

Creating posttransaction customer value

How digital technologies are
reinventing value for customers
after the sale

*The digitization of
consumption offers
a new opportunity
for value creation*

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Introduction

The digitization of consumption will bring about certain new interactions and new experiences representing profound changes in the ways value gets created and consumed. Organizations will have to work out how and where they align themselves with the outcomes consumers value and organizations hope to deliver. This has far-reaching implications for how organizations must shape their propositions, run themselves, and engage with their customers and partners. For many, especially digital slowpokes, it represents a wake-up call.

Over the past 10 or 15 years, the so-called first digital wave has had a major impact on the way companies do business—particularly leading up to the sale, or pre transaction. For example, social media and online platforms have enabled organizations to connect with more customers, and customers have become able to compare products and services in ways not possible before. And yet that first digital wave has mainly been about how to use the online touchpoint more effectively both on its own and in coordination with other touchpoints to deliver an integrated multichannel customer experience. In other words, the first digital wave has focused mainly on how value is transacted in a digital channel.

Now we're starting to see a second digital wave, wherein both the customer proposition and the very consumption of products and services posttransaction are also digital (or have a digital layer). Why does this matter? Because the digitization of consumption is going to lead to new interactions and new experiences, in turn leading to radical changes in the ways value gets created and consumed.

For example, a company like Spotify is changing the way music gets consumed. Instead of selling music tracks, Spotify asks customers for a monthly subscription for access to a vast music library of 16 million music tracks. Spotify also asks customers to permit Spotify to send them detailed information on the kinds of music they listen to, as well as when and how. That wealth of consumption data is then used for sharing the revenue among the artists based on how much their music gets consumed. It's a win-win-win for customers (who get freed up from having to buy tracks in the first place), for artists (who can now count on viral social media platforms linked to Spotify to promote themselves and to have to hurdle lower barriers of entry), and for Spotify (which is rapidly growing its customer base).

There are numerous signs that this second digital wave—that is, a more integrated approach to post transaction customer engagement enabled by digital technology—is going to affect every business sector by bringing value creation and value consumption much closer together. In fact, technology developments are making it possible to understand—at a level of granularity that not even customers can describe and which was neither technically nor economically feasible before—how customers actually consume value.

Players who learn to play the new game will gain and maintain competitive advantage; conversely, those who don't play will be left behind. But to take advantage of it, organizations will need to understand their current positions and then develop operating, customer, and business models and behaviors that support a digitally augmented customer experience that transforms consumption. Those measures will take both time and resources, so organizations must start planning now.

The clock is ticking, but some organizations are already riding the second digital wave. Is your organization ready? And what will be your next move?

A changing landscape of value consumption

Disconnect between value creation and value consumption

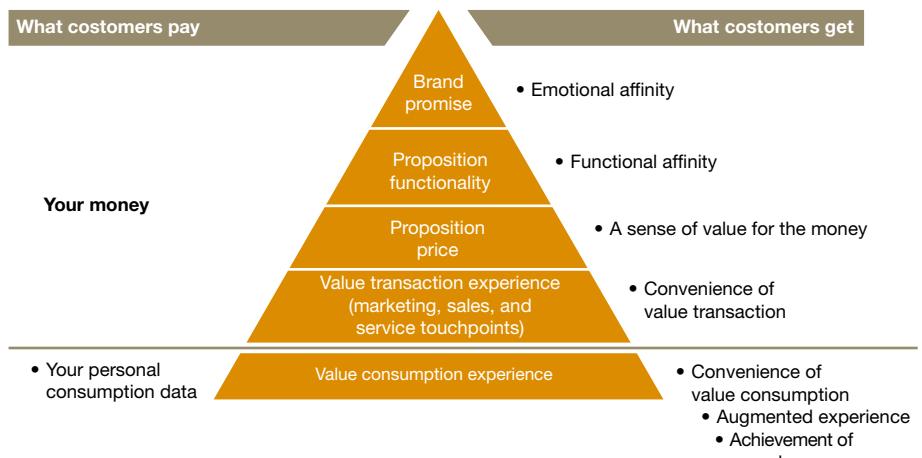
Historically, there has been a disconnect between the way companies create value and the way customers consume that value. That disconnect has many implications, best described by looking at five main factors whereby consumers experience value:

- Brand promise: What a company says about itself and its goods or services (value layer 1)
- Proposition functionality: What the proposition says on the package (value layer 2)
- Proposition price: What the consumer has to pay to get it (value layer 3)
- Value trading touchpoints: Shops, call centers, websites, etc. (value layer 4)
- Value consumption: How the customer actually uses the product or consumes the service (value layer 5)

Although companies have control over how they craft their brand promises and engineer their propositions, their pricing, and their touchpoints, they have much less control and influence on actual value consumption itself, which is where emotional loyalty gets created. For decades, companies have used market research to learn

about consumption, but a granular understanding of consumption has—historically—been out of reach. In the absence of that window on consumption, organizations focus most heavily on emotional affinity (e.g. to brand) and on functional affinity (e.g. to product features) rather than on consumer outcomes.

Figure 1—The digital Rubicon: the five value consumption layers
There is a line beyond which what you pay and what you get changes



The disconnect between the way companies create value and the way customers consume that value has real implications for businesses.

4P marketing and product centricity have been—and often still are—the norms

For decades, companies have focused on layers 1, 2, and 3 of value consumption and on the trade-versus-service-and-experience aspects of layer 4. The 4P mantra is *product, place, price, promotion*. Clearly, there's additional value in delivering a compelling customer experience across all of the touchpoints in layer 4. But historically, 4P marketing and product centricity have been unable to affect the value consumption of level 5.

Asymmetry of information is power

As companies try to sell their goods and services in the 4P fashion, the asymmetry of information on prices and product features is a source of power for them. Even if consumers compared notes, the scale, the degree of connectedness, and the timeliness of those consumer networks would determine the actual degree of information asymmetry in the market. Digital technology and social media are eroding that asymmetry.

Direct interactions are limited to brand promise and value trading

With very few exceptions, companies interact with consumers only in layers 1, 2, 3, and 4. For instance, Ford is not aware of how I drive my car. Nike doesn't know how I use my running

shoes (well, it didn't until Nike+ came along). And Dell is not privy to what I do with my laptop. Until now, we could safely say that consumption *starts* when a company's ability to have direct visibility *stops*!

Companies emphasize functional affinity and/or emotional affinity, as opposed to consumer outcomes

Consumers associate value with the achievement of outcomes, and outcomes are achieved in value consumption layer 5. But because historically, companies cannot get to layer 5, they've been forced to focus on emotional affinity and functional affinity rather than on consumer outcomes.

Many companies implicitly adopt a value-engineering-and-consumer-perception paradigm

If the emphases are on functional affinity and emotional affinity, companies focus on:

- Engineering of products and services with specified features
- Engineering of customer experiences based on codified journeys or processes
- Influencing of consumer perception through branding and advertising (i.e. trying to influence what consumers think based on what the company says, not on what consumers actually experience)

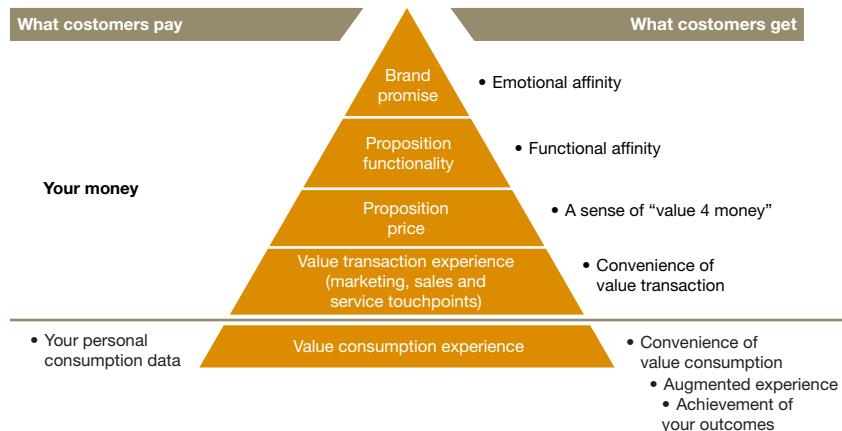
Only a minority of companies focus on delivering a really compelling consumption experience—and even companies that do so usually lack direct visibility into it.

Many companies implicitly adopt an engineering-operating-model paradigm

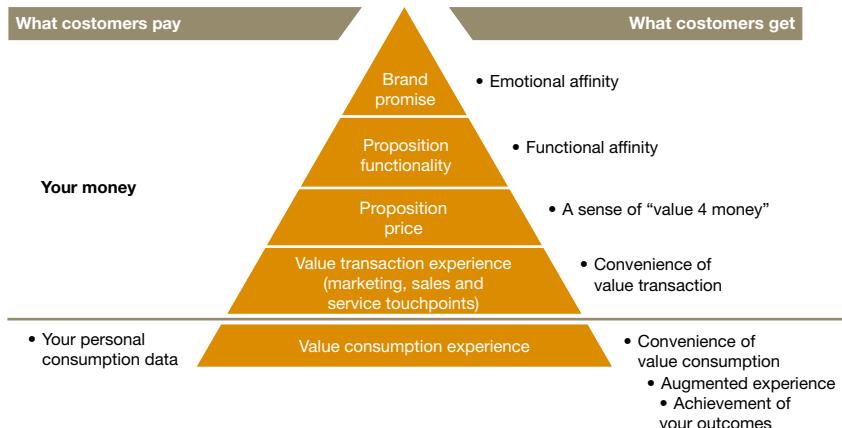
If the implicit focus is on engineering of goods and services for consumers and on influencing consumers' perceptions via statements rather than via experiences, then the internal operating model between employees and functions tends to follow the same implicit logic. As such, functions act like internal suppliers and internal customers that exchange specified deliverables through codified processes, as opposed to actors who interact and share experiences.

Figure 2—The first and second digital waves

Strengthening the pretransaction customer relationship (the first digital wave)
It is all about emotional affinity, functional affinity, price, and touchpoints



Reinventing customer valuepost transaction (the second digital wave)
It's all about understanding value consumption and enabling consumer outcomes



Strengthening the pretransaction customer relationship

Two big changes over the past 10 or 15 years have fundamentally changed the way companies operate and interact with consumers.

The Internet

The advent of the Internet and its subsequent development (that is, the first digital wave) have changed the way customers are traded with and served. The Internet has become a valuetrading touch point in its own right—with compelling cost points—and it has the ability to deliver unprecedented reach and convenience. Customers can now compare prices and features instantly, and Internet-based exchanges and global e-only merchants have changed the way value is traded. The rise of social media has also given consumers a voice and a high level of influence over both each other and the companies and governments they interact with. Because of all of that, the Internet has also substantially eroded the asymmetry of information that companies once enjoyed.

Customer experience at the touchpoints

Non transactional touchpoints such as customer service, customer dialogue, relevance of recommendations, and personalization of offers are increasingly recognized as sources of competitive advantage in many business sectors. Companies have had to learn not only how to use the Internet as a new channel but also how to integrate it with their other channels so they can deliver a compelling, multichannel customer experience. Companies across sectors have stepped up their efforts to measure customer experience and have recognized the role of customer-facing staff in delivering it.

And yet, penetrating layer 5—actual consumption—remains out of reach for the majority of sectors. With very few exceptions, companies are not aware of *how* customers actually use their products. They know *what* customers buy, and when, and where, and what customers might base those buying decisions on, but they don't know *how* the product is used after purchase. Effectively, consumption *starts* when the company's ability to have direct visibility *stops*. It means that companies can't sell consumer outcomes, and instead, that they have to rely on messages of emotional and functional affinity. In some of the mature sectors, it gets even harder to deliver a differentiated experience as those sectors become commoditized—for example, mobile operators.

Reinventing customer value posttransaction

The signs of a second digital wave involving how and where consumers actually use products and services are now visible in many business sectors. Obvious examples are companies that provide information-intense services that can deliver their propositions entirely digitally.

But today, some of the companies that provide physical goods and/or nondigital services are starting to add a digital layer to the consumer's experience. And the interaction between the physical and digital layers leads to new and more-valuable, augmented experiences. Examples are:

- Web-connected scale and diet plans that use social media
- Social-media-enhanced booking services such as those for booking restaurant reservations or a seat

on an airplane flight, based on the Facebook profiles of other consumers who have also booked

- Telematics-enabled motor vehicle insurance such as by offering more-competitive premiums to lower-risk drivers groups.

Integrated customer engagement after the sale

The use of technology-enabled feedback about actual use of products and services postsale helps strengthen customer relationships on an ongoing basis.

Nearly every company refers to its products and services as "solutions," but most are not. Those "solutions" create the potential to satisfy a want or a need, but customers are pretty much on their own to translate that potential into reality. Using digital technology to connect the company to the customer's use of a product or service leads to a more goal-oriented solutions approach to helping customers satisfy their actual needs versus simply delivering a tool that might or might not be used effectively to achieve the purchaser's ultimate goal. It is an approach made person and continuous, thanks to digitization of consumption and the blurring of physical and digital product attributes into an integrated form of engagement.

That integrated engagement represents a major step forward in the post transaction relationship between vendors and their customers. The fundamental breakthrough is the digitization of consumption. Thus far, businesses have transformed their pre transaction relationships with potential customers, often referred to as *e-commerce*. The major elements of e-commerce are digital reinvention of product discovery,

comparison shopping, and buyer feedback and reviews, purchasing and delivery options; in essence, all of the steps through to completion of the transaction itself.

Such an integrated approach reinvents the provider-customer relationship after the transaction with a digitally-driven solutions approach focused on helping customers achieve their goals. What makes that approach possible is a set of emerging technologies collectively called the *Internet of Things*: wireless communications, cloud-based processing, all types of sensors, embedded computers, and real-time big data analytics.

Example: Major athletic shoe brand

A leading shoemaker and retailer is making even more of a name for itself by embedding microchips into shoes to track performance and engage customers in an active user community via social media.

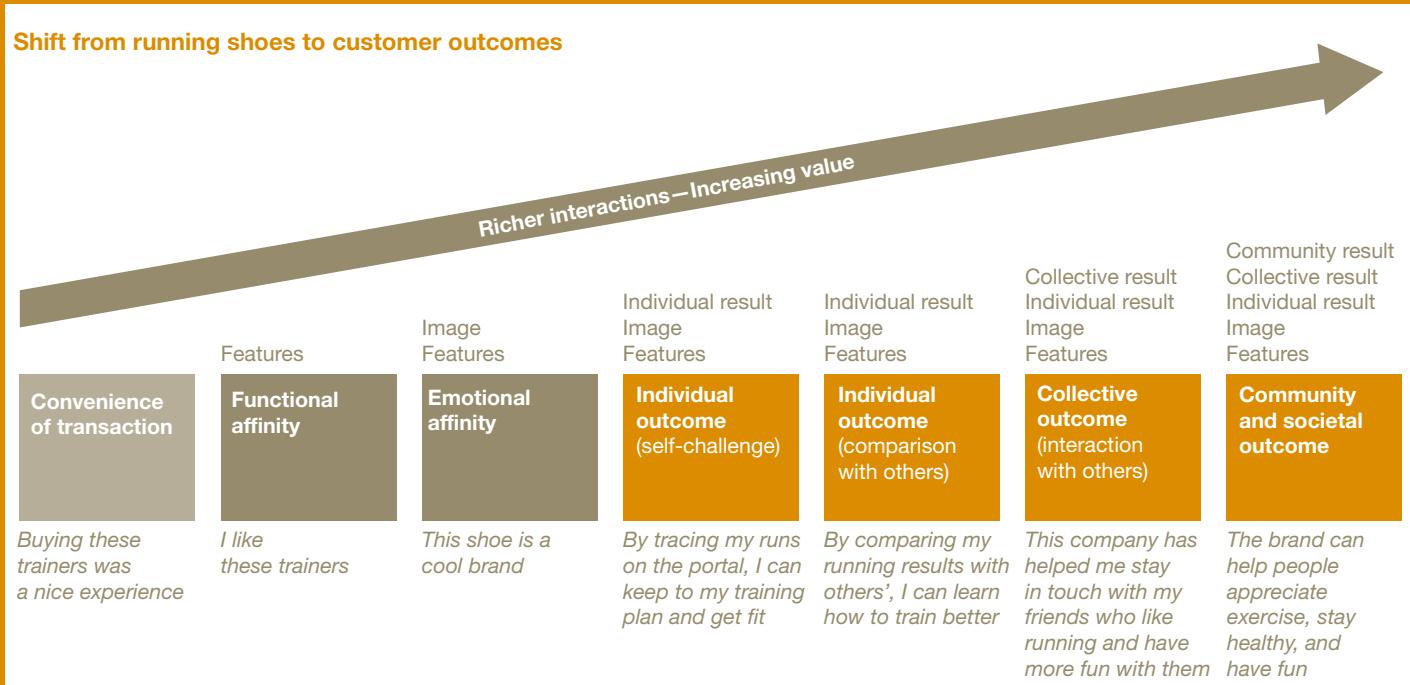
The innovation is already a few years old. But we believe it's still a powerful example of the second digital wave. It all started as a conscious effort to get a window on consumption because the company didn't know what happened once its shoes left the shop. The company understood that it could create only a certain amount

of value by improving the features and the branding of its shoes and recognized the need to find a new level of customer value. By looking at customer outcomes and what customers wanted to achieve with their purchases—such as getting fitter, running with friends, sticking to a training plan, and having fun—the company was able to actually create experiences that would help customers achieve those desired outcomes.

The shoemaker provides customers with monitoring devices they can use to track their training and

performance, share the information with their friends and sports partners online, and set goals. The devices in turn provide the shoemaker with valuable information about how, where, and when its products are being used, thereby providing the company a level of detail about consumer consumption practices that was simply unavailable previously. Ultimately, the company can use that information to develop even better training shoes designed specifically for very precise uses.

Shift from running shoes to customer outcomes



Example: Spotify

The media each of us uses to listen to our own music collection has changed dramatically over the past 30 or 40 years—from vinyl to CDs to iTunes. We've been freed from the obligation to buy entire albums, freed from the physicality of CDs—and empowered to play our own music everywhere and on the go, to edit our own music playlists, and to manage both old CDs and digital tracks as a single collection. (Wow, that's a lot of change.) And yet something else has not changed: the consumer pays for a track, as before, and the consumer owns the indefinite right to play that track, as before.

But if a company can get a window on consumption and be with the consumer when the consumer plays music, then a company can augment the experience; and that means the company could create new value.

So, Spotify asks customers for monthly subscriptions, gives customers access to the entire music library available in the world, and seeks customers' permission to release a detailed data stream about them that captures with great granularity what those customers listen to, when, how, and so forth. That wealth of information

is then used for sharing the revenue among the artists based on how much their music is listened to. It is a win-win-win for the consumers (who get freed up from having to buy tracks in the first place), for the artists (who can now count on viral social media platforms linked to Spotify and that have lower barriers of entry), and for Spotify (which is taking on Apple with this highly innovative play). As the digital economy taps into consumption data, entire new experiences, social interactions, business models, and innovation opportunities arise.

Different ways to sell and buy music

- Physical medium
- No interaction with the customer after purchase
- Emphasis on product
- Emphasis on demand chain

Buy CDs and own your personal physical collection of music albums

Real objective = Sell CDs

- Online purchase of product
- Physical medium
- No or limited interaction with the customer after purchase
- Emphasis on product

Use the convenience of the Internet to buy CDs online and own your personal physical collection of music albums

Real objective = Sell CDs (through the Internet)

- Digital medium
- No or limited interaction with the customer after purchase
- Emphasis on experience
- Emphasis on demand chain

Buy and own your personal virtual collection of music tracks and albums. Personalize your experience with playlists

Real objective = Sell music storage devices

- Digital medium
- Continuous interaction with the customer after purchase
- Emphasis on experience
- Emphasis on consumption chain

The world's music is virtually yours for a monthly subscription. We will pay the artists fairly based on how much their music is listened to

Real Objectives = Sell subscriptions, understand consumption; and revolutionize the industry

Example: Boeing's digital airline initiative

The second digital wave is also applicable to business-to-business companies and their customers. For example, Boeing's new Dreamliner aircraft includes health-monitoring systems to monitor the airplane's in-flight performance, with a view to helping airlines fly their fleets at peak safety, reliability, and efficiency.

Using data from onboard sensors in the engines, auxiliaries, and airframe, the airplane's system can analyze information in-flight, ranging from fuel mileage and oil performance to hydraulic fluid or tire pressure levels. Upon the plane's arrival at the gate, technicians, parts, and tools have been readied for quick repairs if needed.

Boeing has introduced what it calls Lifecycle Solutions products and subscription services to help Boeing clients maximize the value of their Boeing fleets and improve client profitability through the real-time analysis of flight (consumption) data. Boeing-provided tools and services can analyze diagnostic information and support operational decision making (e.g. fly-or-not-fly, future maintenance requirements, emergency situations). Critical issues get identified in real time and acted on by both ground staff and informed flight crew.

Long-term craft consumption trends in things like tire pressure, oxygen pressure, hydraulic fluid, and engine

oil levels are tracked to facilitate maintenance planning, calculate optimal service intervals, and generate supplemental operational reports. Thus, potential future airplane problems are forecast and fixed before failure, and unscheduled maintenance gets converted to scheduled maintenance. Boeing estimates that even a short, two-hour unscheduled aircraft delay can cost an airline operator dearly.

Effectively, Boeing has opened a window on consumption and can now better support its clients in maximizing the investments those clients have made in Boeing fleets.



Companies reinventing customer value after the sale do so by using a plethora of connectivity and computing technology innovations that have been emerging over the past 10 or 20 years as follows.

- The mobile Internet offers unprecedented reach and insight into how consumers use products.
- Cloud computing provides unlimited data storage accessible from anywhere, as well as unlimited processing power to support everyone on any device.
- Social media platforms enable customers to exert exceptional and collective influence on their peers, on organizations, and on governments.
- Sensor technologies such as the GPS and accelerometry provide improved digital experiences for customers and enhanced customer context for companies those customers connect with.
- Data analytics capabilities enable forward-thinking companies to analyze their valuable data in their searches for customer and competitive strategic insights.

Such companies recognize the power of those innovations and apply them to digitally support their customers in achieving those customers' desired outcomes.

While the first digital wave focused mainly on consumers' *transaction* data, the second digital wave focuses on consumers' *consumption* data (both consumption itself and the context or location in which the consumption takes place). As that consumption data becomes more readily available, new customer experiences, social interactions, business models, and innovation opportunities arise. And to make things more challenging, in the second digital wave, organizations must play seamlessly in all five layers of the value pyramid, not just in the fifth.

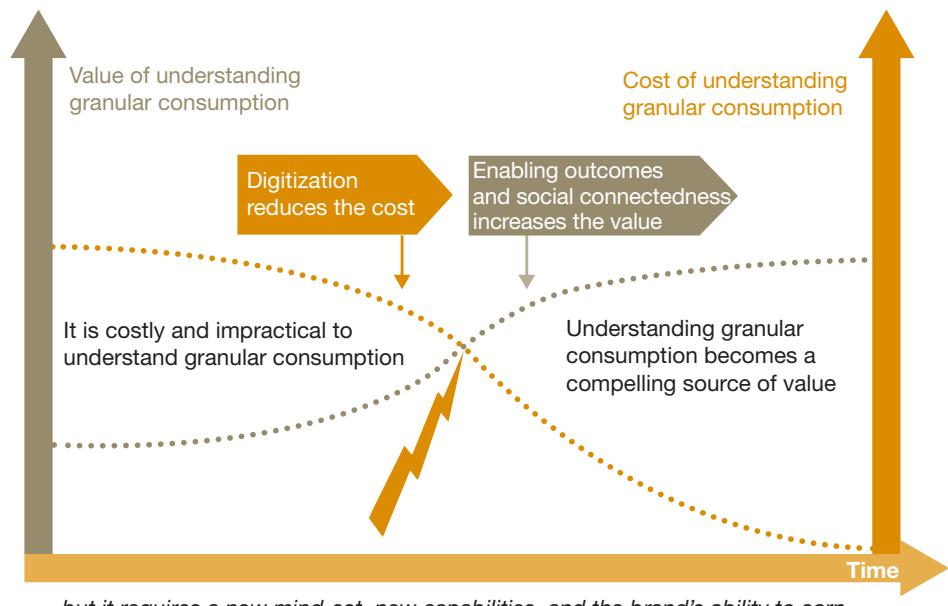
Value consumption and value creation are getting closer to each other

Why are value consumption and value creation getting closer to each other?

There are very simple reasons that value creation and value consumption can now be brought closer to each other. First, at the same time that many players have been seeking opportunities for differentiation and sustainable advantage, the value of understanding consumption in granular detail has been growing. Second, advances in connectivity and computing technology are making the window on consumption technically and economically feasible. When the tipping point between value and cost of consumption gets reached, value convergence becomes inevitable. One of the implications is that companies can ascend to success or descend into failure much faster than ever before possible.

Figure 3—The digital tipping point

The case for pushing the understanding of consumption to the next level is now compelling . . .



Emerging value exchange dynamics

These technology-enabled market dynamics may fundamentally change the way value is created and consumed, and they will bring value creation and value consumption closer together. Once a tipping point has been reached and companies focus primarily on facilitating posttransaction customer outcomes, a new value exchange relationship between companies and customers will emerge.

The value lies in the enablement of customer outcomes

An augmented experience is an experience that helps consumers achieve their desired outcomes better than they could achieve them by themselves. An outcome can be about a personal issue—such as fitness—or about

- Better achievement of customers' desired outcomes—over and above functional affinity and emotional affinity
- More-relevant, more-contextual, and more-experiential social interactions
- Stronger recommendations
- More-accurate pricing, such as premium setting for telematics-enabled motor vehicle insurance

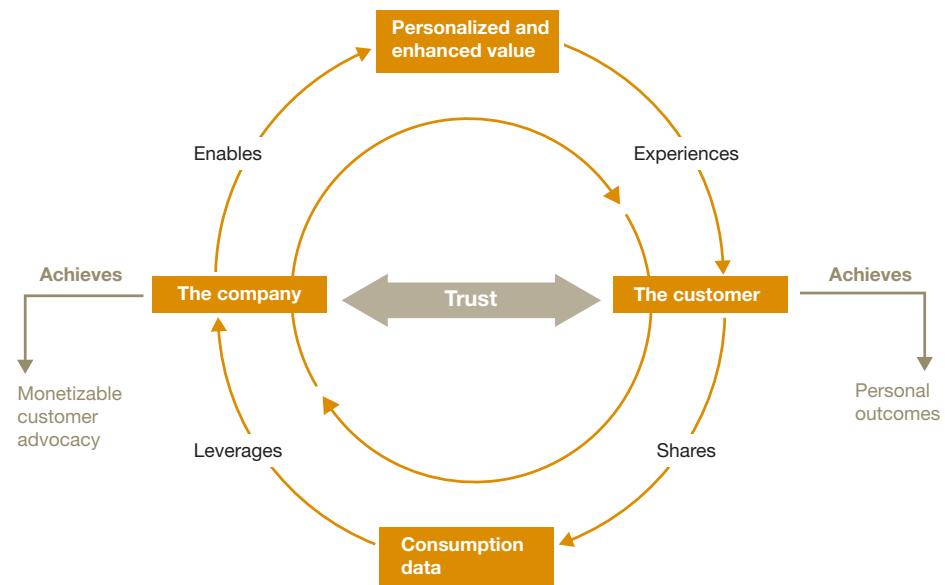
Everyone becomes an unique customer

Each customer will be uniquely identifiable. Companies will interact with fewer and fewer faceless customers. In the second digital wave, each customer will have a primary key for identification as a unique customer, and faceless customers will cease to exist. It will be very interesting to see which player will try to provide consumers with services spanning multiple business sectors to manage those consumers' primary keys and digital identities (including the ever-increasing digital wake of transaction and consumption data).

Consumer context and

the customer's time and money, such as reducing and controlling spend on energy bills. For the customer, the augmented experience takes place in the form of richer company-customer and customer-customer interactions. That augmented experience manifests itself in four ways:

Figure 4—Emerging value exchange
Consumption data drives both advocacy and achievement of outcomes



mobile will play major roles in influencing and shaping consumption

The dynamic context in which consumers find themselves at the time of consumption is going to play an increasing role in shaping the consumption experience itself. An example is an application that sends personal and mobile device advertising messages based on the weather the consumer is in at that very moment. And more and more of such consumption is going to happen on those personal and mobile devices.

A new type of experiential social interaction emerges

Companies will be more systematic and experience focused in their social interactions with customers. Companies will provide platforms and appropriately coordinate (but not necessarily participate in) experiential social interactions between customers. This isn't about simple information sharing or exchanging (e.g. "Check out this deal!" or "I got bad service from Brand X."). Instead, it's about directly sharing experiences—for example, two TV viewers interacting on an app or two joggers communicating via a shoe company app. This is a different type of social medium, one that's more focused on communicating and augmenting *experiences* rather than just sharing *information*.

Personal consumption data is exchanged for an enhanced experience

Delivering superior, individually tailored customer experiences and supporting customer-desired outcomes will depend on companies' having access to their customers' personal and consumption data.

Therefore, customers must consciously or otherwise trade off between:

- Forgoing personal consumption data privacy and
- Additional value in the form of an enhanced experience and achievement of desired outcomes.

Products and services have a digital service layer

To capture, assess, and act on customers' personal consumption data, a digital service layer is required. That layer will be core to enabling a new, personalized, and more valuable customer experience—for example, a household digital application based on smart gas and electricity metering that advises a family on how to optimize the family's energy consumption and carbon footprint.



Data continuously flows between the customer and the company

A continuous, highly granular, and bidirectional flow of data between the company and the customer will be needed. The company and the customer will need to share information both ways:

- There is a constant return path of consumption data from the customer to the company.
- There is a constant flow of value-adding and value-enabling data from the company to the customer, in the forms of statistics on consumption, relevant recommendations, relevant social alerts, and social connections.

Customer outcomes transcend traditional industry sectors

Companies will also need to consider how they can improve the customer experience outside their own specific business sector. This may mean aggregating different services within the same interaction so that the customer can achieve outcomes better. Ultimately, this may require a new level of collaboration and co creation between companies, perhaps even in different industries, but that can create value by enabling customer outcomes in novel ways.

There is increasing value in the customer's digital identity

The relevance and value of a customer's digital identity increase substantially. Knowing *how* the customer consumes is more valuable than knowing *what* the customer transacts on.

Digital communities will emerge, acting as de facto buying brands

A buying brand identifies a group of buyers whose dimensions differentiate them in some way from other groups of buyers interested in buying the same product or service. Virtual communities acting as buying brands will result in clear advantages for consumers. Consumers will use social media not only to have a voice and erode the established brands' information asymmetry advantage but also to collectively leverage profiling and consumption data so that they can create branded communities able to purchase goods and services at buying premiums.

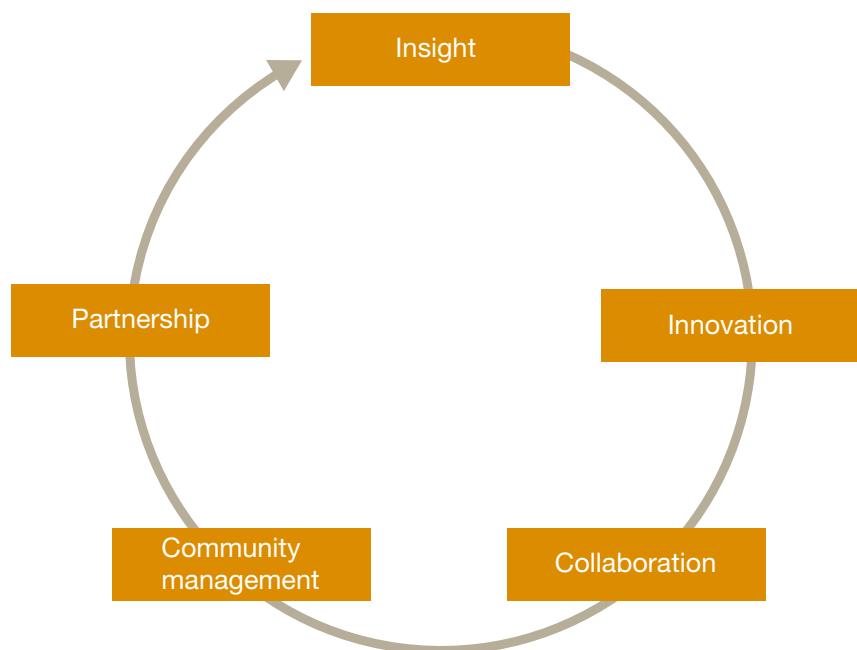
Capabilities required for creating post transaction customer value

PwC believes that a company's success in this effort depends on several core capabilities. Organizations that develop and apply those capabilities will gain—and maintain—competitive advantage.

Insight

Extracting strategic and tactical insights from vast amounts of customer, company, and third-party data will be even more critical to success. Companies that leverage insights from consumption data will create differentiating, experiential customer interactions. They will employ advanced analytics capabilities (e.g. predictive modeling) to enhance every customer interaction. Understanding that value *consumption* insight and analytics are quite different from value *transaction* insight and analytics will be crucial.

Figure 5—New capabilities that must become core strengths





Innovation

Innovation will be at the core of the corporate DNA of second-digital-wave companies. They will develop leading abilities to invest in, experiment with, learn from, and scale up innovations. Again, consumption-driven innovation (as opposed to product-driven innovation) will play a major role.

Collaboration

Digital success will demand an increased focus on cross-functional, horizontal coordination. Historical command-and-control, top-down management—a remnant of the factory-oriented approach to value creation—will be insufficient to generate advantage. Collaboration will go beyond simply being collaborative in a chain of supplier-customer interchanges shaped by processes and

deliverables. The need to reconfigure how resources enable end users to achieve outcomes will demand co creation across corporate functions, sector value chains, and multisector ecosystems.

Community management

The power of the crowd is undeniable. Digital companies will have expertise in interacting with all relevant communities in a mutually beneficial, genuine manner. Successfully managing the crowd will help second-digital-wave companies achieve scale—and fast. And in the future, transient, dynamic communities will play more and more important roles in value creation. Hence, a company's ability to sense, enable, and read those communities will become a source of advantage.

Partnership

Many customer outcomes will likely transcend a company's role in its sector value chain and in the company's sector itself. Therefore, collaborative ventures with third parties will be crucial to enabling customers to achieve their desired outcomes. Organizations will have to operate effectively in a fashion much more connected with each other—in search of innovative and differentiating customer value propositions. And even companies that have been successful at mastering product and services partnerships will need to consider that many of the elements of a customer outcome partnership will be different from what they're accustomed to.

What new and integrated product and service plays might we see now and in the future?

Automotive

- A car app that augments the driving experience (like an app that advises on the best choice between a gasoline-, diesel-, hybrid-, or electric-powered car based on a driver's driving patterns)
- A car app that teaches motorists to drive in a more-fuel-efficient and eco friendly way

Banking

- A service based on detailed financial transaction analysis that helps consumers identify and navigate their own personal trade-offs, with the goal of achieving a given lifestyle level in retirement
- A service for small or medium-size enterprises aimed at dynamically and instantaneously assessing credit risk and providing flexible and outcomes-based financing solutions

Entertainment and media

- TV companies to which customers reveal what they're watching, second by second, and can provide personalized content recommendations, TV channels, advertising and relevant contextual social interaction linked to the TV-viewing experience

- Rich services based on companion devices that at the same time enable lean-forward and lean-backward home entertainment experiences
- Follow-me media services that are network and device agnostic and still highly personalized

Newspapers and publishing

- Newspapers that are consumed on location-sensitive tablet devices, whereby the newspaper itself takes shape before the eyes of the reader, based on reader interest
- Publishing houses that understand how and where e-books are actually read, thereby recommending titles based on a user's reading tastes and patterns

Personal media

- A service that enables consumers to take digital photographs and make videos from multiple devices (e.g. with digital cameras and smartphones alike), upload them onto a simple-to-use Web interface, store them, categorize them, and view as they see fit

Business and leisure hotels

- Services that tailor experiences to customer outcomes. For example, "I'm happy to pay extra for broadband connectivity if I'm a backpacker, but I simply expect broadband connectivity as part of the package if I'm at the hotel on business."

Insurance

- A motor vehicle insurance service that leverages telematics to calculate the risk both historically and in real time and that charges motorists risk-adjusted premiums

Utilities

- Use of smart metering to capture granular consumption data and provide value-added services to optimize consumption (e.g. remote management of appliances by using telematics)

Local government/citizen services

- A service that provides electronic passports, driver's licenses, etc., thereby unifying a citizen's authentication



The next few years will likely see a wave of consumption data plays, even in sectors that don't yet identify their customers by name, let alone understand their consumption habits.

One of the main reasons for that expected explosion is that consumers care more when a company enables them to achieve their outcomes than they do when their needs are merely understood. Brand values, the functional aspects of an offering, pricing, and touchpoints can all be researched and engineered so as to resonate with consumers' needs. But consumers' outcomes can only be enabled; they can't be either engineered or delivered. And consumers are more likely to value and pay for outcomes, because with outcomes, they get both the result they care about and a sense of ownership and achievement of it.

Another reason is that products and services historically associated with low consumer engagement might actually offer a bridge toward high consumer engagement outcomes. For example, a consumer might show low engagement for the retail banking sector and its products, but if my bank could interact with me to help me achieve my true outcome—such as paying my mortgage in 15 years instead of 30 by shifting some of my spending patterns—then my engagement with the bank might increase. And the same dynamic could take place within other sectors typically associated with low consumer engagement such as utilities and mobile operators.

The second digital wave offers a clear opportunity to differentiate: both by augmenting the customer experience and by creating (real or emotional) switching costs. If a shoe company can add value for you by gaining a deeper understanding of how you use its products, that would act as a non price barrier to switching to another brand. In a way, this is just an extension of the trend toward bundling services with physical products, which we've seen in many sectors over the past 10 years.

Getting started creating post transaction value

Whether you've been an avid or a timid player in the first digital wave, you're likely to have had—whichever your sector—major opportunities to gain competitive advantage by opening a window on consumption and joining the second digital wave. Conversely, you'll have to face nontrivial threats if you don't, because the second digital wave is expected to become the new normal very quickly. This section will help you think through how to get started.

The second digital wave will bring multiple opportunities for organizations across sectors to get much closer to their customers and to command new levels of customer advocacy. Many organizations still believe that such opportunities are limited to organizations that have historically had access to strong customer transaction information, but focusing on creating value for customers based on outcomes moves beyond that.

Most companies have a set of digital intents against which they have delivered capabilities and results—to a lesser or greater extent. And yet only a few are fully satisfied with (1) the level of ambition of their digital intents, (2) the clarity and precision with which those intents are articulated in a compelling digital strategy, and (3) the extent to which the strategy is ruthlessly translated into digital execution. And therefore, most companies have a reservoir of untapped digital potential.

We believe that:

- Most companies implicitly apply a first-digital-wave mind-set when they consider their untapped digital potential. They look at digital mainly as a channel, and they frame the opportunity as deploying effectively the additional channel and delivering a seamless multichannel customer experience.
- Many organizations would realize they have a much bigger untapped digital potential were they to embrace the second-digital-wave mind-set.

- Commercial arrangements that support digital activities typically lag the very technology potential and consumer behavior they are trying to monetize, and a sharper focus on outcomes-based structuring would require reevaluation of business-to-business partnerships and commercial arrangements, centered far more narrowly on rewarding relative contributions to the delivery of outcomes—when they can be identified.
- Regardless of the level of digital mastery achieved to date, some companies might have to rethink their current strategies, treating them as stepping-stones to further progress.

Eight critical success factors for playing and winning after the sale

To play and win in the second digital wave, companies will have to:

2. Accept that the second digital wave is a new business paradigm enabled by technology. It is not about technology.

The second digital wave is neither a technology challenge nor an opportunity, but one in which an organization's success will be determined by how it can transform to do business in a fundamentally different way. It will require reenvisioning the customer experience, going well beyond the implicit lenses of the touchpoints. It will require sharp understanding of customers' outcomes. And it will require redrawings of business models and core operations to enable customers to achieve such outcomes. In this paradigm, digital is a strategic asset, not a technology play.

3. Understand and anticipate the outcomes that are important to customers.

Customers experience value when they achieve outcomes they care about and volunteer brand advocacy to brands that help them do that. Discovering what customers are looking for requires that organizations use much stronger, behavioral lenses in everything they do.

4. Have holistic digital and social media strategies.

Customer outcomes are powerful hinges that link a company's digital strategy to its social media strategy. Digital is the only way to bring value consumption and customers' outcomes within reach. And social media have the greatest business impact when people share *outcomes* and *experiences*, as opposed to just *information*. Therefore, companies will miss out if they look at the two separately.

5. Win unprecedented levels of customer trust.

To play in the second digital wave, companies will have to have access to a huge mass of customers' private consumption data. They will have to have earned substantial levels of customer trust in order to get such access.

6. Deploy and master new capabilities linked to value consumption.

Because delivering customer value posttransaction involves a constant window on consumption, the capabilities to build and operate such a window are indispensable ingredients. They include the capabilities to identify customers with unique primary keys and to gather and analyze large volumes of consumption data.

7. Review your organization's and operating models for value consumption performance rather than just value transaction performance.

In the new paradigm, business performance goes beyond how many units a company sells; it stretches into how well the company understands actual consumption and uses that insight to create new value for customers. It means that the company's organization, operating model, and metrics will have to be revisited to assess the ability to deliver value consumption performance over and above value transaction performance.



8. Adopt a more-horizontal collaborative model within the company (cross-functionally), with traditional value chain partners, and across the broader ecosystem.

As an organization moves to create customer value based on outcomes, the relationship between the company and the customer changes. But it will also change the relationships between different teams and functions *within* the organization. It means that those teams and functions can no longer interact only as internal suppliers or customers, with relationships

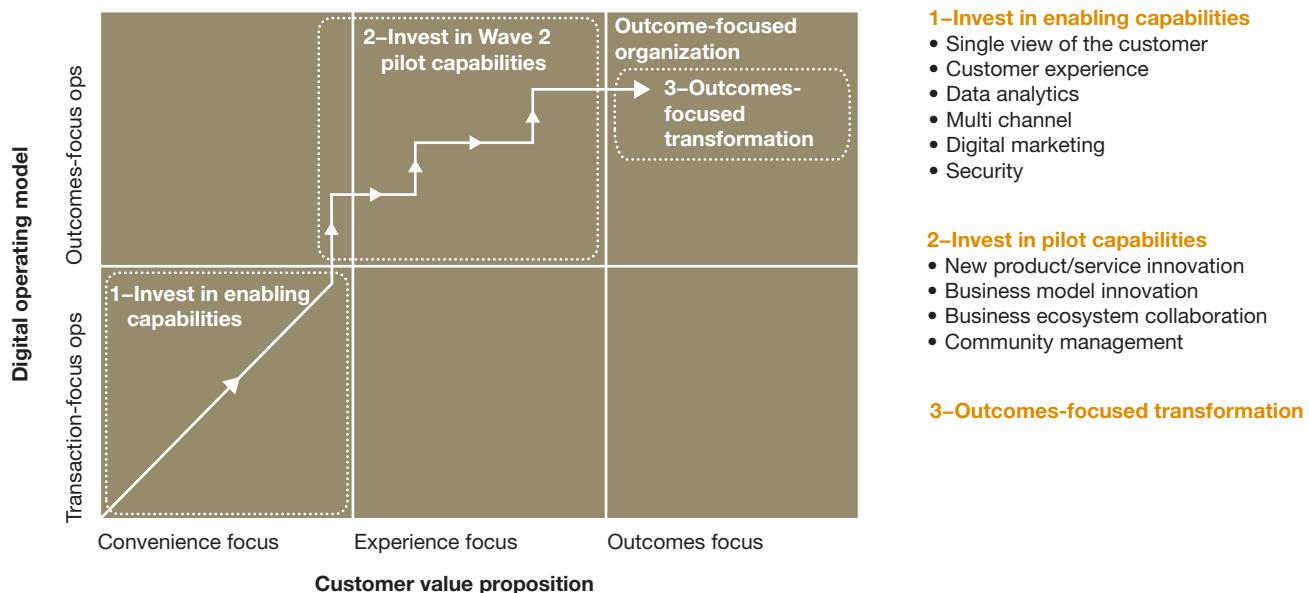
based on processes, service-level agreements, specifications, and deliverables. The same experiential dynamics and augmented experiences that take place with customers must also happen between internal functions. This applies in the interfaces not only between different functions within the company but also between different players in the ecosystem. And it's why the second digital wave and the emerging co creation trends have something in common: their ability to bring value creation and value consumption closer to each other.

9. Select and execute effective partnerships. On one hand, products and services are defined within sectors, and they thereby define sectors. On the other hand, customer outcomes are intrinsically cross sector. Therefore, it is unavoidable that some of the most-compelling opportunities in the second digital wave will require the ability to identify and execute effective partnerships not only within familiar value chains but also within broader ecosystems.

A holistic approach to playing and winning in this next digital wave

The second digital wave is not an incremental evolution from the first, and therefore, playing in the second digital wave will require a new and focused approach. As depicted later, becoming an outcomes-focused, second-digital-wave organization will require investments in enabling capabilities as well as in increasingly higher-value pilot capabilities such as product and service innovation.

Figure 6—How to build an outcomes-focused organization



To internalize implications and then chart its own company's journey to becoming an outcomes-focused organization, every corporate board should be asking and answering the following questions about the company's digital future.

- In the next three years, how will we deliver experiences and outcomes?
- How have our customers' expectations and needs changed in light of triggers? How do those expectation changes create new opportunities—and threats—in

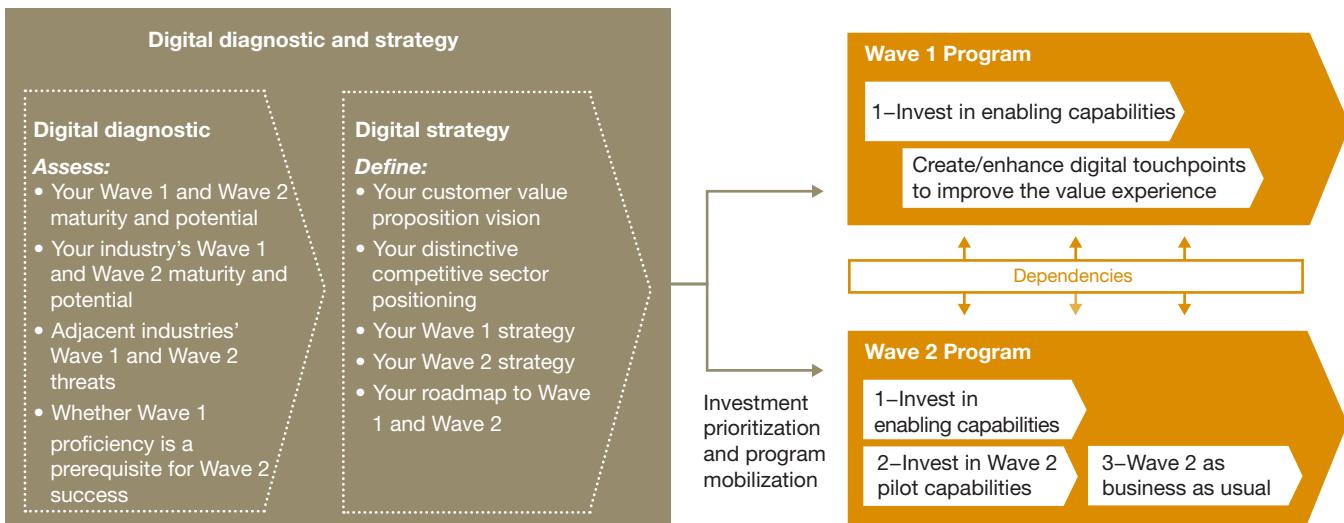
our industry?

- What can we do to increase our knowledge of our customers' preferences, consumption, and desired outcomes across products?
- When and how can we be outstanding at capturing, analyzing, and reacting to data captured across channels in every interaction with our customers, including consumption data? What experiments are we performing to find our path forward?
- Are our organizational structure and internal technology defining—or limiting—how we share

and collaborate?

Companies that ask answer those questions and that wish to explore whether and how to play as outcomes-focused organizations should consider embracing a structured approach that recognizes the fundamental differences, discontinuity, and dependencies between the two waves. The following figure suggests a high-level approach that recognizes the discontinuity between the first and second digital waves and yet looks at the two holistically.

Figure 7–A holistic approach to becoming an outcomes-focused organization



Digital diagnostic and strategy

Digital diagnostic

Assess:

- Your company's first-digital-wave and second-digital-wave maturity and potential
- Your industry's first-digital-wave and second-digital-wave maturity and potential
- Adjacent industries' first-digital-wave and second-digital-wave threats
- Whether first-digital-wave proficiency is a prerequisite for

second-digital-wave success

Digital strategy

Define:

- Your company's customer value proposition vision
- Your company's distinctive competitive sector positioning
- Your company's first-digital-wave strategy
- Your company's second-digital-wave strategy
- Your company's road map to the first digital wave and second digital wave

Investment prioritization and program mobilization

First-digital-wave program

2. Invest in enabling capabilities

Create or enhance digital touchpoints to improve the value experience
3. Invest in enabling capabilities
4. Invest in second-digital-wave pilot capabilities
5. Second digital wave as business as usual

Conclusions

For years digital has been a force that has changed both the operating model and the business model across virtually all business sectors. As a new touchpoint with customers and a new platform for social media, digital has changed deeply the way businesses operate in their value chains. And yet the first digital wave of the past 10 or 15 years has not fundamentally changed consumption; it has affected mainly the touchpoints—that is, the locus where value is transacted between companies and customers.

Some sectors have started seeing a second digital wave, in which both the proposition definition and the proposition consumption are also digital (or have a digital layer). And numerous signs indicate that technology-enabled changes in the way customer value gets delivered are going to affect virtually every other sector.

Why does this matter? Because the digitization of consumption will result in new interactions and new experiences representing profound changes in the ways value is created and consumed. This second digital wave is bringing value creation and value consumption much closer to each other, and players will have to learn to play the new game in order to gain and maintain competitive advantage.

The second digital wave is a fundamental change

- It is not an incremental evolution, and you will not master the second digital wave by extrapolating what you have done in the first.
- It is about doing business differently in a new world—one where consumption goes digital.
- It is a new, compelling, and material avenue to growth because it creates new value rather than redistributes the monetization of old value in a zero-sum game.

You'll then need to determine whether you have the right in-house capabilities and proposition elements. If not, you'll have to establish partnerships—and make them work.

Whether you've been an avid or a timid player in the first digital wave, you're likely to have major opportunities to gain competitive advantage by opening a window on consumption and creating post transaction customer value.

Conversely, you'll be facing nontrivial threats if you don't, because the second digital wave is going to become the new normal very quickly.

If you conclude that your company has the opportunity to become an outcomes-focused organization, you'll need (1) concrete examples of outcomes valuable for customers and (2) ways of enabling an augmented experience through which those outcomes could be achieved. You'll need to be sure there is enough value in it for customers to grant you access to their personal consumption data. And if you succeed in capturing the consumption data that will result in new and more-valuable experiences for your customers, you'll need to shape a way of monetizing use of the data.

About PwC

Grow the value of your business by getting to know your customer

Today, your customers' expectations are changing more rapidly than your organization is. Customers are better informed, are plugged into powerful social networks, and have come to expect unique and tailored customer experiences that meet their needs.

Understanding customers' wants and needs can help you secure competitive advantage. In fact, efficiently meeting customers' needs remains one of the only sources of competitive advantage still available when other sources of differentiation have been commoditized. Our approach results in insight into what your customers really value.

We use new technologies and data analytics techniques to learn how customers behave—as much as to learn what they say. Then we help you design and deliver products, services, and customer experiences that sit at the heart of your organization.

We help our clients create customer-led experiences, generate higher levels of customer satisfaction and loyalty, lower customer churn and acquisition costs, expand market share, and drive sustainable revenue growth. We work with clients to make sure they direct their investments to areas that will deliver the best return and ultimately achieve lasting change.

Our global network enables us to advise on every aspect of customer strategy—from the psychology of the customer to technology, to operational change.

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