

2017 Predictions: Dynamics That Will Shape The Future In The Age Of The Customer

October 2016

Our 2017 Predictions

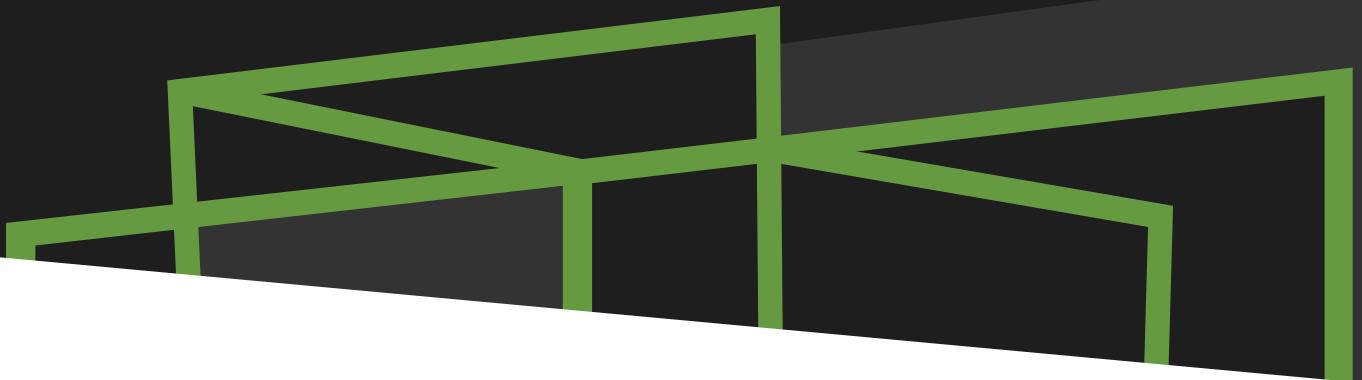
Against the backdrop of political commotion, Brexit, cyberskirmishes, and a muted economic recovery, the grinding gears of the market are moving forward, and the consequences of a customer-led, digital-centric market are becoming clearer.

Virtually all competitive markets are on the move: Banks try to innovate before digital banks become formidable competitors; big-branded retailers confront the digital threat with store closings and amped-up omnichannel and mobile efforts; manufacturers get serious about their digital business; relationship-driven investment firms try to adapt to the encroachment of tech titans; and utility companies — yes, utility companies — launch customer experience (CX) initiatives to influence consumption habits and change their operations.

The customer is the fundamental driver of these changes. Adventurous, experimental, and downright fickle behavior — once thought of as “Millennials being Millennials” — has gone mainstream.

In this report, we reveal the big business and leadership, CX, and technology changes we expect in 2017.

The consequences of a customer-led, digital-centric market are becoming clearer and starker.



We explore predictions across:

Business And Leadership

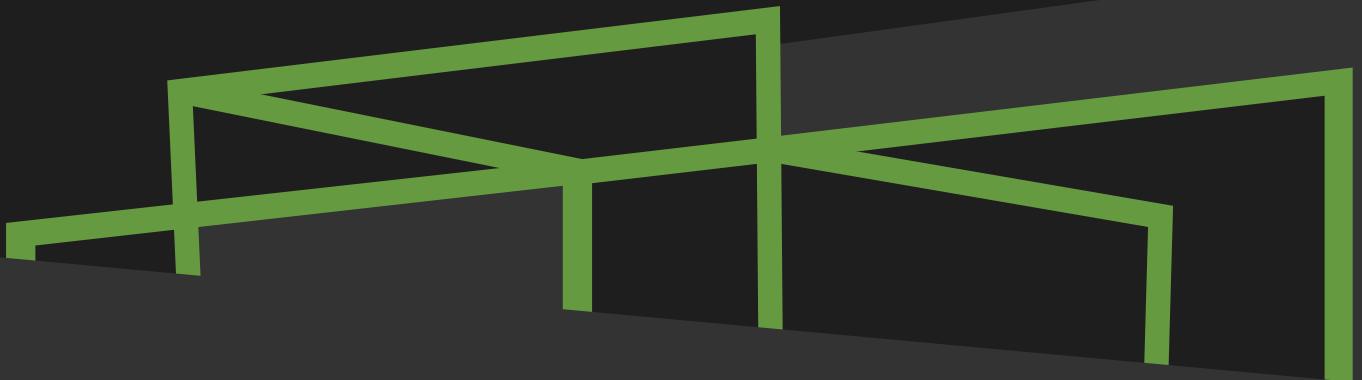
- Business Restructuring
- The CMO Evolution
- The CIO And The Brass Ring
- Changing Leadership
- Transitioning Roles
- Trust Is Now Business Currency
- Scarce Talent

Customer Experience

- Customers Are Driving Up Revenue Risk
- Operationalizing Emotion
- The Next Phase Of CX

Technology

- The Next Technology Revolution
- Augmented And Virtual Reality
- The Internet Of Things
- Artificial Intelligence
- Cloud Computing



Business And Leadership Predictions



Business Restructuring

CEOs and boards have become increasingly aware that making incremental changes to the business may not go far enough; doing too little or going too slowly may place their firms at risk as they compete in a customer-led, digitally driven market.

The question is, how far do they need to go to:

- Get closer to the customer?
- Avoid the complexity — and marginal results — of trying to deliver experiences to multiple customer segments across multiple products?

In 2017, leaders will devolve operational controls downward to individual brands and divisions to get closer to their customers. This will be a balancing act so as not to fragment the business or destroy margins.

We predict that one-third of companies in the B2C space will begin changing their business structure to get closer to the customer and effectively compete on the basis of experiences. These companies will move from functional-siloed organizations that prioritize efficiency and control to customer-driven matrix structures that also leverage shared functions to protect margin.

More than one-third of businesses will restructure to shift to customer-obsessed operations.



The CMO Evolution

The demands on the CMO have changed. Today's CMOs need to bring together both sides of their brains:

- The right side, which designs experiences to engage customers.
- The left side, which masters technology and analytics to deliver personalized, contextually rich experiences.

"Whole-brained" CMOs are in the minority — but they will soon be the competency standard for both B2C and B2B companies.

This evolution has been uncomfortable for both native left- and right-brained CMOs. Brand-only CMOs have been uncomfortable taking on the full mantle of technology, analytics, and even leading customer experience (CX) programs. Analytics-only CMOs have been uncomfortable with using right-brain techniques to design experiences.

But staying in place is risky. We predict that CEOs will exit at least 30% of their CMOs for not mustering the blended skill set needed to drive digital business transformation, design exceptional personalized experiences, and propel growth.

CEOs will exit 30% of their CMOs for not mustering the blended skill set of design and analytics.

The CIO And The Brass Ring

There has not been a time when technology has had a more profound impact on customer experience and revenue performance. By the sheer force of nature, this places CIOs and technology front and center.

Having the CIO “grab the brass ring” and lead the business technology agenda is not easy: They have too little political capital, technology is already present within marketing and the business lines, and tepid growth prospects will slow tech spending growth to 1.4%.

Those pressures are real, but in this moment when technology is in the spotlight, it begs these questions: If not now, when? If not for this reason, why else? And if not the CIO, who?

In 2017, more and more CIOs will take a lead position in shaping the digital strategy of firms to confront competitive risk and address the personal risk of being boxed in by a chief digital officer or chief data officer. The key to this strategy is to more aggressively shift budgets from traditional IT spend to those technologies that directly or indirectly connect to customer experiences.

In 2017, CIOs will take the plunge and become business leaders to address external and personal risk.

Changing Leadership

Today's business environment places a premium on three leadership dimensions:

- Understanding and personalizing engagement with customers.
- Running a digital business.
- Knowing what's needed to win in a customer-led, digital-centric market.

These are different leadership priorities than in the past. Many business heads built their career on an inside-out approach — the ability to control the business and persistently drive efficiency. But those traits are insufficient in today's outside-in, customer-led market.

CEOs have had a knack for hanging onto incumbent leaders because they have been successful, know the P&L, and have built up political capital. However, CEOs must decide whether honoring the past or competing for the future is the best strategy.

We will see a doubling of business-head turnover as CEOs come to terms with what's needed to propel their company forward in a customer-led, digital-centric business.

Business heads will see doubled attrition rates as CEOs dig in and appoint leaders with both digital and customer competencies.

Transitioning Roles

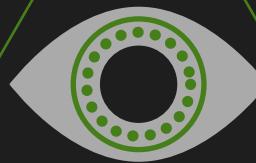
There is a common thread to Forrester's predictions:
CEOs will come to terms with the deep-rooted changes
necessary to win in a customer-led and digital-centric market.

These changes must be durable. Creating new titles like chief data officer, chief digital officer, and chief customer officer makes sense in one light — but they cover up gaps in the existing leadership team (notably the CMO and CIO).

Gap-filler roles also create a governance mess, introduce unnecessary complexity, and avoid the real task at hand of putting in place the right leaders with the right skills.

In 2017, CEOs will continue to strengthen and normalize their leadership teams, and temporal roles will either fall out of fashion or be calibrated (down) to drive the key digital, data/analytic, and customer programs.

Transitional roles like chief data officer, chief digital officer, and chief customer officer will continue to get reintegrated into traditional roles.



Trust Is Now Business Currency

In 2016, we predicted that cybersecurity would be a major issue in the presidential election and that an executive would step down due to a breach. Both came true. And it will get worse.

Targeted espionage, ransomware, denial of service, privacy breaches, and more will escalate in 2017. The impact of those events will be significant:

- A Fortune 1000 company will fail because of a cyberbreach.
- Healthcare breaches will become as common as retail breaches.
- More than 500,000 internet-of-things devices will be compromised.
- Within 100 days, the new US president will face a major cybercrisis.
- National security risks will drive agencies to expand surveillance technologies, creating legal and ethical conflicts between governments and people.

Your customers are more aware of, wary of, and frustrated with security and privacy risk, and you will increasingly gain or lose affinity based on how much they trust your company.

In 2017, the basic fabric of trust is at stake as CEOs grapple with how to defend against escalating, dynamic security and privacy risk.

Scarce Talent

Macroeconomic job or unemployment statistics mask and confuse the significant disparity in employment realities.

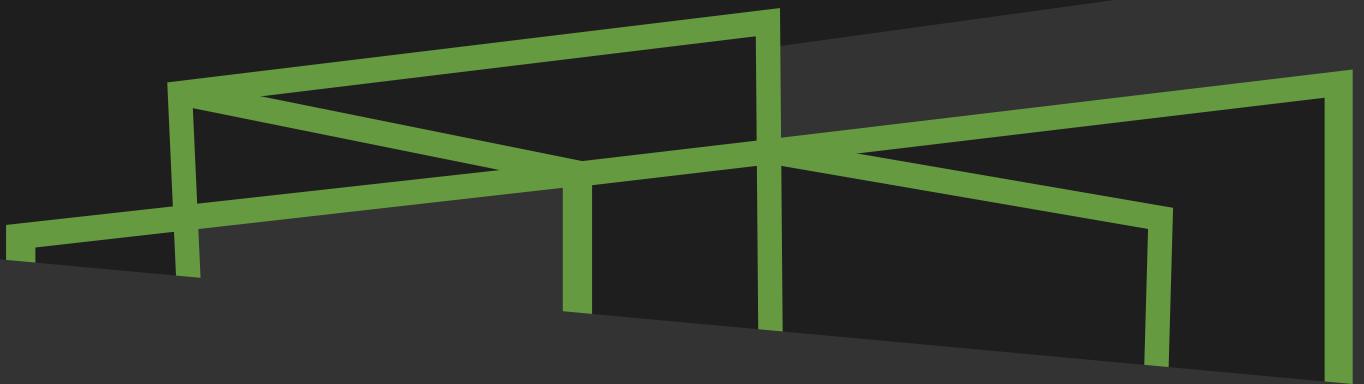
There is pressure in low-skill jobs struggling to keep up with a fast-moving market. But that tells only part of the story.

Demand for certain roles eclipses scarce supply, creating a battle fought in the labor market every day.

For business, marketing, and technology leaders, the top 10 roles and competencies that will be most in demand and hardest to fill are:

- Data scientists.
- CX professionals.
- Experience designers.
- Digital business leaders.
- Software developers.
- Analysts skilled at statistical and predictive analytics.
- Consultant sellers.
- Cybersecurity professionals.
- Content professionals skilled at storytelling.
- Augmented and virtual reality designers.

Select jobs will continue to be in negative unemployment, putting immense strain on talent management and talent acquisition.



Customer Experience Predictions

Customers Are Driving Up Revenue Risk

Empowered customers are on the move: 40% of consumers have a high willingness and ability to shift spend, with an additional 25% building that mindset.

Today's customers reward or punish companies based on a single experience — a single moment in time. This behavior was once a Millennial trademark, but it's now in play for older generations. It has become normal.

And it can turn a P&L into a leaky bucket. One poor experience can trigger an immediate — and possibly prolonged — shift in spend to a competitor, forcing companies to increase revenue per customer or grow the customer base to remain flat.

We expect revenue risk — both shifting spend on current products and an inability to enrich — to increase up to 50%. Even industries using contracts to secure customers will feel increased pain; for example, over-the-top providers will steal customers from established cable companies and telcos for coveted entertainment spend.

Revenue risk is the wake-up call for companies and will serve to accelerate their customer experience initiatives and the broader efforts to organize and compete in a customer-led market.



Operationalizing Emotion

Human beings are slightly rational and highly emotional.

Feeling valued, frustrated, or disappointed are emotions that govern decision-making about brand loyalty and spend.

The fact that understanding and influencing emotion is a vital ingredient for business success is not surprising — it has been the heart and soul of brand efforts. It is also the foundation of the emotion-recognition techniques (measuring physiological responses) currently in pilot for some retailers and old-school ethnographic research. What is surprising is how emotion has been so poorly measured and incorporated into experience design and core operations.

Companies are confronting some scary numbers: Customers who experience disgust, anger, or a feeling of neglect during a brand interaction are about eight times more likely not to forgive that company. Frameworks like Forrester's Customer Emotion Matrix will help companies repair operations that provoke negative emotions and implement capabilities that engender positive emotions.

In 2017, a few companies will make important inroads on what drives consumer decisions. This is a first step in understanding emotion as both a descriptive and predictive measure to guide experience design and govern operations.

Firms will begin to quantify and better harness the power of emotion to drive affinity and spend.

The Next Phase Of CX

As a practical matter, human beings are in a constant mode of multitasking and handling distractions. This is the reality that CX professionals face when designing experiences that delight customers and contribute to P&L performance.

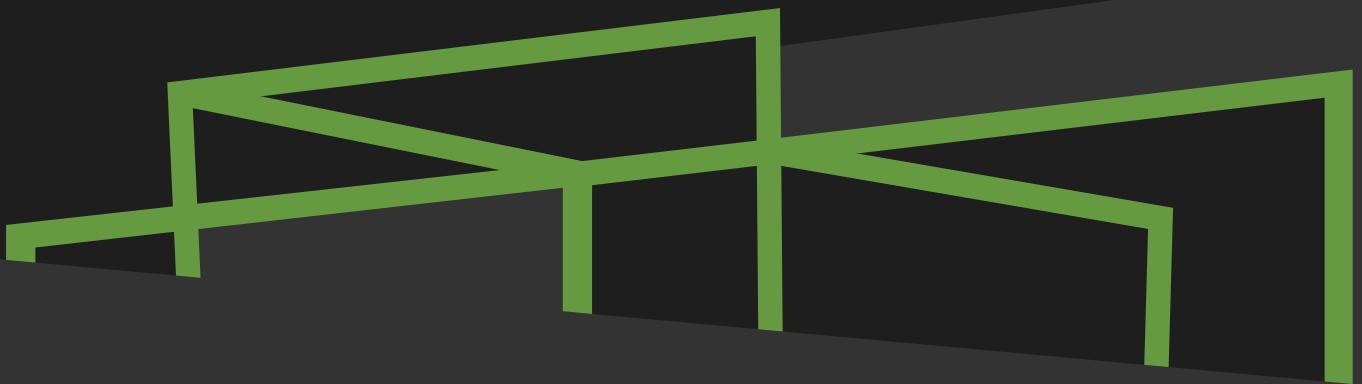
Customer journey mapping is an essential practice for understanding and anticipating customer needs as they move across touchpoints. That's helpful — but not helpful enough when it comes to a brand's need to find ways to differentiate the experiences it delivers.

To move the needle, CX professionals are going small — micro actually. They are combining the best of right-brain and left-brain thinking to identify and design the moments that matter most. These signature moments are:

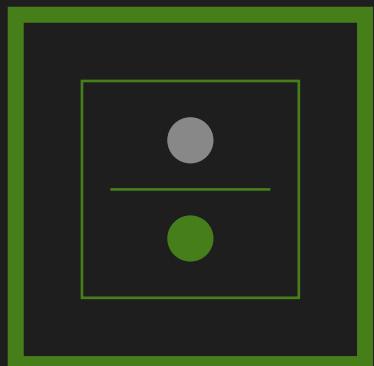
- Critical steps in journeys where customers are paying the most attention, are most anxious, or appreciate value the most.
- Distinct opportunities to deliver the best and most authentic part of your brand so a single moment can easily extend to the larger brand.

Microdesign is not easy or natural; it involves integrated analytic and design teams and processes that today sit apart for most companies. In 2017, leaders will use microdesign to drive a larger wedge in the market and force laggards to play catch-up.

CX will go micro to design signature moments that win the hearts, minds, and wallets of customers.



Technology Predictions



The Next Technology Revolution

Technology has already changed the world: the way people live, the power customers have, and how businesses operate. The pace of innovation can be dizzying. The next wave of technologies is poised to remake industries and customer experiences.

These technologies will come in three forms:

- Engagement technologies that will create profoundly different virtual, physical, and digital experiences that are harmonized across journeys.
- Insights technologies that will convert the promise of personalization and predictive analytics into reality and be able to operate at the micro level at scale.
- Supporting technologies that will drive new levels of speed and efficiency and underpin this next technology revolution.

Key technologies that will reshape how businesses operate and interact with customers — augmented and virtual reality, the internet of things, artificial intelligence, and cloud computing — are highlighted in the next few pages.

A new wave of technologies that remake industries and customer experience will begin to emerge in 2017.

Augmented And Virtual Reality

We predicted that augmented reality (AR) and virtual reality (VR) would become real in 2016 — and that was before the Pokémon Go craze. AR and VR will become even more important methods to deliver customer experiences and products in the next five years.

2017 will see several existing AR/VR limitations start to erode... slowly:

- Computing power and economics will continue to improve, making AR/VR more accessible and effective.
- Developers will continue to grapple with a new and diverse set of tools; no dominant center of gravity will emerge in 2017. This means complexity and angst over choosing the “right” frameworks will grow — but so will the opportunity to invent and test different approaches.
- There is no single killer AR/VR app or use case, which will limit budgets and attention. In other words, this will not be a race-to-the-moon type of acceleration; it will be an evolution where companies factor in customer expectations, competitor threats, and first-market advantage in a systematic manner.

AR/VR will change the game, and 2017 will see further experimentation and important niche applications to provide design beacons.

Companies will continue to experiment with AR and VR, setting the foundation for larger implementations in 2018 and 2019.

The Internet Of Things

Interest in the internet of things (IoT) has hit fever pitch. Firms see big opportunity in extending IoT uses further into the field. IoT holds the promise to enhance customer relationships and drive business growth.

But the technologies and use cases to date are wildly divergent. The software, standards, and protocols for IoT are as diverse as the hardware, radios, and use cases.

2017 will bring more complexity — complexity that will overwhelm enterprises that don't get ahead of the problem. IoT solutions will be built on modern microservices and be distributed across edge devices, gateways, and cloud services.

IoT data will be coupled with increasingly powerful artificial intelligence capabilities. And in 2017, teams will search through more than 19 new wireless connectivity choices and protocols to support the company's diverse set of IoT devices.

IoT also represents a two-pronged threat in 2017 — potentially exposing businesses to security breaches and IoT devices themselves being turned into DDoS weapons.

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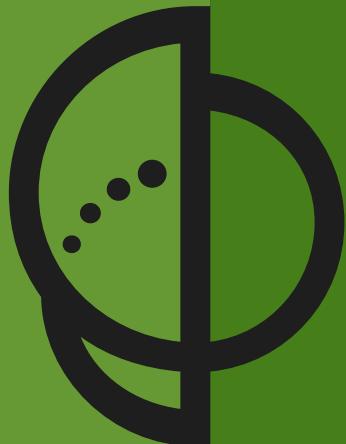
Artificial Intelligence

Whether knowingly or unknowingly, customers have provided a remarkable amount of personal and behavioral data to companies. From a customer's point of view, that is OK (sort of) if the company uses that same data to deliver valuable, personalized experiences.

But that has not happened yet, thanks to data trapped in multiple systems of record and most firms' inability to coordinate and drive insights that span their internal functional silos.

2017 will be the year the big data floodgates open, driven by a voracious appetite for deeper contextual insights that drive customer engagement via mobile, wearables, and IoT.

Investment in artificial intelligence (AI) will triple as firms look to tap into complex systems, advanced analytics, and machine learning technology. Vendors that are already embedding components of cognitive computing capabilities into their solutions — such as Adobe, Google, IBM, Persado, Salesforce, and Squirro — will prosper.



In 2017, investments in AI will triple as firms work to convert customer data into personalized experiences.

Cloud Computing

Cloud computing has been one of the most exciting and disruptive forces in the tech market in the past decade. And it's no longer an adjunct technology bolted onto a traditional infrastructure as a place to build a few customer-facing apps. Cloud applications (SaaS), business services, and platforms (IaaS/PaaS) now power a full spectrum of digital capabilities, from the core enterprise systems powering the back office to the mobile apps delivering new customer experiences.

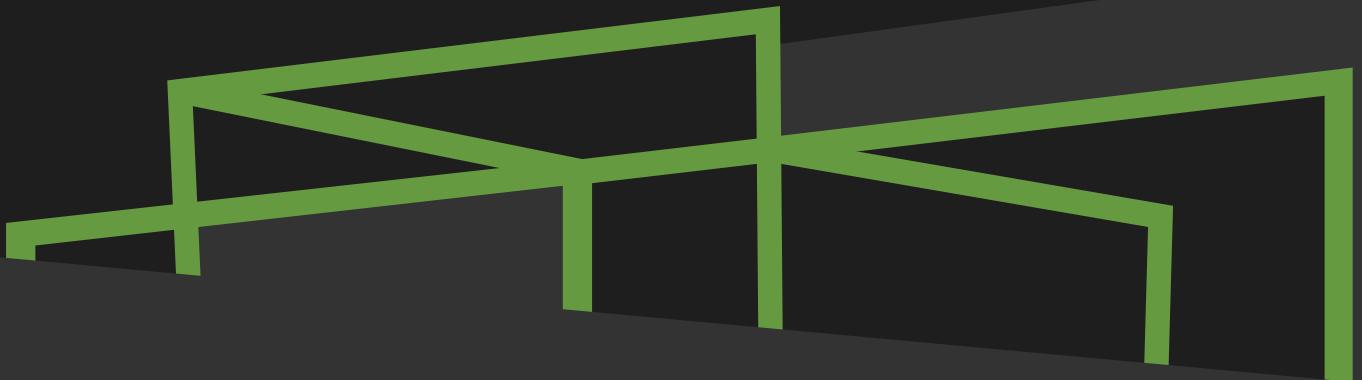
The cloud market will accelerate even faster in 2017. Enterprises use multiple clouds today, and they'll use even more in 2017 as CIOs step up to orchestrate cloud ecosystems that connect employees, customers, partners, vendors, and devices to serve rising customer expectations.

Some will push further, shifting from being cloud adopters to becoming cloud companies themselves. Following early examples like GE or Bosch, these companies will become stewards of their own client and product ecosystems.

Cloud expansion will exacerbate the cloud management challenge, pushing CIOs to also aggressively tap new and maturing enterprise-grade security, networking, and container solutions.



Customer-obsessed enterprises will launch cloud computing's second decade as they push for speed and agility.



What Does This All Mean?

Go.... Now.

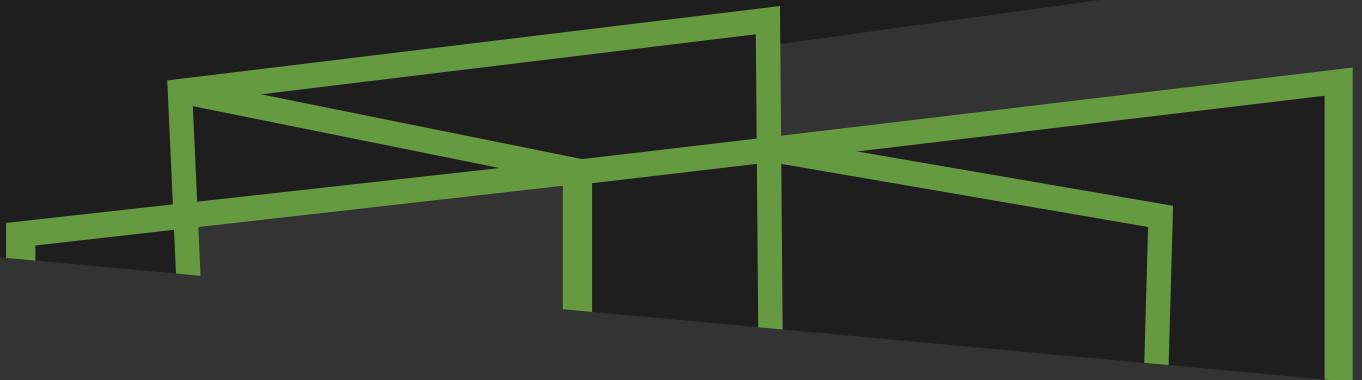
Tectonic shifts in the market follow a relatively similar pattern: We see hints of it, we talk about it, we continue to talk about it, leaders act to gain first-mover advantage, and others talk and slowly accept the reality on the ground and start to move — hopefully not too late.

The question for most companies and business leaders is not if, but when and how. How do I make the needed changes in leadership and talent? How do I think of making important advances in how I deliver CX? How do I stay in front of technologies that are vital to winning customers' attention, affinity, and spend?

Companies across industries and regions are feeling the consequences of a customer-centric market that moves fast. For some, it represents an existential threat to their very survival; for most, it represents immediate and possibly prolonged revenue risk.

Our advice is rather straightforward: Go.... Now. Take a hard look at your structure, talent, culture, processes, technology, and business metrics to understand how deep the changes need to be to compete and win in the age of the customer. This is a market where increasing customer expectations and declining tolerance for even mediocre experiences force the hand of leaders, mainstream companies, and laggards alike.

For more information on the data and research that underpins these predictions, visit forrester.com/predictions or email us at forresterinfo@forrester.com



Recommended Reading

[Leadership In The Age Of The Customer](#)

[The Evolved CMO In 2016](#)

[The Rise Of The Empowered Customer](#)

[Applying Forrester's Empowered Customer Segmentation](#)

[The Future Of Data Security And Privacy: Growth And Competitive Differentiation](#)

[Customer Experience Drives Revenue Growth, 2016](#)

[Differentiate Your Customer Experience With Signature Moments](#)

[Data And Instinct: Design Methods At Work](#)

[Hiring And Retaining Diverse Technical Talent](#)

[Talent Management For The Customer-Obsessed Organization](#)

[The Top Emerging Technologies To Watch: 2017 To 2021](#)

[The Top Technologies For Your Business Technology Agenda, 2016](#)