



# KPMG Customer First Podcast Transcript

## Innovation

### Speakers:

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**Intro:** Welcome to the Customer First Podcast, from KPMG's Global Customer Center of Excellence. We work alongside the network of KPMG firms to help clients deliver profitable growth, by putting their customers at the heart of their business.

The customer first podcast brings you the latest thoughts and market examples from KPMG professionals and guests on how today's businesses are becoming more and more customer centric. Today, we're talking about innovation with host, Isabel Zisselsberger.

**Isabel:** Good morning, good afternoon, everyone. My name is Isabel Zisselsberger. I look after the customer advisory practice in Hong Kong (SAR), China and today we have an interesting subject, which is innovation intertwined with customer experience. We're looking at what's been happening over the last year, where businesses in particular have really had to transform the way that they approach customer experience.

We don't want to make this about COVID, but clearly COVID has been a massive accelerator and has amplified the need for organizations to transform themselves. And we've seen some really interesting things come out of that. What we'd like to do is really explore that theme of how organizations have embraced innovation, how they've used the tools at their disposal like data and analytics, to really understand client and customer needs and how they have brought that then into their organizations.

I'm joined today on this panel by two of our fabulous customer advisory leaders, Sam and Patrick, and I'll give them a chance to introduce themselves.

**Sam:** Thank you, Isabel. My name is Sam Ganga. I am a partner in our US office, and I run our e-commerce practice within the US.

**Patrick:** Thank you, Isabel. I'm Patrick Maes. I am the Head of Sales, Marketing, Customer and Innovation in Belgium at KPMG. Very glad to be with you to share some insights today.


**Isabel:** Fabulous. So, let's have a look at how innovation has come to life for various organizations. We have spoken a lot about a new dynamic environment, how customer expectations have changed the rules of the game since COVID has started and what that has meant for organizations.

Maybe to kick us off, if we could just share some opportunities and examples that you've seen where innovation has come to organizations that you could have never predicted.

**Patrick:** I think the most flabbergasting example that I saw was when the first COVID wave started, the Italian fashion industry is traditionally based on the défilés, the fashion shows, and there was no longer a possibility to organize fashion shows and they still needed to get their collections sold. And some of those companies, small companies, big companies, they actually turned digital overnight. So, they didn't have a website to speak of. They didn't have any e-commerce facilities. And, after 24 hours, they started promoting their new collections, reaching out to their potential customers and actually organize their survival. I think that is the most astonishing example of digital transformation that I ever saw.

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**Sam:** We've all just seen a tremendous change and unprecedented shift in business models really driven by extenuating circumstances. One of the areas we've seen that is in grocers. Grocers around the globe have started offering curbside services, which is now business as usual, but if you rewind to 18 months ago, when people wouldn't walk into a grocer to pick up their daily vegetables or meat or dairy, they had to react to this as well. And overnight they started offering these curbside pickup models, which is now called buy online, pickup in-store. That's a significant change that they've seen, and they had to react to the environment.

**Isabel:** How much of that would have happened anyway, if COVID hadn't just accelerated it? COVID forced organizations to move faster, but would they have got there anyway?

**Sam:** If you think about innovation-driven transformation, it was one of the top topics, even before COVID, right? This has certainly accelerated what's happening within businesses today. E-commerce, for example, was an area of growth even before COVID. Changes in customer and consumer behavior has only forced an acceleration in innovation investments.

We did a top-of-mind survey earlier this year of 50 life sciences companies. And 80% have said that they have accelerated their e-commerce initiatives post or during COVID. And that's just the telling fact as to how folks are thinking about changes driven through innovation.

**Isabel:** Patrick, would you have seen the same in the Italian fashion industry?

**Patrick:** Oh, yes. I don't think it was actually on the agenda and the fantastic thing is they put it on the agenda and started working on it to get something out in the morning.

What we see with other clients in other industries in Belgium, in Europe, is that many companies are working on innovation, they have a digital transformation plan and have a roadmap, very often developed in collaboration and with the teams of my colleagues in technology. But what was on the roadmap to happen in five years, now was tremendously accelerated and it happened in a couple of months. So, very often we say digital transformation moved five years forward in five months.

Those companies or those industries, where there was no digital transformation plan, where innovation was not a structured process, they have observed that it is very important to have those plans. Something that we're seeing is that those companies that didn't have a structured innovation or digitalization approach, now they have one.

**Isabel:** Honestly, I can say the same for Hong Kong<sup>1</sup> and China as well, even though perhaps the region is already quite digitally savvy and was embracing a lot of very innovative ways of doing things, it's still accelerated as a result of what's happened during COVID. It's definitely been an interesting time for innovation.

Just thinking about innovation in general, which industries have you seen that have done particularly well in being creative and innovative? Which sectors have the most innovation?

**Patrick:** There are two sectors that I see that have made the most of this challenge. One of them is banking. It really accelerated the closing down of the traditional branch office. Banking went digital and you see there that delivering a frictionless digital experience in banking has become the norm.


And the other one Sam already indicated is evolution in retail delivery, because it started with the possibility to pick on the curbsides, then there was home delivery, but the original home delivery was much too slow. Then you have companies, what they do is they have a warehouse, and they guarantee delivery of any groceries in 10 minutes, and they are rolling out now in several of the big cities and their concept is they have warehouses in different neighborhoods with a kind of stock. They use machine learning to identify who's buying what and so on to replenish their stocks. In 10 minutes, they're there on a bicycle.

**Isabel:** Absolutely. I really love that idea – a 10-minute delivery is exactly what I need for when I've missed most of the ingredients when I'm trying to cook. I also do love the banking example because I think whilst we were telling banks that we don't want to visit branches for years, it really took COVID as an accelerator for them to really do something about that to make that leap to transform the way they operate.

And Sam, same question for you.

**Sam:** I don't know that any particular industry has been spared from this transformation. The one that stands out to me is the technology sector where the notion of traditional episodic licensing models has given way to the SaaS models, essentially requiring companies to change their entire customer to cash process and change everything from how you're interacting with your partners, your customers, internally, your processes, your revenue recognition capabilities. So, it's quite a change that has been impacted across the sector and this is a sea change for them. I'd call out that sector that has been, essentially, forced to change and innovation is driving that.

<sup>1</sup> Hong Kong (SAR), China



**Isabel:** And speaking about sectors that are being forced to change, we wanted to explore a little bit those that are very heavily dependent on a bricks-and-mortar presence. The brand experience and brand loyalty is very much defined by that physical presence that they have.

Now that more and more consumers are going online, have done their first e-commerce transactions online during COVID and intend to continue doing so – have found this a good experience – what does that mean for brand loyalty for some of those industries in particular that are so heavily dependent on the physical store or physical presence that they have and maybe retail, fashion, is a good example of that. What are they doing for brand loyalty, to achieve brand loyalty and bring more innovation in again now that you don't have that segmentation anymore through different channels?

**Patrick:** What I see is that there are two trends there. One of them is that the digital experience is really becoming a full experience with all the elements that come with building a brand, with creating trust, with creating advocacy. But what I see on the other hand is that online stores are opening physical stores to support their rent. But the role of the traditional bricks and mortar is completely changed.

And it even goes for retail because a retailer that is now, let's say, 50/50 online/offline also will do an effort in the offline to create an experience. So, with sampling of products and then another experience and so on, but you'll see it, of course, very much in fashion where a lot of things can happen online, but then actually going to the shop is really an experience. And that's also the reason why the top brands are very heavily investing in top locations and are hiring top architects and are really bringing a lot of technology from augmented reality to virtual reality, whatever kind of element that can be brought to create a noteworthy experience.

**Isabel:** I had an amazing conversation with an Italian fashion brand here in Hong Kong about how they were redesigning their stores to be COVID-friendly. So, they were changing the spacing, the air conditioning, they had mapped out the whole client journey through the shop, through the lens of social distancing, but still making it a good experience, which is again innovation in action.

**Sam:** One of the things that I've learned is that the notion of consumer experience is not limited to a B2C setting. That's where it originated. We talk about retail a lot, we talk about store footprint a lot, but you've got to get three things right for your loyalty to stick. The first part of it is your customer interaction experience or what people normally refer to as the shopping experience, right? Whether it's online, in store, in an omni-channel world, you can't predict where the customer is going to interact with you.

The second is the fulfillment experience. You have to get that right. Patrick, you were talking about the notification you would get when food is being delivered within 10 minutes. Our customer base is used to that now. And, so, your fulfillment experience has to be really well thought out. And the third part that is getting a lot of attention these days, especially in the growth of e-commerce, is the return, refund and exchange experience. So, buying behavior and e-commerce has changed, right?

And if you're online, you are normally buying more than what you need, because you're going to return 20% to 50% of what you purchased. If I buy shoes, I usually am not sure about the size that I'm going to be in that particular brand. So, I'll buy maybe a half-size down and a half-size up. But I know I'm going to return two of the three things that I purchased.


So, this has become the mantra for companies in order to build that loyalty. If you get any one of these under-indexed in the grander scheme of things, your loyalty is going to take a hit. And I think that's really where companies need to start shifting their thinking.

**Isabel:** It's also a fabulous example of how connected all these different industries are, right? The logistics, how important that is for that seamless end-to-end experience and loyalty as well.

What I found interesting is we did a study last year where we actually looked at transaction data. We worked with a FinTech provider and what we did see very clearly in between the waves of COVID is how much people did go back to brick and mortar quite quickly, notwithstanding the fear and nervousness that they had, but because they still want and crave that physical experience. So, it is absolutely still fundamental, but there's a lot of creative things that organizations can do there.

**Sam:** I think so too. It's a double-edged sword, I'll say Isabel, because one of the things we've seen is that pre-COVID, a specialty retailer that we worked with used the store as a distribution center. Now, when the store shut down, so did the distribution centers. And so, during COVID, nobody was allowed to go back into the stores.

Retail footprint was completely limited to access, and you have to get creative and roll with the punches in these times, but I'm with you. I think as the COVID wave begins to abate, I think we're seeing more people come back into more of the physical interaction, not just online interaction.



**Patrick:** What I also see is that, of course there is people going back to the shop for social reasons, seeing other people after being locked up for months. I have the impression that in general, consumers have the expectation that companies offer multiple channels. And, depending on different elements, like need for efficiency, available time, willingness to meet other people or not, they want to switch within brand for different channels. And they also expect that a brand can follow them through all those channels – what they've done online, what they've done offline – to deliver a seamless experience.

And, also, that you can still go to the physical shop if you want to see something live, but still have it delivered or change it online, stuff like that. We see that more and more companies are also tracking and communicating. So, giving back to the consumer what they have been doing, what they have been buying. So, making their purchase data, purchase history available, so that they can use it to make shopping lists, for both online and offline use. And, of course, by making all those documents and by tracking how well these applications are consulted, they learn more about customer expectations and practical user.

**Isabel:** It sounds so easy, but the network of systems and analytics capabilities that you need behind the scenes to make it all work and orchestrate it properly is phenomenal.

For companies that are nowhere, that just haven't figured out their e-commerce digital strategy, and have really felt the pain of the last year and a bit, what should they be doing right now?

**Patrick:** Well, I would say, get started, right now, this evening or this morning or this afternoon. There's only one good point is they can learn from the past experience of all the others in their industry. Because a lot of mistakes and a lot of tests have been done, so there's a lot of literature and data available on what works, what doesn't work.

Also, a lot of problems that were big problems that required enormous investments and a lot of effort to solve have been solved in the meantime, have become more and more quality.

**Sam:** I agree with that, Patrick. And, in fact, you have the opportunity to leapfrog, right? Because you might not have a legacy solution, systems, processes to deal with, maybe you can leapfrog. I'll also say that if you're starting now, you can grow through acquisition as well. Particularly if you're losing market share and you need to react quickly. But that path has its own perils, right? With assimilation, integration of a new organization, especially if you purchase a digital-born company, they have very different rules of engagement and rules that they play with. But if you're pursuing an organic path, I would say you got to get four things right if you're starting now.

One, you got to define a business model that delivers value to your customers, your partners, and yourself. So, it has to hit that triumvirate.

Two, you have to focus on providing the best customer experience possible, and that's actually a lot harder than it sounds.

Three, you got to develop an operating model that can evolve from launch through scale. Most people think about an operating model as an afterthought, but it's critically important.

And the fourth piece is: make sure you're using the right technologies, the right digital platform to leapfrog and to really stitch together the platform that works best for the previous points I made around business model, customer experience and operating model.

So, I'd say that's the four pieces you've got to get right, Isabel, to get this off the ground.


**Isabel:** Absolutely. And I think, depending on the industry, 3<sup>rd</sup> parties can play, we spoke a lot about the fashion sector and here we've seen some good ecosystem plays come out over the last year where perhaps the brand itself didn't have the digital capabilities, but they're working with others that do.

For those organizations that are playing catch up, perhaps it's fair to say that they haven't got that innovation culture within the organization. How would you encourage organizations to be more innovative, to get that culture and creativity into the organization?

**Patrick:** The way I see it is that innovation is a mentality, it's a culture, but it's also a methodology. I think it is very important if you want to nurture innovation in a company that you create the right circumstances.

And I see that many companies now are also investing in setting up or putting in place a structured innovation approach. And then you'll see that people understand that innovation is not just something that should be an agenda topic on the yearly strategy meeting, but it is something that needs to be practiced on a day-to-day basis. It comes with the communication layer. It comes through the validation layer. It comes with investments. It links to projects. All of those things.





**Sam:** I'll only add that I think organizations have gotten quite comfortable with generating ideas and maybe even sharing them in certain situations. Where the gap lies is in the execution of those ideas. The fear of getting started, the silos within which organizations typically work, those barriers have to be overcome in my opinion, right?

I think this gap between idea through execution is where the actual value lies. And, so, to your point, whether it's innovation as a service, it's okay to get third-party help to jumpstart that entire way of thinking and taking a culture where it's okay to fail, it's okay to try something and say, 'It didn't work out, let me evolve from there.' Because I think sometimes you learn more from your failures than you do from your successes. I think that's what the real money-maker is on that particular cultural aspect of things in my opinion.

**Isabel:** I completely agree. Execution is the hardest topic for any organization. One of the reasons why we exist. I've also seen a really interesting example in the banking industry here, where a lot of them are setting up these digital banks as incubators, because they realize that innovation is so hard for them within the construct of their organization, the legacy systems, the compliance, ways of working. And, so, they set up these digital banks, maybe not expecting much from them in the way of profitability, but as a learning ground for them to get new ideas and learn better ways of doing things and then bring that back into the bank. And that's been really interesting. We've seen those go live over the last year and it's forcing the whole industry to rethink the way that they do customer experience.

Next question: where do you think the most important areas for innovation will be over the next 12 to 18 months? Where should organizations really be focusing?

**Patrick:** It is about engagement, it's about experience, it's about fulfilment, it's about return/refund. The list that I usually have, it is about developing a frictionless interaction, which is one of those. It is about delivering the experience as you promised it (and probably more). And, also, leveraging on all available technologies to make sure that you can each time offer a better experience to remain competitive in these fields where, as you also indicated earlier, Isabel, there is no industry-specific thing anymore.

People see that in a certain industry, something is possible, so a big online company is offering full-service package with one-hour delivery and with a lot of extra advantages, this becomes the norm in other industries. I actually had a client who is building machines and he received the offer or the question of a client, 'Hey, I can't really choose what I need, why don't you send me three different types and I'll test them all and I'll send you back what I don't need?'

So, you see, it's working like that. So, the customer expectations are constantly on the rise. And I think it is a big challenge for innovation in companies to keep track with those ever-increasing expectations of customers.

**Sam:** If I were to leave our listeners with one thing to think about, it would be to start with business model innovation, because if you get that right, you're actually differentiating yourself. And customer experience is obviously a key way to differentiate yourself.


But if you start with the business model, that's where the value lies. And if you get that right, whether it's saying, 'Hey, listen, I'm going to offer a subscription service', or 'I'm going to offer buy online, pickup in store', or 'I'm going to get more creative at how I'm going to innovate with that 10-minute delivery example' that you talked about, Patrick, which is just incredible.

I think innovation is not limited to just technology. Most people think 'innovation, you need to start with technology'. The answer is somewhat yes. But you need use technology to think about how you would innovate your business. And if you can't get that right, you're likely going to wake up three years from when you start your initiative to find out that you left either money on the table, experience on the table, or market share on the table – there's something that you were under-indexed on. And I think that's what our listeners should take away from this conversation, if anything.

**Isabel:** 100%. Technology shouldn't be the main reason for innovation. This is a bit of a business school exercise, but I do love talking clients through this, where actually you pretend that you're a FinTech and you're going to come in and disrupt your own organization. And when you do this exercise with clients, the ideas that they come up with to disrupt themselves, that really does get the creative juices flowing. And it's almost never about technology. Technology just becomes the enabler to then do it.

As conditions now change over the next year again, the situation hopefully stabilizes, how can organizations keep this momentum going? This innovation that they've suddenly spanned over the last year, the results that they've seen, how do we make sure that this stays alive?

**Sam:** I think more than ever is the fact that you need to actually connect back with your customers. B2C companies do a very good job of that. B2B companies are not known to go back to the customers and say, 'Listen, how can we serve you better? What can we do that would really help you with your business?' And mostly there's a consumer behind the customer in a B2B2C setting, right? And there is a requirement to go understand what the consumer needs from your customer and the better you do a job of that, the more you can read the tea leaves because we are dealing in a very dynamic environment.



**Isabel:** It's a good point, right? Because B2B traditionally hasn't done that, but actually the same logic applies behind the transaction. There are individuals who are measuring that experience based on the best experience that they've had, whether it's B2B or B2C, and they don't make any differentiation in reality.

So, definitely an area for more focus. But even in the B2C space, I think really listening to clients and what they're saying, doing that data analysis, there's definitely more work that organizations can still do. And as we pick up increasingly on other trends – mental health, wellbeing, family, sustainability, these are big themes I think that have emerged over the last year as well – again, just picking up on “what does that mean for my brand? How can I innovate as a result of some of these big themes as well?”

Patrick, any final thoughts from yourself as well?

**Patrick:** Well, I think that what we have learned in the past, let's say, 18 months is that companies and people have an incredible capability of reinventing themselves or getting things in order, securing the future, securing their survival and coming out better than before.

So, I think, that is what I observed with many companies and that is good to see. Many companies really reinvented themselves and developed a better version of themselves, actually surfing on all the challenges that were around.

**Isabel:** I love that sentiment. I'm going to borrow Patrick's closing as well, because I think that instinct to survive and therefore get creative has just been wonderful to see. And I hope there's a lot more of it over the next few years.

On that final note, thank you very much for joining us today. It's been fabulous to discuss the world of innovation and client experience, and how organizations have transformed themselves. Thank you very much to Patrick and Sam for joining me today. It's been a pleasure and hopefully we can speak to you all again soon.