BearingPoint Institute Report 2012

ADDRESSING CUSTOMER PARADOXES...

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A DECADE OF THE DIGITAL CONSUMER

"Our life behind the screens: a sense of paradox."

The digital world (which includes the internet, PCs and mobile phones) is barely 20 years old. Yet over one quarter (28.7%) of the world's population already use the internet — some two billion people[1]. BearingPoint estimates that up to 1.7bn consumers have shopped online[2]. The proportion of all adults ordering goods and services online are 45% in France[3], 56% in Germany, 62% in the UK and even more in the US. The digital consumer is well and truly with us.

Although Amazon launched online in 1995 and eBay followed in 1996, these business models were, at the time, considered to be transient novelties. As a result, we can say the mass market of digital consumers has only really existed for about 10 years. It's important, however, not to overstate the role of 'pure' digital commerce: economic statistics show that internet sales still only account for less than 10% of total retail sales for companies.

It is increasingly the case, however, that consumers are using the internet to make physical purchases. Indeed, physical and virtual channels are increasingly intertwined, with consumers searching and evaluating products using one channel, and actually buying goods in another. For example, it is not unusual for consumers to surf a virtual store for prices and reviews, and then shop in a real store (sometimes simultaneously checking prices online using a smart device) with the intention of picking up their goods immediately.

Ten years is not long in economic history; it is only just enough time to discern meaningful insights and comment on future challenges. We are still in a period of experimentation and rapid developments, but the landscape contours can clearly be seen. It's important, however, not to make sweeping inferences based on phenomena that may turn out to be passing fads. A case in point is Second Life[4]. Although it may have been genuinely innovative, its current dwindling user base implies that most people are choosing to stick to their first life.

We will discuss digital consumers in more detail later, but will start by first looking at digital users. The extent to which people use digital media such as the internet, mobile phones or even digital TV varies according to their location and their demographics.

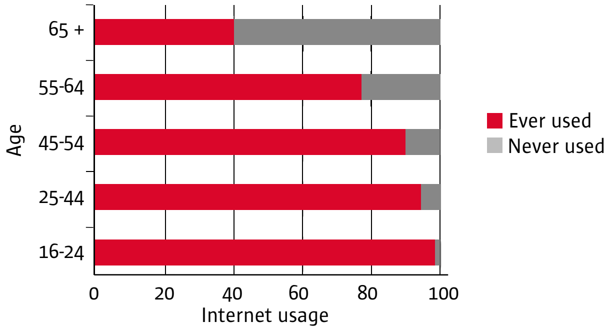

FIGURE I.1 INTERNET USAGE BY AGE GROUP, 2010

Though men are more likely to use the internet than women, the most striking aspect of the digital landscape is the massive intergenerational disparity, which we turn to next.

Through the digital generations

There has never been such a stark difference between the generations in terms of digital use, as shown in Figure I.1.

Ten years of mass internet use is a short time compared with the span of people's lifetimes. It is therefore unsurprising that it makes a big difference at which point in a person's life the mass internet revolution started. This is because people are typically less able or willing to take on innovations or radical changes as they get older[5]. The digital generation has grown up with the internet and mobile phones; it is all they know. The next generation are digital transitioners who did not grow up with the internet but have adapted pretty well. Finally, there are the digital toe-dippers for whom the internet came late in their lives (see figure I.2).

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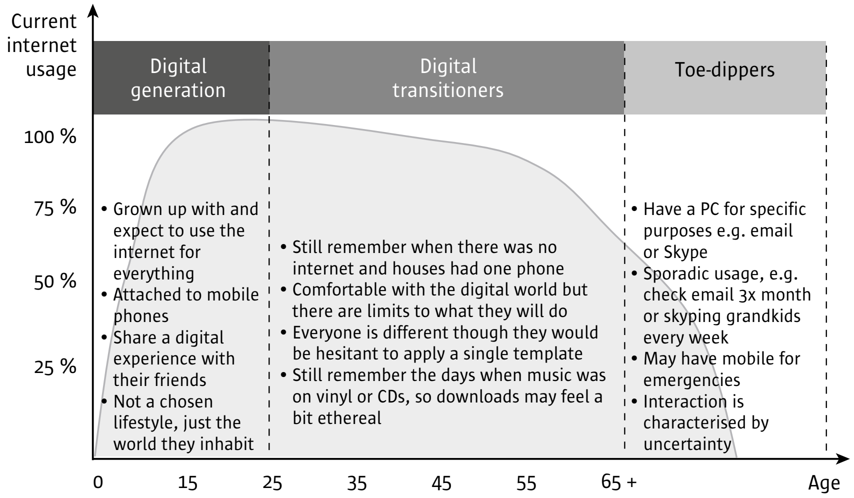
[1] http://www.internetworldstats.com/stats.htm

[2] Extrapolated from http://id.nielsen.com/news/documents/GlobalOnlineShoppingReportFeb08.pdf

[3] http://www.internetretailing.net/2010/11/uk-leads-europe-in-internet-shopping/

[4] http://secondlife.com/

[5] Rogers, E. (2003). Diffusion of Innovations, Fifth Edition. Free Press

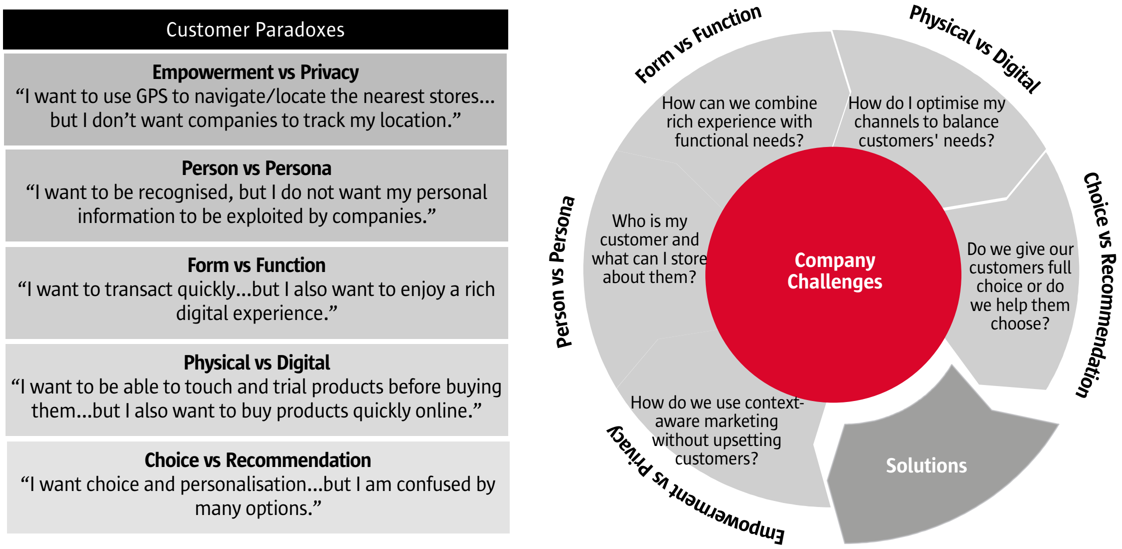


- Grown up with and expect to use the internet for everything
- Attached to mobile phones
- Share a digital experience with their friends
- Not a chosen lifestyle, just the world they inhabit

- Still remember when there was no internet and houses had one phone
- Comfortable with the digital world but there are limits to what they will do
- Everyone is different though they would be hesitant to apply a single template
- Still remember the days when music was on vinyl or CDs, so downloads may feel a bit ethereal

- Have a PC for specific purposes e.g. email or Skype
- Sporadic usage, e.g. check email 3x month or skyping grandkids every week
- May have mobile for emergencies
- Interaction is characterised by uncertainty

FIGURE I.2 UNDERSTANDING DIGITAL CUSTOMERS (SOURCE BEARINGPOINT)


Customer Paradoxes

Empowerment vs Privacy
"I want to use GPS to navigate/locate the nearest stores... but I don't want companies to track my location."

Person vs Persona
"I want to be recognised, but I do not want my personal information to be exploited by companies."

Form vs Function
"I want to transact quickly...but I also want to enjoy a rich digital experience."

Physical vs Digital
"I want to be able to touch and trial products before buying them...but I also want to buy products quickly online."

Choice vs Recommendation
"I want choice and personalisation...but I am confused by many options."

Form vs Function
Physical vs Digital
Choice vs Recommendation
Empowerment vs Privacy
Person vs Persona
How can we combine rich experience with functional needs?
How do I optimise my channels to balance customers' needs?
Who is my customer and what can I store about them?
Company Challenges
Do we give our customers full choice or do we help them choose?
How do we use context-aware marketing without upsetting customers?
Solutions

FIGURE I.3 FIVE UNSOLVED PARADOXES

Five unsolved paradoxes

In the course of our research, we looked very carefully at the strategic issues around customer management in the digital space, and found that for every so-called trend, there seemed to be a counter-example. We found five key 'paradoxes' to the way in which digital consumers should be handled (Figure I.3).

Paradox 1: physical versus digital. The trend towards virtualisation started with the substitution of real products and services by digital ones. Then came the integration of physical and digital channels. Now we are entering a new phase, in which exciting combinations of the real world and digital technology are being brought together in augmented reality applications. For example, software developer Zugara[6] has developed applications to help people try on fashion items in virtual space and send pictures to their friends for approval. Because people — and companies — often want aspects of both the physical and the digital worlds, it is difficult to predict which application will take off.

Paradox 2: form versus function. Different types of website assume different types of user. A form website offers its audience an engaging experience, whereas a functional website prioritises quick and easy transactions. Sites such as ladygaga.com emphasise form, whereas most online banking websites are purely functional. Ideally, websites and mobile applications should be sensitive to their customers' priorities and their state of mind. For instance, if you are at a station using a smartphone to buy a train ticket, you probably don't want to be forced to watch a video about trains. It's important to consider how to ensure your website hits the mark.

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[6] http://www.zugara.com/

Paradox 3: empowerment versus privacy. There is a tension between privacy and the useful applications that can be offered if the requirement for privacy is relaxed; we call this opposite pole 'empowerment'. For instance, many consumers — but not everyone — welcomed Google Street View: residents of the English village of Broughton formed a human chain in 2009 to prevent Google from taking pictures of their homes, amid fears that the images could be used by burglars[7].

Similarly, location-based apps on mobile phones were used by over half the respondents to a 2010 Microsoft survey[8] ; 94% of respondents considered these services to be valuable. Despite this apparent approval, half (52%) also expressed strong concern about sharing their location with other people or organisations.

This concern is higher for sharing location with organisations as opposed to other people, though this varies by country. US consumers are more concerned (56%) about this issue, whereas Japanese consumers are less concerned (39%).

Paradox 4: person versus persona. The fourth paradox is about the level of disclosure customers make. When someone files their income tax with the Inland Revenue, they do so as a person. All their real details are required — at least in theory! By contrast, a player in virtual world Second Life can act through an entirely imaginary persona.

Between these extremes is a range of options about how much of the real person is revealed. As a business, how much should you force customers to disclose about themselves? There might be a gap between the information you want and the information that customers are comfortable in disclosing.

Paradox 5: choice versus recommendation. Too much choice is bewildering, but some people can be wary of receiving recommendations. Companies are faced with challenges about how to make choice manageable. Which is better: artificially restrict choice for consumers, or give them computer-based recommendations?

These paradoxes apply to both customers and companies. Customers often have incompatible goals. For example, they may want only to receive relevant information from advertisers, but for the purposes of privacy, they may not want companies to collate any data about their personal interests and past purchases to provide the information base for that targeting.

Companies, therefore, have to make choices about their customer management strategies. These choices risk alienating some customers while enticing others. Businesses have to consciously recognise these paradoxes and decide where they stand. Some businesses will challenge consumers' comfort zones and stretch the paradoxes. Others will learn from the mistakes of other businesses and stick with what they know will work.

Human psychology re-expressed in the digital age

A key contributing factor to this discussion is the extent to which technology has opened up new possibilities. However, these are sometimes at odds with current sensibilities. The debates around the behavioural targeting software Webwise, developed by Phorm, illustrate this paradox. Webwise looks deep inside users' internet traffic, scrutinises their browsing habits and uses this data to enable highly-targeted advertising. Originally promoted to ISPs, Phorm's software tended to be covert — with the result that it was branded spyware. In the face of questions about both the legality and the morality of Phorm's approach, recent versions of the software require users to 'opt in'. It seems that Phorm took a step too far.

The Phorm story is not unusual. Technology has the capacity to store, integrate and process behavioural data, using data mining of weak information signals to provide valuable information about individuals. The problem is, these developments are starting to be implemented without fully informed consent from individuals. No one knows what consumers' reactions will be, and whether legislators will take a stand.

One way around the problem of how to interpret and respond to a digital revolution that is really still in its infancy is to recognise that human psychology remains largely unchanged and can be applied to interactions in the digital world. People are sociable, they seek friendship, they care about trust and they interact with the world — any world — both cognitively and emotionally. These truths must be re-expressed in the digital age.

Emotionally intelligent digital interactions?

In 2010, the Leiden Institute of Advanced Computer Science in the Netherlands organised an international conference on Human-Robot Personal Relationships[9].

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[7] http://www.telegraph.co.uk/technology/google/5095241/Google-Street-View-Residents-blockstreet-to-prevent-filming-over-crime-fears.html

[8] http://www.microsoft.com/privacy/dpd/

[9] http://hrpr.liacs.nl/

Billed as an opportunity to discuss studies of personal relationships with artificial partners, the ideas sound at first like science fiction, until one realises that through telemedicine, electronic devices are already substituting for care workers in healthcare. If such applications are designed to be more approachable and friendly, the chances are, they will be used more effectively.

Since the early days, psychologists have looked at people's digital interactions. Stanford University professor Byron Reeves observed: "humans are not evolved to respond to 20th century technology." In his book The Media Equation[10] he argues that people treat computers, television and new media like real people and places. How can that be? Reeves argues that, when presented with humanlike cues, individuals are swayed by the human characteristics and don't process the fact that the machine is not human. And if people treat digital media like people, they'll look for some of the same characteristics.

This leads us onto the idea of emotional intelligence (EI), the name given to the traits and skills that make some people excel at reading and at influencing other people's emotions. Studies have found that EI is correlated with career success. Psychometric tests have even been developed to measure EI quotient.

Of course, like much in the social sciences, there is plenty of debate about what this all means. Daniel Goleman, who popularised the concept, may have overstated the case, but most experts agree that EI ingredients do have some validity[11]. So can we talk about digital interaction strategies having emotional intelligence?

They can certainly be designed to. Thanks to cookies, a website can address you by your first name, remember where you left off, and respect your preferences. It may only be a digital screen saying "Welcome back, Paul" but Paul will subconsciously feel stroked; even if Paul knows full well it's driven by a computer he still can't help being influenced. And this is just the start. Just as people pick up on subliminal clues to other people's psychological state — such as tiny changes in facial expressions — digital touch points have numerous clues to decode the state of the humans they interact with. For instance, emotionally intelligent websites can monitor the delays before key strokes and adjust to your perceived mood; voice processing can spot signs of anxiety by analysing the frequency spectrum of your voice.

An emotionally intelligent digital interaction strategy would act appropriately in social situations. The German sociologist Max Weber recognised that social norms and rules guard against the misuse of power. The growth of campaign groups around internet privacy is an indication that these norms are starting to be contested.

The theme of emotional intelligence will be revisited throughout this article, but the main focus is on the five paradoxes introduced earlier. These are the dimensions in which customers and companies are faced with interdependent choices. The choices will also depend on age cohort, which we discuss a topic that will be picked up again in the Conclusion: navigating the digital paradoxes' so it reads at the end of this article.

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[10] The Media Equation: How People Treat Computers, Television, and New Media like Real People and Places (Center for the Study of Language and Information Publication Lecture Notes), Byron

[11] List based on Goleman, D. (1995). Emotional Intelligence: Why It Can Matter More Than IQ. London: Bloomsbury

PARADOX 1: PHYSICAL VERSUS DIGITAL

"So real, you could almost download it."

Virtualisation

Prompted by the growing use of computers, commentators in the 1970s such as Alvin Toffler predicted a future post-industrial world increasingly dominated by information — so much so that citizens would be disorientated by information overload[1]. While some of these predictions have been borne out, the central message of a 'future shock' was unduly pessimistic. Instead of being swamped, consumers have generally embraced information technologies and the substitution of physical artefacts by virtual ones. This is despite the adage that people are resistant to change. Although we all complain about the number of emails we receive and the problems of spam, few of us would willingly return to the time when using the postal service was the only option.

Where the futurologists were right was in their predictions of the pace and extent of change. Almost no aspect of daily life is now immune from the possibilities opened up by PCs and smartphones. Virtualisation presents opportunities for innovation on an unprecedented scale. Greater degrees of product personalisation are made possible and products such as books, maps and music can be delivered directly on to portable electronic devices. Established companies can suffer as product categories and traditional business models get wiped out.

The interchange between real and virtual components is taking place in products themselves, the purchasing process and customer support (see Figure 1.1).

Phase I: Substitution

The first phase of the virtualisation revolution was the direct substitution of traditional products and associated sales processes by virtual equivalents, driven predominantly by cost reduction. Early online retailing concentrated on products that consumers were familiar with, such as books, music, airline tickets and computer hardware and software. In some cases, this virtualisation predated the internet; in insurance, for example, telesales was already a well-established alternative to traditional car insurance broking by the time that the internet started to be used in earnest.

While there is still scope for direct substitution, with more and more goods going digital, the easy areas have been done, and the ones that are left are becoming more tenuous. There is genuine doubt over how far the trend towards virtualisation will go. A case in point is prescription glasses. It's logical to think that a health-related product that traditionally involves trained opticians at the point of sale would be an unlikely candidate for an online sales channel. However, online opticians do indeed exist, though whether they will ever seriously dent the profits of high street chains is debatable.

A recent driver for substitution has been environmental concern. The UK media regulator Ofcom sponsored research concluding that communication systems have significant potential to provide positive environmental benefits, especially with respect to reducing the emissions that result from travel.

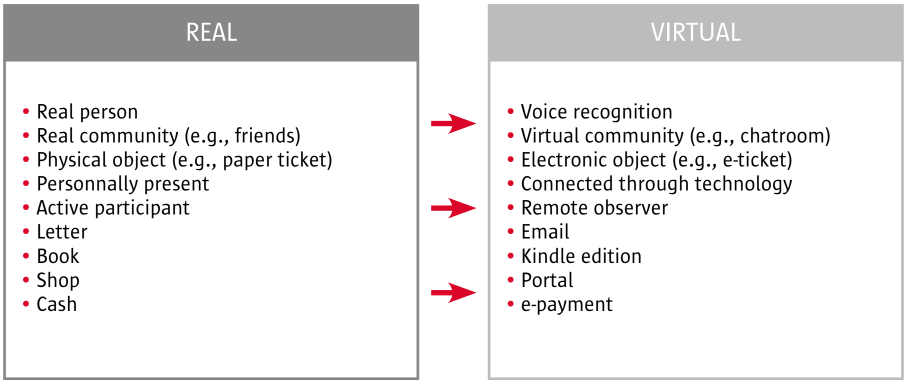
REAL
• Real person
• Real community (e.g., friends)
• Physical object (e.g., paper ticket)
• Personnally present
• Active participant
• Letter
• Book
• Shop
• Cash
VIRTUAL
• Voice recognition
• Virtual community (e.g., chatroom)
• Electronic object (e.g., e-ticket)
• Connected through technology
• Remote observer
• Email
• Kindle edition
• Portal
• e-payment

FIGURE 1.1 REAL VERSUS VIRTUAL (SOURCE BEARINGPOINT)

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[1] The Third Wave, Alvin Toffler, Random House Value Publishing, 1987, ISBN-13 978-0517327197

Some substitutions turn out to be unpopular with consumers — for example, replacing bank branches with call centres. Others are more difficult to judge, such as the pros and cons of a printed manual as opposed to a web link. The UK consumer organisation Which? recently asked its members, “Do you miss the printed instruction booklet?”. Most, but not all, still favoured hard copy manuals for complex, high-value products. Cost reductions or even environmental benefits may hold little attraction for consumers if the end product isn’t convenient or useful.

To make some substitutions occur, manufacturers sometimes have to engineer digital products to incorporate the reassuring characteristics of the old. For example, the electronic click of a digital camera replicates the sound of an old mechanical shutter, but reproducing this exact sound has no functional purpose.

Part of the paradox is that consumers seek contradictory goals. Research has shown that there are many different attributes that people consider when deciding which channel to use. These attributes include:

- enjoying the actual activity of shopping
- shopping speed
- having a large selection
- the best price
- seeing, touching and handling goods
- personal service
- speedy delivery
- ‘no hassle’ exchange.

The weighting of these attributes varies between types of product, and between individuals. For example, on a scale of 1 to 10, shopping for airline tickets rates 3.7 on the enjoyment scale, whereas clothing rates 7.25 (and that’s the average between males and females!)[2]. Shopping is also often a sociable experience.

Phase II: Integration

As the opportunities for further direct substitution reduce, a second phase of virtualisation gets underway. This involves the integration of real and virtual experiences to create genuinely new forms of engagement. The role of digital technology in this phase goes well beyond merely replicating its physical counterpart. Whereas the first phase relied on PCs, this phase will build on the capabilities of mobile devices. Their ability to relate to customers, wherever the customers are, and in real time, has no equivalent. Reader apps enable consumers to access product information and videos at retail locations using mobile barcodes (qR codes) or even just by photographing a product. This information is often generic, but is starting to be integrated with pre-existing customer data and location. Electronic business cards that integrate with computer applications are an example of integration from the B2B world.

The strategic consequence of this integration is the blurring of previously distinct parts of the buying process. Instead of a standardised linear process, customers now enjoy physical and virtual interactions through a more individual ‘customer journey’. In fact, in many markets it is now more important to differentiate the customer experience than differentiate products.

Customers expect a consistent and seamless experience across these multiple touch points and expect to resume their journey where they left off: a form of ‘conversation’ across different channels. Humans are brilliant at detecting inconsistencies — which is why inconsistencies are used in psychology experiments to study child development. For companies, inconsistencies erode a customer’s ability to form a coherent understanding of brands and products. The trouble is, consistency can be difficult to achieve. One step is to synchronise customer contact history across channels. But many organisations depend on different legacy systems, so moving towards a cross-channel customer contact history requires significant investment and extensive organisational transformation. Unlike direct substitution, which was partly driven by the search for cost reductions, this phase may increase cost.

Phase III: Augmentation

The biggest challenge is in using digital technology to help sell products and services that are inherently physical in nature. Augmented reality applications are starting to emerge that allow physical experiences to be substituted by virtual experiences. For example, as we mentioned earlier, Zugara[3] has developed a software to enable people to try on virtual fashion items and, through social networking, to get their friends’ views on the look. At first, this might seem like a poor substitute, but actually it’s potentially a much better option for consumers. Fashion is, after all, about what other people think, and what could be better than having a dozen second opinions before you buy? It is already common for friends to participate in shopping through video chats.

Technology isn’t standing still

Augmented reality is part of a wider trend in technology. Gaming consoles were the first to use movement as an input and physical sensation as an output. These were followed by the iPhone and iPad, which took advantage of the extra dimension of physical movement. The co-founder of Wired, Kevin Kelly, has commented that interaction is still mainly limited to people’s fingertips but that the iPad is changing this[4]. Looking ahead 20 years, Kelly foresees the following trends:

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[2] Levin, Levin & Heath, Online Consumer Psychology, p.406

[3] http://www.zugara.com/

- screens on every surface
- more modes of interaction including gestures, voice, cameras and movement
- continuous tracking of everything we do
- real-time streamed media
- accessing material but not owning it, and
- copy protection[5].

Obviously, these are personal views, but they do accord with other forecasts that see the keyboard and screen losing their grip.

A generational perspective

Consumers are faced with the choice of what combination of physical and digital experience to go for, while companies have a bewildering choice of new configurations of real and digital and find it difficult to know where to invest. The digital generation seems more comfortable with the digital, whereas the toe-dippers are less inclined to want to move away from the physical.

The main paradox here is that although we have a transition between broadly physical forms and broadly digital ones, customers still want aspects of the physical world and will make use of both physical and digital artefacts. Companies, therefore, have to integrate the two and make judgments about what consumers will or will not accept in each channel. A conservative approach will not take full advantage of technology, but a radical approach may fail to gain consumer acceptance.

Addressing the paradox

1. Map the roles of physical and digital channels in the customer journey space.
2. Research customer journeys in relation to your products and services. Understand how and why your customers use the respective channels.
3. Check that you are supporting the customer journey, integrating customer data and removing inconsistencies.
4. Identify substitution possibilities, ensuring that incentives are incorporated to promote the use of either physical or digital channels as appropriate.
5. Are there any tipping points in sight where the physical form becomes non-viableor marginalised?
6. Identify opportunities to integrate real and digital experiences.
7. Innovate. Think about opportunities to use new technologies such as augmented reality.

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[4] http://techcrunch.com/2011/03/29/6-verbs/

[5] http://techcrunch.com/2011/03/29/6-verbs/

PARADOX 2: FORM VERSUS FUNCTION

"I wanted a ticket and all I got was a shopping experience."

Audience or customer?

You want to find the details of a local car dealer in order to book a service. You visit the manufacturer's website and are greeted with a video of the latest model, which seems determined to load, together with pop-up advertising promotional deals. It takes 45 seconds to find the page you are looking for, but you are in a hurry and it's 45 seconds longer than you wanted. The video was irrelevant to you, anyway, as you are not looking for a new car.

Is this a bad website? Not necessarily. If, three years earlier, you were looking for a new car, you might have been receptive to the video. The video, which is ingeniously tied into a TV campaign, has yielded stunning results.

The paradox here is about how companies see their website users. They can either be an audience, looking for an engaging experience, or they can be customers, looking for a quick, efficient transaction. The matrix in Figure 2.1 shows how the experience on offer varies with the level of user involvement required. Low involvement and an emphasis on functionality are typically associated with ecommerce, whereas high involvement and an emphasis on form is associated with brand awareness.

The trouble is, all users are different. Even an individual user can be at different places in this matrix, depending on where they are in the purchasing cycle, and whether they are in a hurry or not. The key question is whether the interaction on offer matches the customer's state of mind at the time. If they match, there's no problem. If they don't, then either the customer gets frustrated or they do not get the reassurance they need and may fail to complete the transaction. To help focus on the options, it's worth thinking about the different roles that websites fulfil.

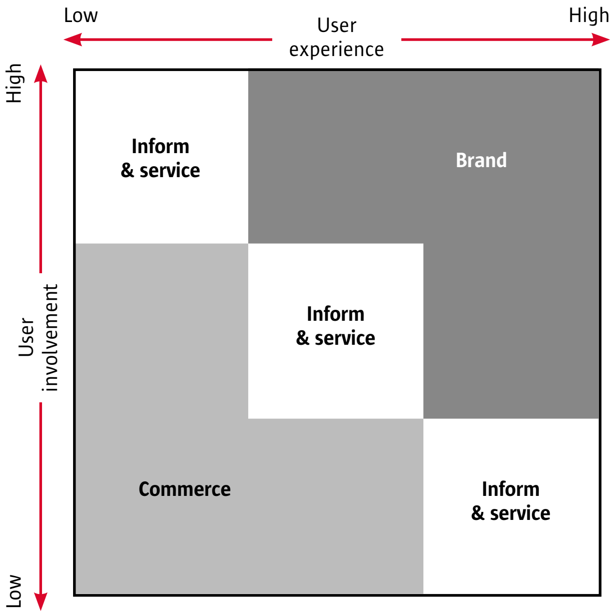

FIGURE 2.1 USER INVOLVEMENT-OFFERED EXPERIENCE MATRIX

Websites and the attention economy

The first role is brand awareness. Used for categories as diverse as perfumes and pop stars, in their purest form, these websites often encourage visitors to enjoy an experience and to share in a vision. Users don't care about the time it takes, so long as they're having a rich experience: a visit to ninaricci.com or ladygaga.com, for example, is not to be rushed. Indeed, the American theorist Michael Goldhaber has suggested that there is now an 'attention economy'.

Economies focus on what is scarce, and these days it's people's attention. Goldhaber asserts: "Money flows to attention, and much less well does attention flow to money[1]" so if you hold people on your website, then you have accumulated a form of attention wealth.

Why would people spend their time (or devote their attention) to a website set up to offer a compelling brand identity for you or your product? What's in it for them? In a branch of sociology called cultural theory, it is often argued that these websites function to affirm the user's personal identity as well. Personal identity is not fixed, but instead is 'performed' through what people do. As a customer, spending time on a website is, literally, investing time in constructing their identity.

A key part of identity is being able to decode shared images and language. The more powerful these approaches, the more prone they are to misrepresentation and misunderstanding. For instance, in February 2011, the UK's Advertising Standards Authority (ASA) banned an Yves Saint Laurent perfume advertisement because it included a video said to simulate drug use. A longer version of the video was on the company's website, but at the time the ASA had no authority over digital media (this has now changed). The case is fascinating because it rests on how different audiences interpreted edgy content. Was YSL's video being misunderstood or was it being understood only too well?

As the capabilities of multimedia increase, companies will have the opportunity to present themselves not just in text and images but also with voice, tactile media and so on, in order to give users a sense of presence (being there and having a meaningful involvement in the mediated experience). The psychologists Nass and Sundar believe that when presented with physical cues that are related to fundamental human characteristics, individuals automatically respond socially[2].

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[1] http://firstmonday.org/article/view/519/440

Fortunately for companies, there are now more tools than ever to help design websites that mesh with users' psychology. Eye-tracking systems, for instance, can be used in experiments to precisely measure how people scan and process websites, and personalisation is possible through the use of avatars and realistic animation sequences incorporating human facial expressions.

Trading platforms

At the other end of the spectrum, a website can function as a trading platform. Experience has shown that the more complicated and time consuming a website is, the less likely it is to be used. One-click ordering, retaining card details and simple verification procedures all make trading websites more effective. Unfortunately, these innovations also make for greater security concerns. As yet, biometric techniques such as voice recognition, fingerprint recognition and iris scanning have failed to make it into consumer devices. However, multi-platform verification of identities (for example, using a mobile text message to cross-check against a PC-based transaction) is increasingly popular.

Communities, information and support

Between the experiential and the transactional extremes there are several other roles for websites. One is to support the formation of communities — for example, reviews and user-generated content — broadly labelled Web 2.0. Studies have shown that dialogue generates commitment; giving customers an opportunity to comment on a company ties them in to a community, even if they are mildly critical. It is now normal for websites to either integrate with social media or to replicate aspects in-house.

Another role of a website is as an information resource. Although you may think that the only consideration here is whether the information is easily accessible, it's also important to consider the look and feel of a website, as it still has to fit the audience. Sometimes, this means having different sites to convey the same information: London's Metropolitan Police have a separate website aimed at young people with a more vibrant character than the more staid version for adults, as does the BBC news website[3]. Similarly, CNN similarly provides a different look and feel for its student news site compared to its main site[4].

Websites can also be the prime vehicle for the delivery of the customer experience — for example, Facebook and Google — or as the main way that customer service and support is delivered.

An experience surrounded by buttons

The different roles of websites might at first imply that different objectives cannot be met simultaneously. However, many websites manage quite well. There is a de facto standard by which the central area of the home page offers an experiential view, whereas buttons and menus provide information and transactional support, as shown in Figure 2.2.

Consistency is important. One of the reasons people find menu-driven call centres so frustrating is that on the one hand you've got a human voice, while on the other, you've got an interaction format based on lists of menu items. No restaurant waiter would simply read out the menu and say "Press 27 for chicken tikka masala", so why should call centres?

Design for state of mind

Ultimately, the form versus function paradox is best addressed by designing media around a customer's state of mind. An emerging challenge is also to devise websites that try to adapt. It is possible to ask questions to assess what customers want to do. Alternatively, using clues such as the speed of typing can attempt to assess a customer's mood; knowing the Google search terms that a user has used to arrive at your website is another pointer. The ideal is an emotionally intelligent website.

A generational perspective

The digital generation is far more likely to see digital technology as a source of entertainment. By contrast, when the toe-dippers use the internet, they do so from a more functional perspective. The main paradox here is the variety of genres of website or mobile app, and that users differ so much regarding the sort of experience they want. Some want a fast, convenient trading platform, whereas others want an immersive experience. The more that digital media tunes into one type of customer, the more others can be put off.

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[2] http://stanford.edu/group/commdept/oldstuff/srct_pages/Social-Parasocial.html

[3] See their children's news site http://news.bbc.co.uk/cbbcnews/compared with the regular news site, http://bbc.co.uk/news/

[4] http://edition.cnn.com/and http://edition.cnn.com/studentnews/

Addressing the paradox

1. Be clear about the function of your website or application. These can be diverse: is it for brand awareness, or as a trading platform? Does it facilitate a community or social network? Is it acting as an information resource, or providing service and support?
2. Try to predict the states of mind of your customers as they interact with your applications and try to imagine what their motivations are. Are your customers interested in an immersive experience of your brand, or are they hoping to complete a transaction as quickly and easily as possible? Or is it a mixture of the two?
3. If there is any ambiguity — and there probably is! — look for ways of making your applications adapt. The simplest option is to have a single portal and let your customers choose which path they follow. More complicated approaches pick up on clues and adapt the experience accordingly. Consider the types of clue available, such as kind of media used; time of day; typing speed; voice characteristics and historical path through the website.
4. If your application contains function characteristics, think about how to make the interaction as efficient as possible. Give the option of one-click ordering (although this also raises security issues).
5. Conversely, where the application majors on 'form', think about the 'attention economy'. How can you create a culturally meaningful experience for all your customers?
6. Consider how emerging technologies such as natural language input can support these objectives.
7. Look carefully at the role of mobile apps, which may span from being purely functional to using enriched media accessed via links to the web.

PARADOX 3: EMPOWERMENT VERSUS PRIVACY

"In the real world, there's no such thing as a free lunch. On the internet there is ... provided you don't mind everyone watching you eat."

No free lunch

The privacy paradox is central to the internet. Part of the reason that the internet has taken off has been the availability of 'free' services supported by targeted advertising, or by onward sales of data derived from these services. But many commentators believe that this information harvesting has not been through fully informed consent. Sporadic reactions against a perceived invasion of privacy are now occurring. These merge into a wider moral panic around identity theft, leaks of official information, security and cyber crime. Conversely, there are many innovations that use private data to offer genuine value to consumers. The question is how to innovate new services without crossing the line of consumers' sensibilities — basically, how to behave appropriately.

Apply emotional intelligence to digital customer management

In the domain of psychology, knowing how to behave appropriately with different people in different situations is a key feature of emotional intelligence. The challenge then is this: how can a company become emotionally intelligent? How can it gauge customers' (sometimes contradictory) needs correctly and support an image with which the customer is comfortable?

Consumers want it all ways!
Customers want the benefits of context-sensitive communications (such as the local offers provided by Vouchercloud[1]) at the same time as not wanting, for example, a record of their movements to be stored. An emotionally intelligent customer management strategy will target customers' desires. Ideally, they'd like:

- everything to be easy
- to feel like they belong
- to be offered relevant services
- to feel important
- to be well served
- to trust the company.

At the same time, the strategy should respect customers' privacy preferences. These may include how they can control how their data is used and that it is stored securely.

Some examples are easier to deal with than others. It is hard to argue against people wanting privacy settings across digital services and touch points, such as Facebook, to be easy to manage. But what is wrong with them being willing to accept some infringement of privacy to gain a benefit?

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[1] http://www.vouchercloud.com/

Here are some examples: it's hard to imagine an informed customer not accepting a cookie from Amazon, so that they can benefit from one-click ordering next visit. However, other scenarios are more ambiguous: is seeing a friend's photo of you tagged on someone else's Facebook page cool, or an infringement of privacy? The answer can depend — for example, on what the photo shows you doing, or who could see it.

Humans have simultaneous needs

As we've already seen, the responses to Google's Street View encapsulates this challenge. On one hand, it's an immense, technically brilliant feat to photograph millions of streets around the world. And yet, in addition to accolades, it has attracted bad publicity, attempts at legal action[2], government bans[3] and fines[4]. Reactions have varied by places, but the negative reaction has centred around privacy. Why?

To answer this, we need psychology. In our day-to-day lives, we have needs of being able to act (our empowerment) and of personal space (our privacy). These norms have physical and emotional components, are in fact a combination of the two, and vary according to social and cultural context, such as: when we were born, where we live, our education, our friends and family, and so on. Any interaction we have with the outside world that is inconsistent with our own norms will feel wrong.

Humans strive to hit the right balance in the real world...
Think, for example, of the following scenarios. You enter a shop you once visited several years ago and the shopkeeper greets you like a long-lost friend. You are waiting for a train and a station announcement starts describing your plans for the evening to the platform. A stranger gives you a hug as you enter the park. A long-time friend acts like they have never met you before. Strange? Why? Because the scenarios violate our norms.

... and in the same way, companies should strive for the right balance in the digital sphere
Such violations can be just as inappropriate in the digital world. For example:

- A website you've never visited before greets you by your first name and asks if you would like to order something for delivery to your home address, which it already knows.

- Another, from which you regularly shop, does not recognise your username or your email address.

- Your data is some of that leaked by a service provider, like play.com[5]

- You hear that Google recorded wifi data on your street when it was photographing for Street View.

As a customer, you may also be perturbed — maybe more so if you recognise that once your data is available online it can be very hard to delete. In contrast, in the real world you can always avoid that strange, overfamiliar shopkeeper.

This lays clear the dilemma for companies. The digital world empowers companies to target communications to their customers according to their contexts, with a high level of precision. But what are the rules that companies should follow to ensure that their digital customer management approaches do not overstep customers' comfort zones — namely, what is perceived to be appropriate? A good start to answering this would be to understand what people are concerned about sharing; what information makes them vulnerable? Their location, financial status, happiness, health and wellbeing? Who are their friends and foes in cyberspace? (see Figure 3.1).

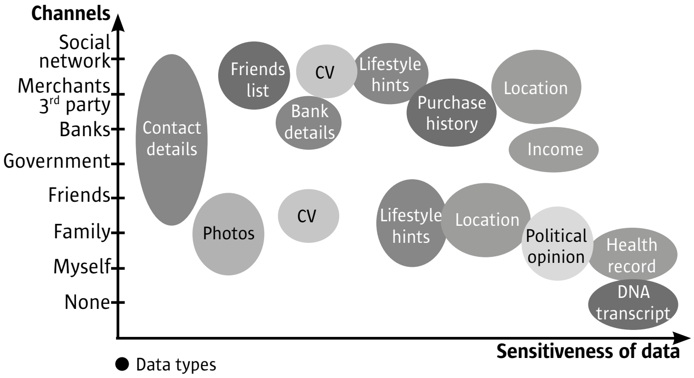

FIGURE 3.1 ACCEPTANCE OF CUSTOMERS TO SHARE PERSONAL DATA VIA DIFFERENT CHANNELS (SOURCE BEARINGPOINT)

And what are the consequences of overstepping customers' comfort zones? Lower loyalty? Churn? One consequence is that customers can provide false data. Think of the UK Census in 2001, when almost 400,000 citizens declared their religion as 'Jedi' (from Star Wars)! Which is better? More data — some of it wrong, or less data — none of it wrong?

Norms are personal, are influenced socially and by context, and are evolving

A further challenge in addressing the paradox is that different people have different norms, which in themselves are dynamic, and that norms change over time. Web users are now used to targeted advertising based on browsing and search behaviour. How many Gmail users realise that targeting based on email content is questionable? What is for sure is that a late adopter of email (a toe-dipper) would probably consider both, and certainly the latter, as invasive. But looking ahead 20 years, today's targeting will probably look both primitive and not broad enough.

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[2] Germany
[3] Czech Republic and Switzerland
[4] France

[5] http://www.guardian.co.uk/technology/2011/mar/22/play-customer-details-leaked?INTCMP=SRCH

It is important to note that while rules are defined, and can be looked up, norms — especially in new markets/domains — are much harder to read or predict. Norms are influenced by the groups people identify with. A naive customer may not know how concerned to be about their privacy, and what impacts technology can have on it. This highlights the potential role of key opinion leaders, for example as proponents for the normalisation of new patterns of customer behaviour in relation to the disclosure of personal data.

Public awareness of privacy issues is increasing, and legislation is developing

Part of what constitutes the moving target is that public opinion can both drive and be driven by personal norms. To trigger opinion, people need to be aware of an issue and to evaluate it. Until recently, most internet users were not aware their online behaviour was tracked, and still most do not know quite how much of it is. Times change. Awareness is increasing as a result of media coverage (for example, see the Wall Street Journal's 2010 feature series 'What They Know', and official initiatives both in Europe and the US[6]).

Research in the UK[7] highlighted that a majority of people express concern about their personal details online, with 96% concerned that organisations do not keep their details secure; equivalent to being concerned that our friends and associates in the physical world could not be trusted with personal facts or information we choose to share with them.

The main paradox here is that customers want the benefits of context-sensitive communications while also wanting to maintain their privacy. The challenge for companies is how to address these conflicting needs strategically.

Addressing the paradox

1. Ensure behaviour when gathering, holding and managing customer data and privacy is appropriate to customer mindsets for the type of product or service your company provides.
2. Understand target customers' mindsets and sensitivities with sufficient acuity to position the company in relation to: location tracking, cookies and data harvesting, and the mining of social networks.
3. Ensure company behaviour complies with legislation, and target all behaviour as appropriate — even in new markets, in new markets identify real-world equivalents and consequences of behaving inappropriately. As a simple test, check digital customer management approaches do not violate any established norms.
4. Watch and learn from others' mistakes and successes. Be wary of unintended consequences, and develop a clear company strategy and action plan to manage getting it wrong. Develop a strategy for success based on successful approaches.
5. Ensure push notifications based on context (for example, geo-localisation) are only provided to customers who explicitly opt-in. And make sure strategy recognises and respects the limits of acceptability for push notifications (for instance, time of day, around specific events and so on).
6. Only gather private information that brings value to end-customers — for example, to support notifications or personalised offers and promotions. In this context, invest to understand which topics should be excluded from personalised services. Where possible, and more where it is efficient to do so, target customers using generic behavioural rather than personalised approaches.
7. Use private information specialists (such as PayPal) or work to become a trusted go-between for customers (for instance, Amazon insuring its customers in the Amazon marketplace).
8. Consider investment in the deployment of key opinion leaders to normalise new behaviours (think, for example, of Stephen Fry and his Twitter feed @stephenfry).

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[6] With recent legislative and communications activities by the European Commission, and the Federal Trade Commission

[7] From the Information Commissioner's Office, 2010

PARADOX 4: PERSON VERSUS PERSONA

"Calling yourself Donald Duck may be fine for certain online purposes, but it tends to cause problems when it comes to credit history and delivery address[1]."

Related to the privacy paradox is our fourth paradox: person versus persona. Its central concern is how much companies require their customers to disclose, or reveal, of their real identity. A ‘person’ is someone who has disclosed key aspects of their identity to the company, whereas a ‘persona’ is a partial or inaccurate image of someone who has not disclosed key aspects of their identity.

In this paradox, customers simultaneously want the benefits of personalised and targeted communications, while wanting only to reveal or disclose a subset or partial image of the information that would enable full personalisation — or to remain anonymous.

At the core of the paradox is a gap between what companies want or need their customers to reveal and what customers feel comfortable or willing to reveal. There are therefore two potential approaches to bridging the gap: recognising that withholding disclosure is OK, and designing business processes around more anonymity, or encouraging customers to disclose more private information. Around both these approaches there is a fundamental need to support the development of a trusting relationship with your customers.

Companies should communicate to customers the benefits of making themselves known

To develop strategies that address the paradox, it is first useful to make explicit the positives from the customer perspective of being known (a person) or somewhat known (a persona). In relation to their identities online, customers gain many benefits from revealing their identities to companies. These benefits should be clarified to customers.

First, and most generic, are those related to ease of interaction and transaction to simplify a customer’s life (for example, Amazon’s one-click ordering). This requires a customer to be recognised by providers of services and products. A good example is that if you disclose your phone number to British Airways, you will receive a travel reminder by SMS, with a link to a map of the terminal, travel tips to get to the airport and a link to buy transport tickets online. A further level of associated benefits can also be communicated to customers — for example, quicker, easier shopping online can lead to more time for you to relax, have fun, spend time with the family, and so on.)

A second group of benefits to customers who allow themselves to be known relates to a company’s ability to target appropriate offers and deals. Good examples are mechanisms such as Amazon’s personalised recommendations based on previous purchase behaviours, or on their (less personalised) pre-purchase advice (for example. “x% of people who viewed this product eventually purchased ‘product y’”), or the targeted adverts received by Gmail users.

A third group of benefits relates to the psychology of group membership: literally, helping customers feel that they belong within a company’s community or family. The more strongly customers identify themselves with a company, the more loyal they are likely to be and the less likely they will be to churn to the services of a competitor. The inclusion of social media within a company website — like amazon.com — does exactly this. There are also many examples of customers disclosing their personal details for the benefit of being part of a community — think of Special K’s online diet club (myspecialk.co.uk), where people share very personal information in order to benefit from community support, recipes and so on.

Customers can benefit by controlling what they reveal: companies who help them do it will gain

Just as customers can receive enhanced offers by revealing their identities, at other times and in other contexts, those benefits might be outweighed by more important needs and considerations.

One of the most referred to appeals of the internet is that users can be anonymous online. Anonymity, real or perceived, can enable internet users to accomplish a whole range of goals online associated with wish fulfilment. There are numerous examples, ranging from playing the role of a person of different sex or age in an online gaming context, to being able to express feelings that may not be socially desirable, politically correct, or which a person may not be confident to say publicly[2]. Some industry leaders, Zuckerberg included, think anonymity will only have a limited (if any) role online in the future. But don’t forget that companies can leverage customers’ preference for anonymity by asking for anonymous feedback for service or product improvements in order to get more honest answers.

Companies can show they understand customer concerns and invest in enabling customer trust
A second set of benefits to customers of partial anonymity, or partial disclosure, relates to managing the consequences of disclosure. For example, why is it worth it for consumers to create online aliases, or manage multiple email accounts?

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[1] Unless you live at 1313 Webfoot Walk in Duckburg, Calisota

[2] http://www.networkworld.com/community/blog/4chan-founder-moot-anonymity-authenticity-zuc

A simple reason is to avoid spam clogging up a valued communications channel.

Promise your customers that they will never receive an unsolicited communication from you, and that you will never pass their details to any third party, and help them to trust your commitment to that, and increase the likelihood that they will disclose more to you about their person. Windows Live's recent launch of email aliases to link to one head email account is evidence of the increasing popularity of customers managing their identities. And it will give MSN the ability to aggregate online behavioural data from several Windows Live aliases. Windows Live is fulfilling a customer need, and gaining a new insight tool, all through the same application.

A second reason might be to avoid risking loss of privacy of personal information. Don't forget to check how your behaviour is likely to be perceived and felt by your customers. Just like in friendships, the more trustworthy you are, the more likely people are to trust you.

Customer concerns about privacy may be rational

A third reason? You'll no doubt have lost count of the number of press articles pointing out that putting too much information about your social life online can influence how you are perceived in the workplace. The impact has been discussed extensively in relation to recruitment, where a preferred applicant was ruled out of the running as a result of the recruiter spotting a 'wrong' photo on the applicant's Facebook page.

Customers are actually becoming increasingly smart at managing their disclosure. Either they have to not reveal anything interesting — in which case they are missing out on some of the fun and benefits of social media — or they have to manage multiple identities. It is for this reason that not many people have the same profile picture on LinkedIn as on Facebook.

A final theme to mention here is one about which the public is becoming increasingly aware. Once personal information is revealed online, it is very hard (if not impossible) to delete it. People's digital footprints are almost permanent. As more people realise this, for example through media literacy activities like those of Kidsmart[3], it is important that companies are sensitive to customers' preferences for anonymity. And anonymous customers can still be lucrative, if payment mechanisms are implemented to support anonymous transactions — for example pre-paid credit cards or other pre-pay online payment systems.

The challenge for companies is how to address these conflicting preferences between person and persona.

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[3] http://www.kidsmart.org.uk/digitalfootprints/

Addressing the paradox

1. Understand customers' mindsets and sensitivities to inform strategy in relation to identifying customers.
2. Conduct an honest appraisal of the context in which the strategy is being applied, such as per service/product, conduct cost-benefit and/or SWOT analyses of different customer identification options for different types of customer.
3. Within these analyses, include the costs and benefits of capturing, storing and aggregating data on customers, and target customers. Other aspects to consider relate to the extent to which you already (or should) offer localised (to a country or region) or personalised (to a person or persona) products and services.
4. Agree an explicit rationale to drive the level of customer identification needed. Develop this rationale commercially. For example, it is more likely to be worth identifying in more depth high-value than low-value/one-off customers. Target the level of identification your rationale specifies, and no more.
5. Enable and support anonymous transactions when it is possible.
6. Invest in being a trusted partner of your customer — a guardian of their privacy, regardless of how much they choose to reveal.
7. Consider ways of differentiating your company in this domain. For example, allow customers to request the full deletion of all data your company systems hold.
8. Recognise the potential for a company to have its own personas to create interactions with customers' persons and personas and/or to manage fictitious personas to influence online reputation (like the US military do![1]).

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[1] http://www.guardian.co.uk/technology/2011/mar/17/us-spy-operation-social-networks?INTCMP=SRCH

PARADOX 5: CHOICE VERSUS RECOMMENDATION

"I want to decide. Do you have any suggestions?"

Amazon has 34m books in its catalogue[1] — far too many to browse. If book selection were through title search alone, there would be no equivalent of the traditional browsing experience. Therefore, Amazon has developed sophisticated ways of recommending books to its customers, based on both individual and statistical information. However, Amazon's ability to provide recommendations, as well as the execution of its policy, is extremely sophisticated. Customers must trust Amazon enough to allow the company to make recommendations, and must not feel affronted by the recommendations that are made — even if they are made on the basis of purchases of presents.

Humans want to feel that they have freedom of choice at the same time as feeling nervous about making the right decision — and so we still want pointers, reassurance or recommendations.

Customers simultaneously want to feel autonomous, while still needing to be guided. Companies' positioning and strategy with regard to privacy and level of disclosure required of customers have implications regarding room for manoeuvre.

Customers want to feel independent and unique

Companies face the challenge of how to offer an appropriate range of products or services to their customers, address their customers' needs, and present that product range in a way that helps customers make transactions they will be happy with. From a psychological perspective, companies need to be aware that a transaction which a customer will be happy about will need to have struck a balance between impeding their customers' sense of autonomy, and confusing customers with choice. The target is for a balance, which will vary for different types of products, services, and customers. Addressing the paradox requires emotional intelligence to accurately gauge customers' mindsets and needs and respond appropriately.

Querying the motive behind a recommendation can be rational

It is easy to understand why customers want choice but are wary of recommendations. For example, customers could be aware that any recommendation may be inaccurate — it may not take account of the most relevant information about a customer. Others may question whether a recommendation is best for them as customers, or for the seller. A recommendation that serves to maximise profit for a seller is great, but acknowledging that this is a possibility can be a rational driver to customers wanting to search a full product range for themselves — to check whether another solution might better meet their needs, more cheaply.

Note that the cost to a customer of double checking a recommendation online is much lower than in the physical world — whether that means checking other online reviews, using other price comparison tools or polling friends quickly online (such as on Facebook or Twitter or via email). Facebook's 'Questions' app is a recognition of this trend[2].

Also, recommendations may be relevant in some contexts but not in others. The relevance of recommendations to the same customer can vary dependent on their mood, what sort of day they've been having, how close they are to pay day and so on. And in different contexts, customers may want recommendations focused on specific characteristics. For instance, when searching for a rare purchase, such as a home entertainment system, a customer may want to prioritise quality over price; when buying regular consumables, price may be the customer's priority.

So, given this variety, why even think of recommendations?

Customers really do need recommendations

On what basis should a customer make a decision about which to buy from hundreds of mobile phones, or TVs? It could be on the basis of any of a range of variables: peer recommendation, price, functionality, brand, colour, design, look and feel, who the typical user of the product is and so on. In the physical world, customers could always visit a store and explore, and when they felt the need — for example, for reassurance — they could ask a salesperson's advice. Myriad mystery shopping studies, and customer experiences, have shown that salespeople are not always available when needed, and when they are they may not have at hand the information the customer needs. Worse, the salesperson might be biased — promoting a specific product for commercial reasons.

In the digital world, customers can search for reviews, recommendations and advice from a very large pool of trusted sites, where the community of reviewers is big, or composed of people they know. Foursquare's success is an excellent example of the appeal of recommendations about specific places from friends.

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[1] As at March 2011

[2] http://blog.facebook.com/blog.php?post=10150110059982131

Transparent information enables informed choices; too much can paralyse

In order to make any decision on a rational basis, people need transparent information about different choices. Such information has three features. First, it must be meaningful — using relevant product characteristics. Secondly, it must be accurate and honest. And thirdly, it must be comparable. Comparability is also affected by how many choices are available, and how much information is available about each.

As Barry Shwartz points out in The Paradox of Choice[3] too much choice can reduce satisfaction and render decisions impossible. Similarly, too much information can hinder transparency. Ofgem (the UK energy regulator) recently criticised the bewildering number of tariffs as being against the public interest[4]. In this context, it is clear to see that an ongoing role for recommendations is guaranteed.

Recommendations have diverse roles

What roles do recommendations fulfil for customers? First and foremost, recommendations support a decision from a wide range of potentially suitable options. The higher the perceived complexity of the offer, risk of making the wrong decision, or cost of the decision, the more important is this role. A good example is Cartier's website, designed to enable visitors to explore a wide and varied catalogue in a designed atmosphere (set by music and image), and offering the Cartier Guide for expert advice and suggestions.

Secondly is the role of reassuring customers that they are making the right decision. This role is observable in relation to big ticket purchases, to which customers have higher emotional engagement. Here, lengthy, immersive experiences are optimal. The Nissan website is a good example — it provides an engaging, playful experience using video, 3D models, goodies and games.

Thirdly is the role of advising in relation to a product that requires expertise to enjoy. A good example is in relation to online wine stores: wineandco.com is designed to guide both novices and experts through a huge online catalogue. Visitors can search for wines by price, region or variety, and several big name wines are easy to navigate to on the home page — to guide visitors to best sellers. Experts can use advanced search options, directly entering keywords and other detailed attributes.

For any role to be fulfilled effectively depends on visitors trusting the source. Just like in the real world, where shoppers ask a salesperson for advice, customers are interested in the content and also in the dialogue. Shoppers can be more inclined to buy when there is a social dimension to the shopping experience. So how can this be reproduced in digital? The answer lies in adding social enagement to the vast volume of information available online, coupling recommendations with more personalised advice — and, for example, offering more socially engaging channels when it appears an online shopper might abandon the process (such as to chat with an avatar or webcam with a call centre agent).

It is easier to take recommendations and reassurance from trusted sources

It makes sense for a person to accept a selection recommendation from a friend than from an unknown entity. So what characterises a friend? The psychological literature would suggest someone who you trust, can be open with and is open with you, who is honest and fair, has your best interests at heart, and is like you in respects you consider important. Companies wanting their recommendations to be valued, and heard, should strive for these characteristics.

This highlights again the virtuous circle of trust in the digital world. To make a good recommendation requires the recommender to know the customer's needs, and for the customer to reveal their needs they need to trust the recommender. A recommendation from someone you know for a product meeting your needs is much more likely to feel like a recommendation than like someone trying to sell you something. The increasing popularity and impact of social media among many segments suggests a growing role for social media contacts as recommenders, or commenters on decisions. This crowd-sourcing approach to recommendations also addresses people's preference to take recommendations from friends.

The online nature of such engagement enables it to be updated in real time, reflecting most current views. And if companies enable customers to provide feedback, the review system should also be open to suppliers to respond.

Celebrity or expert status matters

A final psychological insight to note relevant to choice and recommendation relates to people wanting to feel (and be) a little unique, but generally acting as a herd. It's not for fun that Amazon tells customers browsing its site that "x% of people who viewed this product" went ahead and bought it. It is an example of what psychologists call 'normative cueing' — encouraging customers to behave in a way a group behaves. And behaving in the way someone with

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[3] Schwartz, B. (2003). The Paradox of Choice: Why More Is Less, Ecco

[4] http://www.ofgem.gov.uk/Media/PressRel/Documents1/RMRFinal%20Final.pdf

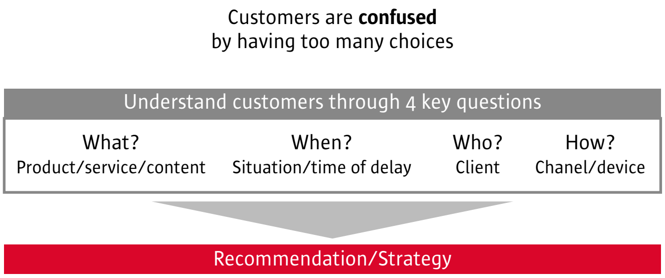

FIGURE 5.1 COMPANIES NEED TO DEFINE THEIR STRATEGY: LET THE CUSTOMER CHOOSE OR GUIDE THROUGH RECOMMENDATIONS (SOURCE BEARINGPOINT)

a desirable identity behaves is also the basis of expert or celebrity endorsement of a product or service.

So the challenge for recommendations is this. Customers are confident when trusted groups give them advice, but at the same time they do not want to be like sheep. How can companies help customers be that little bit different, while generally following the trend (see Figure 5.1)?

The domain of this paradox is one in which companies really can innovate, and benefit from getting it right — being seen as a better friend of the customer; trusted, loyal and valued.

To recap, the main paradox here is that customers want to feel that they have freedom of choice at the same time as feeling nervous about making the right decision — and so they need pointers, reassurance or recommendations. The challenge for companies is how to address both needs simultaneously.

Addressing the paradox

1. Identify a general recommendation strategy: (a) artificially limit choice to 'blockbuster' products, or (b) offer a large range ('long tail'), and provide tools to help customers choose what is right for them. The latter is more typical in the digital world.
2. Understand customers' mindsets, sensitivities, goals and behaviours in depth in order to optimise the quality of customers' experience(s) of interaction in search/recommendation tools.
3. Offer search and recommendation tools to match customer preferences from a range of approaches available (consider: explicit search, implicit behavioural, promotional, celebrity/expert endorsement, peer review and crowd-sourcing, and serendipity).
4. Innovate in recommendation solutions — for example, provide digital recommendations in physical space: access reviews on mobile devices, contact friends/family for advice/co-shopping with Skype and webcam, provide bespoke advertisements about the benefits products can offer.
5. Recognise what makes people give recommendations in real life — to self-identify as important, helpful, an expert, a player, connected — and emulate that.
6. Ensure there is an explicit rationale for when to recommend (such as to reassure about a high price/big decision or to help a customer to enjoy a product/service) and when not to (when it's for repeat purchases or low-value/low emotional engagement transactions).
7. Enable customers to trust a company making a recommendation. Do not make wrong recommendations: just like in real life, when trust is broken, it's very hard to win back!

CONCLUSION: NAVIGATING THE DIGITAL PARADOXES

Most business books try to give answers. They typically start with a description of the business landscape and then lay out a recipe for what you should do to compete and win. The fact that BearingPoint instead has presented and discussed this set of paradoxes is recognition that there are still too many unanswered questions for anyone to offer a ‘one size fits all’ solution.

Across the five paradoxes there are several recurring themes. Underlying all the themes is the importance of recognising that the paradoxes relate to companies innovating in relation to new modes of economic interaction, and in relation to new modes of digital interaction, as shown in figure C.2 below.

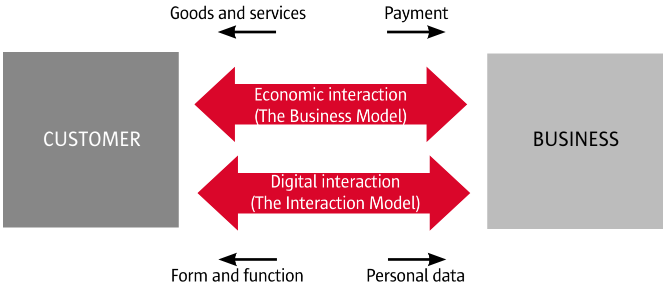
Goods and services
Payment
CUSTOMER
Economic interaction (The Business Model)
Digital interaction (The Interaction Model)
BUSINESS
Form and function
Personal data

FIGURE C.2 ECONOMIC AND DIGITAL INTERACTIONS (SOURCE BEARINGPOINT)

Generational differences characterise openness to engaging with digital

The first theme is that there are big differences between the generations in their attitudes to digital technologies and the issues these technologies raise. The 10-15 years of the internet is a short time compared with people’s lifetimes. It is not surprising that it matters whereabouts in a person’s life that the revolution has occurred; psychological flexibility matters and changes over lifetime.

Innovations in economic models and the deployment of digital technologies need to be managed together for success, and different segments offer different opportunities for exploitation as can be seen in figure C.3.

For each of the paradoxes it is easy to identify which pole is associated with the digital generation, and which pole is associated with the toe-dippers. The applications typically used by these groups also differ, as illustrated in figure C.4.

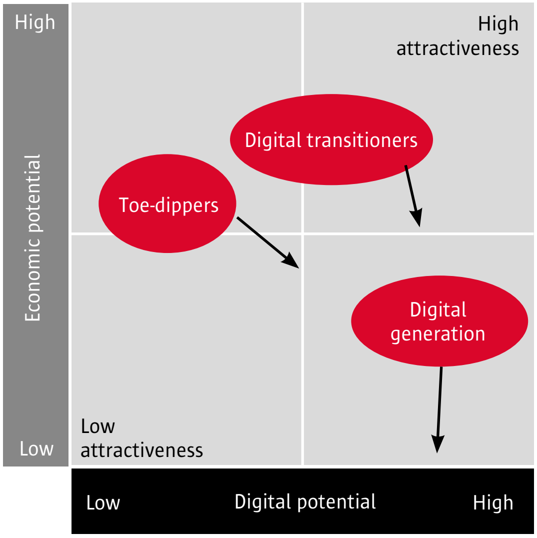
High
High attractiveness
Economic potential
Digital transitioners
Toe-dippers
Digital generation
Low
Low attractiveness
Low
Digital potential
High

FIGURE C.3 ECONOMIC AND DIGITAL POTENTIAL (SOURCE BEARINGPOINT)

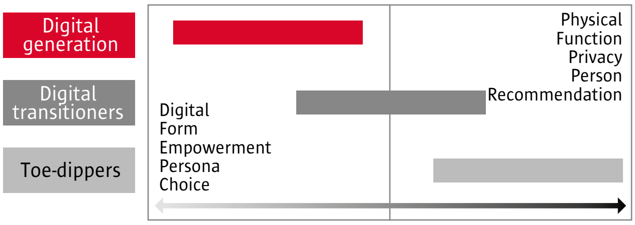
Digital generation
Digital transitioners
Toe-dippers
Physical
Function
Privacy
Person
Recommendation
Digital
Form
Empowerment
Persona
Choice

FIGURE C.4 APPLICATIONS USED BY GENERATIONAL SEGMENTS (SOURCE BEARINGPOINT)

The digital generation has been the most comfortable with digital technologies, historically being the early adopters and therefore the engine of progress. But this generation does not have the buying power that it did. The under 25s are particularly hard hit by the current recession, with unemployment rates edging towards 50% among this age group in even quite developed economies such as Spain. Many companies are going to have to adapt their digital strategies to appeal to a wider span of consumers.

Strategies need to take account of uncertainty over the direction of new technical innovations

The second major theme is the uncertainty over how technology will progress. As we saw in paradox 1, the interplay between the physical world and the digital world is not linear. Initially, digital products and services were substituted for physical ones; then came ways of integrating physical and digital experiences, and most recently, techniques of augmented reality. The challenge is that customers value both the physical and the digital; they are not always convinced by ‘progress’. Furthermore, not all customers think identically. An exciting experience for one customer can be an alienating experience for another.

The scale of research in internet and mobile technologies almost guarantees progress — even in traditionally daunting fields such as natural language processing. Companies cannot help but take decisions on which technologies to use, and how these technologies are configured. Often there will be little objective data on which to make decisions because technologies need to become ‘absorbed’ into culture before they are appreciated. As Facebook explains, ‘Facebook Questions’ originated as people began using Facebook in a new and unexpected way[1]. In other words, the originators of a technology never know exactly what will be done with it. Even where no new technology is involved, there can be mistakes. The UK food store Waitrose revamped its website claiming it would be “easier and quicker”. A fortnight later, and following criticism on its own online forum, the company had to admit to problems with its new website and apologise for the inconvenience and frustration caused.

Innovations in the economics of the internet have a significant role to play in defining the future

The third theme is that of the economics of the internet — of the roles of advertising, promotion and consumer targeting. The basic business model of ‘free’ applications relies on companies being able to harvest value from personal data gathered incidentally as part of the user interaction process. As recent controversy over Facebook illustrates, there is disquiet over the loss of privacy involved. Paradox 3 explored the essential contradiction between privacy and the benefits that can accrue when customers relax some of their concerns.

Q1 2011 data reveals that one in every four advertising pounds is spent online. This shows that advertisers value online’s ability to target customers, part of the difficulty is that ‘targeting’ is not necessarily as highly valued by consumers. While advertisers may promise that consumers will receive only the advertising that is strictly relevant, consumers have grown used to filtering out the adverts they are uninterested in, and are yet to be persuaded that their interests are at heart. The existence of telecoms bundles including broadband, TV and phone opens up the ability for consumer preferences in one medium to be applied to advertising in another. Until there is more evidence of informed consent, companies must handle consumer targeting very carefully.

Companies acting with emotional intelligence will succeed better in navigating the digital future

The fourth theme is emotional intelligence. To navigate the paradoxes companies need to ensure that their behaviour is appropriate to the mindsets and sensitivities of target customers for the type of product or service they provide. Of course, all behaviour should also be compliant with governing legislation.

What this means is that companies need to understand their target customers’ mindset and sensitivities with sufficient acuity to enable decisions on where to position themselves in relation to: location tracking, cookies and data harvesting, and the mining of customers’ social networks. Of course, this is easier said than done. So, how to avoid mistakes? Think of the real world equivalent and likely consequences of behaving inappropriately — breaking trust, or being over- or under- familiar. As a simple test, check your digital customer management approaches do not violate any established norms. So what about with regard to emerging and developing norms? Watch and learn from others’ mistakes, and successes. Experiment for yourselves, but just in case, have a clear strategy and action plan in place to manage getting it wrong.

Companies acting with emotional intelligence will succeed better in navigating the digital future

Paradoxes are, by definition, tricky to reconcile. In relation to customer management, however, the digital paradoxes discussed here are ones that all companies in the modern day have a real incentive towards addressing—hitting the right balance, and behaving appropriately. Not only can you become a company providing great products and services which are genuinely valued by your end users—by behaving appropriately, you will become a trusted partner and a guardian of privacy. In other words? Your customers’ friend.

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[1] http://blog.facebook.com/blogphp?post=10150110059982131

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