



GENERATE REVENUE FROM DIGITAL PLATFORMS BY MANAGING THE CUSTOMER EXPERIENCE

WHITEPAPER

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INTRODUCTION

At any one time, there are around 30 billion devices online. 6 billion people are connected through their mobile phones and for 4.5 billion of them, the mobile phone is their primary means of online connectivity. This has real implications for how consumers spend their time and money. We also know that where firms operate across physical, digital and social spaces these different dimensions of customer experience are intertwined. (Bolton et al., 2018). These insights are important in the B2C world but they also have major implications for the B2B market where we increasingly see digital platforms driving new business, innovation via crowdfunding, recruitment and the creation of new services.

When the internet was introduced, Anders Igel, Technology Manager for Ericsson, predicted that it would be dead by 2005. The impact his attitude must have had on technological development at Ericsson during this period hardly bears thinking about. However, Ericsson was able to catch up and was one of the first companies to recognise the potential of IoT and 4G and, more recently, 5G. Similarly, car manufacturers are working hard to keep up with Tesla and, to a certain extent, the global hotel and taxi markets are trying to ward off competition from digital platforms businesses, such as AirBnB and Uber. Zervas et al. (2017) show that the arrival of Airbnb created a drop in revenues by 10 percent for hotels in the Texas market. The old industries were simply not ready for this onslaught. They have been struggling to regain some of that lost ground, often by developing their own digital platforms. But for many of them, the investments in digitalisation are not delivering the value they promised – at least not yet.



02

THE CUSTOMER EXPERIENCE

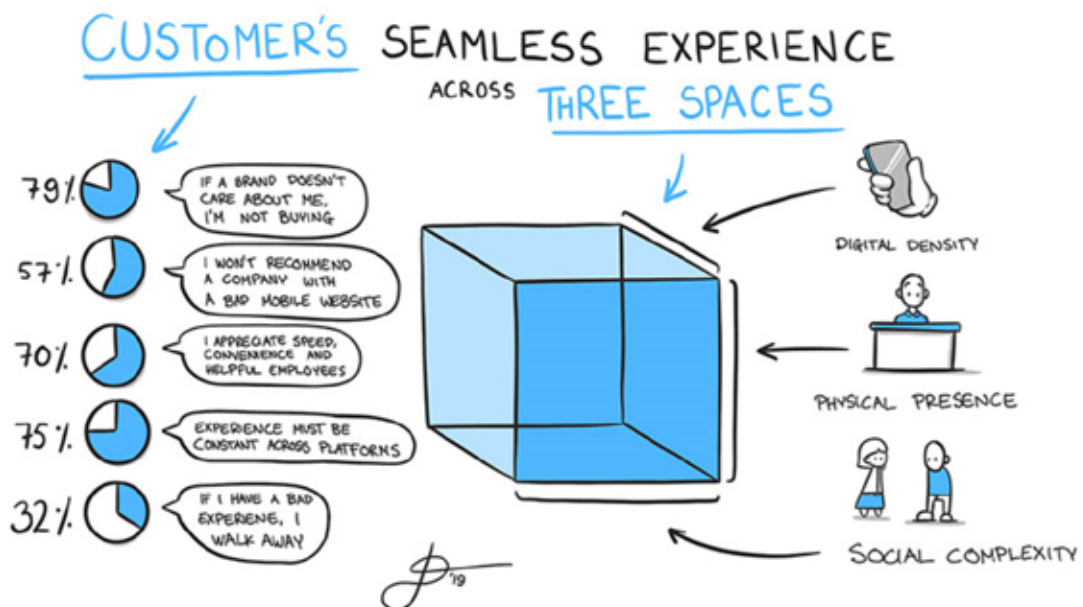
But car manufacturers, hotels and taxis are not the only businesses influenced by digital platforms. Shep Hyken writes in Forbes that “Customers are smarter than ever because they’re experiencing great service from certain brands, and those rock-star brands are setting the bar higher for everyone else.” (Hyken, 2018). This suggests that:

- 1 Competitive advantage comes from customer experience
- 2 Customer experience is influenced by digital platforms, across the physical, digital and social realms
- 3 There is a customer experience paradox, where firms investing in the different realms of the customer experience are not able to reap the potential rewards.

This white paper looks at how firms can use digital platforms to develop new business models and revenue streams. To do this, it will answer the following research questions:

- 1 What is the customer experience paradox and what does it mean for firms?
- 2 How can a digital platform help solve the customer experience paradox?
- 3 How can digital platforms help traditional firms increase their revenues?

We start by defining the customer experience paradox, what we mean by a digital platform and how it relates to the business model of a firm. We then provide a step-by-step process for how firms can address the issue of overcoming the customer experience paradox and increasing revenues.



THE CUSTOMER EXPERIENCE PARADOX

Most of the customer experience research to date has adopted a consumer perspective (Pine & Gilmore, 1998). Few studies have explicitly taken an organisational perspective, and there is also a lack of research on customer experience management in B2B settings. However, firms are increasingly looking to customer experience management as a key source of competitive advantage. Kranzbühler et al. (2018) suggest that an organisational perspective on customer experience consists of two elements: (1) identifying ways to design and manage interactions with customers; and (2) analysing how the servicescape and the employees influence the experiences of consumers. Firms need to invest resources, build capabilities and perform activities to manage the customer experience (Witell et al., 2020). Customer experience management can be viewed as accommodating the real-time co-creation of value through customer interactions across different touchpoints (Based on Patricio et al. 2008).

However, there is a customer experience paradox, where firms often fail to monetise transformations in the physical, digital and social realms (Bolton et al., 2018). Since dominant actors and competitors are always raising the bar for excellent customer experience, firms investing in the customer experience do not always see the payoff in increasing revenues. Paradox theory can be used to describe this phenomenon, suggesting that a paradox is a persistent contradiction or tension between interdependent elements (Lewis, 2000). We argue that the customer experience paradox can relate to any of the three customer experience dimensions, physical, digital and social. Paradoxes in the physical (service paradox) and digital (digital paradox) have been addressed in previous research, while the social paradox is introduced in this white paper.

$$\text{CUSTOMER EXPERIENCE PARADOX} = \begin{array}{c} \text{service paradox} \\ + \\ \text{digital paradox} \\ + \\ \text{social paradox} \end{array}$$

In the early 2000s, many manufacturing firms were struggling to exploit the financial potential of a service business. Gebauer, Fleisch and Friedl (2005) named this phenomenon the service paradox. In a study of thirty manufacturers, they conclude that substantial investment in extending the service business leads to higher costs and an increased amount of services, but often does not generate the expected higher revenues. While many manufacturers are still struggling with the service paradox, some (both service and manufacturing firms) are simultaneously struggling with digitalisation. GE, for example, generated \$3.9 billion in digital revenue in 2018 but it has a long way to go if it is to achieve its goal of \$15 billion in digital revenue in 2020. This phenomenon can be viewed as a *digitalisation paradox*, in other words, a situation in which companies invest in digitalisation but struggle to earn the expected revenues (Gebauer et al., 2019).

We argue that there also is a social paradox, when firms continue to invest in infrastructure for interaction with or between customers where there are no positive effects in revenues – whether because it has not



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resulted in more interactions or because the firm has not been able to monetise the interactions. Whirlpool is a good example of this. In the early 2000s, it tried to create an online forum for cooking dinners in the microwave. At that time, customers were not interested in sharing their recipes and tricks, at least not on Whirlpool's site. These three paradoxes describe situations in which companies invest in services, digitalisation and social elements, but struggle to earn the expected revenue growth.

So why do firms focus on these three dimensions of the customer experience? In addition to increasing revenues, it is often in response to a demand from customers. Many firms believe that an increase in service provision, digitalisation and social elements can improve the customer experience. The mechanism is that through digital channels, more communication and better relationships can be built using fewer resources. This should in turn lead to a better customer experience and higher service sales.

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DIGITAL PLATFORMS

Many firms build digital platforms to establish an online presence. Andreassen et al. (2018) distinguish between M-models and T-models of digital platforms, where M-models are based on selling products and services in a two-way relationship between sellers and buyers. It further has the traditional boundaries set by high fixed costs, financial and transaction costs. In contrast, the T-model is based on facilitating exchange between a supplier and a customer in a three-way relationship. In this model, the costs of tangible assets, financial costs and transaction costs are low. Instead of making money on traditional sales, the platform owner makes money on transaction fees, advertising and subscriptions. One explanation for firms' failure to make money from digitalisation is that they implement a digital platform based on the M-model, but expect the benefits of the T-model.

A CMO study of American marketing managers showed that 45% of their marketing budget is spent online but only 12% of the sales come from the digital channel. The most surprising part is that this share has only increased marginally over the last five years, rising from 9% to 12% of total sales. The reasons it has not increased more are attributed to:

- 1 the business requires human interaction
- 2 a new online business model is required
- 3 the offering is too complex to sell online
- 4 the business is built on an excellent customer experience.

As can be seen, these reasons are related both to business model elements and interactions between customers and the brand.

We view a digital platform as dynamic configurations of tangible and intangible resources that act as a foundation upon which members co-create value through a set of specific practices (Perks et al., 2017). We argue that such digital platforms for customer experience management need (1) a digital architecture, (2) a business model architecture and (3) an architecture of interaction.

DIGITAL ARCHITECTURE

The digital architecture is often based on open standards. If modules can interact based on open and common standards, it is possible to integrate different modules and functions. That should enable an open digital landscape, but platform providers like Google, Facebook and Amazon are dividing the internet into closed domains. So, while open standards enable interactions, they also facilitate the creation of closed communities of those digital platforms. This becomes a strategic choice for the platform owner: should they build a new platform or build on an existing alternative – a classic 'make or buy' situation.

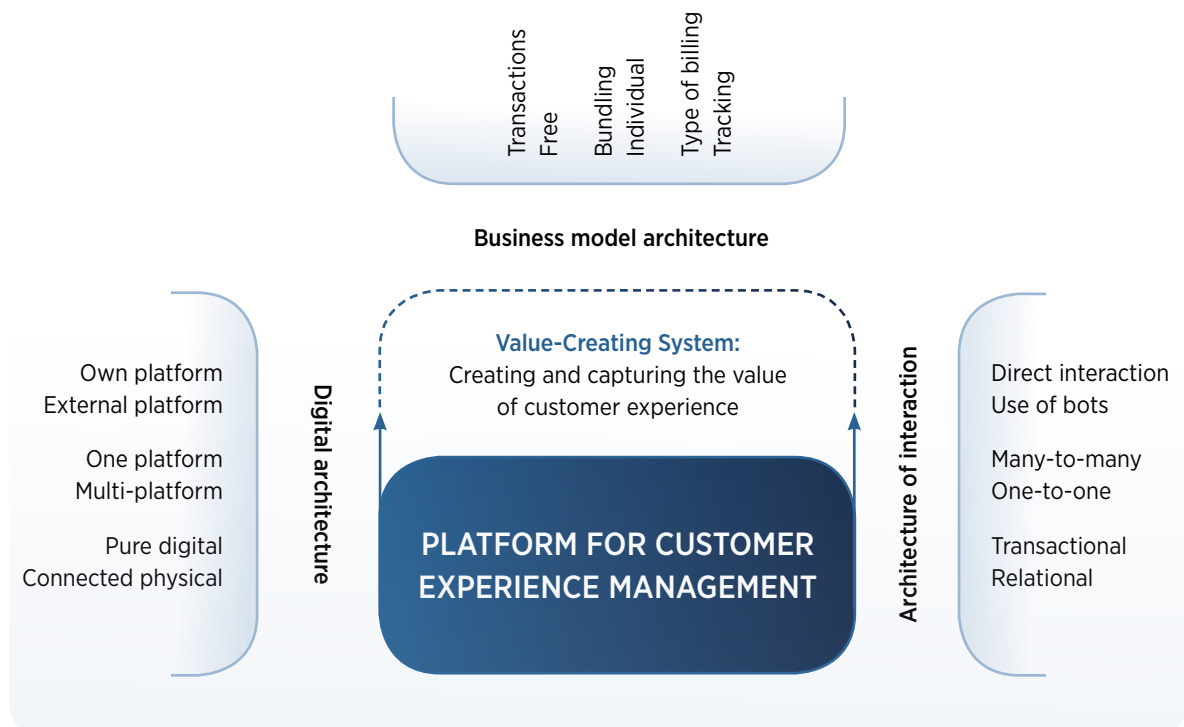
BUSINESS MODEL ARCHITECTURE

Johnson, Christensen, and Kagermann (2008) distinguish between value creation and value delivery as part of a business model. This is in line with Teece (2010) who argues that a business model is *the architecture of the value creation, delivery and capture*. Johnson, Christensen, and Kagermann (2008) describe the business

model as consisting of four elements that drive value creation and delivery: value proposition, profit formula, key resources, and key processes. If you want to increase revenues, these are the specific levers that can change business models (Zott, Amit, and Massa 2011).

ARCHITECTURE OF INTERACTION

Service encounters are based on interactions between a service provider and a customer, but they also include customer-to-customer interaction. More specifically, the service encounter is a form of social exchange in which both the employee and customer try to maximise the rewards and minimise the costs (Solomon et al. 1985). In digital interactions, the scripts can be very detailed and certain types of interactions can be run by bots or AI, while other scripts need humans to function as service encounters. The key choices are what type of interactions need to include employees, which can be run by AI, and how can these interactions lead to increased revenues – in other words, how they can create value for the customer.



A digital platform

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INCREASING REVENUES THROUGH DIGITAL PLATFORMS

The key is to crack the code on how the digital platform can increase revenues. In particular, how can you turn interactions into revenues? Through the digital platform, the customer experience paradox can be resolved through changing (1) the digital architecture; (2) the business model architecture; and (3) the architecture for interaction. Based on our research, we have identified several ways to increase revenues:

- // Increase sales of products
- // Increase sales of services
- // Enable bundling of products and services
- // Build brand – through increased interaction
- // Sell digital products and services.

In the following cases, we consider different ways in which firms can overcome different facets of the customer experience paradox.

OVERCOMING THE SERVICE PARADOX

One of the case study firms, a coffee manufacturer, found that a reseller was not prioritising its brand. In fact, the reseller was focused solely on price and, as a consequence, was prioritising the big multinational firms in its sales and marketing efforts. The manufacturer decided to create its own digital platform that bypassed the reseller and created a direct channel to its B2B customers. The results were positive; it helped them gain access to their customers, increase their margins, build a better relationship with their customers and, ultimately, sell larger volumes.

OVERCOMING THE DIGITAL PARADOX

Another case firm, a manufacturer of pulp and paper machines, has connected all of its new machines, allowing it to gather data on their condition and performance. This enables the firm to analyse its data and sell strategies to plant owners to improve their operations. It also helps the firm predict when machinery will malfunction and move from reactive towards preventive maintenance with much higher precision. It also gives it the opportunity to sell benchmarking services, where a plant can compare its performance with other plants with similar machines.



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OVERCOMING THE SOCIAL PARADOX

The coffee company initiated an online training course for its B2B customers to help them train their employees in the art of making and drinking coffee. The intention was to increase the interactions these customers had with the brand which, in the long term, would help them sell more coffee at a higher quality. In this strategy to overcome the social paradox, there is only a distant connection between the activity and creating new revenue streams.

OVERCOMING MULTIPLE PARADOXES WITH A T-SHAPED DIGITAL PLATFORM

A furniture manufacturer has deliberately focused on the sale of new products and stayed away from building and installing its products. Due to a high demand from customers, it started to market firms of assemblers that could serve customers. In a recent initiative, it has decided to launch a T-shaped digital platform where it matches customers that have a product with other customers that are willing to help build it. The volume of product sales is large, while the firm believes it could benefit from the mechanisms of the T-shaped digital platforms to help it overcome all aspects of the customer experience paradox.

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A ROADMAP FOR ADDRESSING THE CUSTOMER EXPERIENCE PARADOX TOWARDS INCREASED REVENUES

To provide an action plan on how to proceed if you are experiencing a potential customer experience paradox related to your digital platform, we have provided a roadmap for analysing and developing the state of your firm's digital platform. The roadmap consists of five steps to overcome the customer experience paradox.

GENERAL PROCESS

WHAT SHOULD YOUR ORGANISATION DO?



Figure 4: A Step-by-Step Strategic Roadmap for Overcoming the Customer Experience Paradox



- 1** The first step is to **ANALYSE** the existing digital platform. This involves studying what modules exist and what services are offered as well as revenue flows, consumer behaviour on the platform and, by using customer experience analytics, the opportunities and problems with the existing digital platform.
- 2** The second step is to **IDENTIFY** any customer experience paradoxes and whether they relate to the service, digital or social dimensions? What causes can be identified by addressing the digital architecture, the business model architecture or the architecture of interaction.
- 3** The third step is to **CREATE SCENARIOS** for the strategic direction of the digital platform. The key is to look at what is going on in other industries or how competitors are developing. The idea is not that the firm needs to follow any of the chosen scenarios as their future strategic direction, but that they can inspire new strategic directions for the digital platform.
- 4** The fourth step is to decide on a strategic direction for the digital platform. Based on the scenarios and the overall business strategy of the firm, how should the digital platform develop? What does this mean for the digital architecture, the business model architecture or the architecture of interaction of the digital platform? What changes are needed?
- 5** The fifth step is to **IMPLEMENT** the new strategic direction for the digital platform by launching the new version. This might require developing new digital capabilities in the firm or co-operating with external partners to realise your objectives.

This illustrates how firms can work to overcome the customer experience paradox on digital platforms and, as a consequence, improve the revenues. The changes needed in the digital architecture, the business model architecture and the architecture of interaction of the digital platform will differ according to the prerequisites of the firm, market conditions and what the firm would like to achieve.



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THE BUSINESS IMPACT OF DIGITAL PLATFORMS

Many industries have been disrupted by new digital competitors and, as a consequence, they are launching their own digital platforms to defend their business. In a worst-case scenario, it is done because “everyone else has a digital platform” and there is no real strategy behind why and how it should function. Other problems arise when there is a misconception about the type of digital platform being developed. Is it essentially a digital replica of the existing business model (an M-shaped digital platform) when it should be T-shaped? If this is the case, the digital strategy will initially not be successful or, at least, not viewed as such by the management team. This is consistent with a recent report from McKinsey saying that although such defensive digital strategies are rarely successful they are still the most common.

Nonetheless, a digital platform can create better customer experiences and help to overcome the service, digital and social paradox. It can do so by creating new revenues from increased sales, increased interaction with the brand, and through T-shaped platforms that connect customers with each other. It can monetise the data, improve existing services, sell new ones or bundle products and services into customer solutions by taking on responsibility for specific processes or the productivity and quality of maintenance or operations.

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