REPORT REPRINT

Update: 2020 Trends in Customer Experience & Commerce

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Introduction

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451 TAKE

The coronavirus is changing the face of customer experiences while igniting dramatic shifts in consumer spending patterns, economic confidence and trust. More than ever, those that actively prioritize trust and privacy policies in their business processes are likely to succeed and win in the evolving digital experience economy – while those that don't are apt to face difficult headwinds. The COVID-19 pandemic has altered many priorities on digital strategies and related technology spending trends. Specifically, the pandemic and its economic and societal impact have accelerated the adoption of digital technologies focused on staying relevant in the eyes of customers. In hard economic times, businesses will focus on not only customer retention, but also cost reduction through automation.

Technology today can ensure that businesses rise to meet changing customer expectations, but considering that 48% of the market is still formulating its digital transformation plans, many businesses have a long way to go to ensure that vision meets reality. COVID-19 has given them a specific reason to start; finally, there is a true business case for many to wake up, especially when it comes to delivering contextual experiences. We expect the coronavirus will be an inflection point for the market that drives a reshuffling of the proverbial deck of priorities. Implementing technologies that facilitate data-driven experiences, ensure seamless customer journeys and drive stickier relationships are likely to rise to the top of that deck as businesses work to simultaneously secure loyalty and revenue.

451 Research's Q4 view of the market – what we said

Figure 1: 2020 Trends in Customer Experience & Commerce, as of December 2019

Source: 451 Research, 2019

	Winners	Losers
Being Data-Driven in the Experience Economy Will Demand a New Take on Customer Intelligence Platforms	Providers of technology that help align and promote collaboration between IT and line of business; vendors that can address use cases across the entire customer journey	IT departments that are trying to build a CIP with a data lake; CDP vendors focused only on marketing use cases
★ ***Payments Will Become a Critical Customer Experience Battleground for Enterprises***	Enterprises and payment providers that go global by thinking local; payment providers that focus on delivering business outcomes	Enterprises that dismiss payments as a cost of doing business; payment providers that fail to invest in optimization capabilities
★ ***Location Data Will Be Widely Adopted for Advanced Uses in Mobile Attribution and Analytics***	Location SDK providers and mobile attribution platform suppliers	Vendors that lag in privacy protections or overload mobile apps
Context and Creative Will Balance Out Against Audience in Digital Advertising	Ad servers and top-tier publishers	Ad-tech companies without creative capabilities; tier two publishers
Developments in Recurring Revenue Software and Growing Consumer Demand Will Drive New Merchant Categories To Embrace Subscription Models	Subscription billing and management software players willing to adapt; merchants that have strong products and are willing to invest in and develop personalized relationships	Subscription billing and management players overly focused on what made them strong partners for SaaS businesses and service providers; emerging subscription-first upstarts and box services

Our updated evaluation of each trend follows.

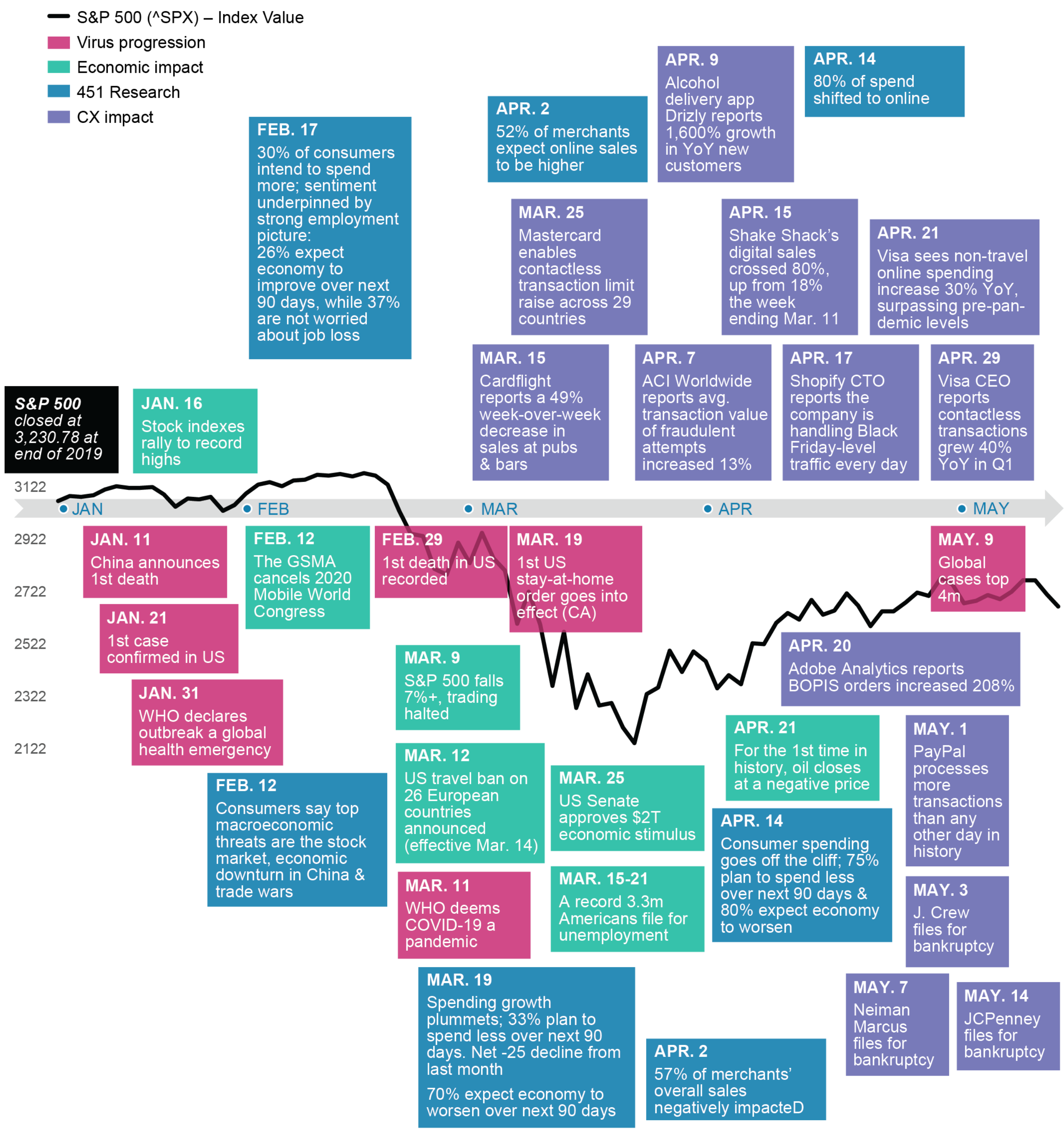
Moving into 2020: macroeconomic conditions drive change in customer experience and commerce trends

Into the beginning of 2020, economic indicators remained strong, with stock indexes rallying to record highs even as China announced its first death and the US confirmed its first case. Into February, 30% of consumers still intended to spend more as positive sentiment was underpinned by a strong employment picture. Consumers were more focused on trade wars and China's economic downturn even as Mobile World Congress canceled its global event. By March, it all came spiraling down as the S&P Index was halted over the pandemic, with travel restrictions and social distancing taking form. The stay-at-home orders and record unemployment figures fueled the resulting plummet of consumer confidence and a complete reversal of spending trends.

By April 2020, damage to the consumer economy due to COVID-19 led to historic highs of 75% of respondents saying they plan to spend less over the next 90 days. But while some retailers are filing for bankruptcy, it's not all doom and gloom. Eighty percent of consumers state that spend has shifted online, delivery app usage has skyrocketed, and Visa notes an increase for non-travel online spending surpassing pre-pandemic levels.

Figure 2: Mapping the Economic Impact That Has Long-Term 'New Normal' Implications

Source: 451 Research, 2020



While the pandemic has had devastating consequences for companies of all sizes, small service-oriented businesses have taken the brunt of the pain. However, all companies must adapt and pivot or hibernate in response to the new realities of social distancing. The pandemic will have long-term implications on consumers and businesses as we look to preview the implications on the customer experience and commerce market.

Data-driven digital economy front and center when coping with coronavirus

Improving the customer experience will always remain front and center, even amid coronavirus. The pandemic and its economic impact have accelerated the adoption of critical technologies, including customer intelligence platforms and related technologies, to not only support the changing needs of consumers, but also to support the essential pivot toward online experiences. The pressure to deliver differentiated and consistent customer experiences is increasing as the result of significant societal and economic changes occurring across industries for both business-to-business (B2B) and business-to-consumer (B2C) brands. Data plays a pivotal role to deliver optimized customer experiences that lead to the moment of conversion.

With the empowered consumer increasingly demanding greater control over the interactions and relationships they have with businesses, experiences, not products, remain the battleground for competitive differentiation. Situations like the coronavirus are very difficult to predict, but technology supported by data today can ensure that businesses rise to meet customer expectations. In the context of the societal shift to digital, businesses are redefined into a more nuanced relationship between humans and the automated systems and devices they use to engage the world.

The use of data and analytics to gain insight into customer behaviors and company performance was already a key differentiator between digitally driven businesses and their digitally delayed counterparts. As of February 2020, there is clearly a gap anywhere from 19 to 27 points in top active initiatives to improve customer experience.

Figure 3: The Use of Data and Analytics Is Already a Key Differentiator Between Digitally Driven Businesses

Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Organizational Dynamics & Budgets 2020

Q. Which of the following initiatives is your organization actively pursuing to improve customer experience?

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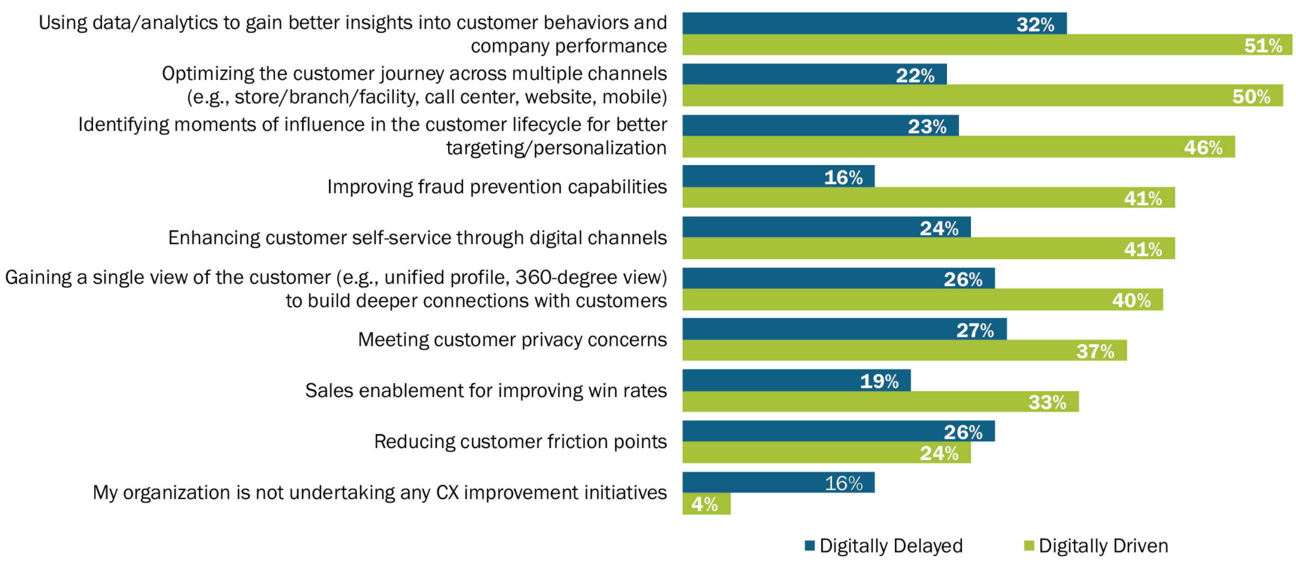


However, in this evolving landscape, establishing consumer trust has become an even more vital component of the digital customer experience, essential to driving consumer behavior around loyalty and retention. Particularly as socioeconomic disruptions stemming from the COVID-19 pandemic completely upheave consumption models and industries, establishing and maintaining consumer loyalty is paramount to survival. Trust and privacy emerge at the forefront as an unprecedented number of individuals are forced to rely on digital channels for engagement and consumption. Trust has hit an all-time low, with 31% of consumers less trusting of businesses today than they were one year ago. Additionally, 93% of consumers are somewhat to very concerned with businesses' ability to protect their personal data.

Consumers are increasingly aware of the value their personal data holds and are demanding greater agency over the ways in which businesses can access, store and manipulate their personally identifiable data. Changing consumer sentiments and expectations around the privacy and security of their information is effectively reshaping the ideal customer experience, forcing brands and businesses to evolve their engagement models and technology stacks to meet these changing demands.

Heightened demands for context, convenience and control in all customer interactions require companies to re-evaluate how they provide contextually relevant – and in situations such as the current crisis, sensitive – experiences for their customers. Data remains at the heart of future success. This driving force will accelerate the need for investments in customer intelligence platforms. Businesses need to capture and unify disparate sources of consumer data, and effectively contextualize and operationalize information to push critical insights across channels and stakeholder groups that shape the customer journey.

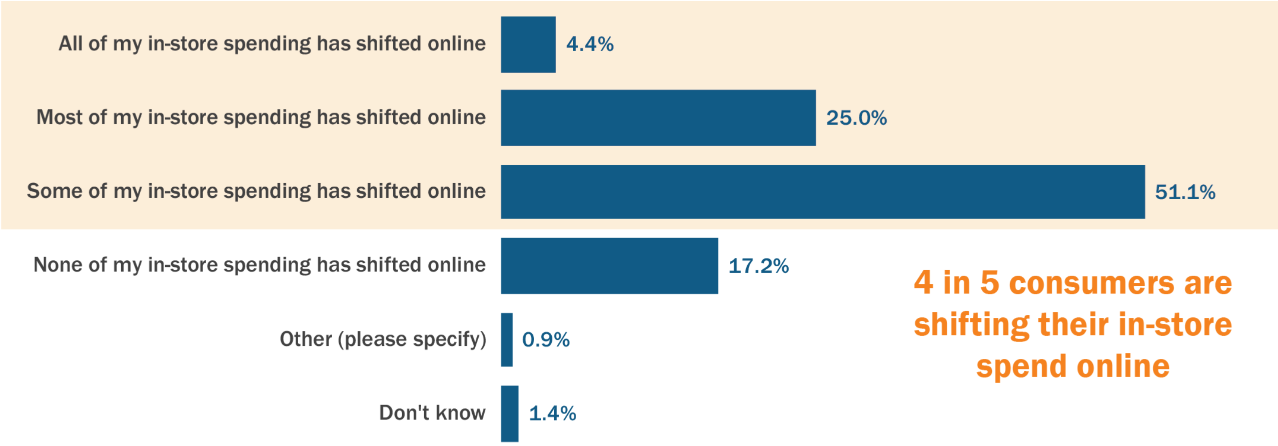
COVID only accelerates demand for more customer insight, especially as historical models may not provide the critical real-time assessment necessary for decision-making in the current situation. Sadly, only 39% of businesses that are digitally delayed are using some form of real-time data, as compared to digitally driven organizations, where 80% of most customer experience decisions are driven by real-time data. Real-time decision-making is essential as businesses try to pivot and adjust to the new normal. In today's data-driven digital economy, those companies that make the best use of customer insight to drive customer experience transformation efforts will be the ones to outlast the coronavirus crisis.

COVID-19 amplifies the impact of payments on the customer experience

The COVID-19 outbreak has made payments much more critical to customer experience and overall business performance. With consumer spending down, against the backdrop of 80% of shoppers having shifted at least some of their in-store spending online as a result of the pandemic, merchants simply cannot afford to miss out on digital sales due to poor payment experiences.

Figure 4: COVID-19 is Driving In-Store Spending Online

Source: 451 Research's Macroeconomic Outlook, Consumer Spending Survey, April 2020



Merchants across virtually all categories have been forced to make a sharp pivot to online sales. For many, this has proven challenging. Digital channels are rife with payments friction, which can take the shape of false positive declines, laborious checkout forms and limited payment options – to name a few. Investments in areas including the checkout experience (e.g., digital wallets, local payment methods) and fraud prevention are now more essential than ever to ensure revenue is not impeded, and similarly, to ensure bottom line impacts are mitigated.

As merchants reconsider the future of their in-store experience in a post-COVID-19 world, payments are also likely to be top-of-mind. Contactless payments have seen significant increases in adoption and utilization during the pandemic thanks to their hygienic benefits. Visa, for instance, reported that tap-to-pay transactions grew 40% YoY between Q1 2020 and Q1 2019. We expect to see consumers increasingly seek out this type of payment experience as they return to stores. Similarly, self-checkout and omnichannel payment experiences (e.g., buy online, pick up in store) are likely to be in greater demand as social distancing remains the norm. For many, successful execution will require further investment in payments technology.

As normalcy returns, we anticipate key lessons from the pandemic will spark merchant demand for various payments capabilities. For merchants that were challenged to make the quick pivot from in-store to online sales, aligning with partners that offer an omnichannel payment platform is likely to be more of a priority than ever. We also anticipate greater demand for payments-data-as-a-service offerings as more merchants recognize the importance of attaining a detailed understanding of the financial status of their business at any given time. Additionally, we expect revenue optimization and recovery tools – like payment routing and retry capabilities – will be sought out as critical strategic levers for maximizing profitability.

Location data is still important, but challenges are mounting

The assessment that location data would be widely adopted by marketers for mobile attribution and analytics is still valid. But it will take significantly longer to make it widespread, and there will be fewer companies around to take advantage of it. Location data collected from consumers' mobile devices relies on movement from place to place, which is hindered during quarantine and lockdown. Its main use case to date has been to facilitate promotions at brick-and-mortar sites; this too is hindered. So the value proposition for location data has, in the short term, been dramatically curtailed. Some vendors in the space have tried to use the pandemic to showcase the value of their data collection and analysis capabilities by helping government and media track the disease spread and the success of social distancing. In addition, the elimination of advertising budgets removes another value for location data, which can be used to measure return on ad spend.

While the utility of location data services is hampered for the duration of the pandemic, the problems it was expected to address are not going away. When advertising and promotion returns, it will still be necessary to measure attribution and to correlate offline and online behavior. The question for the space is whether the companies that exist now will be able to ride out the economic distress and emerge with solid use cases, prepared to make the difficult arguments that their technology should be at the top of the priority list when businesses address pent-up needs.

There has already been consolidation since the start of the year, with Foursquare acquiring Factual. That leaves a collection of smaller players clustered around the one dominant market participant. In a normal economic environment this market would have seen continued winnowing. Now, it is hard to envision all of the current players surviving to make those arguments about attribution and analytics. Expecting the stakeholders that make location data viable – brand managers, agencies, marketers and app developers – to rebound enough to genuinely push location data into the marketing mainstream is also a stretch. For the time being, location data looks to remain a niche technology focused on mobility and proximity marketing. More advanced use cases will probably not take shape until late 2021 at the earliest.

Ad-tech vendors focus on getting through the next few quarters

At the onset of the year, we initially anticipated that ad-tech vendors would steer their acquisition and R&D investments toward technologies that enable campaigns to be developed, managed and measured around the three pillars of context, creative and audience, rather than a pure focus on the latter. Advertisers are still likely to deploy data to optimize the context and creative elements of digital ads this year. But with the COVID-19 outbreak and the changes it's wrought on the economy, many ad-tech vendors will be challenged to simply survive the next few quarters as spending declines and investments dry up in this already parched corner of the CXC market.

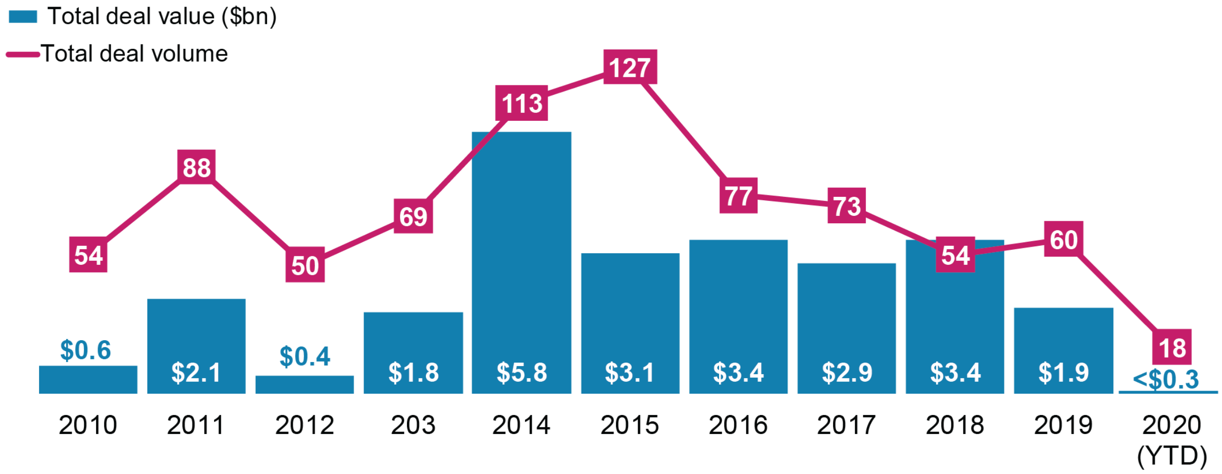
Ad-tech companies, lacking subscription revenue and upfront payments from customers, face an inordinate blow from the COVID-19 pandemic. Among software categories, it's going to be the first to feel cuts in marketing spending. Not only does that endanger the last source of cash for many of these vendors, it makes the already improbable task of finding a buyer seem impossible.

Like many categories, spending on advertising is projected to plummet amid the sudden halt in consumer spending. S&P Global Ratings projects that the US ad market will contract almost 9% in 2020. Unlike other software firms, few ad-tech providers generate subscription revenue. Instead, they get paid based on clients using their software or services to place ads. And digital ads aren't typically contracted in advance, so they're vulnerable when marketers are looking for ways to temporarily slow costs.

For most ad-tech companies, revenue remains the only source of capital. After eagerly investing in the first half of the last decade, most venture shops have soured on that space as the number and size of exits has dwindled. According to 451 Research's M&A KnowledgeBase, acquirers in 2019 purchased just 60 ad-tech vendors, half as many as when that category peaked in 2015.

Figure 5: Annual Acquisitions of Ad-Tech Targets

Source: 451 Research's M&A KnowledgeBase, April 2020



Social distancing accelerates the move to subscription models

In a post-COVID-19 world, customer lifetime value and loyalty will become even greater determinants of business success. We anticipate this will accelerate the move to subscription models across many verticals, as merchants pursue strategies to simultaneously drive customer stickiness and recurring revenue.

Our Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2020, which went into the field as lockdown measures were unfolding, demonstrates promising momentum for the move to subscription models. We find that 46% of merchants strongly agree that creating alternative consumption models, such as subscriptions and rentals, for their products is a priority for their business. Similarly, we observe that 29% of merchants either have a subscription offering in POC or have plans to roll it out in the next 12 months. Sixty-five percent of merchants with both B2C and B2B sales are shifting toward direct-to-consumer sales to increase revenue. We expect subscriptions to be part of this direct-to-consumer sales mix.

Equally encouraging is that the tailwinds for consumer adoption are promising. With shoppers around the world making efforts to socially distance, subscription services have become a popular means of obtaining goods and services that were traditionally procured in the physical world. Consider that nearly one in five (18%) respondents to our April Macroeconomic Outlook, Consumer Spending Survey say they are using virtual/online classes (e.g., workout classes) more often. We expect that many consumers will experiment with new subscriptions during the pandemic out of necessity, and this will serve to elevate confidence and comfort with subscriptions moving forward.