

The Customer Experience and Insight (CXI) Research Group presents

Conversational experiences

The next CX

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ASSOCIATE PROFESSOR SEAN SANDS



Conversational experiences: the next CX

Customer-facing organisations are now using chatbots and virtual assistants to create conversational experiences, transforming the relationship between brand and customer.

By Associate Professor Sean Sands



INTELLIGENCE MEETS EXPERIENCE

In early May 2018 Google revealed one of the most chilling demonstrations of artificial intelligence to date, showing how its digital assistant could mimic a human over the phone so convincingly that the person on the other end of the line apparently had no idea they were talking to a machine. In one demonstration, the bot called a hairdresser and booked a haircut for its client; in another, the bot made a restaurant reservation after inquiring about wait times. In both cases, the staff on the other end of the phone seemed oblivious to the fact that they were speaking to a computer.

These experiments contrast starkly with consumers' day-to-day experiences of AI. For example, I recently had the displeasure of experiencing Telstra's attempt at AI, losing

20 minutes of my life in the process. A quick Google search revealed countless complaints from other customers, ranging from the bot failing to answer basic questions or differentiate between names and countries to its inability to transfer users to a human operator.

Nonetheless, it's undeniable that artificially intelligent chatbots and voice assistants are an important trend to follow, and major brands are jumping at the opportunity to meet their customers where they're already spending time—in messaging apps. With about half (52%) of Gen Z's spending three hours a day or more on messaging apps,¹ embedding products and services within these platforms is crucial. Doing so effectively, however, requires an understanding of what bots are, what they can and can't do, and how your customers will interact with them (i.e., creating useful, frictionless, authentic, and meaningful conversational experiences).

WHAT IS A BOT, ANYWAY?

Artificial intelligence is a broad field of research and practice, with chatbots (also known as conversational interfaces, conversational agents, digital assistants, or simply 'bots')² being just one small subset. Generally

speaking, these bots fit within the category of *cognitive intelligence*, which is characterised by abilities across *cognition* (perceiving and understanding stimuli), *memory* (storing knowledge), *learning* (creating knowledge) and *reasoning* (using knowledge).³ This type of AI is dynamic and adaptable, augmenting human intelligence with predictive decision making.⁴

Within this field, chatbots specifically are 'any software application that engages in a dialog with a human using natural language'.² In this sense, chatbots have been around since the 1960s; however, it's only recently that they have become an important part of our economy, as the technology has improved and consumers have become increasingly comfortable with computer-mediated communication and asynchronous text-based conversations on phone, mobile and web-based platforms. Now, chatbots are touted as a technological breakthrough equivalent to the graphical user interface, the web browser, and the touch screen, prompting astronomical predictions of growth.²

For example, in 2016 a prominent commentator predicted that specialised digital assistants alone would generate US\$623 bil-

lion in revenue by 2020.² More conservative estimates have projected the global AI market to reach US\$35.8 billion in revenue by 2025,⁵ with industry analysts estimating that technology companies such as Google and Baidu invested US\$20–30 billion on AI R&D, deployment and acquisitions in 2016.⁶ China has since declared its plan for AI domination by 2030, and PwC analysts have predicted that AI will make up 26% of its gross domestic product (GDP) that year, with retail seeing the largest sector gains.⁴

'YOU MAY ALSO LIKE'

AI IN RETAIL

On a global level, the retail sector has the highest level of near-term adoption maturity at 54%. Currently this adoption is largely being seen in the form of intelligent recommendation engines, with personalised and predictive products having the greatest potential impact in the medium to longer term (alongside more efficient inventory and delivery management). However, in order to realise this potential retail management will need to change, with more agile design and production systems and more transparent and trustworthy processes of data collection, usage and protection.⁴

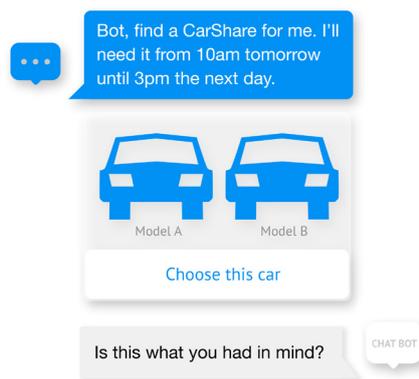
Another use of AI that is already seeing significant growth in retail is dynamic pricing. For example, Hermes Group, one of Cyprus's largest retailers, has used IBM's cloud-based pricing technology to optimise its in-store sales; by marking down products that are not selling well, the system ensures every product price is set in response to changes in consumer demand. However, dynamic pricing is a balancing act. In May 2017, Uber confirmed that it charged route-based pricing, or pricing based on what it predicted users might be willing to pay; this move had the potential to diminish user trust in a company already on shaky ground.

AI may have the greatest impact on the retail customer experience by transforming the very way they interact with companies, creating a new channel for purchase, delivery and service. This new channel can be deployed across a wide range of established and emerging platforms including web, mobile, in-store, and now in-home through digital assistants integrated into smart speakers and other Internet of Things devices. This is the new paradigm of 'conversational commerce'.

THE CONVERSATIONAL CUSTOMER EXPERIENCE

Within this paradigm, companies are leveraging AI to build chatbots with the ability to personalise conversations within their do-

main of knowledge. These branded bots live on existing messaging apps, such as Facebook Messenger, Telegram, Kik, Viber, and more, as well as increasingly ubiquitous smart devices in consumers' homes and lives. They engage in personalised interactions with customers, enhancing their experience throughout their journey across information search (e.g., answering questions about products or stores), purchase (e.g., facilitating frictionless transactions within 'micro-moments'),⁷ and post-purchase (e.g., providing updates and answering questions on delivery and returns).



A chatbot is an effective and scalable way of handling these tasks and inquiries within platforms where consumers are already engaged and comfortable. It can also offer some surprising advantages over person-to-person interactions, as a range of academic research has shown that people often feel more comfortable revealing sensitive information to a bot.⁸ Other research has demonstrated that bots can provide similar learning outcomes and achieve similar perceptions of credibility and competence.⁹

However, there are other aspects of human-bot interaction that require careful consideration in creating your conversational customer experience, including the potential for bots to elicit polarised responses and generally change consumers' expressed personality traits and communication attributes.¹⁰ Furthermore, there is some evidence that chatbots may be subject to a 'novelty effect' whereby their benefits diminish over time.¹¹

STRATEGIES FOR BUILDING CAPABILITY

Chatbots have huge potential to transform the customer experience for the better. However, while research has shown that 80% of marketing executives believe AI will revolutionise marketing by 2020, a much smaller proportion are actually employing AI in their business.¹² A recent survey by EY conducted at the 2018 EmTech Digital conference and produced by MIT Technology Review Insights shows that one of the biggest chal-

lenges facing AI adoption today is finding employees with the right skills.¹³

Doing so is certainly a challenge, but there are a range of strategies available:¹⁴

1. **'Buy'**. The first approach is to hire people with the skills you need ready to go. This will be easier to do if you live in a large city with an existing pool of talent in the field, but you will also need to offer a very competitive package in terms of pay, benefits, and employee brand.
2. **'Build'**. Your second option is to train the people you already have. This requires deep commitment to a culture of continuous learning comprising skills programs, training sessions, and research partnerships aimed at embedding AI know-how in your business. On the plus side, doing so will also help strengthen your employee brand and potentially attract leading talent in the long-term.
3. **'Rent'**. The fastest option is to borrow people by accessing the talent embedded in consulting firms. This strategy can be useful both in the short term on a project-by-project basis or in the long-term by supplementing in-house capability. However, it's important to make sure the people you're borrowing do, in fact, have the skills you need.

WHAT DOES THE FUTURE LOOK LIKE?

JD.com founder and boss Richard Liu made a spine-tingling prediction at this year's World Retail Congress: sooner or later, the entire retail industry will be operated by data.

Technology is playing a key role in the re-thinking of customer experience; automation and artificial intelligence are being leveraged to better suit customers' shifting expectations and needs, and IBM estimate that by 2020 85% of service interactions with customers will be guided by AI.³ Nonetheless, Kingfisher CEO Veronique Larry has offered an alternative vision of the future: humans will always be central to the future of retail, because 'the only benefit of having stores in the future is having humans in those stores'.

Either way, chatbots are sure to be implemented in the future as a scalable way to solve problems and improve experiences across the customer journey. However, implementation alone is not enough; continuous measurement and monitoring are essential, along with executive engagement, organisational agility, inter-departmental collaboration, and frontline employee empowerment. This combination of human and machine—in which AI augments rather than replaces human intelligence in the co-creation of customer experiences—has been called 'Cybernetic CX'.¹⁵

Bots and the conversational experiences they create provide a glimpse of what this Cybernetic CX can look like, now and into the future.

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About A/Professor Sean Sands

Sean is Co-director of CXI and Associate Professor of Marketing at Swinburne Business School.

Sean has delivered seminars globally on retail innovation, design thinking and customer experience strategies. He has assisted brands in mapping customer experiences and developing an understanding of the customer journey, expectations, needs and desires. Sean frequently presents at industry conferences on the future of retail and consumer behaviour. His research expertise includes strategy, service design, customer experience design, advanced research methods, new product development, pricing research, and market segmentation.

ssands@swin.edu.au

About CXI Research Group

The Customer Experience and Insight (CXI) Research Group is part of Swinburne Business School.

CXI is a full-service research group that conducts leading-edge research which centred on experience to build customer-led strategy and innovation.

The CXI team is specialised in a range of qualitative and quantitative research methods and frameworks. Our four pillars of expertise span the fields of retail and consumer behaviour, sport and wellbeing, service innovation, and employee experience.

cxi@swin.edu.au
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EDITOR: Lois Shedd (lshedd@swin.edu.au).
DESIGNER: July Nguyen (julynguyen@swin.edu.au).

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