

The Role of Customer Experience Networks in Delivering Value-Based Digital Transformation

An IDC InfoBrief, sponsored by **axway**

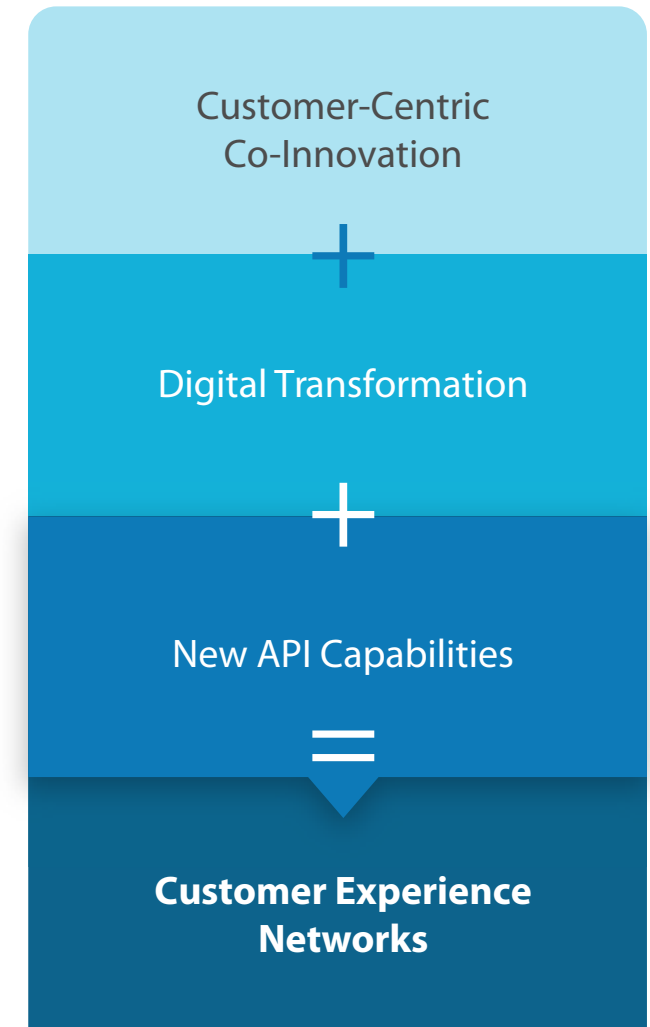
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Executive Summary

IDC recently completed a new global research study with Axway that reveals a new technology trend in large enterprises called **“customer experience networks”** (CX networks). The key conclusions are as follows:

- Enterprises are switching their focus from internal resource management to external customer experience. Enterprises now perceive their customers and their ecosystem to be a key source of co-innovation rather than their traditional internally focused R&D organizations.
- New digital technologies and the umbrella term “digital transformation” are the key mechanisms for achieving this change in focus. This paper shows how digital initiatives are now delivering significant and tangible business results.
- Key aspects of co-innovation are network connections and scalable customer experience networks that facilitate collaboration and sharing of data. New API (application programming interface) capabilities are key enablers.
- Large enterprises are investing in customer experience networks that join together not only internal staff and business partners, but also all stakeholders in the business value chain including customers, to create ecosystems that deliver long-term value to all participants and also act as an effective defense mechanism against the incursions of digital disruptors



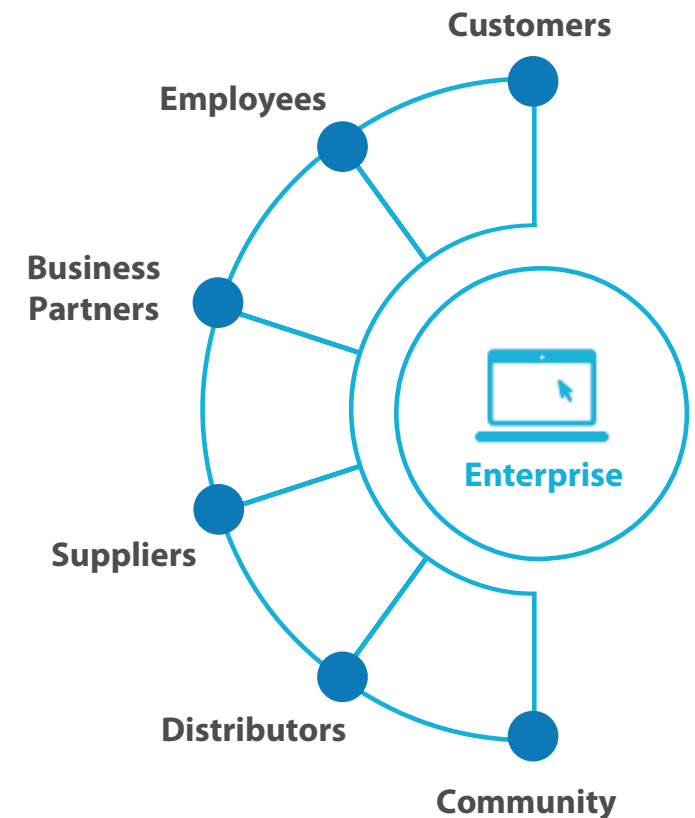
What are CX Networks and Why Are They Important?



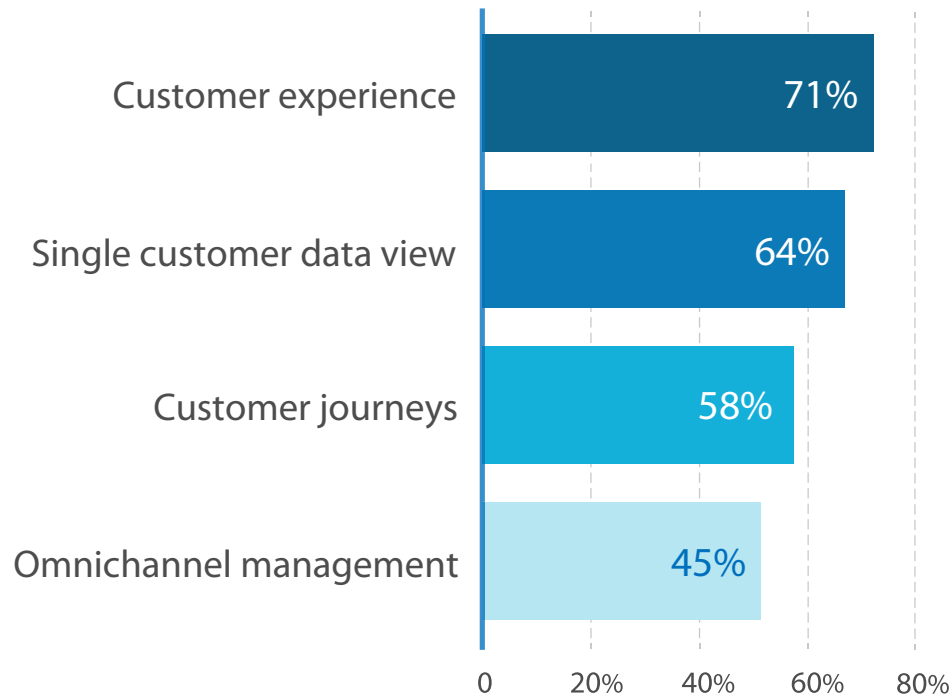
IDC defines customer experience networks as when an organization connects and embraces co-innovation from entities in a customer's journey, including customers, employees, business partners, and suppliers — all collaborating and co-innovating to deliver improved customer experiences and customer journeys.

There are three foundational elements:

- A customer experience network embraces all internal and external enterprise stakeholders in an “omni” kind of way — but in a much more *strategic, holistic, meaningful, and coherent* way than simply omnichannel communications.
- A customer experience network enables enterprises to develop an ecosystem of internal staff, external business partners, customers and other stakeholders to provide communication, collaboration, and co-innovation *aligned to a central business purpose*.
- In a customer experience network *the synergistic value created by the network is greater than the sum of its parts*. It will provide you with the means to “crack the code” to deliver superior customer experiences.



Most Important Digital Initiatives



Proportion of respondents selecting "very important" or "extremely important"

Customer Experience is the Top Enterprise Digital Initiative

Customer experience is now the most important digital initiative for over 70% of enterprises, followed by "a single customer data view" (64%) and "customer journey management" (58%). These three new concepts are now combining to become the driving force behind enterprise investments in digital.

Current and future digital demand will be strong:

- **43% of enterprises already have customer experience digital initiatives and a further 29% are planning implementations.**
- **31% have a single customer view and 34% are planning.**
- **33% have customer journey initiatives and 21% are planning.**

These three customer experience areas are now key board-level agenda items as customer experience replaces product and price as a means to create brand value, distinctiveness, and strategic differentiation.

Digital Initiatives Deliver Business Value

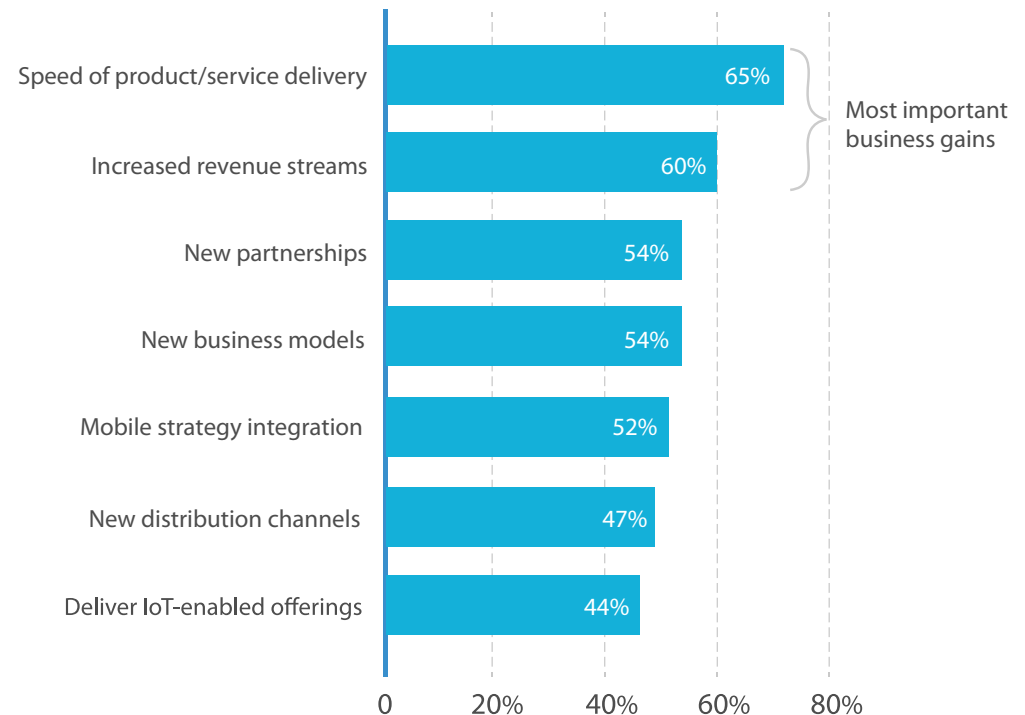
“Improved speed of product or service delivery” (65%) and **“increased revenue streams” (60%)** are the most important business results all organizations have gained from digital initiatives. However, over 50% also reported business results from **“new partnerships”, “new business models”,** and **“mobile strategy integration.”**

Digital is delivering business benefits to those that invest. The digital benefits derived are only limited by one’s imagination of the “art of the possible”.

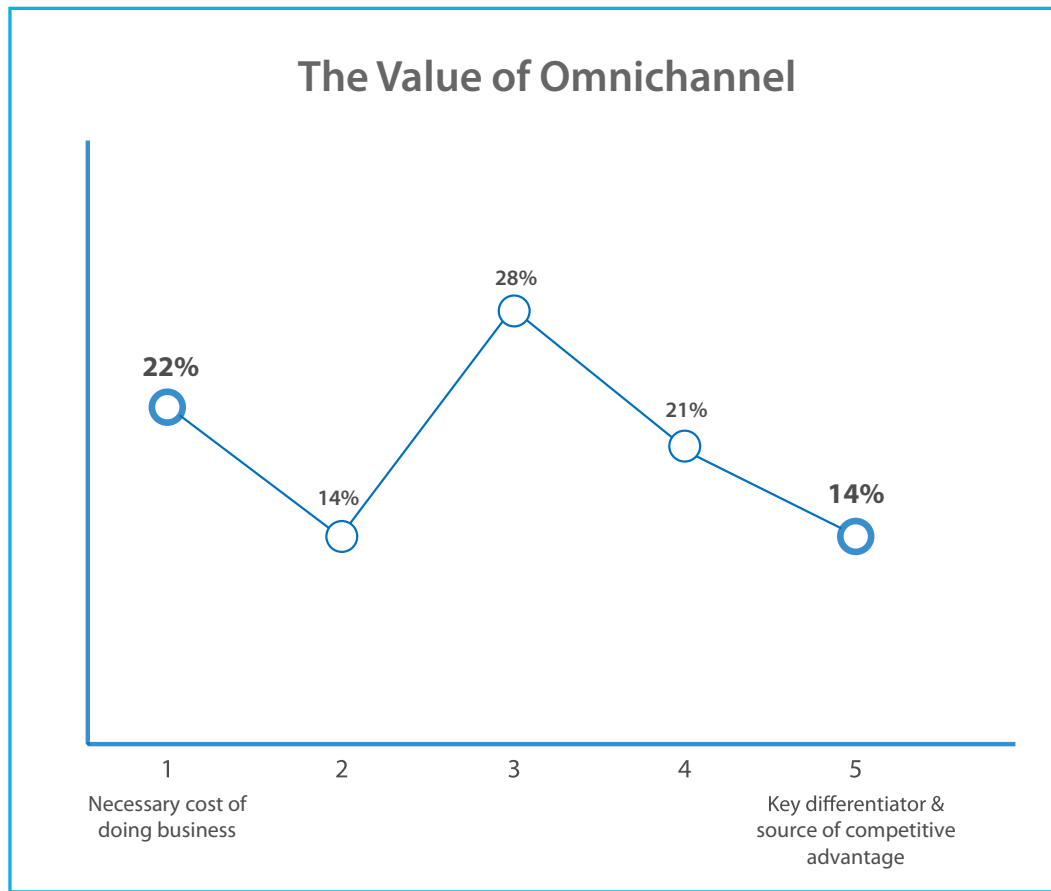
Those that use CX networks are also gaining disproportionately more business benefits over those that have not. **68% of companies operating CX networks have increased their revenue streams and 53% have benefitted from new distribution channels. Both these percentages are significantly higher than for non-adopters.**

Those that use CX networks or plan to invest in CX networks are also more likely to gain incremental benefit from “new business models”. **Hence a direct link is emerging between investments in CX networks and business benefit.**

Business Results Gained From Digital Initiatives



Enterprise Views of the Current Value of Omnichannel



Only 14% consider the value of omnichannel to be “a key differentiator and source of competitive advantage”, and conversely 22% consider omnichannel as “a necessary cost of doing business”.

31% overall have implemented omnichannel systems. The omnichannel concept is most popular with retail and wholesalers (44%), although 39% are not planning to invest in omnichannel technology.

4 out of 10 report that their omnichannel systems fail to provide a “unified and real-time view of customer experience”.

The main technical challenges are:

- **“Ensuring secure data movement across channel networks” (cited by 53%).**
- **“Using real-time customer data feeds to dynamically update customer profiles” (cited by 50%).**
- **“Integrating omnichannel data into legacy enterprise data management systems” (cited by 45%).**

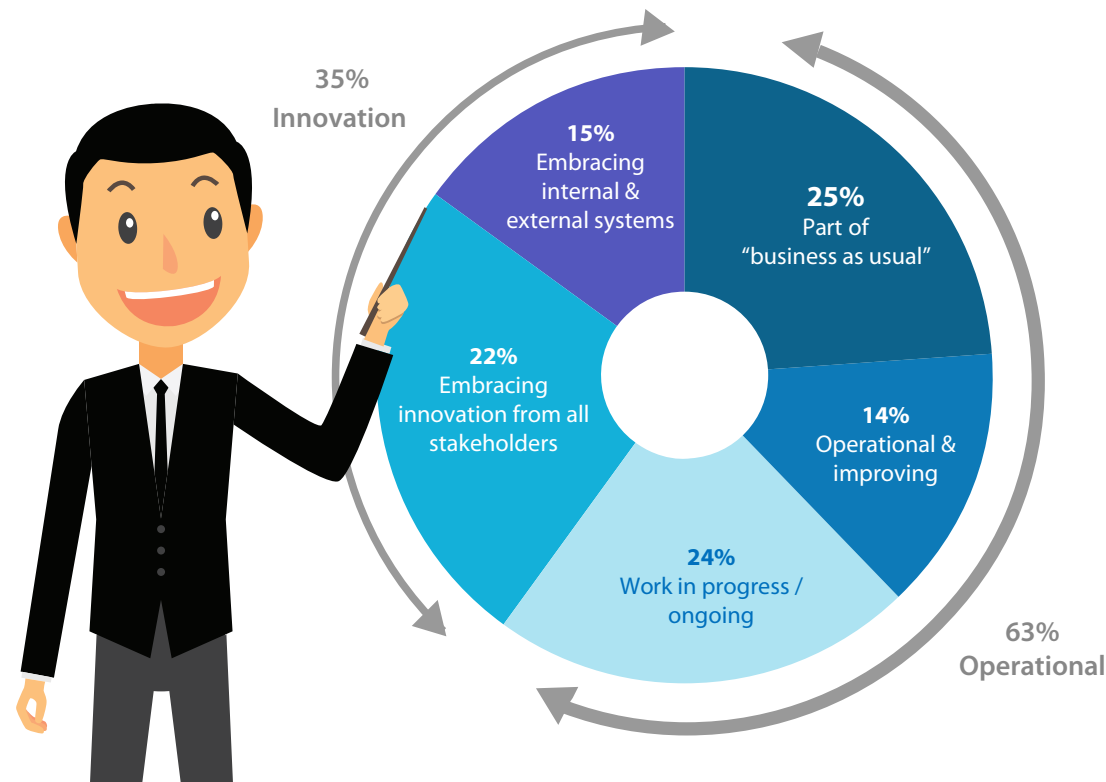
Enterprise Plans for Omnichannel Capability in 2020

A key challenge for omnichannel is the maturity of the IT estate, as 42% reported “the closed nature of our systems restricts our ideation and resources to separate siloed internal departments across the enterprise”, which limits omnichannel’s potential benefits.

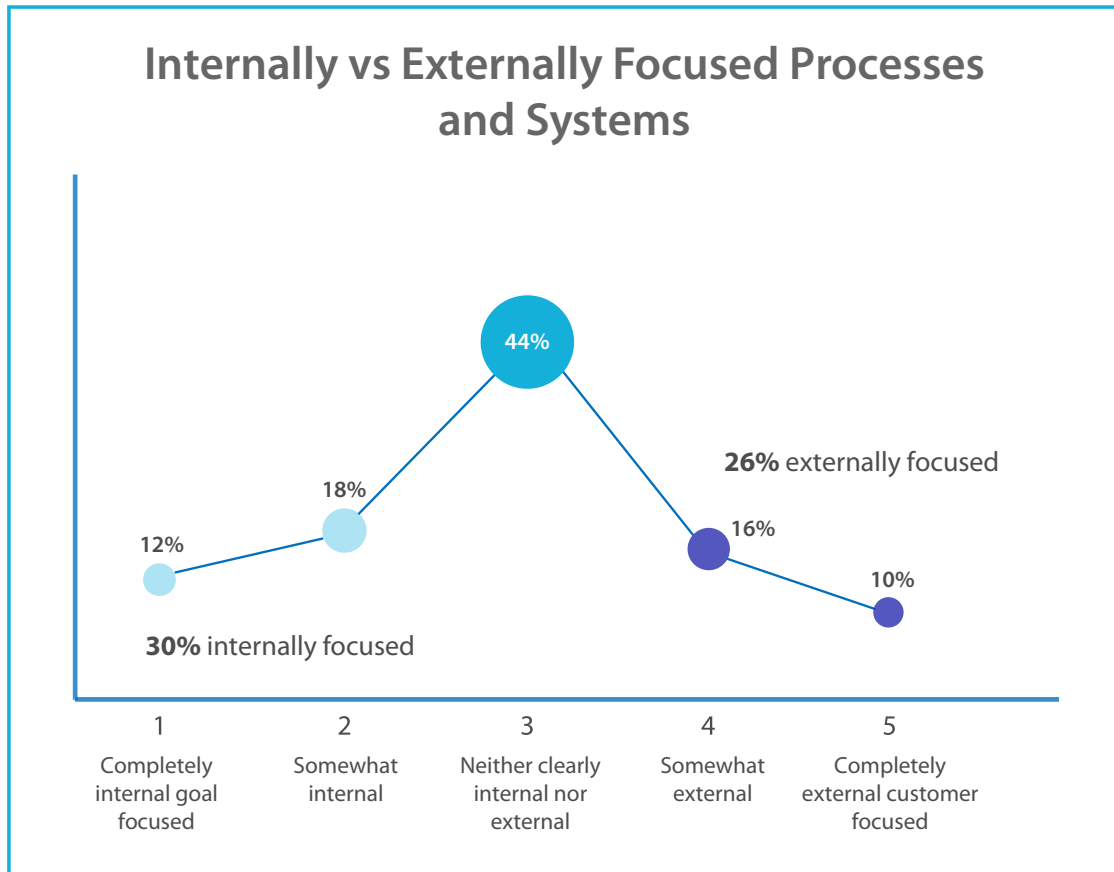
In the light of all these challenges, the future of omnichannel is somewhat uncertain. Two-thirds (63%) consider omnichannel’s future to 2020 for their

business as little more than operational and functional (“business as usual”, “still work in progress/ongoing”, “operational and improving”), as opposed to being a source of value and innovation.

Omnichannel management and other early market technologies are being superseded by more holistic and customer-centric models that offer a more modern and are better “fit for purpose”.



Processes and Systems Are More Customer-Centric



The balance of internally focused systems (HR, accounting, profit, revenue, etc.) is shifting toward externally focused systems as a customer-centric mantra takes hold in large organizations.

The graphic shows a clear resemblance to a standard distribution curve:



30% of enterprises' customer information processes and systems are mainly **internally focused**.



44% are clustered around the midpoint of **combined internal and external** processes and systems.



26% are mainly **externally focused**.

IDC expects this curve to skew toward the right (externally facing) as digital transformation becomes more embedded in enterprise culture.

Innovation Shifts Toward the Customer

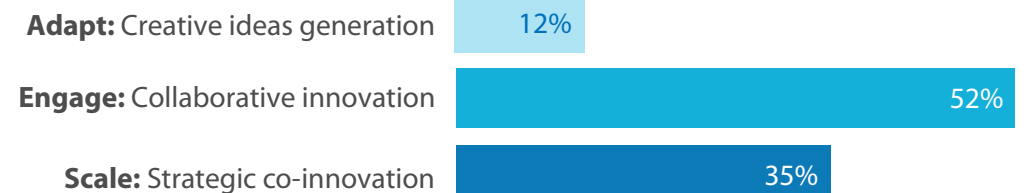
The effectiveness of CX network initiatives can be measured using a three-level maturity model:

- **The 1st level is “adapt”, which involves putting foundational CX network technologies in place.**
- **The 2nd level is “engage”, which involves activating co-innovation and collaboration.**
- **The 3rd level is “scale”, which involves building and optimizing the network.**

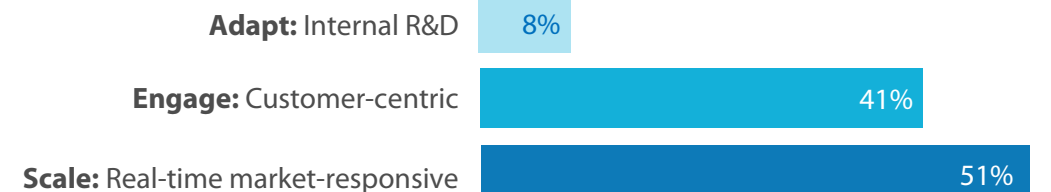
When we applied this maturity model to enterprise “innovation approach” and “innovation method”, some surprising results were produced. Over half (52%) of enterprises are moving very strongly toward “collaborative innovation” and over a third (35%) consider their primary focus to be level 3, “strategic co-innovation”. When we asked about enterprises’ innovation method for execution, over half (51%) cited the 3rd level, “real-time market-responsive innovation”.

The traditional internally facing innovation approaches and methods (creative ideas generation and internal R&D) have been replaced by externally facing customer-centric methods.

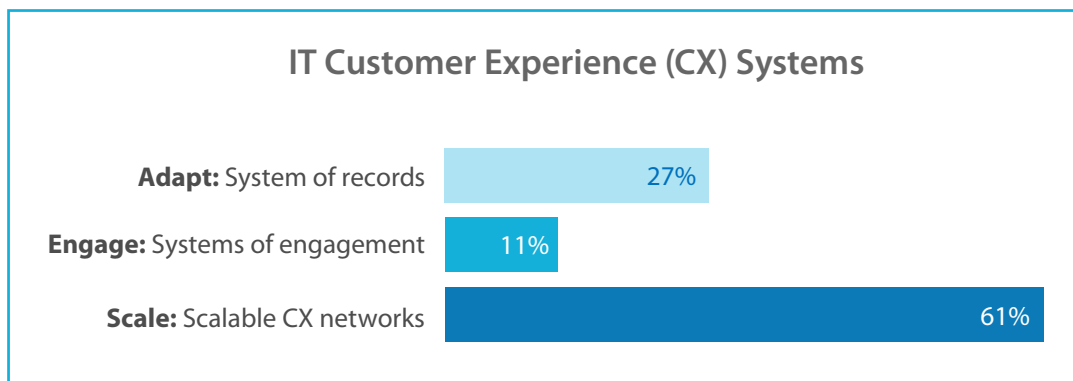
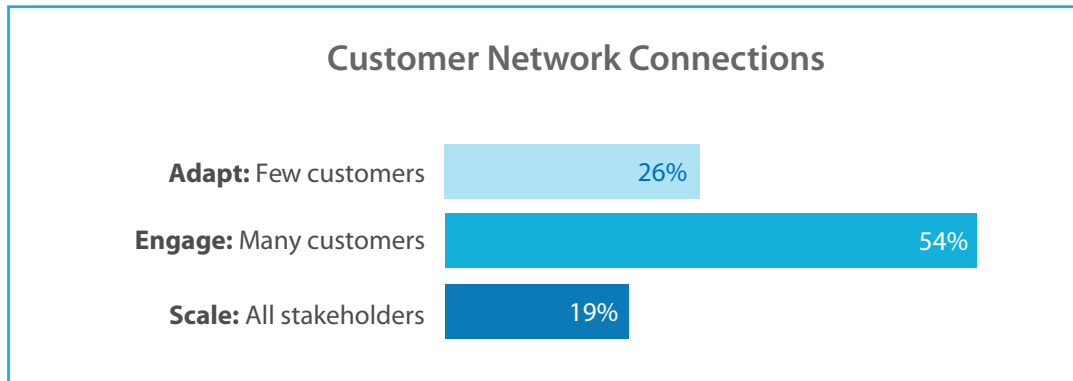
Innovation Approach



IT Customer Experience (CX) Systems



Customer Network Connections Proliferate as Scalable CX Networks Emerge



When we asked respondents to comment on the three-level maturity model for customer network connections and IT customer experience systems, the results were equally surprising. Current progress toward CX network implementation is moving ahead steadily.

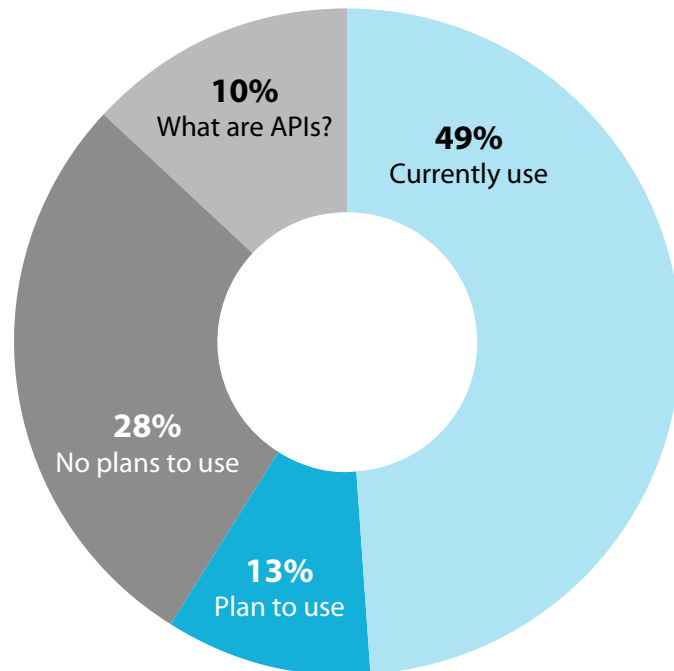
Over half (54%) were providing level 2 network connections for many of their customers. However, only 19% were providing level 3 “ubiquitous stakeholder network connections”. This is clearly the next step in enterprise investment in CX network development.

In IT customer experience systems, level 3 “scalable customer experience networks” is the dominant choice, with 61%. This is more than twice the number of late adopters that use legacy “systems of record” (27%).

In general, very large enterprises with over 5,000 employees are more likely to be at the highest point (level 3) across all aspects of the maturity model. As enterprises reduce in size they are more likely to have lower levels of adoption maturity.

APIs Are Critical for Collaboration and Innovation

Current and Planned Use of APIs to Enable Collaboration and Innovation



We asked “does your organization use or plan to use APIs to enable collaboration and increase innovation within your organization?” 49% responded “yes” and 13% plan to in the future. **Together these two segments outnumber those not planning to use APIs in this way (28%) by over 2:1.**

A surprising 10% of respondents were not familiar with APIs. These comprised 6% of IT staff and 17% of non-IT staff. The three industries where non-IT staff were least familiar with APIs were business services, wholesale and retail, and government.

Those enterprises that have implemented or plan to implement CX networks are much more likely to use APIs to enable collaboration and innovation. These organizations are also less challenged than non-adopters when connecting to external third-party stakeholder systems.

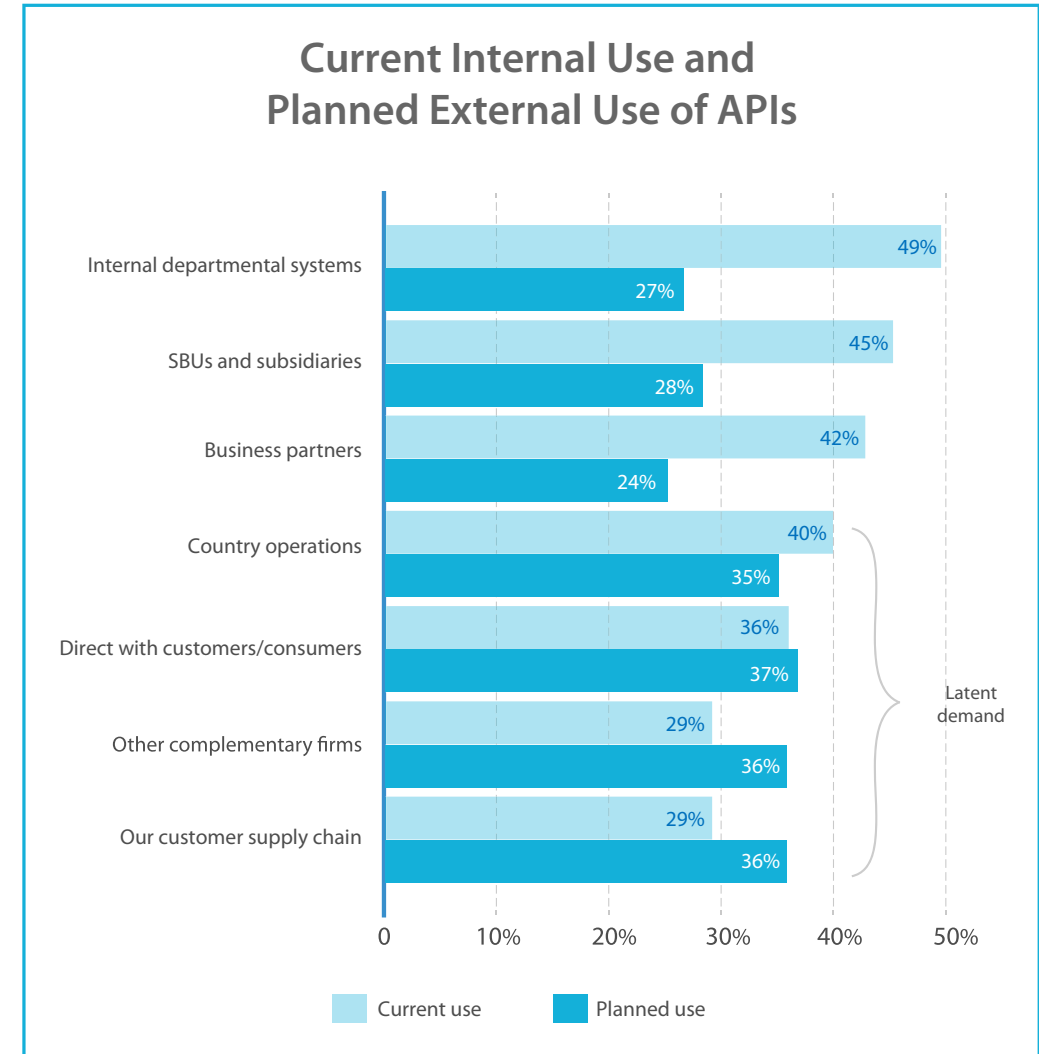
APIs Shift Toward the Wider Enterprise Ecosystem

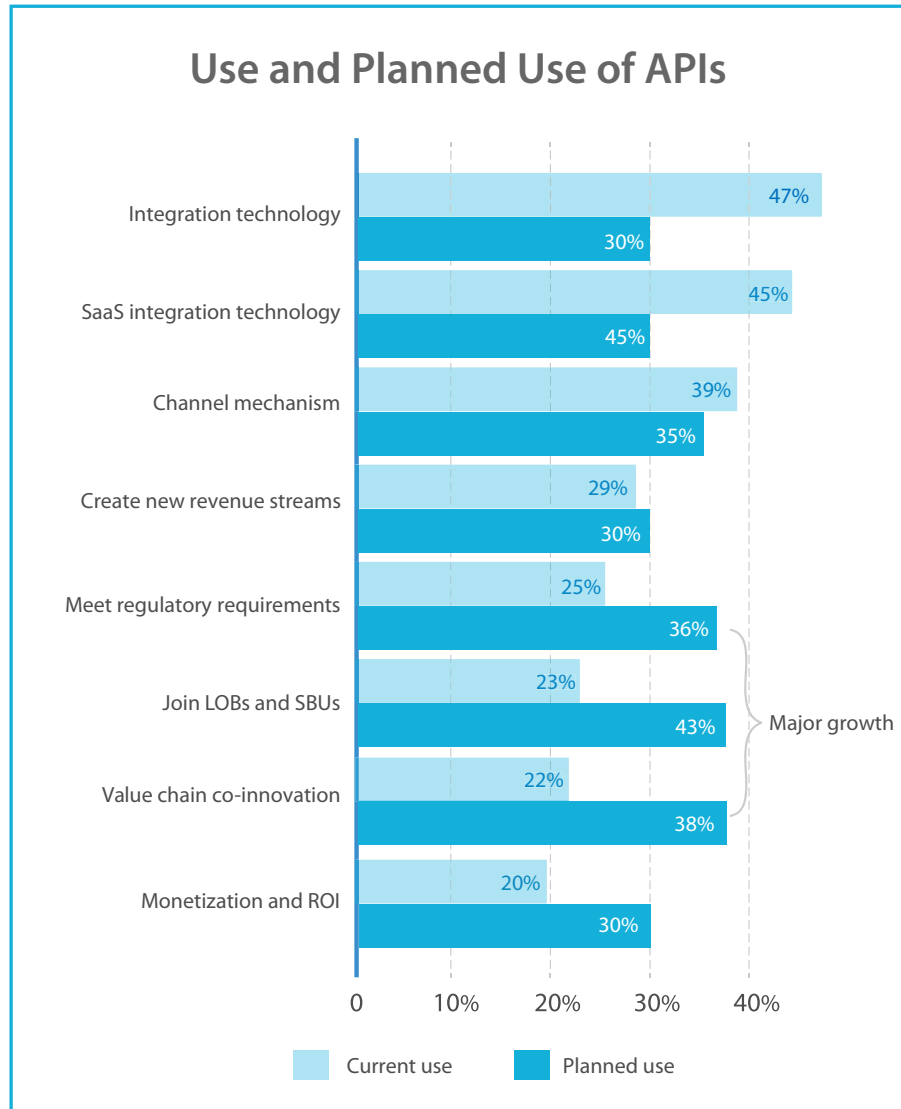
APIs are considered fundamental to achieving success in customer experience. This is reflected in the shift here as enterprises pivot from using APIs for internal (and business partner) connection toward external connection.

Today over 40% of enterprises use APIs to connect internal departmental systems, SBUs (strategic business units) and subsidiaries, and business partners. Those that plan to connect these in the future range between 24% (business partners) and 28% (SBUs and subsidiaries).

Contrast this with plans to connect the four areas of country operations, direct with customers/consumers, other complementary firms, and the whole customer supply chain. The proportion of enterprises planning to connect these ranges from 35% to 37%, which implies latent demand.

Over 40% of those planning to open up their data will do so in 2018 especially for “business partners” and “other complementary organizations”. The one notable exception is “directly with our customers and consumers”, where 62% of those planning to connect will do so in 2019 or beyond.





APIs Cross the Chasm from Technology to Value-Based Solutions

Today many enterprises see APIs as a technical software product, and the most important use cases reflect this

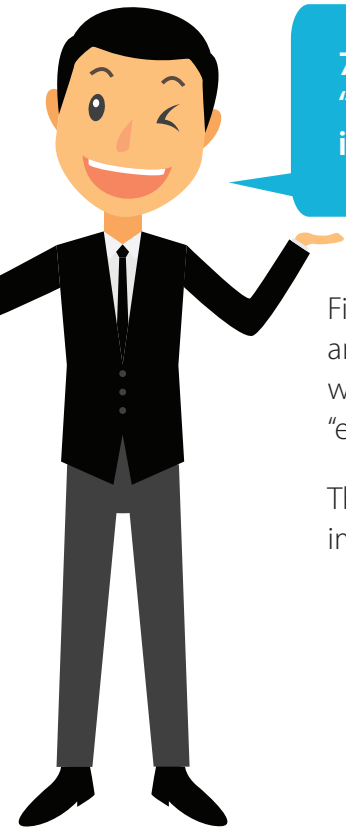
- **47% use APIs as an integration technology.**
- **45% use APIs as a SaaS integration technology.**
- **39% use APIs as a channel mechanism for the business.**

In the future this perception will shift toward a more business-oriented paradigm. The highest future growth areas will be:

- **“As an enabler of co-innovation through the organization’s value chain” (38%).**
- **“As a way of joining up different lines of business and SBUs” (43%).**
- **“As a way of rapidly meeting regulatory requirements” (36%).**

Hence value in a business context will become the key driver of API adoption as customers seek value-based business solutions rather than generic API technologies.

APIs Are Key Enablers of CX Network Deployment

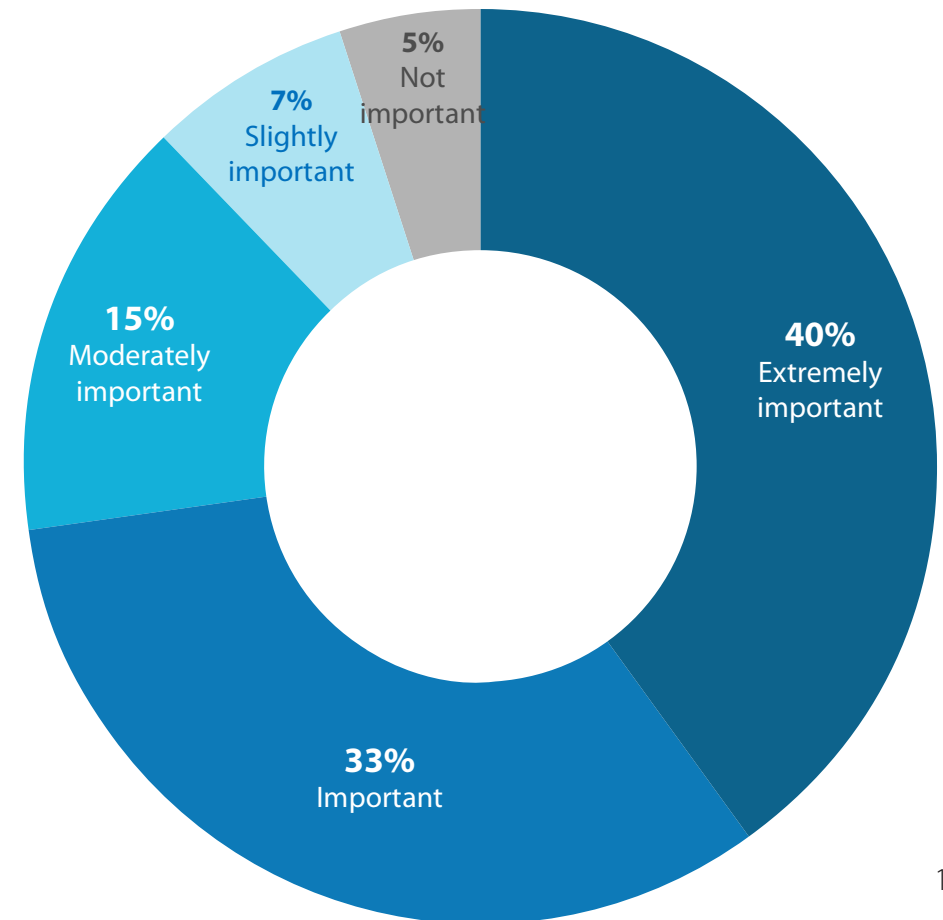


73% consider “secured, externally available APIs” to be “important” or “extremely important” for the implementation of customer experience networks.

Financial services, telecommunications and media, and utilities/oil and gas companies considered this to be of paramount importance with around 80% of their responses being in the “important” or “extremely important” category.

This graphic confirms the direct relationship between APIs and the implementation of customer experience networks.

How Important are Secured, Externally Available APIs for CX Networks?

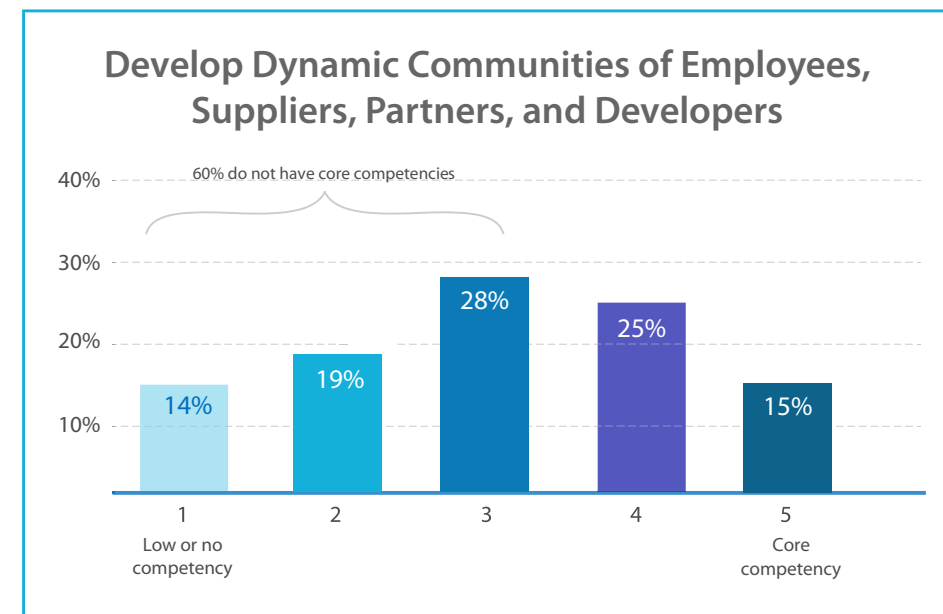
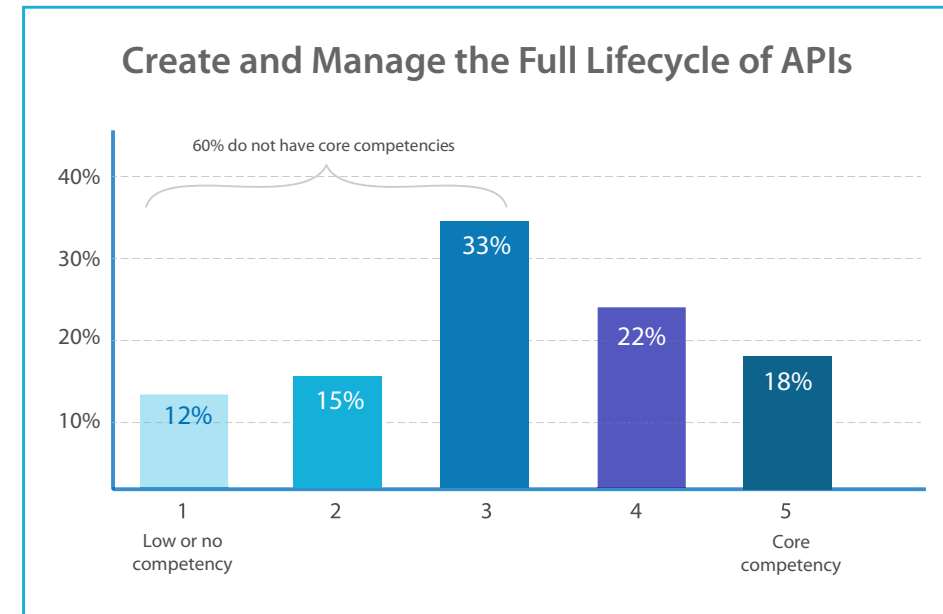


IT Must Grow Core Competencies in Full Life Cycle APIs and CX Networks

Enterprise users of CX networks report their key challenges to be encouraging participation, sharing of data and co-innovation; providing secure data access and identity management; and managing shared business outcomes and shared value.

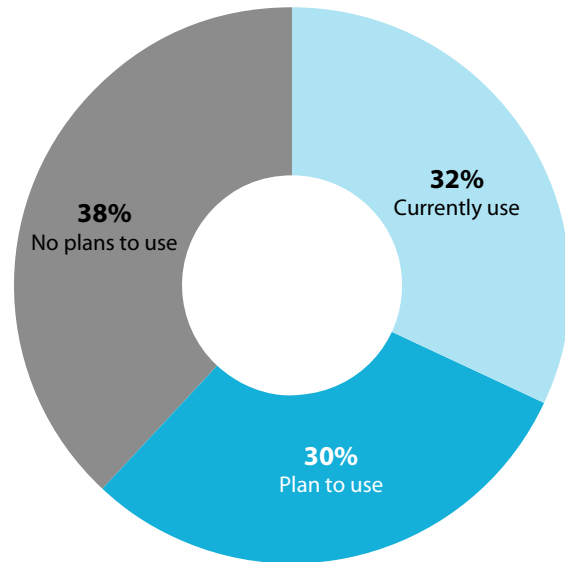
IT departments must grow both their technical competencies and their business influence to meet these challenges. Particular areas of concern are the creation and management of the full life cycle of APIs, and the ability to develop dynamic communities of employees, suppliers, partners, and developers.

Currently 60% of enterprises do not have core competencies in either of these two areas. APIs are critical to the delivery of CX networks, hence for the majority of organizations, investment in competencies development should be prioritized for the full life cycle of API management and CX network development.



Business Benefits are Driving Adoption of CX Networks

Enterprise Adoption of CX Networks



32% of large enterprises currently operate CX networks and further 29% plan to operate CX networks by 2020. This should concern those 38% of organizations that neither operate nor plan to operate CX networks.

Enterprises need to “get on board” with CX networks today. The future of customer experience will be stakeholder network driven and API-centric. Of those planning to operate CX networks, nearly half (45%) will start to operate their CX networks in 2018, so the time is now. Key action points for decision makers include:

- **Start thinking how to leverage your API investments beyond the frontiers of your own organization.**
- **Don’t be too inside-out focused — focus on the customer, outside-in.**
- **Grow your network connections throughout your business ecosystem.**

Two key takeaways:

Customer experience networks are a **source of a sustainable competitive advantage, business value, and are a strong defense system against digital disruptors.**

CX networks enable you to **harness new innovative revenue streams, ensuring your company is ready for the next era of the connected network economy.**



Appendix

In February and March 2017 IDC conducted telephone interviews with 602 senior executives in IT, digital, and customer experience roles in the largest global enterprises across Europe, the U.S., and Asia.

All the enterprises interviewed had over 1,000 employees, and the bulk, 62%, had over 5,000 employees globally.

IDC interviewed a relatively even sample across nine industry sectors: financial services (including insurance), retail, telecommunications and media, manufacturing, utilities (including oil and gas), healthcare, transportation, business services, and government.



For more details on the IDC research, visit the iView at axway.idicview.net



To learn how Axway can help you build a customer experience network, visit axway.com/cxn