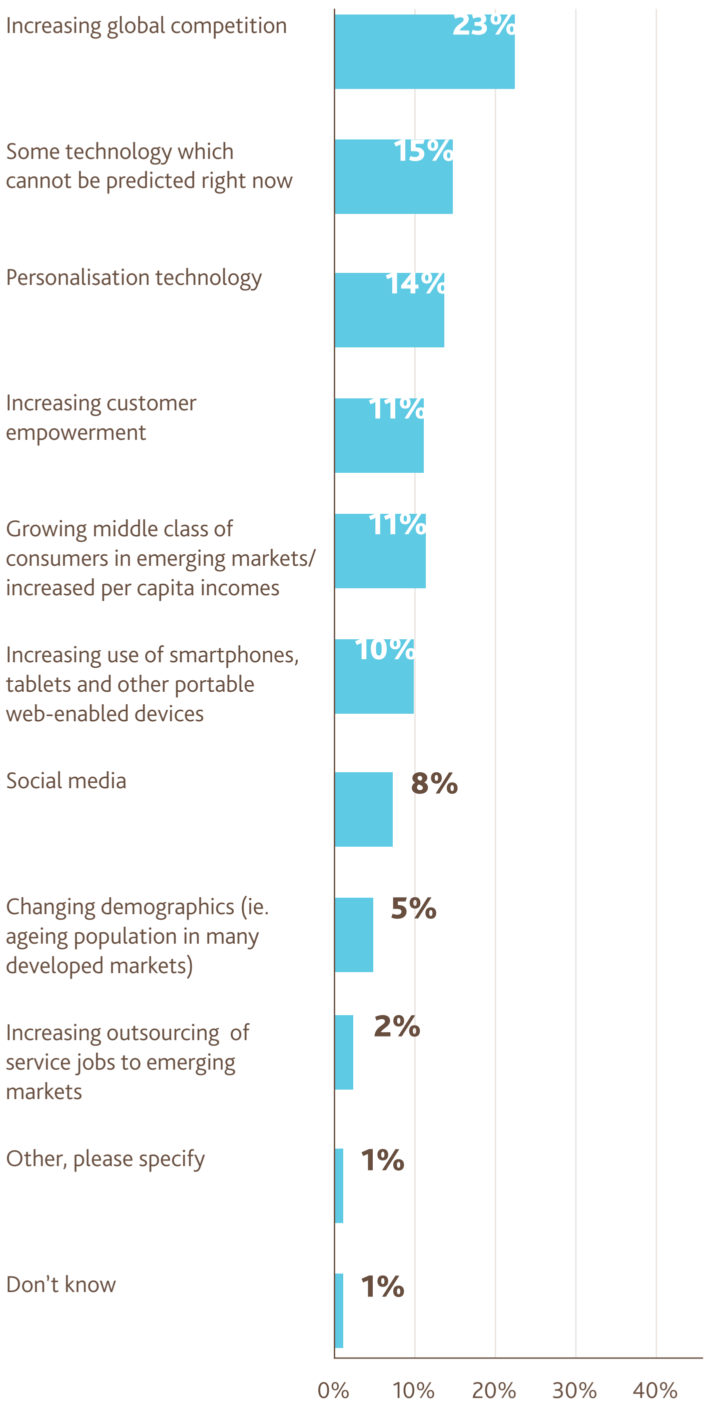


CHART 10*

Q: *"Do you utilise customer segmentation in order to give more specialised service?"*

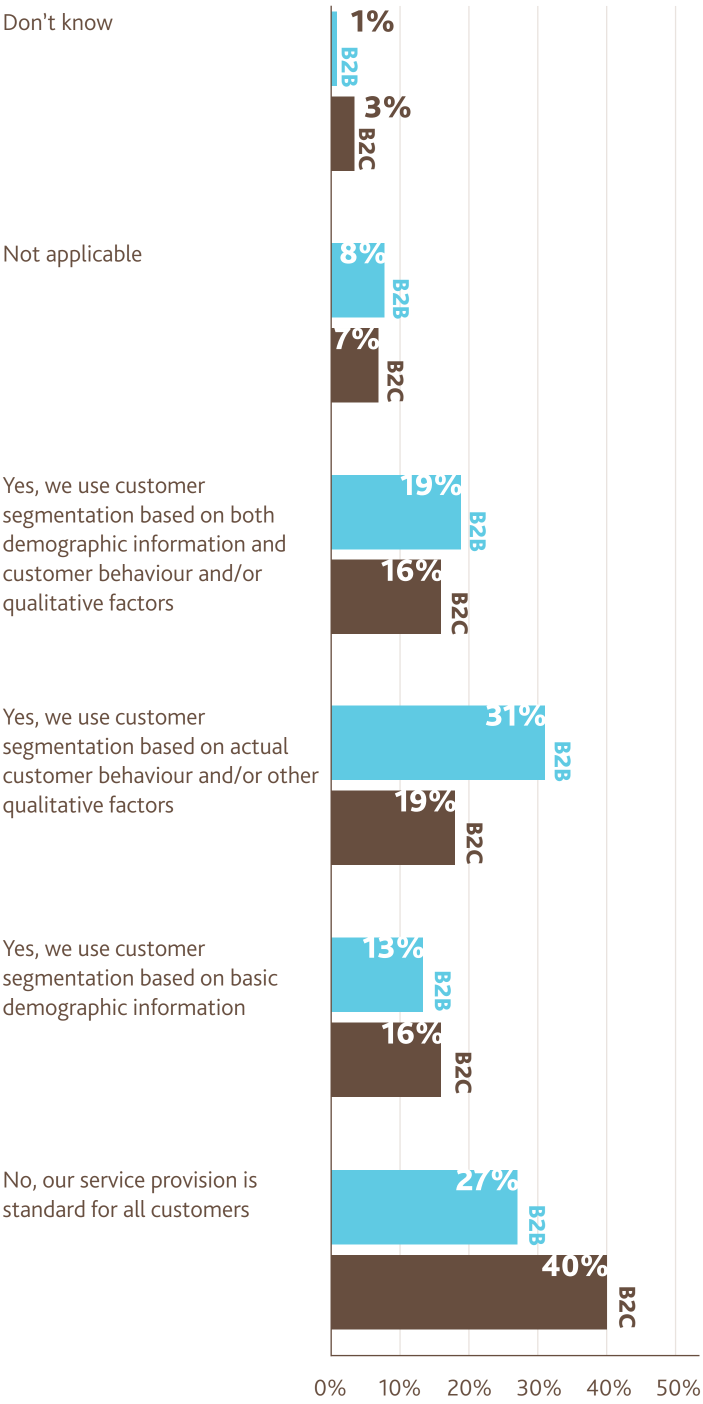
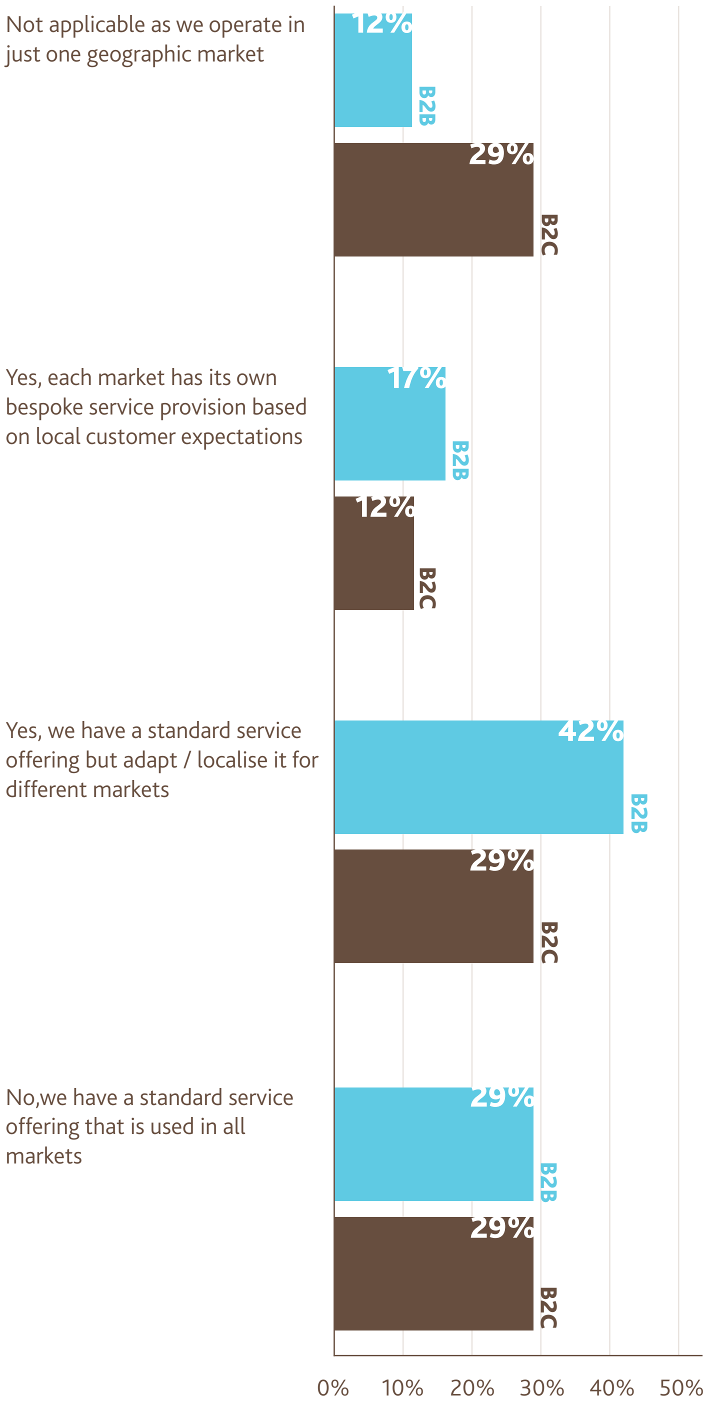


CHART 11*

Q: *"Have you adapted your service provision for the different geographic markets your company operates in?"*



CUSTOMER SERVICE MEGATREND 08

CUSTOMER EXPECTATIONS INCLUDING THE PURPOSE OF THE STORE ARE EVOLVING WITH NEW TECHNOLOGY

Mobile devices are leading the way in changing customer expectations. By always being able to access any information, at anytime, people will increasingly expect this throughout their lives. Almost a third of respondents say their customers expect to be able to get in touch with them 24/7. And when asked about the drivers changing customer service today, communications technology topped the list (selected by 53%), followed by more available information (46%) and increased competition (44%).

"The other trend we're certainly seeing, and something we're very alive to, is that the business is moving away from the desk or home and onto tablets and mobile devices," confirms Net-a-Porter's Mr Sebba, noting that this is particularly evident on its sub-brand, Mr Porter, which sells high-end fashion for men. "We're spending a lot of effort ensuring our mobile apps are as good as anything in the market, if not better," he says.

But as with social media, most mobile technology is still essentially new. The most hyped devices, Apple's iPhone and iPad, were only introduced in 2007 and last year, respectively. In the coming decade, a new generation of innovation will emerge on the back of these devices and a rapidly growing list of rivals. Some of this innovation may also come from unexpected sources. Many emerging markets have leapfrogged traditional methods of internet access and adopted mobile connectivity more rapidly than anywhere else. In countries like Kenya, where consumers have had miserable access to retail banking services, the introduction in recent years of a mobile phone-based cash deposit and transfer system, called M-Pesa, has spread like wildfire.

Elsewhere, a trial project by SAP, a software firm based in South Africa, has seen SMS-based applications developed for rural communities, allowing them to aggregate their purchases from a distant store, which then delivers the entire community's order in a single go to achieve economies of scale. "On the e-commerce side, we have a huge population enabled with cell phones," says Pick n' Pay's Mr Ackerman. "Interaction on mobile media is huge here and growing at a huge pace."

Already, the retailer is adding a range of electronic services to make life easier for its customers, such as providing payment services and access to government grants. "You can scan your finger at the till-point to collect your pension," notes Mr Ackerman. By 2020, developed market firms may be learning new mobile tricks from their emerging market rivals. And by then, mobile devices will also help change the in-store experience.

Today, most shops are largely transactional places, but over the coming decade their role will evolve. In part, they will become showcases: places for consumers to kick the tyres of a new purchase. "The role of the high street might shift to becoming a contact sport: looking, feeling, asking," says BT's Dr Millard. Over a third (37%) of survey respondents see the distinction between the online and offline experiences completely blurring by 2020. In the technology sector, Apple has led the way, opening hundreds of stores globally that provide a hands-on browsing experience by letting anyone come in and use their devices for as long as they want. Most recently, the firm has removed payment points, instead simply enabling all sales attendants to act as till points wherever they are, using mobile devices.

... continued overleaf

> "interaction on **mobile media** is huge and growing at a **huge pace**"
>
> **JONATHAN ACKERMAN**
> Customer Services Director
> Pick 'n' Pay

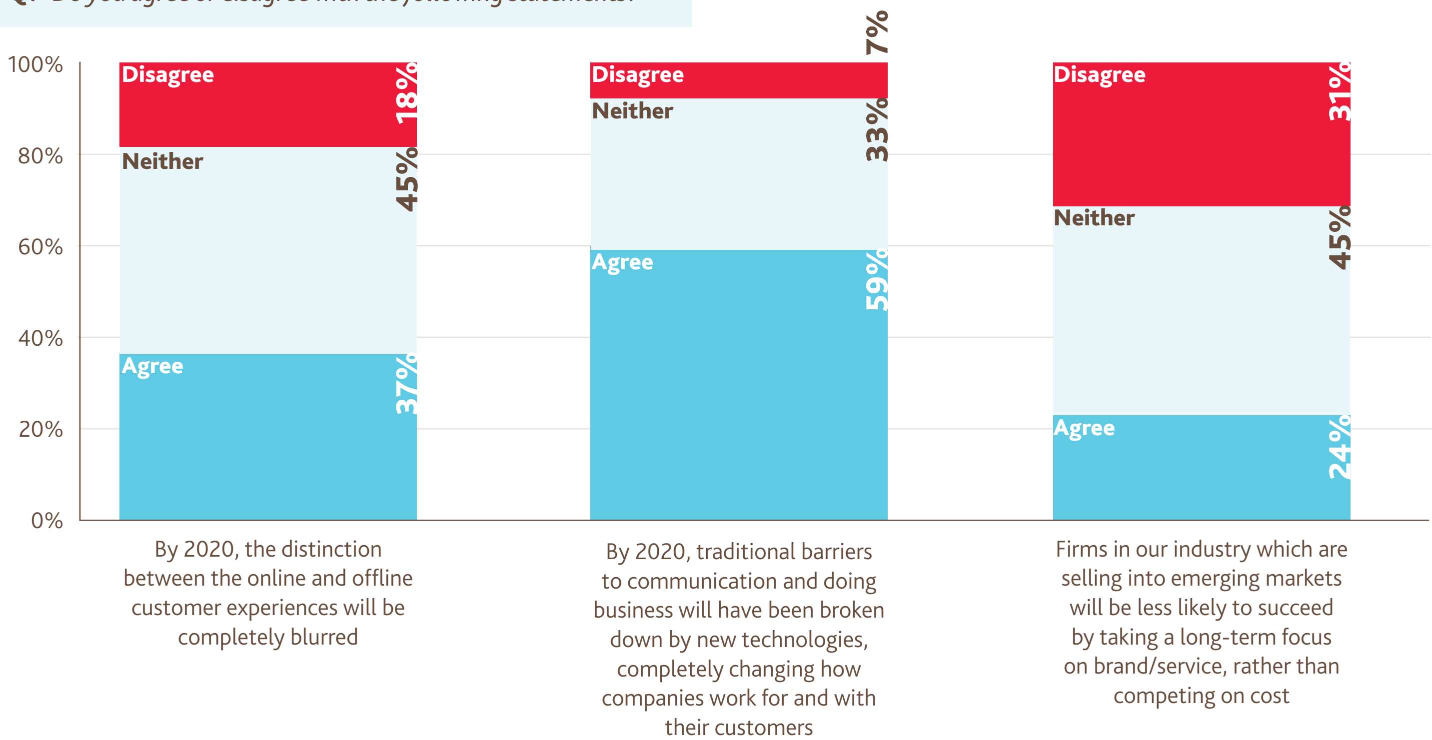
CHART 12*

Q: *"Which of the following channels do you use to interact with customers now and which do you expect to use in 2020? Select all that apply"*

	Now	in 2020
In person/sales force	398 (83%)	320 (67%)
Stores/outlets	108 (23%)	110 (23%)
Mobile devices	147 (31%)	257 (54%)
Telephone	297 (62%)	206 (43%)
Call centre	115 (24%)	122 (25%)
Email	335 (70%)	303 (63%)
Website	308 (64%)	321 (67%)
Social media	134 (28%)	291 (61%)
Mail	198 (41%)	120 (25%)
Instant messaging services	72 (15%)	188 (39%)
Other, please specify	16 (3%)	24 (5%)

CHART 13*

Q: *"Do you agree or disagree with the following statements?"*



* source: Economist Intelligence Unit

CUSTOMER SERVICE MEGATREND 08 *continued*

CUSTOMER EXPECTATIONS INCLUDING THE PURPOSE OF THE STORE ARE EVOLVING WITH NEW TECHNOLOGY

New technologies, such as Square, from a 2010 start-up founded by Jack Dorsey, co-founder of Twitter, enables anyone to add a tiny (free) dongle to a smart phone to allow it to take credit card transactions. "You can now take cards as a small business, or burger van, or coffee shop, so you can completely bypass the traditional route," says Sense Worldwide's Mr Millar.

It is breakthroughs like this that firms, especially in the B2C space, believe will change service in the future: 15% selected "some new technology that can't be predicted right now", second only to increased global competition (23%), in terms of key drivers of change in customer service by 2020. Similarly, over half (59%) of survey respondents believe that by 2020, traditional barriers to communication and doing business will have been broken down by new technology, completely changing how companies work for and with their customers.

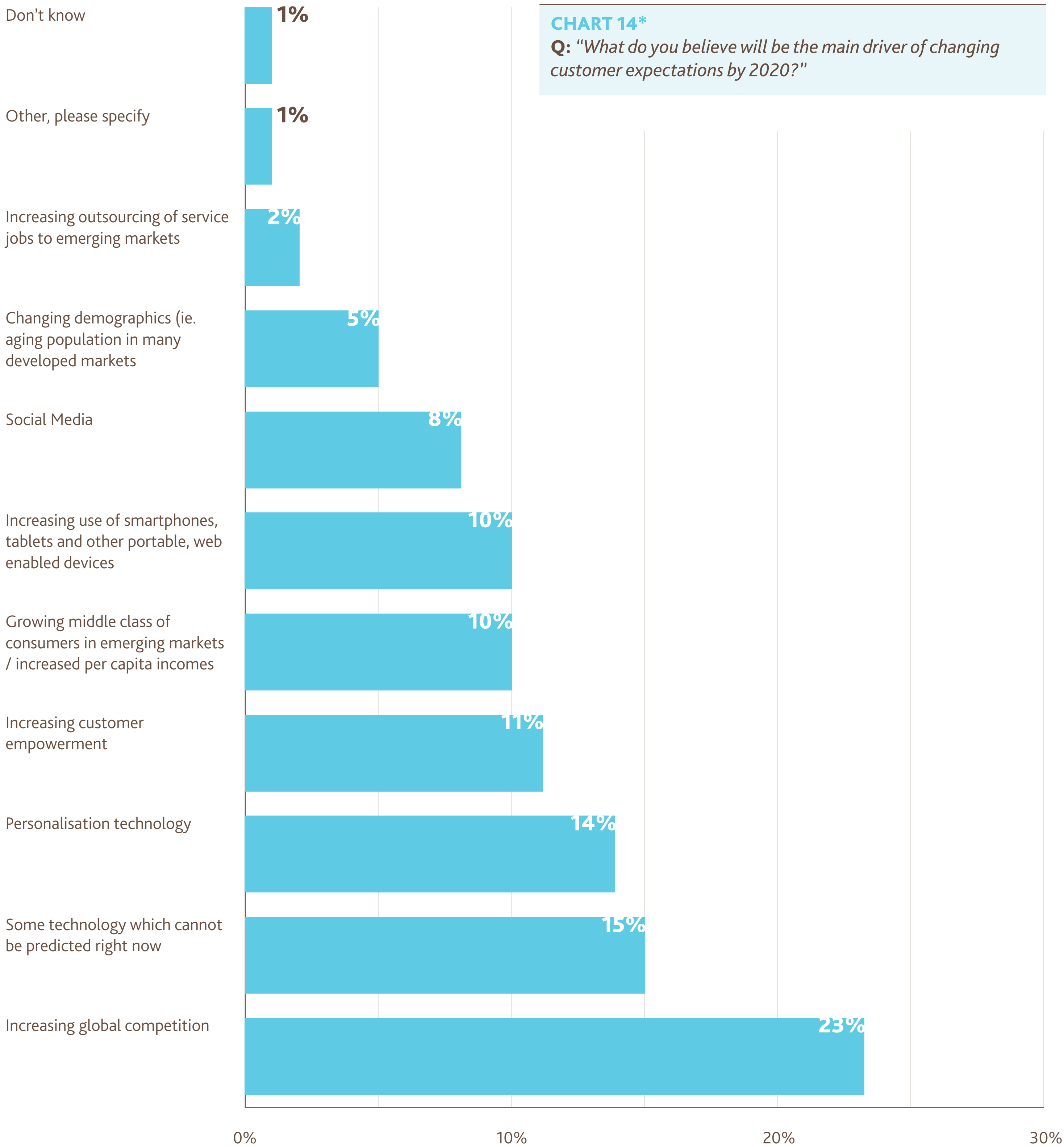
More importantly, physical stores will focus more on advising and guiding customers. At the start of this century, for example, many banks saw opportunity to cut costs by curtailing their retail stores in favour of automation, rolling out cash machines and online banking instead.

But this trend has reversed, with many bank branches reopening and becoming advice centres where customers discuss more complex queries, even while normal transactions are carried out on self-service kiosks. "We will need to adapt [to online retailing], but never lose site of our valuable mortar network. It will prove maybe even more valuable to us in 2020 than today," notes one executive polled for this report.

Finally, physical stores will increasingly provide consumers with an experience. Mr Millar dubs this the "fetishisation" of services: the turning of a relatively mundane transaction into an experience. One example is the coffee industry. "Buying coffee 15 years ago was a fairly transactional process," says Mr Millar. "Now it's an extraordinary, customised, fetishised process, which comes with a whole language of its own." In the coming decades, firms looking for an edge will seek out relatively mundane processes and look for ways to make them visible and exciting again. By 2020, even a visit to the dentist may seem appealing.

CHART 14*

Q: *"What do you believe will be the main driver of changing customer expectations by 2020?"*



* source: Economist Intelligence Unit

CONCLUSIONS

LESSONS FROM SERVICE LEADERS

If customer service is going to be increasingly important in the decade ahead, what are the leading practitioners already doing differently today? In our survey, about 16% of executives describe their firms as "excellent" at customer service, relative to their peers. Segmenting these firms against those that rate themselves as merely average, or below average, yields some insights into how some leading customer service practitioners are working:

- While the average firms of today compete primarily on quality, service leaders unsurprisingly already prioritise customer service as their competitive differentiator, far ahead of cost. In line with this, these firms are far more systematic about implementing proper systems for tracking customer feedback and complaints, as well as identifying potential service weaknesses. Nearly 50% more have these in place, ahead of weaker rivals.

- Three quarters of customer service leaders have empowered their staff to make decisions when resolving customer issues, compared with less than half among average firms. And while weaker firms are investing more heavily in standardised service processes, leading firms are prioritising staff training and development, and also working harder to define service standards and goals.

- While both strong and weak service firms see information-enabled consumers as a major driver for change in recent years, weaker firms think communications technology is the primary driver, while leaders see competition as the defining force.

- Service leaders are more focussed on social media already: they monitor it more closely, use it more often to connect with clients and generally collect more external data to feed into their tracking systems. Related to this, a far higher proportion of leaders say their firms are excellent, or above average, at using technology to understand their customers.

- Finally, while service leaders expect to use service to stand out from the crowd, it is largely only the weaker firms that expect typically to charge a premium for this service.

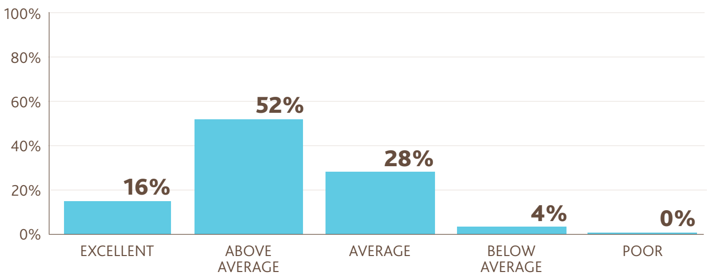
APPENDIX

In May-June 2011, the Economist Intelligence Unit conducted a survey of 479 business leaders in Europe, the Middle East, Africa and Asia Pacific, spanning all industries and all revenue brackets.

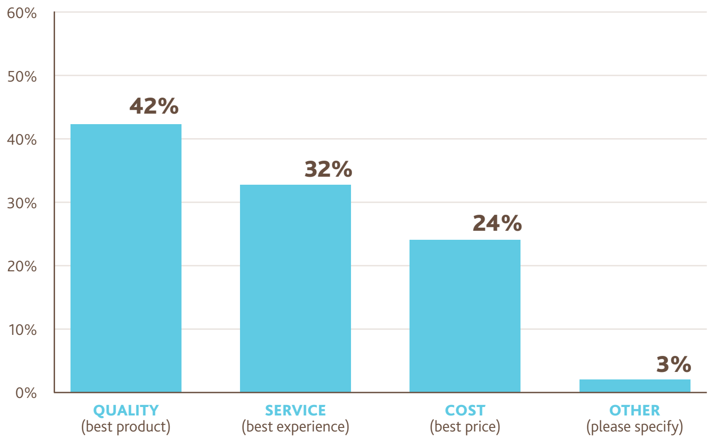
Please note that not all answer add up to 100% because of rounding or because respondents were able to give multiple answers to some questions.

APPENDIX

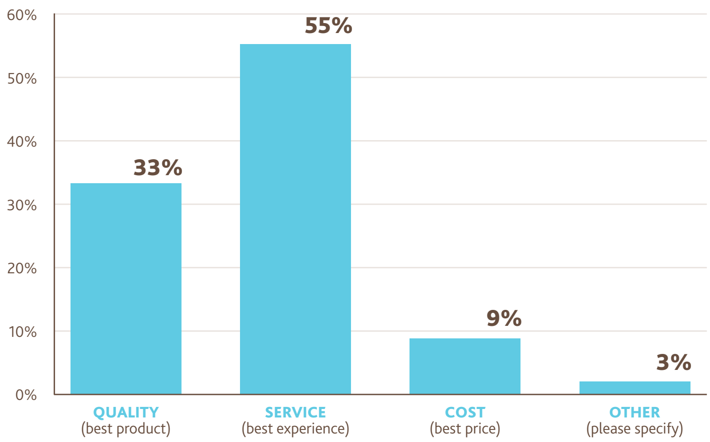
Q1: *"Compared to your industry peers, do you consider your firm's customer service to be:"*



Q2a: *"On what basis does your company primarily compete now?"*



Q2b: *"On what basis do you expect your company will primarily compete in 2020?"*



Q3: *"Which of the following channels do you use to interact with customers now and which do you expect to use in 2020? Select all that apply"*

	Now	in 2020
In person/ sales force	398 (83%)	320 (67%)
Stores/outlets	108 (23%)	110 (23%)
Mobile devices	147 (31%)	257 (54%)
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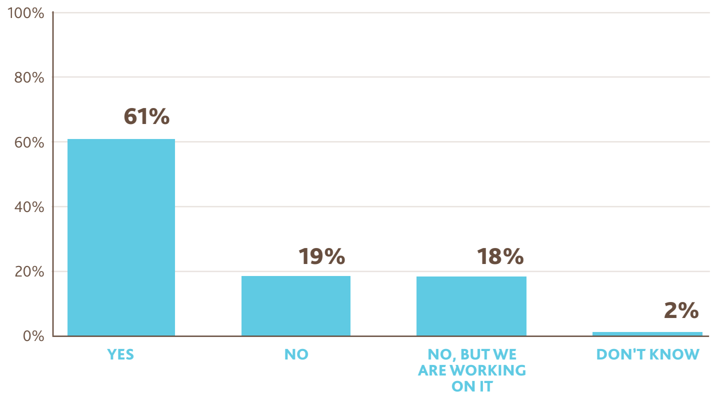
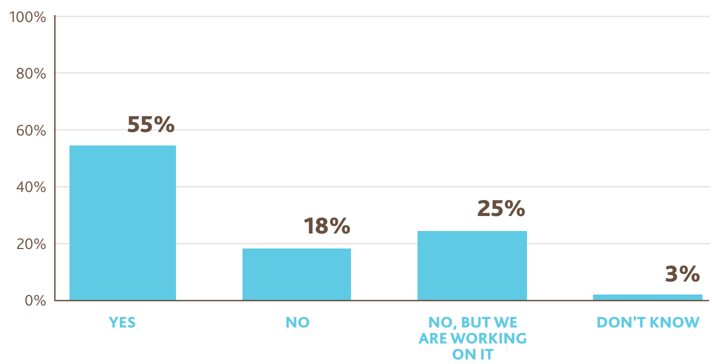
Social media	134 (28%)	291 (61%)
Mail	198 (41%)	120 (25%)
Instant messaging services	72 (15%)	188 (39%)
Other, please specify	16 (3%)	24 (5%)

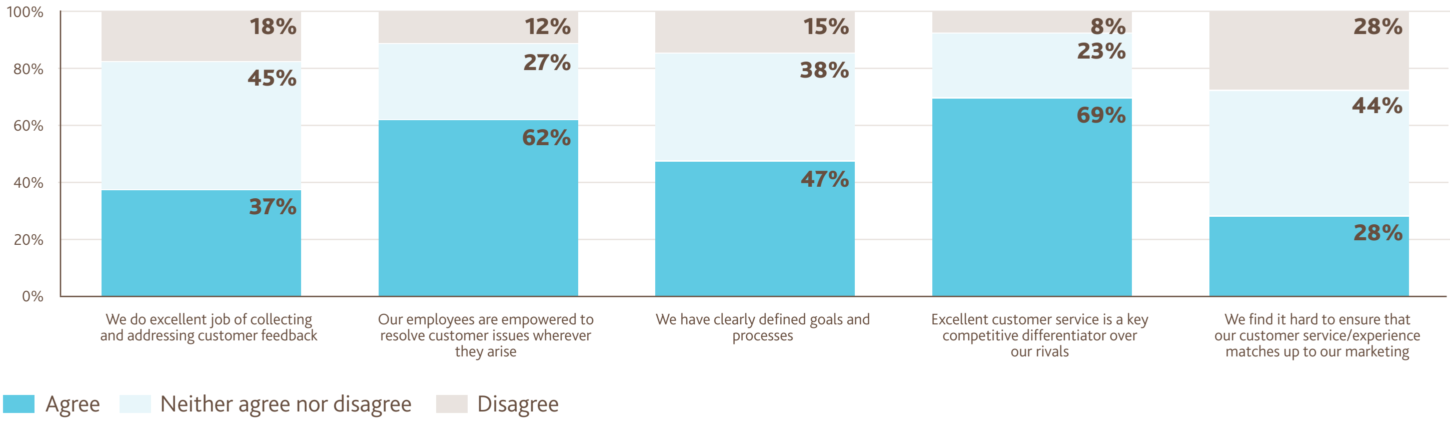
Q4a: *"Does your company have a defined, enterprise-wide strategy for tracking customer feedback and complaints?"*



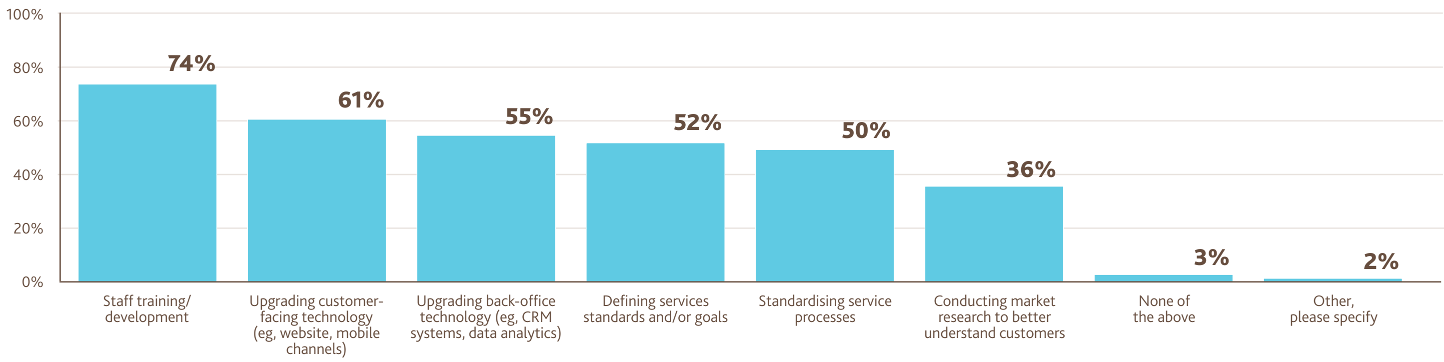
Q4b: *"Does your company have a defined, enterprise-wide strategy for identifying problem areas of customer service?"*



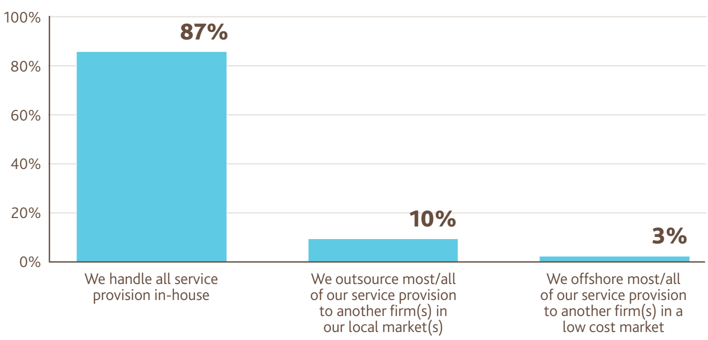
Q5: *"Do you agree or disagree with the following statements?"*



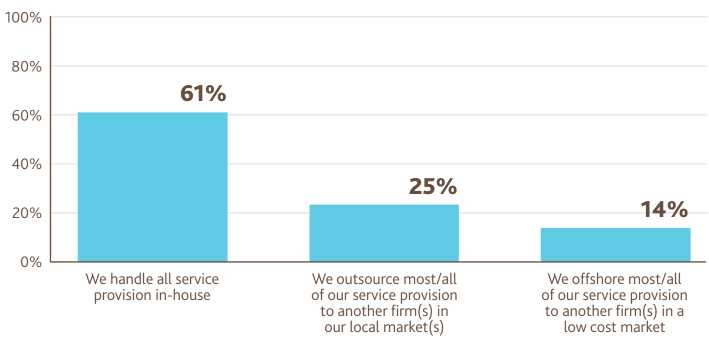
Q6: *"In which of the following aspects is your company investing in order to improve its customer service? Select all that apply."*



Q7a: *"Which of the following best captures your firm's approach to service provision and customer support now?"*

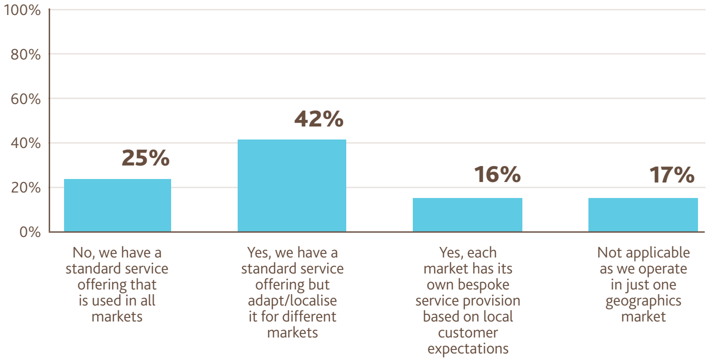


Q7b: *"Which of the following is your firm most likely to employ for service provision and customer support in 2020?"*

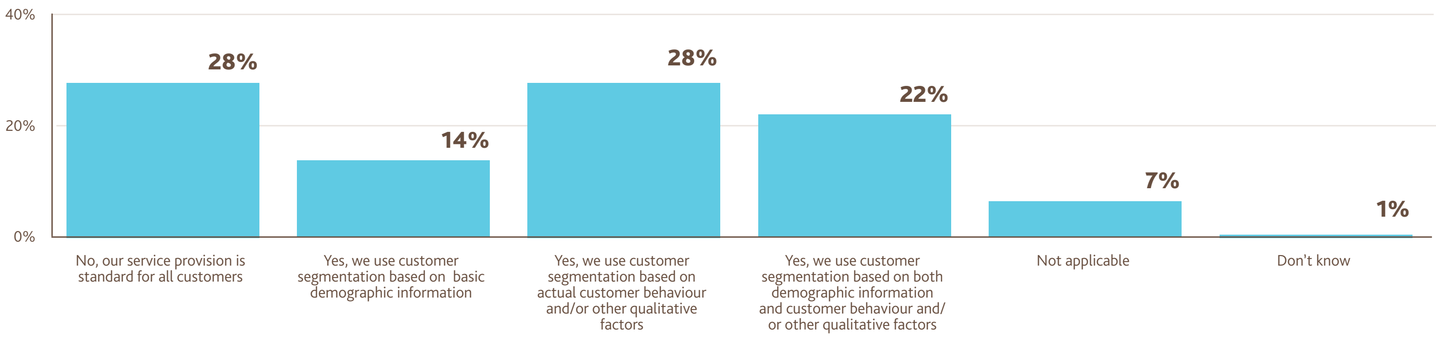


APPENDIX

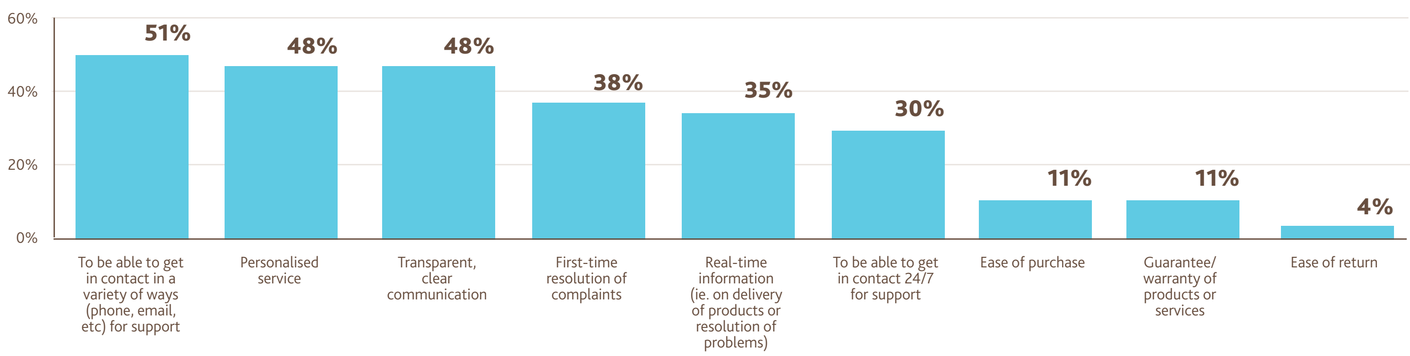
Q8: *"Have you adapted your service provision for the different geographic markets your company operates in?"*



Q9: *"Do you utilise customer segmentation in order to give more specialised service?"*



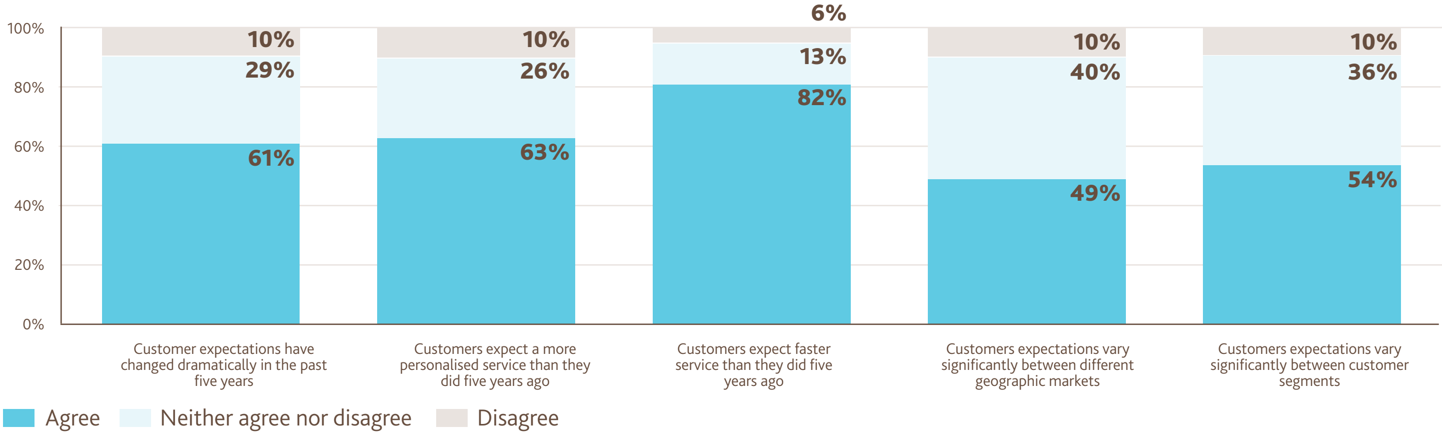
Q10: *"What do your customers expect from your company in terms of service? Select the top three expectations."*



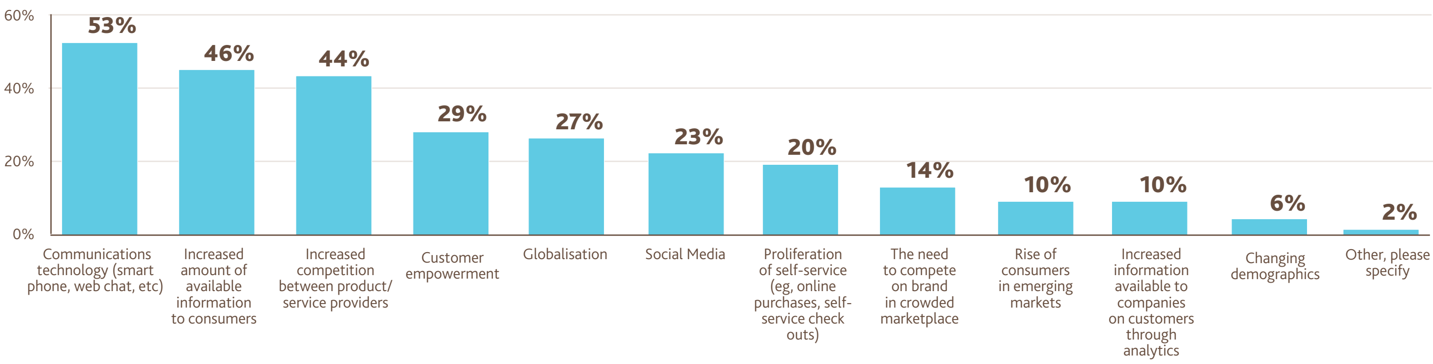
Q13: *"What are the top barriers to delivery of good service in your industry? Which do you expect to be the top barriers in 2020? Select the top two for each."*

	Now	in 2020
Lack of qualified staff	223 (47%)	189 (39%)
Lack of investment in technology	124 (26%)	82 (17%)
Lack of investment in staff/training	111 (23%)	72 (15%)
Increased complexity of products / services	139 (29%)	241 (50%)
Lack of clear service goals and processes	80 (17%)	32 (7%)
Lack of clearly defined service standards	63 (13%)	37 (8%)
Insufficient capacity to handle customer demand	73 (45%)	82 (17%)
Poor staff morale	45 (9%)	29 (6%)
Difficulty in matching customers' in-store experience with virtual experience	21 (4%)	74 (15%)
Other, please specify	8 (2%)	8 (2%)

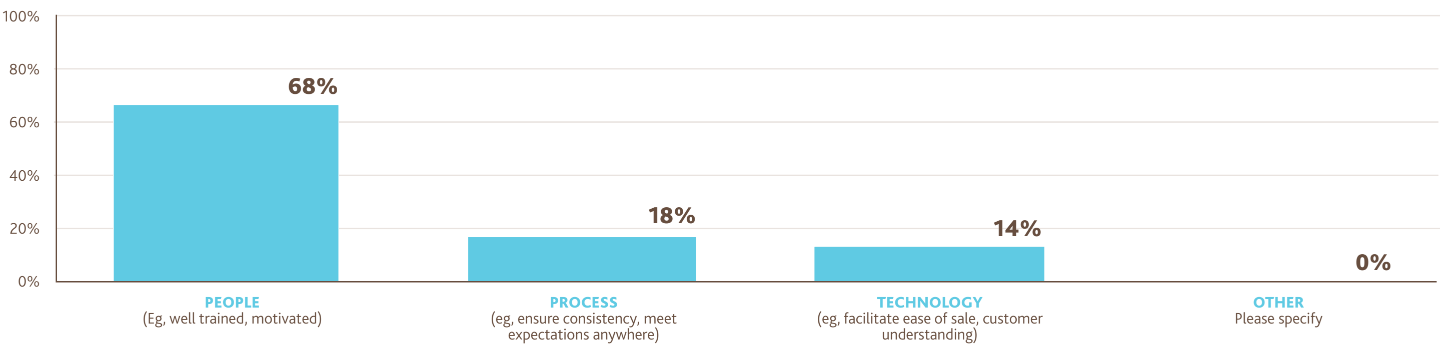
Q11: *"Do you agree or disagree with the following statements?"*



Q12: *"What have been the main drivers of change in customer expectations over the past five years? Select the top three"*

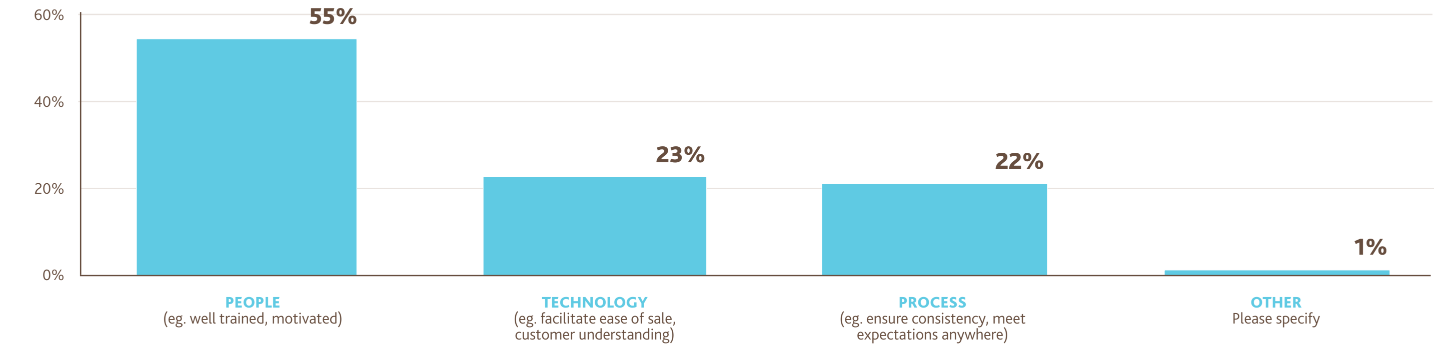


Q14a: *"Which of the following matters most to delivering good service in your industry now?"*

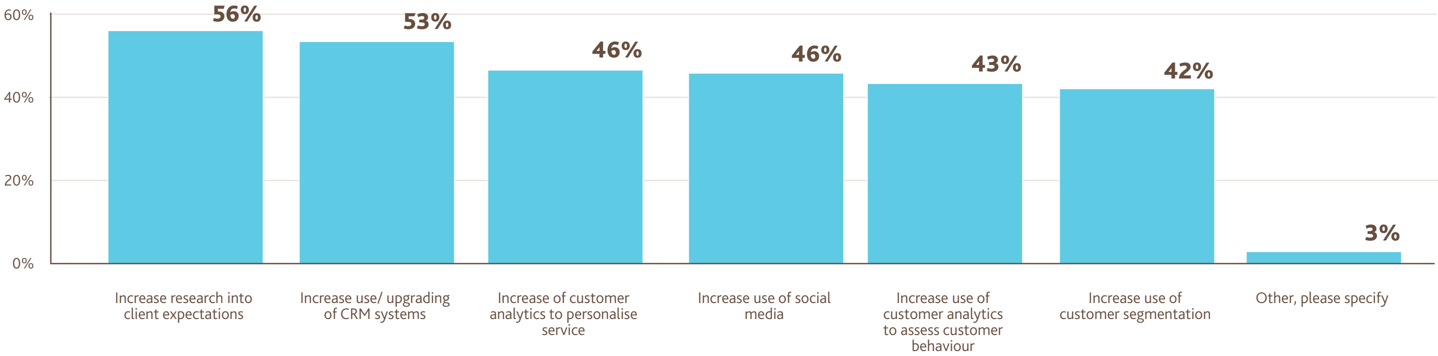


APPENDIX

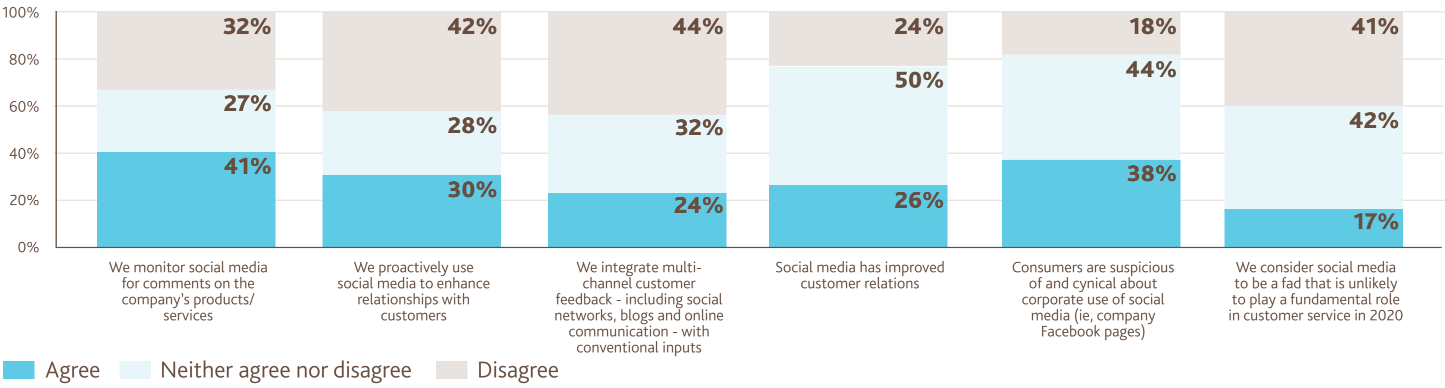
Q14b: *"Which of the following will matter most to delivering good service in your industry in 2020?"*



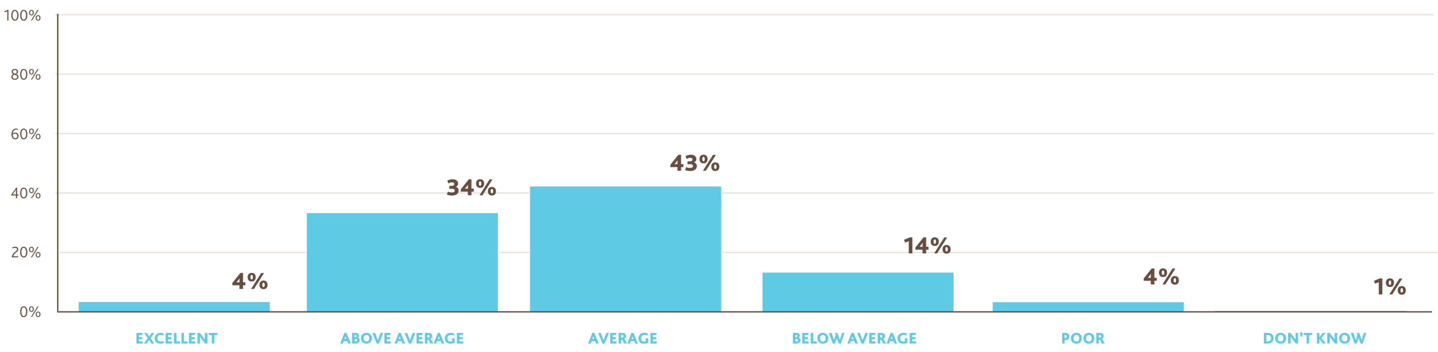
Q15: *"How will companies in your industry adapt to meet customer expectations in 2020? Select all that apply."*



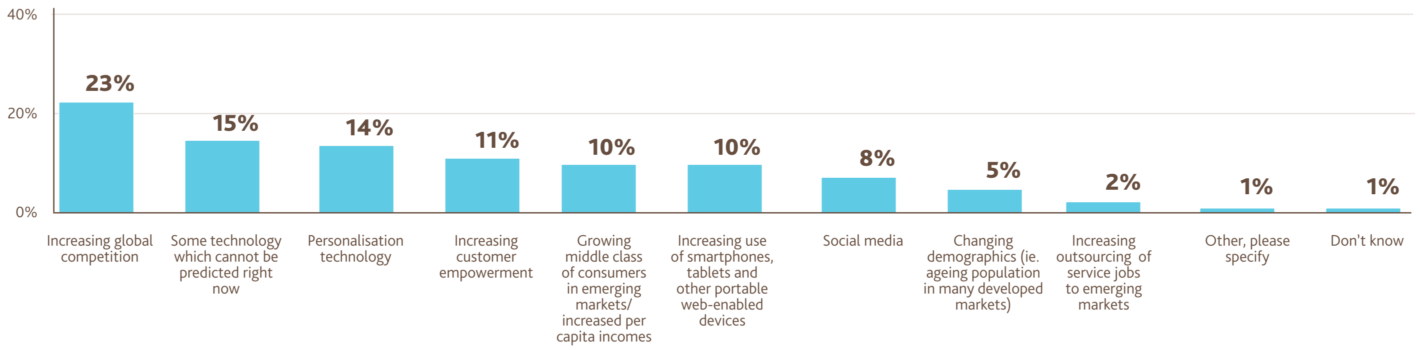
Q16: *"Do you agree or disagree with the following statements about social media?"*



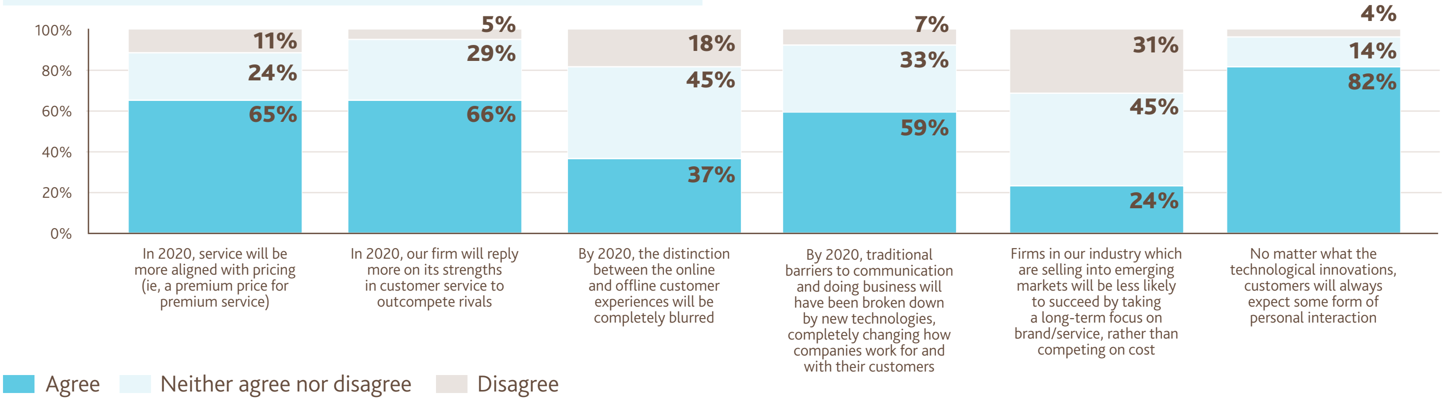
Q17: *"How well do you think your company uses technology to understand its customers and improve service?"*



Q18: *"What do you believe will be the main driver of changing customer expectations by 2020?"*

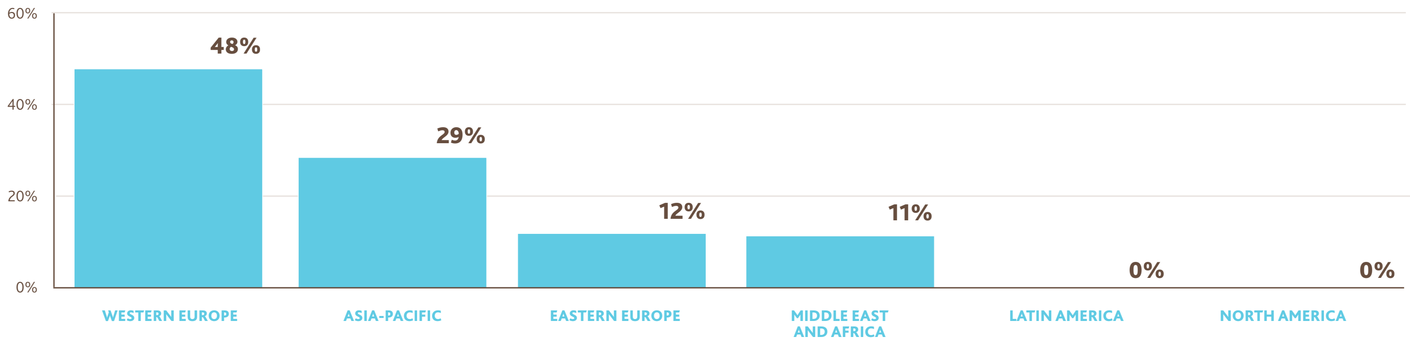


Q19: *"Do you agree or disagree with the following statements?"*

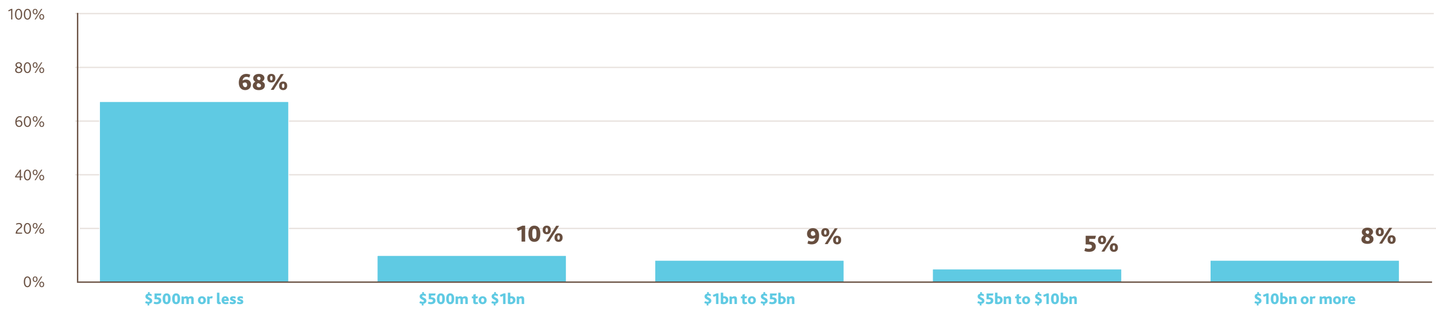


APPENDIX

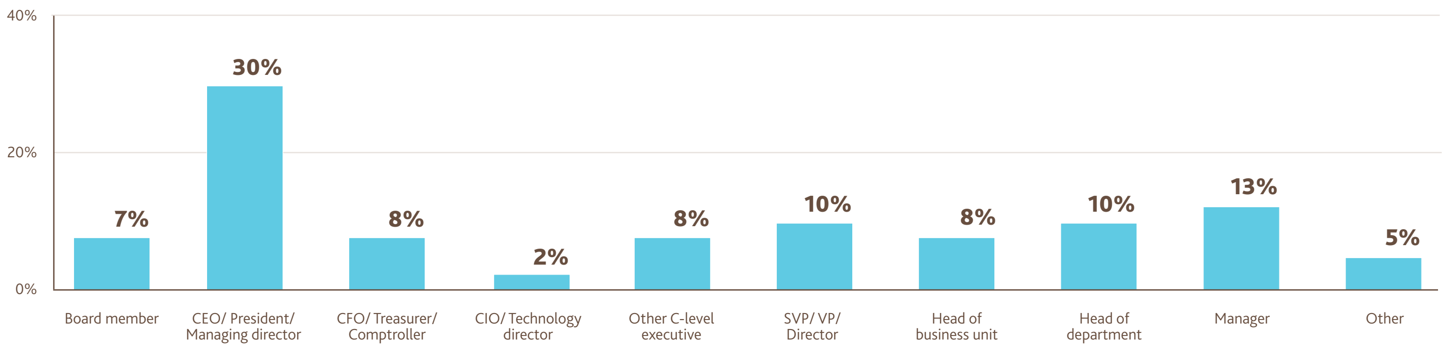
SURVEY DEMOGRAPHICS:
Q: *"In which region are you personally based?"*



SURVEY DEMOGRAPHICS:
Q: *"What are your organisation's global annual revenues in US dollars?"*

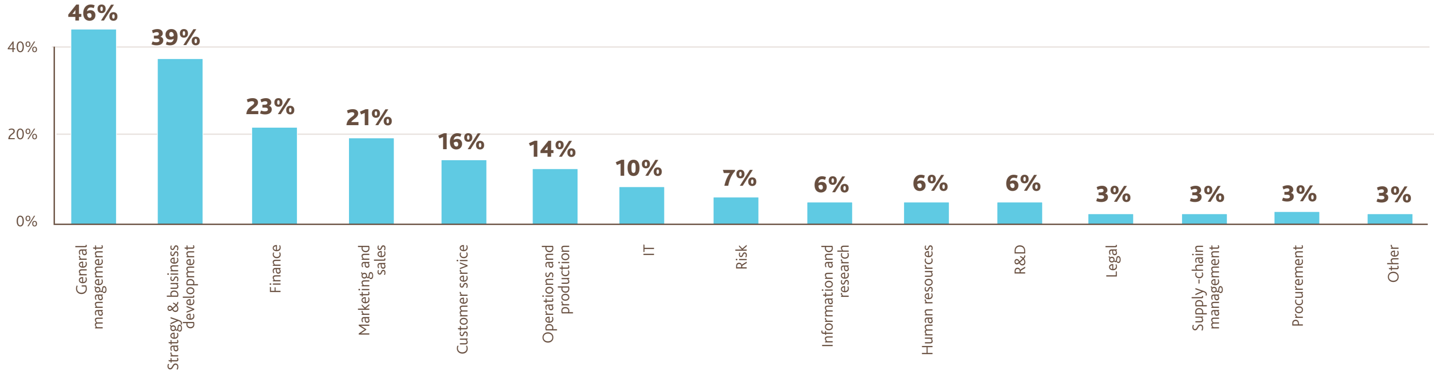


SURVEY DEMOGRAPHICS:
Q: *"Which of the following best describes your job title?"*



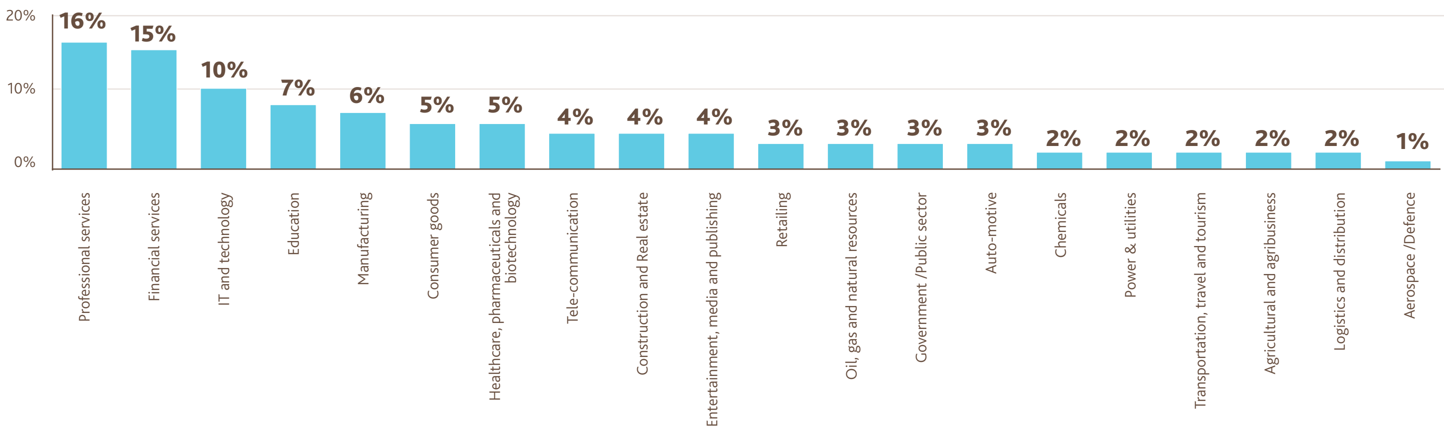
SURVEY DEMOGRAPHICS:

Q: *"What is your primary industry?*



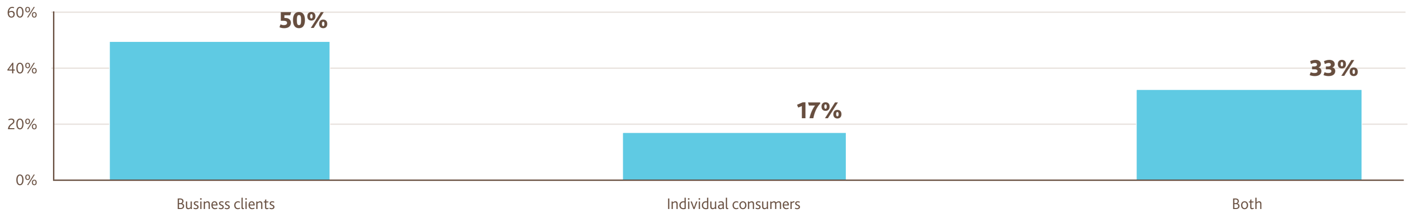
SURVEY DEMOGRAPHICS:

Q: *"What are your main functional roles? Choose up to three."*



SURVEY DEMOGRAPHICS:

Q: *"Does your business primarily serve individual consumers or business clients?"*



SERVICE 2020: MEGATRENDS FOR THE DECADE AHEAD

ARE YOU READY?

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