



Transforming Around the Customer

2023 is the year to put customers at the heart of your digital transformation



iCrossing

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FOREWORD

A new set of global challenges have emerged for brands as we move into post-pandemic 2023. A war in Europe, combined with rising inflation, a cost-of-living crisis and the spectre of global recession are the new forces shaping the way consumers and brands interact.

With so much pressure on household budgets, it is unsurprising that commentators are calling 2023 the year of the customer. Organisations are gearing up to find new ways to engage with their customers and provide value through digital products and services and digital transformation has become more than just a buzzword. It is an imperative for organisations that want to grow and survive in such a challenging economic environment.

At iCrossing, we help brands embrace change, providing the expertise and insights to help organisations accept change as usual.

This white paper explores, through surveys and research commissioned from YouGov, some of the key challenges and trends brands say they are facing as we move into 2023. It will be providing the research and digital transformation insights to stay ahead of the pack.



EXECUTIVE SUMMARY

The customer is always right, or so the old marketing adage goes, but in 2023 there will be consequences for brands that fail to listen to their customers' needs and live up to their growing expectations.

With economic uncertainty rife in the UK, customer loyalty is all but a thing of the past and gone are the days when a great product at a fair price were the key drivers for success.

Post-pandemic, customers have grown used to the speed and convenience of doing business online and in 2022, more than three quarters of those surveyed admitted they would buy from even their favourite brand's competitors if it was cheaper or more convenient to do so. And with household budgets getting tighter in 2023, this trend will only increase.

Our survey showed that brands were gearing up to meet these challenges with a renewed focus on customer experience, personalisation and streamlining online customer journeys. Identifying and retaining their most valuable customers were identified as business priorities for 35% of businesses and 31% of large businesses saw Customer Data Platforms (CDPs) as essential investments for 2023.

However, many organisations are struggling with the lack of skills, business investment and internal buy-in required to make these transformations a reality.

A shocking 40% of respondents felt their CEOs either did not understand the benefits of digital transformation or did not buy into them personally and 27% admitted they were unable to get the best from the technology they already owned.

So, while expectations are high among the 68% of businesses already engaging with digital transformation projects, there remain many barriers to overcome if brands are to meet the challenges set down by their customers.

68% of businesses are seeking to capitalise on the benefits of digital transformation

The key to success, organisations recognise, is unlocking the power of data within their businesses and 40% of large organisations say they will prioritise this in 2023. But there is still work to be done in this area and 18% of businesses admitted that they were still unable to measure the effectiveness of their digital transformation efforts.

Discover more insights from our survey in this white paper and find out where your organisation should be focussing in the year of the customer.

CHAPTER 1:

PRIORITISING THE CUSTOMER



58%

of large businesses are prioritising Customer Experience in 2023

For many businesses, small and large, 2023 is shaping up to be the year of customer engagement. With the UK facing challenges from a cost-of-living crisis, rising inflation and real terms wage decreases as the UK follows the world into a recession, customers' purchasing power will be reduced, confidence is low and household budgets are tightening.

It is hardly surprising that our survey found that 40% of organisations were prioritising the customer experience as part of their digital transformation efforts in 2023 (rising to 58% of large businesses with over 250 employees) with streamlining the customer journey and personalisation also high on the agenda (30% and 17% respectively). It seems like a key goal is pivoting away from the relentless focus on new customer acquisition to a strategy of retaining and developing existing customers (35% cite this as a priority for 2023).

However, even without the spectre of economic downturn looming large in the UK, many commentators have noted the rise of customer experience and customer engagement as necessary trends for businesses that may have lost some of their humanity in their quest for digital success.

A widely quoted 2021 paper by McKinsey Digital found that between 2020 and 2021, Covid-19 forced global digital transformation to leapfrog forwards 5-7¹ years as businesses adapted quickly to changing customer behaviours in order to survive. As consumers moved their purchasing habits online during repeated lockdowns, many organisations pivoted budgets towards digital transformation to catch up with the new online demand.

Now, as we move beyond the global pandemic, lots of these new consumer behaviours have become ingrained. Customers love the speed and convenience of doing business online and a recent ONS (Office for National Statistics) survey that found in May 2022 UK customers were still spending 26% more online than prior to the pandemic². But customer loyalty has been the first casualty of these changes. After all, if you can find the same products and services cheaper at the touch of a button, why wouldn't you? And today, more than three quarters of UK consumers who say they are loyal to brands would still buy from competitors if it was cheaper or more convenient to do so³.

1. www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-new-digital-edge-rethinking-strategy-for-the-postpandemic-era

2. www.ons.gov.uk/businessindustryandtrade/retailindustry/articles/howourspendinghaschangedsinceendofcoronaviruscovid19restrictions/2022-07-11

3. www.cheetahdigital.com/wp-content/uploads/2022_Digital_Consumer_Trends_Age_Group.pdf

Technology must be seen as an enabler of great customer service experiences and digital transformation should be seen from this perspective.

However, the good news for brands is this is not the whole story. More than anything else, consumers identify great experience, customer service and the human touch as the most important drivers of brand loyalty. Recognising the customer as an individual and building personalised experiences around them is key.

Many customers believe that while brands have been investing in technology, personal customer service has suffered.

The majority of consumers value seamless human interaction highly, even if that is through online channels, and more than 70% say friendly, helpful staff interactions are essential to a positive experience. Get this wrong, just once and, according to PWC, more than a third of customers say they will walk away from a brand they love¹.

Understanding your customer

Understanding your audiences, communicating with them more effectively, solving their problems and adapting to their changing needs faster is critical for successful customer experiences. The key is to not assume you know who your customers are, or what they want. There is always more to learn, and the most valuable learnings often come from customer segments outside of your current set. Explore the unknown and you might find a whole new customer for your brand!

Digital transformation requires audience intelligence that delves deep into what customers need, how their behaviours are shifting, and how their consumption of digital media is evolving on all channels. Establishing clearly defined audience identities not only allows you to reach and communicate with your most valuable audience effectively, but they also ensure your marketing efforts are focused on the things that matter. Identities allow us to find nuanced barriers, as well as opportunities to entry in existing digital journeys, allowing us to create optimised journeys and experiences that keep your most valuable customers coming back time and again.

*Maria Bain,
Head of Audience Intelligence, iCrossing*

¹ www.pwc.com/us/en/advisory-services/publications/consumer-intelligence-series/pwc-consumer-intelligence-series-customer-experience.pdf



The benefits of getting this right however are tangible. Consumers are willing to pay a premium for a great experience, up to 16% more, and in the UK 65% of those polled said that a great customer experience was a deciding factor for them when weighing up buying options¹.

While it is clear that digital technology transformation is extremely important for brands wanting to keep up with consumer demands, this must be part of a programme that puts customers at the centre of transformation. Technology must be seen as an enabler of great customer service experiences and digital transformation should be seen from this perspective, not an attempt to simply adopt the most innovative technologies.

1. www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/future-of-customer-experience.html

CHAPTER 2: EXPECTATIONS ARE HIGH



50%

of large businesses quoted a target profit uplift of 15% or more as a target outcome

Among all organisations we surveyed, digital transformation was high on the business agenda and with good reason. While the competition to win in digital spaces is high – 68% of those we surveyed say they are in the process of digital transformation – the potential rewards are enormous for businesses who succeed. In fact, the MIT Center for Information Systems Research (CISR) suggests that companies that successfully transform can expect 16% higher margins than their industry's average¹.

Global investment in digital transformation has skyrocketed since Covid-19. According to Statista data, global spend on digital transformation among businesses will rise to \$2.16 trillion in 2023 – up from \$1.18 trillion in pre-pandemic 2019². And crucial drivers for this increased spend include: increased customer retention, increased efficiency, and growth.

In a more challenging economy this makes sense. It is frequently quoted that it can cost 5 times more to attract a new customer than retain an existing one³, and legendary researcher, author and creator of the Net Promoter Score System, Frederick Reichheld, asserts that a 5% increase in customer retention can lead to more than 25% uplift in profitability⁴.

More recently, a survey of 1,150 global decision makers projected that their digital transformation projects would deliver on average:

- Reduced costs of 10%
- Increased productivity of 11%
- Increasing business growth of 10%⁵

It is clear from our research that these are priorities shared by UK businesses for 2023. The top five reasons given by organisations for investing in digital transformation are: increased revenue (37%), customer retention (35%), reduced operating costs/increased efficiency (31%), streamlining the customer journey (30%), and futureproofing the business (28%).

And when it comes to increasing revenue, UK businesses are specific about the kind of uplift that would be required for digital transformation to be seen as successful. In fact, more than 50% of large UK businesses expect a profit uplift of 15% or more from their transformation investment.

However, while businesses' ambitions are high, our research found some clear areas of concern that indicate many C-Suites see digital transformation as a silver bullet for the future success of their businesses.

1. www.ghd.com/en/perspectives/realising-the-value-of-digital-transformation.aspx

2. www.statista.com/statistics/870924/worldwide-digital-transformation-market-size/

3. www.forbes.com/sites/jiawertz/2018/09/12/dont-spend-5-times-more-attracting-new-customers-nurture-the-existing-ones/?sh=7befe7765a8e

4. media.bain.com/Images/BB_Prescription_cutting_costs.pdf

5. www.avanade.com/-/media/asset/research/future-ready-now-executive-research.pdf?la=en&hash=61B7EC5E4971D5AFF4C2B3667757B692

40% of respondents felt their CEOs either didn't understand the benefits of digital transformation or did not buy into them personally.



So, do UK companies have unrealistic expectations of their digital transformation projects?

Certainly, there is a growing sense that this is the case. A recent KPMG survey of UK CEOs found 72% were frustrated by the board level pressure to prove immediate ROI from multi-year transformation projects and one in two doubted that their senior management team had the skills or experience required to oversee radical change¹.

This is backed up by, perhaps, the most concerning finding from our research: 40% of respondents felt their CEOs either didn't understand the benefits of digital transformation or did not buy into them personally.

This is compounded by the fact that 21% identified a lack of dedicated budget for digital transformation in their organisation, while a further 15% felt their organisation lacked clarity about what digital transformation meant! As a result, 50% of our research group did not believe their organisations would be investing in new technology in 2023.

So, while digital transformation is widely perceived to be business critical for many organisations, it is clear that for these projects to succeed, there needs to be better education for businesses about what it entails as well as senior buy-in for, and investment in, the process if organisations hope to reap the benefits on offer.

¹ www.marketingtechnews.net/news/2018/aug/22/uk-ceos-facing-unrealistic-expectations-roi-digital-transformation/

CHAPTER 3: PEOPLE PROBLEMS



24% *named internal politics as a roadblock for success*

While we have discussed how unrealistic expectations can hamper an organisation's digital transformation ambitions, there are some more prosaic barriers to success that also came to light during our research. Respondents to our survey identify a digital skills gap that is affecting their organisation's ability to truly harness the power of digital transformation.

It is not just an issue for digital transformation, however. A 2021 Open University Business Barometer report found that 63% of UK companies struggle to find and hire qualified staff to cover their skills shortages, with 24% saying this poses the single greatest risk to their business growth¹.

In a post-pandemic world, this challenge has only got worse, with the Office for National Statistics (ONS) estimating there are now 600,000 fewer people in work in the UK than before the pandemic². Overall, the cost to UK businesses and the economy is huge, rising to £120bn in lost revenues by 2030 and leaving a shortfall of 2.5million highly skilled workers and an oversupply of 8.1million people with intermediate or low skills³.

1. www.open.ac.uk/business/pse-business-leaders
2. commonslibrary.parliament.uk/will-more-economic-inactivity-be-a-legacy-of-the-pandemic/
3. www.local.gov.uk/sites/default/files/documents/FINAL%20IGA%202019%20Skills%20Gaps%20report%20final%20December%202019.pdf

The UK government is betting heavily on the digital economy to rebuild the UK's finances with a national digital strategy, while acknowledging that over 80% of all jobs advertised in the UK require digital skills, and the current lack of available talent is holding back growth. Current government estimates suggest the digital skills gap costs the UK economy as much as £63 billion a year in potential GDP⁴.

Over 80% of all jobs advertised in the UK require digital skills.

These challenges are reflected in our research, with 22% of all respondents saying recruiting digital talent is the biggest threat to their digital ambitions. However, across organisations, existing skills are found to be lacking as well. 27% of organisations admit they are currently failing to get the best out of existing technology and 19% of our research group find keeping pace with market and technical complexities challenging.

4. www.gov.uk/government/news/new-digital-strategy-to-make-uk-a-global-tech-superpower



However, within organisations, there are considerable knowledge gaps that hamper both digital transformation and product innovation. Artificial intelligence (AI) is an area of particular concern, with 30% of respondents feeling they lack the skills to embrace the technology.

Digital product innovation is also a gap for 23%, and 21% feel they are unable to understand their audiences effectively. Data science and analytics skills are also lacking for 23% of organisations and, crucially for customer experience (CX), 19% feel they do not have the skills to enable CX change, while another 18% lack the change management expertise to implement it.

But skills aside, the painful truth is that between 70-84% of digital transformation projects fail¹ not because of technology, nor a lack of skills, but because of human failings. Often organisations lack the experience or leadership to bring the whole company along with them.

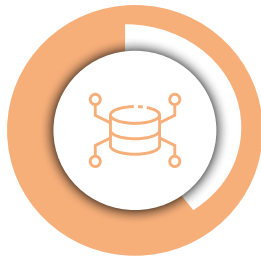
They also encounter a natural resistance to change from their workforce and make the mistake of putting IT departments, who speak a different, more technical language, in charge of these projects. And these are issues that came out in our research, particularly for businesses of over 250 people. 27% of large businesses identify cultural resistance to change as a barrier to success and internal politics is also seen as problematic (24%).



The success of digital transformation projects depends on much more than sufficient budget or digital skillsets. Success requires outstanding leadership from senior managers who can demonstrate benefits and talk about them to the organisation in terms employees understand. And they must develop a culture of employee engagement that brings the whole organisation along on the journey.

¹ www.forbes.com/sites/forbescoachescouncil/2022/03/16/12-reasons-your-digital-transformation-will-fail/?sh=2025eb1d1f1e

CHAPTER 4: DATA & MEASUREMENT



40% *of large businesses say unlocking the power of data is a priority for 2023*

While human factors, as we have seen, can play a significant role in the success or failure of digital transformation projects, there is one area that combines both specialised skills and specialist technologies, critical to both developing and delivering digital transformation - data collection and measurement - and it's an area that all organisations we surveyed struggle with.

A successful data strategy is an essential starting point for any digital transformation project.

It is significant that 15% of all companies we surveyed say they are investing in Customer Data Platforms (CDPs) in 2023 and this number rose to 31% among large organisations. 20% also identify unlocking the power of data as a business priority for next year. However, as we have seen, simply having the technology isn't enough. Integrating it, understanding it, identifying what you need to measure and then evaluating the data outputs are critical for effective digital transformation, as well as proving ROI on the technology investment.

This is where many organisations are struggling. 23% of businesses say they have skills gaps in data science and analytics and a further 17% say they are not able to measure the effectiveness of the digital transformation projects they are undertaking. 18% admit they are not able to capture and utilise data at all.

This is at odds with the fact that a third of businesses are investing in digital transformation to streamline customer journeys. Clearly, this is impossible if you are not able to identify what to measure or where to measure inefficiencies in these journeys. Likewise, as we have seen, betting heavily on existing customer retention may be a blind alley if you are not able to use customer lifetime value measures to ensure that you are engineering experiences for your most valuable customers.

In a multi-touchpoint digital world, where even a decision to buy a chocolate bar can be influenced by an average of 20+ digital interactions, including brand-owned and customer-led touchpoints¹, understanding customer journeys for complex purchases and identifying the moments where you can influence audiences has become far more of a science than an art.

¹ www.thinkwithgoogle.com/consumer-insights/consumer-journey/#/



However, the good news is that organisations don't need to have access to reams of data to make effective transformation decisions.

Forrester talks about developing Minimum Viable Data sets as a starting point for transformation and then building on these as required to further validate results as you progress¹. The key is understanding exactly what metrics you need to measure to show progress. And that requires a clear data strategy.

A successful data strategy is an essential starting point for any digital transformation project. All single online interactions customers make generate data that can form the baselines and benchmarks for your transformation journey, providing markers for progress and ROI. Understanding where and how data can provide these insights and uncover opportunities is the very minimum price of entry for those with ambitions for digital transformation.

¹ www.forrester.com/blogs/to-drive-trust-minimum-viable-product-needs-minimum-viable-security/



Developing a data strategy

Digital transformation is no longer a new agenda for companies, but it is increasingly important. The application of a well-developed data strategy is crucial in driving business value and unlocking the full potential of data, which in turn can deliver faster returns. The recent explosion of data availability has increased focus on data quality, governance, aggregation, reporting and much more.

Now transformation seeks to harness the potential of data by refining the process, strategy, and framework to align with organisational goals and objectives. Beginning with a small pool of data can help in building the basics; isolating relevant facts; and narrowing the focus to reveal new opportunities. By starting small, it allows one to establish a working prototype, which can form the basis of future transformational solutions.

*Alisha Kamaly,
Head of Data & Analytics, iCrossing*

KEY TAKEAWAYS

- 1** Putting the customer and their experience at the heart of digital transformation is essential if organisations want to generate business growth. Technology should be seen only as an enabler of great customer experiences and personalised service.

- 2** The rewards for successful digital transformation are high, but organisations must be wary of putting unrealistic expectations on these projects and set clear strategic objectives for their projects, securing clear sponsorship and buy-in from C-Suites.

- 3** Many digital transformation projects fail because of human factors. Employee engagement and having relevant skillsets in your organisation are more important than the technology.

- 4** Data strategy is a keystone for any successful digital transformation project. Collecting and measuring the right data points throughout your transformation activities provides the baselines and benchmarks for progress and success.

CONCLUSIONS

While organisations across the UK have made considerable headway towards digital transformation in the past couple of years, customers often feel that the human touch has been lost and crave digital experiences that feel truly personal. Brands must recognise this and find ways to insert more humanity into their online worlds.

Technology needs to be seen as an enabler for great customer experiences and key to this is customer experience transformation that prioritises personalisation and great service. This means understanding your customer and, crucially, listening to what they want and expect from your organisation. Putting the customer first and ensuring that everything you do delivers on their needs has never been so important.

However, there is a growing skills shortage of digital talent in the UK, recognised by the UK government's National Digital Strategy. This is exacerbated by workforce trends that have taken 600,000 employees out of the UK economy since the pandemic.

Employers need to think carefully about how they access the skills they need for successful transformation. Collaboration with third party experts and partners can offer an objectivity and perspective that helps organisations break out of their day-to-day siloes and work more effectively to achieve these goals.

Digital transformation however cannot be seen as a 'silver bullet' for organisations facing the headwinds of global recession and economic stagnation. For transformation projects to succeed, brands must anchor their efforts around a clear, unified vision that prioritises measurable business outcomes that solve specific problems. By using Agile working principles to produce quick wins, transformation teams can more effectively show the results and progress that bring organisations along with them. They can then build on these successes and scale their findings with renewed buy-in across all levels of the business.

Planning for success in transformation must start with a robust data strategy. For this, technology can only get organisations so far. It's not about harvesting as much data as you can. It's about collecting the right data and knowing how to analyse it to measure success and identify areas of opportunity to make improvements that customers are asking for.

In 2023 it's change as usual for brands. And more than ever, successful transformation will be judged by your customers.



Are you ready for transformative digital change?

As digital transformation and customer experience experts, our end-to-end consultancy and delivery expertise provides organisations with the help and support needed for successful transformation projects.

Our clients benefit from:

Increased revenue



Focus on the critical **experience levers** that drive the desired behaviours for conversion

Reduced costs



Focus on platforms and associated operating models & process improvement that drives **efficiency** across the **entire business**

Added value



Linking products and services together that **create value** through their interactions

If you are ready to embrace change, we are here to help.

About the research

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1003 Marketing Decision Makers. Fieldwork was undertaken between 8th - 17th September 2022. The survey was carried out online.

** Large companies are defined as those with (250+ employees), represented by 132 respondents.*

About iCrossing

iCrossing is a digital agency that works with businesses who are ready to create real, digital step-change. iCrossing is owned by Hearst, the world's largest independent media, entertainment, and content company. Being part of the Hearst family gives iCrossing access to Hearst audiences, data, consumer research and category experts, allowing us to better spot new insights, trends and innovative solutions for clients. Change. Made Simple.

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