First, we need to obsess about our customers. At the core of our business must be the curiosity and desire to meet a customer’s unarticulated and unmet needs…. We need to be insatiable in our desire to learn from the outside ... whilst still innovating to surprise and delight our users.

Satya Nadella
CEO, Microsoft
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The origins of experience transformation

For centuries, companies sought to compete on either price or innovation. Market leaders battled to differentiate their businesses by either lowering costs or boosting the end quality and features available for consumers. Challenges to achieving success on a large scale included maintaining product quality, uniformity, and supply consistency. Product or service personalization was reserved for a few niches such as luxury and artisanal items.

As Henry Ford famously quipped, “(A customer) can have any color he wants so long as it is black.”

In recent years, however, a third, more personalized dimension that extends beyond the usual value offered by the final product or service has risen in prominence: customer experience. Customer experience encompasses all the touchpoints along a customer’s journey—from discovery and purchase consideration to use and advocacy. It includes touchpoints that are known or “visible” to the customer and those that are not. Innovation takes the form of experience transformation. It uses human-centered design principles to create value at every touchpoint, increase satisfaction and loyalty, and, ultimately, maximize customer lifetime value.

Neglecting customer experience can have a significant impact on the bottom line. For example, in a study of banks, 85 percent of customers increase their spending after a positive experience, whereas 70 percent reduce their commitment following a negative one (McKinsey, 2006). On average, disgruntled customers personally tell 12.4 people about their grievances, and social media posts reach more than 800 people (Retailtouchpoints.com, 2017). In all, poor customer experiences are estimated to cost businesses as much as $62 billion per year (Newvoicemedia.com, 2016).

DATA POINT

By 2020, customer experience will overtake price and product as the key brand differentiator.

Over the last hundred years there have been countless innovations in customer experience. The following is a representative subset of breakthroughs that revolutionized their respective industries.

**Major milestones in customer experience**

- **1930**: King Kullen, the first "modern supermarket," opens in NYC.
- **1964**: Japan introduces the first high-speed bullet train, Shinkansen, with an average speed of 160 km/hr.
- **1966**: MIT welcomes Eliza, the first chatbot.
- **1973**: Xerox releases the Alto—"the first individual computer with a mouse." 
- **1995**: eBay launches, transforming online consumer-to-consumer transactions. Today, it supports $80 billion in transactions annually.
- **2008**: Daimler launches Car2Go, a one-way car rental service in Um, Germany.
- **2012**: Nike introduces NikeID, a service with which customers can customize their shoes.
- **2014**: Microsoft releases Skype Translator, a real-time voice translation service.
- **2017**: Ikea changes furniture retail with augmented reality to show 3D product renderings in customers’ homes.
Experience transformation is not easy.
Companies have long claimed to “put the customer first” with trite aphorisms (for example, “the customer is always right”)—but their efforts often give way to competing priorities, such as cost-cutting, product quality, and capital improvements. Further, many businesses lack the outside-in knowledge of a customer’s journey and the essential data to begin.

Shifting resources and organizational alignment to focus on customer experience requires a change from the top down, as business stakeholders must work across traditionally separate organizational areas to produce a high-quality journey. In addition, competing based on superior customer experience demands a profound cultural shift to elevate human-centered design and customer empathy. At the same time, organizations must pursue the latest technological advances in areas such as machine learning and artificial intelligence (AI).

Given these organizational, cultural, and technical hurdles, it’s no surprise that most companies fall short of their ideal. For example, in one study of the retail sector, only 32 percent of shoppers visit stores because they like the in-store experience, and 77 percent say they avoid stores (Salesforce.com, 2017).
Many pathways, one destination

Customer experience has emerged as a competitive differentiator due to a number of drivers, including a cultural shift away from ownership, shortened product lifecycles, and innovations in machine intelligence and capability.

A cultural shift from ownership to experience

Customers increasingly want what products do more than they want the products themselves. They are also more willing to change styles or products frequently to suit their immediate needs. As products and services become increasingly experiential, perceived value is shaped at every touchpoint along a customer’s journey with a brand, not just by the product interaction alone.

Shortened product lifecycles and increasing consumer propensity to switch

Businesses are under more pressure to retain customers and deliver value over multiple product iterations by being highly attuned to market trends and customer segments (Forrester, 2015). With less time to capture the margin and economies of scale of any single cost or feature innovation, building customer understanding and loyalty through experience transformation can allow businesses to retain customers on an ongoing basis.

Growing machine intelligence and capability

Recent innovations in cloud computing, marketing analytics, AI, cognitive services, and the Internet of Things are creating opportunities to collect and analyze huge amounts of customer data, mine the long tail of demand, and drive increasingly personalized experiences at a lower cost than ever before. Prepackaged big data toolkits in areas such as chat interaction, search optimization, pattern identification, and speech recognition are exploding access and lowering costs across the board. In short, as one industry analyst has observed, the holy grail of marketing is being realized—businesses can drill down to a segment of one and provide personalized and highly valued experiences (McKinsey, 2016).

DATA POINT

51 percent of consumers believe that their overall experience as a customer has improved in recent years.

Martin Koehring, “Creating a Seamless Customer Experience,” The Economist Intelligence Unit, 2015
Traveling beyond the user—to engage the human

While customers still follow a typical lifecycle at a high level—learn, buy, use, grow, retain—an individual customer experience may thread across multiple (and varied) channels, goals, interactions, and more.

To be successful in experience transformation, businesses need to focus on increasing customer convenience, seeing the customer as an individual, giving immediate value, using an outside-in perspective, and being responsive to customer trends.

Increasing customer convenience

Language translation, high-powered AI, and other cognitive services allow you to meet customers anytime, anywhere. Advanced tools such as image processing, audio-to-text conversion, intelligent recommendation and search, and sentiment recognition mean machines can simulate humans in ways that were previously only possible in science fiction. These experiences can be always on—only a swipe, chat, or voice command away. For example, UPS’s chatbot allows customers to easily track shipments, determine shipping costs, and find UPS locations near them.

Seeing the customer as an individual—not a number

By integrating data streams across business lines and channels you can achieve a comprehensive customer view and get down to a segment of one. You can now envision the ideal journey from the outside-in using design-thinking techniques. Try to measure how well you know your customer (needs and preferences), not how far they are in a predefined journey or sale. It’s necessary to develop a comprehensive omnichannel strategy to support the customer journey throughout. Increased customer data benefits customers as well by reducing the time needed to understand their situations and making it possible to cater to them as valued and unique individuals.

Giving the customer immediate value in every context

Advanced sensor networks can identify a customer quickly, understand what the customer needs, and deliver value regardless of where the customer is on the customer journey. For example, an airport app with geo-location could open to different screens, depending on whether the user is outside security (with guidance for checking in) or inside the gate (with relevant gate and in-flight information). Delta Airlines is a leader in this space with an app that not only provides booking services and flight info but also automatic check-in, parking reminders, baggage tracking, and in-flight features.
Using an outside-in perspective to give the customer a streamlined journey

The ideal approach is to focus on those things that truly bring customer convenience and delight, and that also have a business case to support them. In addition, it is necessary to respect the autonomy and individuality of each customer while also shifting them toward more profitable and enjoyable journeys. For example, machine learning algorithms can help customers discover other relevant products by promoting additional products at checkout that other, similar customers have recommended.

Being flexible and responsive to trends in customer needs

Using an agile, design-thinking mindset, one can quickly experiment with, learn from, adapt, and revise touchpoints. By continuously iterating, you align your people, processes, and product more closely to customer needs, thereby delivering a superior customer experience.

For example, the cosmetics company Sephora introduced a successful sweepstakes competition on its chat platform, and it built on this with an experimental auction where customers bid loyalty points earned through interactions with the brand.

In thinking of an “ideal customer experience,” customers say their top priorities are fast response to inquiries or complaints and simple purchasing processes.

Martin Koehring, “Creating a Seamless Customer Experience,” The Economist Intelligence Unit, 2015

Nedbank reimagines the banking experience

Nedbank, one of the top four banks in South Africa, introduced video banking as an alternative for clients during peak demand periods. The service quickly grew to account for up to 40 percent of client inquiries. In 2016, Nedbank took the service a step further by extending it to its ATM network, essentially providing a 24-hour, on-demand teller.

Nedbank also supports the client experience through EVA—a chatbot on Nedbank’s website that answers client questions and completes basic forms. Debuting in 2017, it now handles up to 80 percent of some inquiry topics at only 10 percent of the cost of live agents. EVA has had some unexpected benefits, such as serving as an additional resource for live agents and improving consistency of responses across the business.

Finally, Nedbank’s Market Edge data-analytics tool for commercial clients uses big data analytics to provide an anonymized breakdown of clients’ customers’ spending patterns, demographics, income segmentation, and more. Nedbank’s clients value the enhanced insight into their customers, which helps them with everything from marketing operations to resource planning.
Finding the heart in the machine

Achieving experience transformation is not simple. Common barriers include failure to collect and use rich data on customers, as well as the lack of an integrated platform. Perhaps the most underestimated stumbling block is the need to work across traditionally isolated departments to elevate experiences across the customer journey.

Overcoming these challenges requires learning how to gather and use data across an organization to drive increasingly personalized and automated experiences.

Getting the data and learning as much as you can

Most organizations lag in integrating data across the organization into comprehensive customer views. Collecting and integrating data allow for more accurate and rapid responses downstream. Robust customer relationship management (CRM) systems that integrate data from traditionally separate organizational departments as well as third-party contextual data, can vastly improve an organization’s ability to track and serve a customer throughout his journey.

Using the data

It’s important to drive data proficiency throughout the organization by encouraging business users to familiarize themselves with, and use, data (for example, through manual A/B tests). This will help lay the foundation for more sophisticated data-driven experiences.

Getting personal

Providing a unique and valued customer experience at every touchpoint is possible today through advances in AI, machine learning, and other cognitive services. Customers want seamless, always-on, omnichannel experiences that accommodate their individual preferences and needs. It’s essential also to deploy human-centered design principles and customer empathy alongside technology to improve the creative process.
Creating a robust, agile experience transformation platform

Move beyond point solutions to develop a broad platform that can support your organizational needs in the future. There are three essential steps you need to take:

1. **Survey the landscape, map your ideal platform state, and define your priorities.** Brainstorm tools and assets you could be using. How can you integrate and democratize your data platform so that business users can visualize, learn from, and use data to improve customer experience? What safeguards do you need to put in place?

2. **Gradually upgrade and implement your ideal platform using an agile, fail-fast approach to test, learn, hone, and improve.** Build incrementally as the business case presents itself, but always with the endpoint of a full platform in mind.

3. **Accelerate with a virtuous innovation cycle.** Increasingly automate your processes and transformations to the point of addressing customer feedback in near real time. Empower business users and machines to innovate, personalize, and influence the customer journey (with the focus on customer value and business results).

Adapting your operations and organizational structure

In terms of cost breakdown, roughly for every dollar spent on experience transformation, five dollars are needed on back-end support to redesign and streamline operational and organizational functions. Organizations that are largely vertically structured benefit from a shift to a more matrixed structure with crosscutting leadership roles such as chief experience officer (CXO). In addition, if your operations are broken or inflexible, your transformation can only go so far before it hits a wall.

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**Pinnacle Hospital transforms the patient experience**

Pinnacle Hospital of Crown Point, Indiana, is improving real-time decision making, efficiency, and transparency for the benefit of patients. Pinnacle staff use big data to provide evidence-based medicine instantly at the point of care. For example, when determining a treatment plan for a patient, a doctor can easily search a database of thousands of similar past patients and outcomes across many scenarios and techniques to determine the best treatment plan. Enabling caregivers to make data-backed decisions is linked to faster patient recovery with fewer complications.

The hospital is also introducing smart wristbands that track patient vitals and communicate with patients, including when they leave the facility. The bands can be used to remind patients to take their medications and even alert staff when a patient gets out of bed.

“It is too early to provide ROI numbers on this solution, but I feel certain that we will be able to lower our hospital operating costs by 10 to 15 percent within 24 months of implementation,” says Pinnacle CEO Haroon Ansari.
Other developments will be subtler, but no less powerful. As machines improve customer listening and empathy capabilities, they will also get better at anticipating and improving routine tasks, leaving people more time to focus on creativity. Daily commutes, grocery replenishments, and even routine medical procedures will all be highly automated.

Finally, ambient intelligence—less intrusive and more convenient smart technology that recedes into the background—will grow, eventually unseating the primacy of the smartphone. Applications that once required swipes on a phone screen will be always available through a “smart cloud” of sensors and cognitive services—allowing the user to dictate and transform their experience throughout the day in ways never before possible.

Legitimate concerns about consumer privacy and manipulation will arise as the growing capabilities of technology are tested against laws and social norms. Companies will need to ensure their sophisticated algorithms are behaving ethically in areas such as profiling, bias, and respect for human dignity. Governing data capture and use will become much more important as its value increases and technology intrudes more upon our personal and private lives. Societies and individuals will choose to strike the balance differently, depending on their own historical, cultural, and environmental circumstances.

It will be an incredibly exciting time to be a consumer. The reduction in cost to serve will allow more people to enjoy highly personalized products and services that were previously the domain of the rich and privileged. The surge in possibilities will increase inclusivity, further benefitting traditionally marginalized groups. Ultimately, experience transformation will improve the daily lives of billions of people.

Looking to the horizon

While it may seem that the world has already come a long way in experience transformation, this is only the beginning. The next 10 years will see an increase in enhanced experience transformations as technology makes it cheaper and easier to implement customer-centric solutions.

Virtual and augmented reality will transform the purchase of items like cars and homes, allowing customers to demo features that they would be unable to experience otherwise. For example, Volvo is already using virtual reality to safely simulate built-in protections against extreme driving hazards.
Partnering with Microsoft on your journey

We understand that transforming the customer experience is both exciting and challenging because we are undergoing it ourselves. We also know that there is a multitude of options available and that you may not know where to begin. At Microsoft, we have partnered with some great companies from around the globe as they have embarked on their own transformational journeys. We are constantly learning alongside our customers how to adapt people, processes, and technology to meet the evolving needs of a modern organization.

We’re often asked, “What should we do next?” Our answer is that it depends on where you are and where you want to go in your digital journey. We know it is a journey, and we are here to work with you to gain clarity and deliver tangible outcomes. In many cases, organizations already have some of what they need to start, so it’s a matter of putting the pieces in motion.

Our approach is to start with a basic maturity assessment of the core topics introduced here, and then work with you to develop a clear roadmap and quick wins to garner confidence—in us and in your growing skill in experience transformation. Our collaboration can help you improve how you serve customers through data and technology platforms as you continue your experience transformation journey.
What’s next?
No matter where you are on your digital transformation journey, Microsoft Enterprise Services can help.

Empower employees
Empower a high-quality, committed digital workforce to work as a team anywhere, on any device, with seamless data access—helping you innovate, meet compliance requirements, and deliver exceptional customer experiences.

Engage customers
Reimagine the customer experience for a digital world and deliver more value through insights and relevant offers by engaging customers in natural, highly personal, and innovative ways throughout the customer journey—driving increased relevance, loyalty, and profitability.

Optimize operations
Gain breakthrough insights into risk and operational models with advanced analytics solutions and act on real-time intelligence to optimize risk management and meet regulatory requirements.

Transform products
Drive agility with open, connected systems and automated digital processes to support new product development and optimize distribution channel strategies, while meeting the security, privacy, and transparency expectations of customers, regulators, and shareholders.

Credits
Many subject-matter experts contributed to the conceptualization and articulation of the story contained in this document.

Lauren Bonetto
Narrative Aficionado

Nick Buckley
Technology Evangelist

Pablo Junco
Sr. Business Manager, Applications and Infrastructure

Kristi Marchbanks
Director, Data and AI Solutions

Amy McCullough
Director, Digital Experiences and Engagement

Michael Molendijk
Director, Applications and Infrastructure

Kimberly O’Donoghue
Sr. Business Program Manager, Data and AI Solutions

James Watson
Creative Director

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