

ACXIOM

Beyond the Metaverse: CX Predictions for 2023

ACXIOM INSIGHTS

Foreword

Marketing is more complicated than ever before.

Consumer expectations are rising. Privacy regulations are changing. Technology is evolving at a rapid pace. Market fragmentation is everywhere. But even in the midst of so much change, one truth remains - the best brands understand their customers, how to engage and delight them.

In our latest research, which we commissioned from international strategy and research agency MTM, we explore the technologies and trends transforming customer experience (CX) right now. To understand both sides of the CX equation, we surveyed business leaders and consumers, distilling our findings into what we hope will be a helpful guide for brands making plans for 2023 and beyond.

The research takes a comprehensive look at the big stories dominating the digital landscape – but the headlines are just the tip of the iceberg. We consider the metaverse, the extent to which we're already living in it, and our predictions for how immersive experiences will develop in parallel with other key

technological advances. Perhaps most importantly, we recognize the critical role data and customer identity play in these CX trends – including the deeper customer understanding they enable, but also require.

We look at the rise of proprietary media networks, driven in part by the forthcoming deprecation of third-party cookies, and a wider recognition among brands that their first-party data is an asset they need to be investing in. Netflix may be hitting the headlines with their ad model plans, but they're not alone – brands across industries are exploring ad networks not just as revenue streams for growth but as data streams for CX optimization.

Some of the trends we cover have been gaining momentum for years. For example, as consumers, we're used to subscribing to all sorts of products and services that in the past were individual purchases. But today, we're seeing just how far the idea of Anything-as-a-Service has come and the huge growth vector it can be for brands well-placed to capitalize on the opportunity.

We're seeing step changes in technologies like automation, powering seamless customer service

experiences, and intuitive technologies like biometrics – where new innovations are taking us beyond voice and gesture recognition and into the world of emotion perception and sentiment analysis.

Other gateway technologies like immersive shopping are very much on our radar, too, with brands just beginning to unlock the power of simulation-based technologies like virtual and augmented reality to build immersive, personalized shopping experiences.

Our report tackles these trends and more in detail. It explains what they really mean and why they're so important now, for consumers and brands.

In many ways, there's truth in the old wisdom: "Everything changes; nothing changes at all." New immersive technologies, and all the trends we analyze in this report, are transforming customer experiences and opening up new possibilities for the brands willing to invest and innovate.



David Skinner
Chief Strategy Officer

Introduction

A customer experience revolution is underway.

Hype surrounding the metaverse skyrocketed in 2021, prompted in part by Facebook rebranding as “Meta.” But 18 months on, there’s still limited consensus on when the metaverse will arrive, who will build it, or even what it is.

At one end of the spectrum there’s the purist’s definition – a persistent, universal, immersive reality, experienced through virtual reality (VR) and augmented reality (AR) headsets. At the other end, the metaverse is simply an evolution of the internet that facilitates richer, more immersive interactions.

Whatever shape the metaverse ultimately takes, one thing is clear - customer engagement is transforming in parallel with the metaverse’s evolution, driven by changes in both technology and customer behavior.

Artificial intelligence (AI) is automating and enhancing almost every step in the customer journey. In financial services, for example, customers can now open bank accounts and set up mortgages using digital identity verification. Next-generation digital assistants deliver sophisticated, always-on customer support, and intelligent interfaces provide new and exciting ways to engage with customers beyond the screen.

Digital business models are also evolving, with retailers setting up advertising networks and brands offering subscription options, all so they can build deep, direct customer relationships. Immersive shopping experiences are gaining traction and next year we expect to see digital avatars that enable you to try before you buy hitting the mainstream.

Everywhere we look, the customer experience is evolving. These changes will enable digital leaders to test and learn how best to differentiate offers throughout the customer journey.

The experiences they create will generate reams of customer data, which can be used to drive personalization in the product and service, and the wider experience. The businesses who get this virtuous circle right will have a significant competitive advantage.

“Virtual, augmented and mixed reality are the gateway to phenomenal applications in medicine, education, manufacturing, retail, workforce training and more.”

Elizabeth Hyman – CEO for the XR Association¹

Into 2023: Metaverse moments

The metaverse is already here, it's just not evenly distributed.

The metaverse looks set to transform commerce in much the same way the web did. And while it might remain nascent and fragmented, the building blocks that will underpin the metaverse are already taking shape.

When we imagine the metaverse of 2023, what are the stepping stones toward evolved customer experiences that brands can take today?

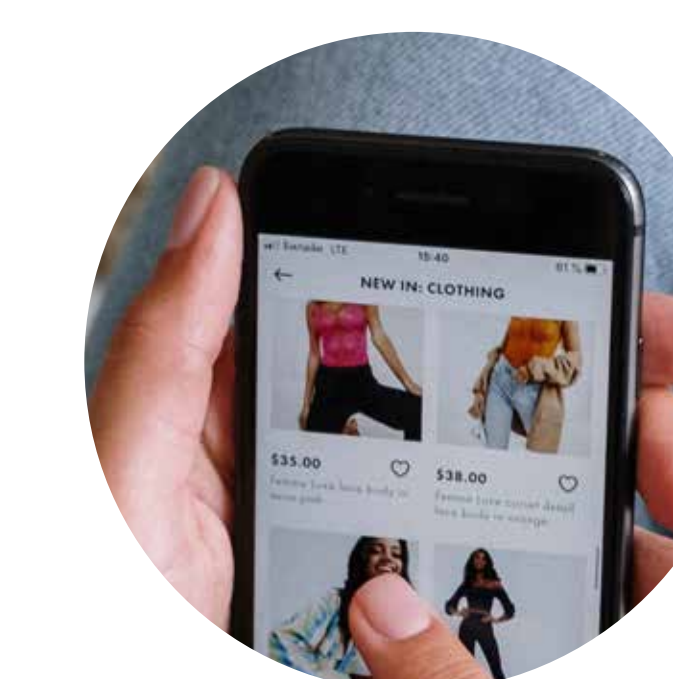


Automation and AI is key to delivering on customer expectations

Digital leaders have been trying to use automation and AI to deliver better CX for quite some time. But until recently these unsophisticated systems tended to result in frustration rather than amazement.

Now times are changing. AI enables businesses to reimagine the customer experience from marketing right through to customer support. It allows them to engage customers at scale with tailored communications, and to offer seamless omnichannel purchase journeys, as well as responsive customer support around the clock.

84% of large businesses already use AI to support customer services²

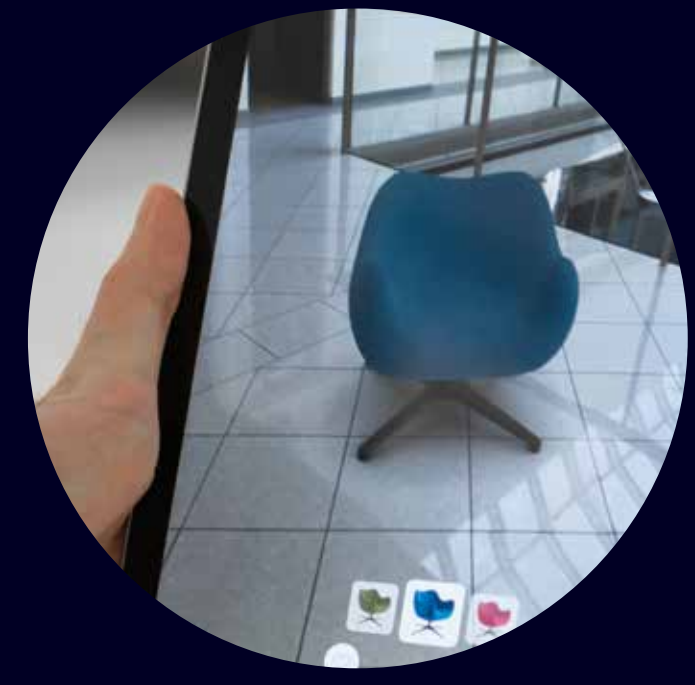


Personalization is no longer a nice-to-have, it's a necessity

The pandemic pushed more customers online, exposing them to the personalized experiences delivered by ecommerce leaders and evolving their expectations.

At the same time, the evolution of real-time analytics and optimization technologies has increased the potential to deliver ever-more tailored omnichannel experiences.

70% of shoppers want their online retail experiences tailored to their personal preferences³



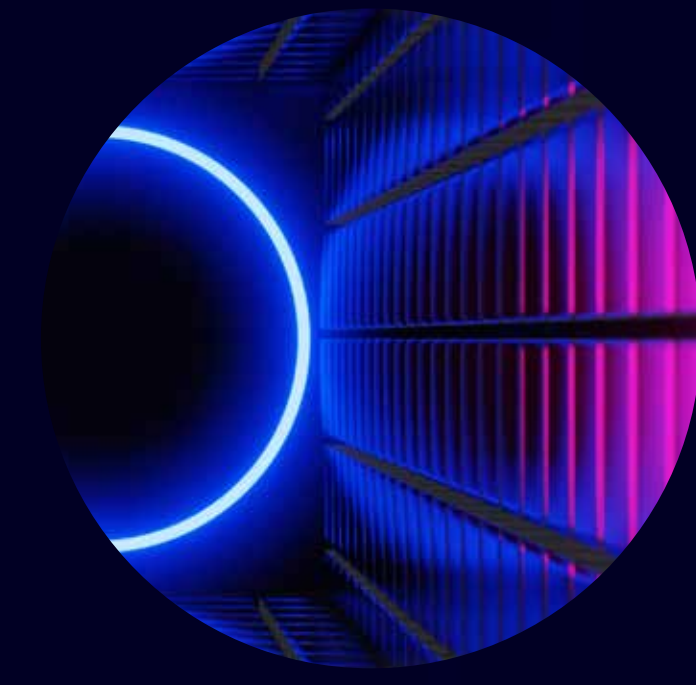
Immersive tech is re-inventing the customer experience

The idea that immersive technologies belong mostly in the world of gaming is changing. Businesses are recognizing the benefits AR and VR can bring to multiple operations – from design and prototyping through to training, marketing, and customer services.

In the beauty sector, the ability to try products through AR camera technology is already an expectation.

Leading brands are leveraging these new capabilities to deliver exciting, engaging, and informative experiences that drive awareness, loyalty, and customer satisfaction.

78% of those who have used AR shopping were satisfied with the experience⁴



Virtual worlds are an emerging channel for brands to consider

The metaverse can be thought of as a massively scaled network of virtual worlds. Some of those worlds exist today, albeit with limited functionality, and brands are starting to explore what they can offer. People can already play “the floor is lava” in Nikeland, built on the Roblox online gaming platform. They can meet up at Wendyverse, in Meta’s Horizon Worlds platform. Or they can pick up Coca-Cola’s crypto collectibles on the OpenSea marketplace.

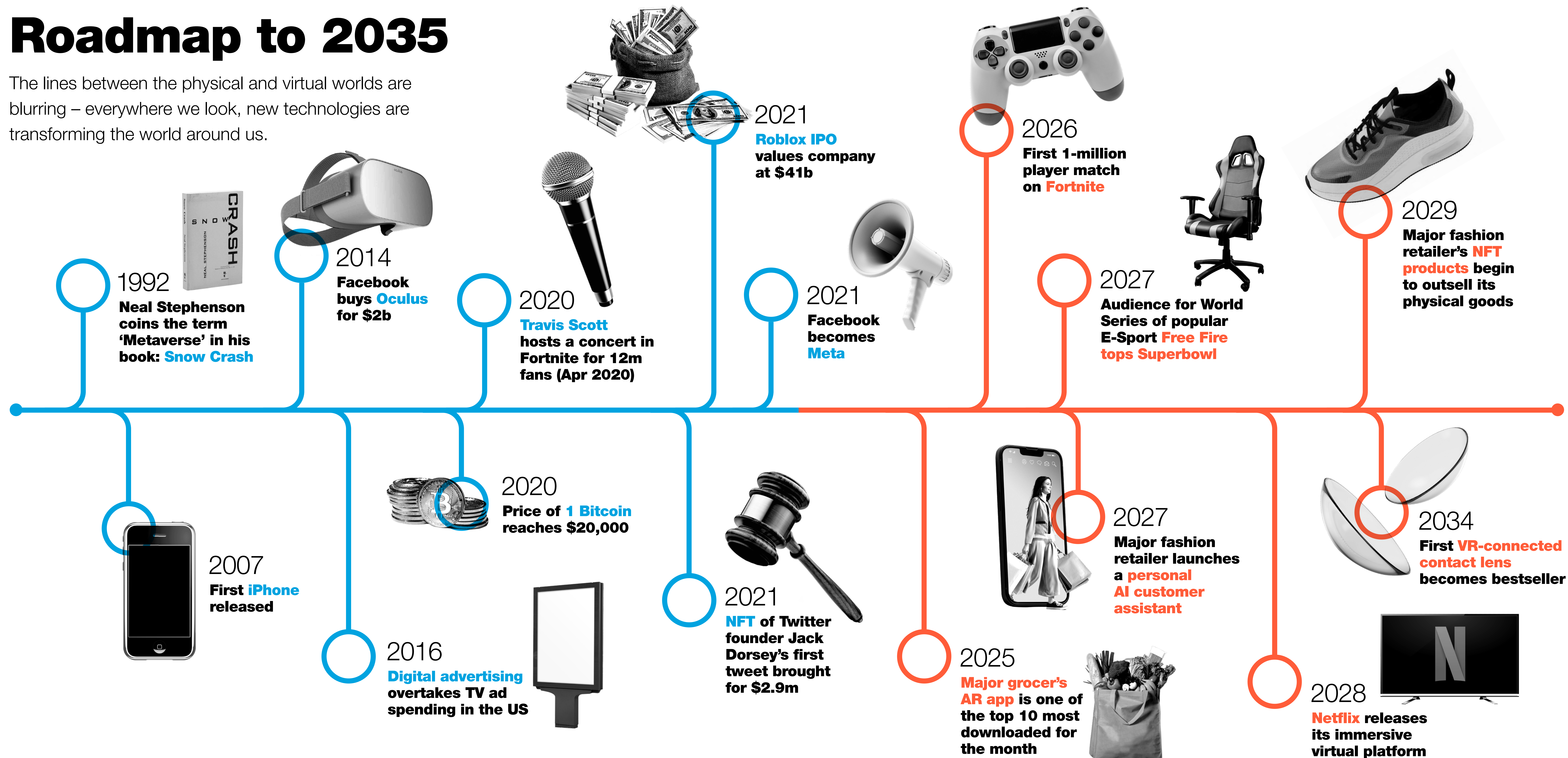
Elsewhere, the impact of virtual worlds may seem less cool or creative but is arguably poised to be more profound. Imagine the immense benefits of doctor visits that take place in the metaverse, for example.

230m With about 230 million active users, Roblox is the biggest virtual world⁵



Roadmap to 2035

The lines between the physical and virtual worlds are blurring – everywhere we look, new technologies are transforming the world around us.



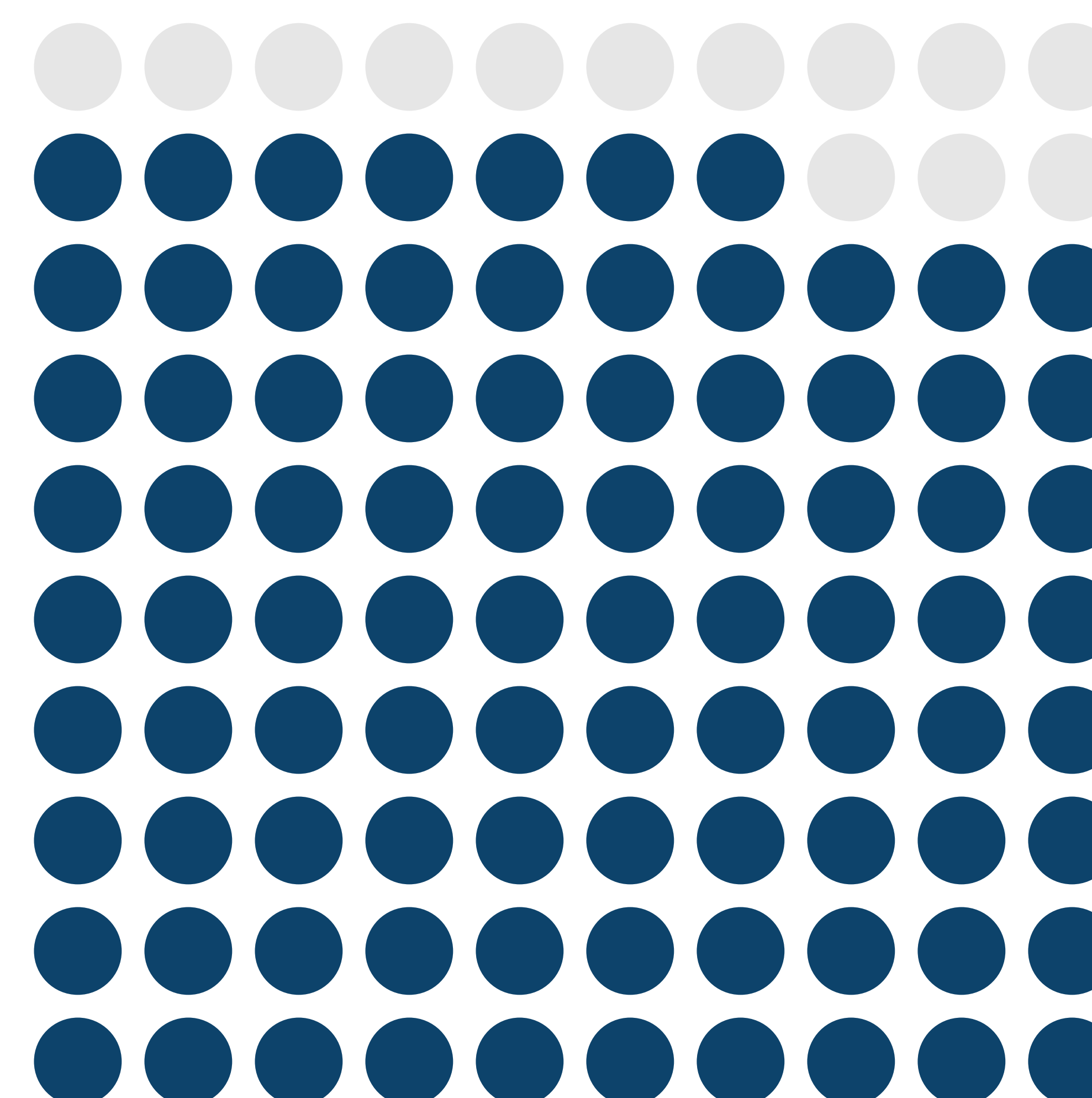
Data fuels the experience

The metaverse presents exciting opportunities for brands to create unique, differentiated, and memorable experiences for their customers.

Benefits to the brand include increasing topline revenue and reducing costs, while boosting customer satisfaction and lifetime value. In addition, the metaverse will generate new data streams that help brands build a more complete view of individual customers, to drive even more relevant and meaningful experiences.

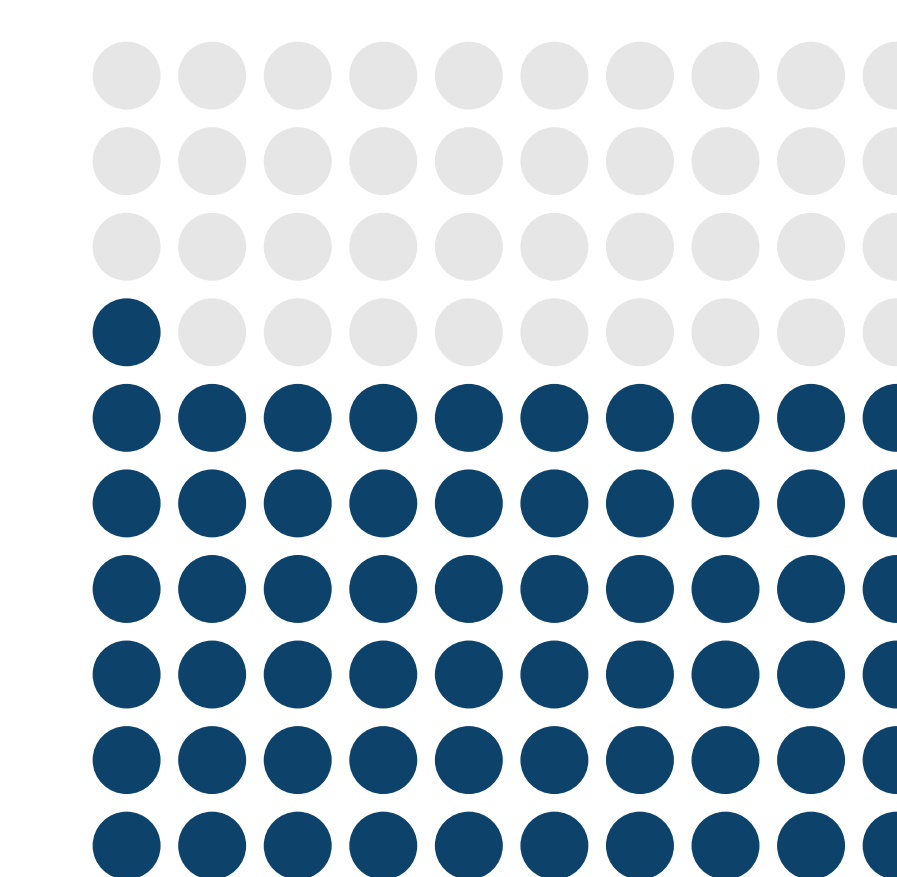
Delivering exceptional CX requires a sophisticated technology stack that enables customer data to be captured, stored, analyzed, and acted on in real time. And just like with traditional and digital channels, your audience data and analytics are equally relevant in the metaverse. Brands who will be successful in the metaverse are those who apply the same rigor to understand who their customers are and if they are reaching and interacting with them.

Businesses are already investing in technologies, forming partnerships, and establishing new systems and processes, as they seek to build the right organizational capabilities to thrive in a competitive, and increasingly customer-centric environment. Data and analytics are a key source of competitive advantage – but businesses have a long way to go. Just 23% of businesses we surveyed are making use of AI/ML for analytics.



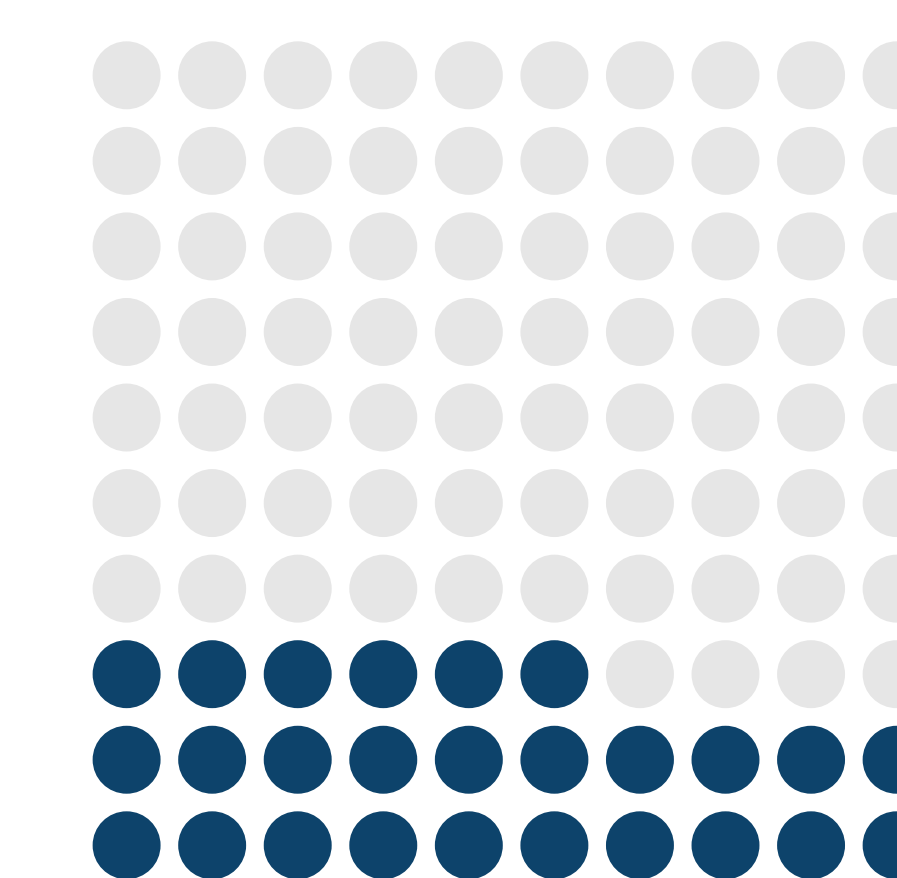
87%

of companies agree that using data and predictive analytics to improve customer experience will be a key source of customer advantage over the next five year...



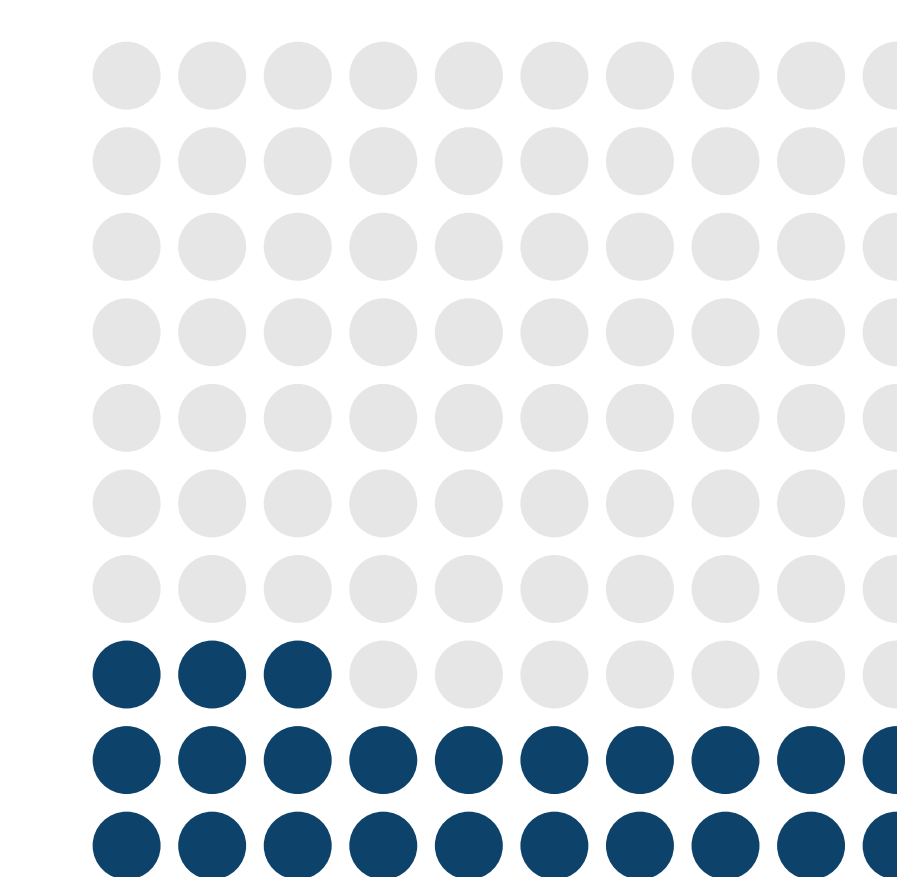
61%

of US and UK companies only update their customer **data** weekly or less



26%

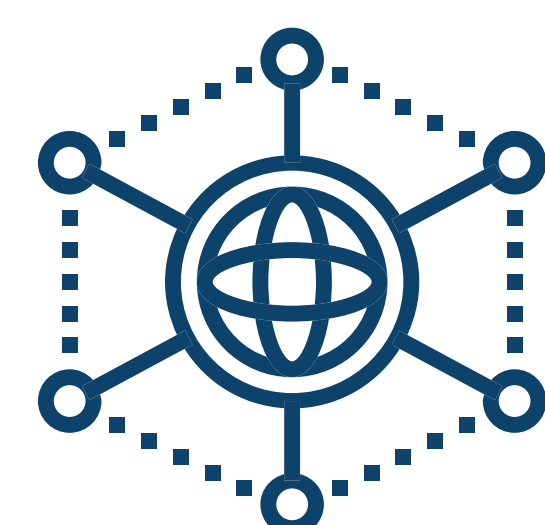
describe using their **analytics** to drive product and service innovation



23%

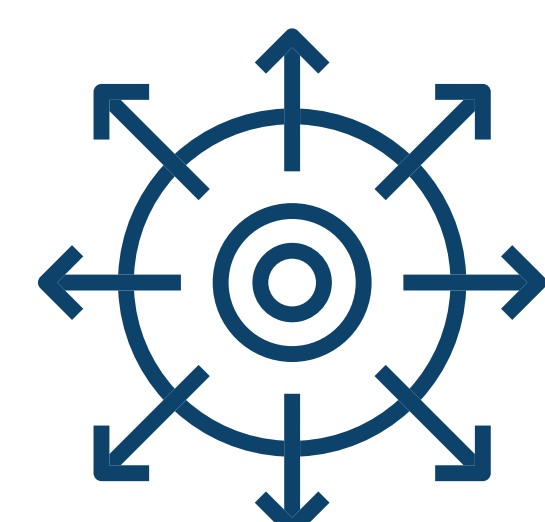
are making use of **AI/ML** in their analytics capabilities

Innovative businesses are investing in CX technology capabilities in 3 core areas:



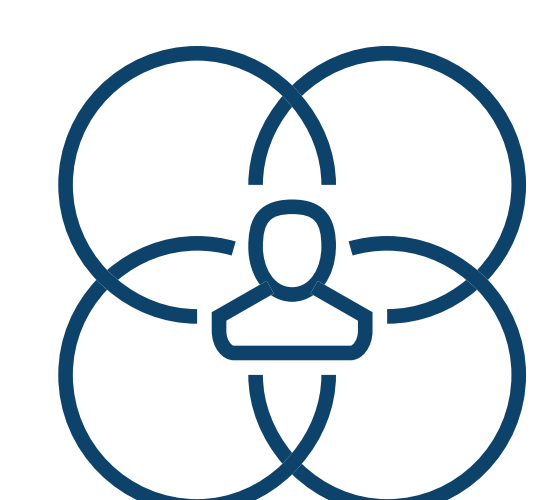
1. Data and identity

Designing and implementing the right technology stack and data pipelines to ingest, store, and connect data points from across the customer journey is critical to delivering the personalized, predictive, and responsive experiences that customers expect.



2. Analytics and ML

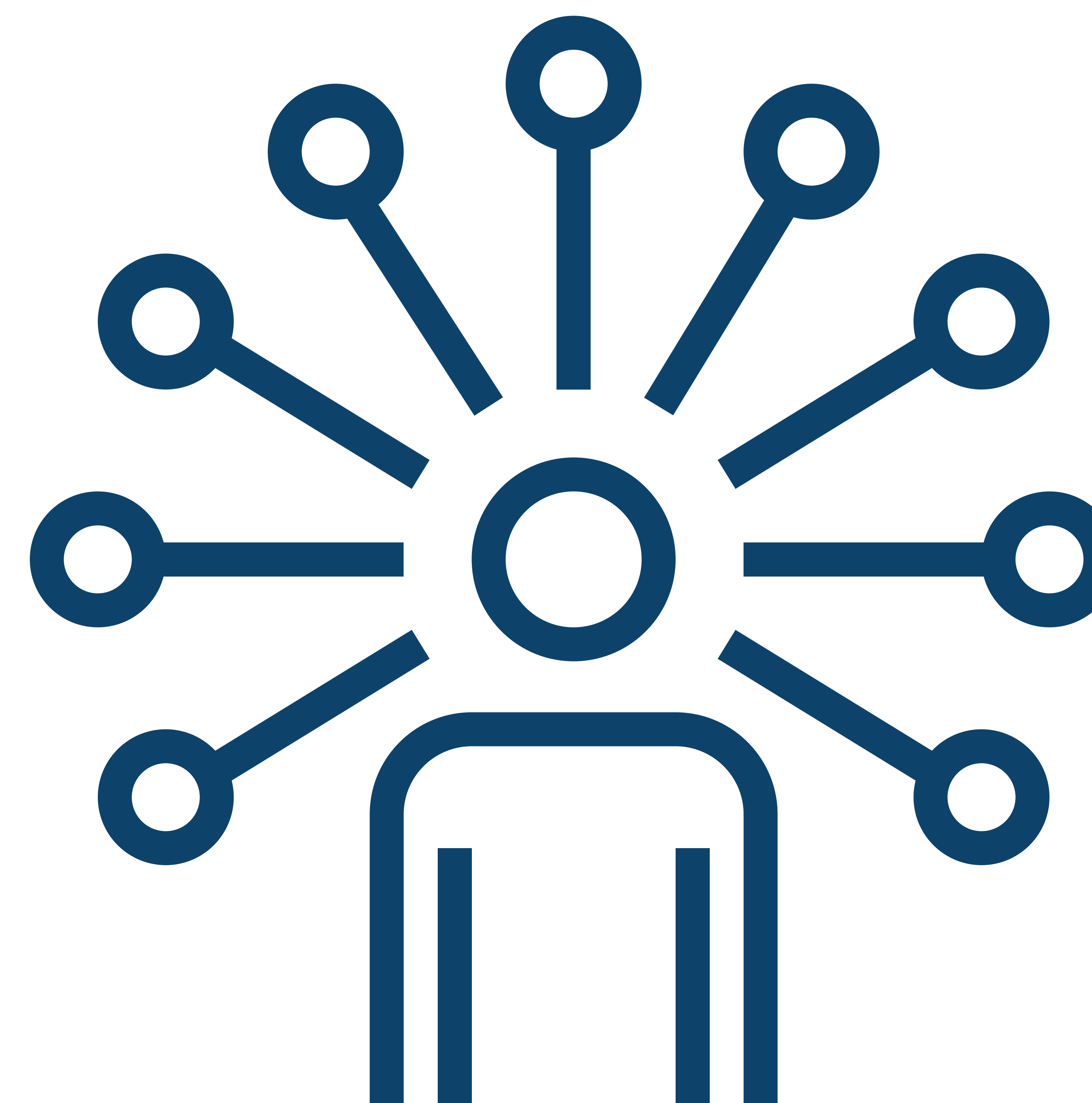
Advanced analytics and machine learning (ML) will become increasingly critical capabilities for brands looking to extract value from massive swathes of customer data generated by immersive, interactive experiences. These capabilities enable brands to optimize marketing, communications, and customer journeys at the individual level.



3. Data-driven decision making

Businesses are adopting a test-and-learn approach to the customer experience. Fresh and emerging experiences that cross physical and digital channels enable brands to collect new data streams and leverage advanced analytics to inform data-driven decision making. This 'information value loop' allows brands to continuously iterate and improve to deliver more unique, personalized, and adaptive experiences for their customers.

Technology makes the change possible... what we do with it is up to us.



Our top 5 CX trends for 2023

To understand where brands are in this transformation, we surveyed 200 businesses across the US and UK about their plans. We also surveyed 2000 consumers about their behavior today and what they expect in the future.

This report sets out what we found – our predictions for the five most important CX trends in 2023. Enjoy!



#1

Everything-is-an-ad-network

As the privacy landscape evolves and the foundations of digital advertising shift, 2023 will be the year many businesses launch their own ad networks.



#2

Anything-as-a-Service

Brands are exploring how a shift from selling goods to offering products as-a-service can extend their customer relationships beyond the point of purchase.



#3

Seamless Service

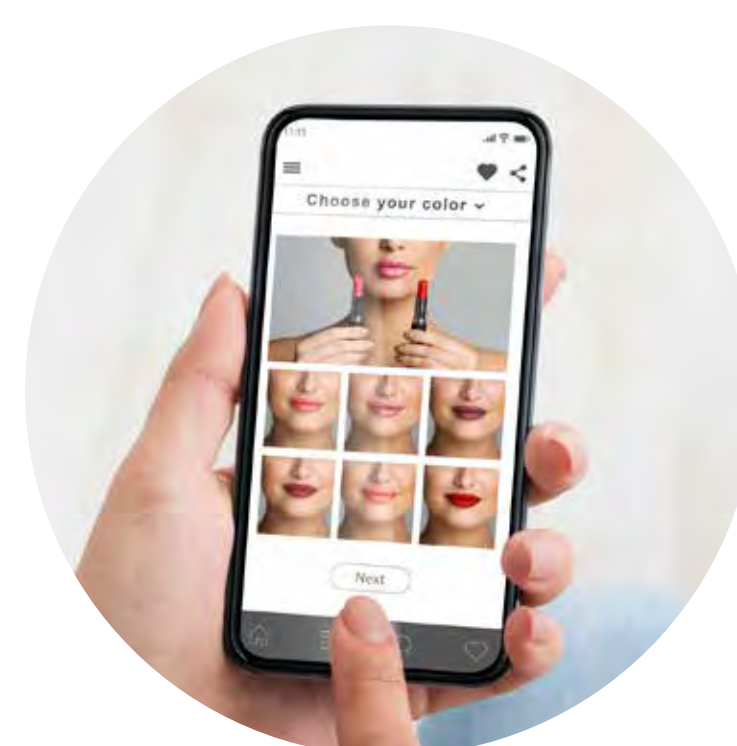
Brands are combining automated tools and technologies with human-centered approaches to deliver best-in-class customer service and support.



#4

Intuitive Technology

Intuitive technologies that can interpret and understand our intentions look set to transform how we interact with products and services.



#5

Immersive Shopping

Immersive shopping uses simulation-based technologies such as augmented and virtual reality to create interactive and highly personal shopping experiences.

Trend 01

Everything-is-an-ad-network

As the privacy landscape evolves and the foundations of digital advertising shift, 2023 will be the year many businesses launch their own ad networks.

Apple's App Tracking Transparency (ATT), Google's expected deprecation of third-party cookies, and evolving privacy regulations are all combining to cause a dramatic shift in digital advertising.

While it is uncertain exactly what the advertising landscape will look like in the future, it is clear that, as third-party cookies are phased out, first-party data will become increasingly important in delivering relevant advertising. As a result, businesses with high volumes of first-party data suddenly find themselves in a powerful position in the new privacy-first market, and many are setting up highly profitable advertising networks to make the most of this situation.

Perhaps the most notable example is Retail Media Networks (RMNs), which are essentially advertising businesses set up by retailers.

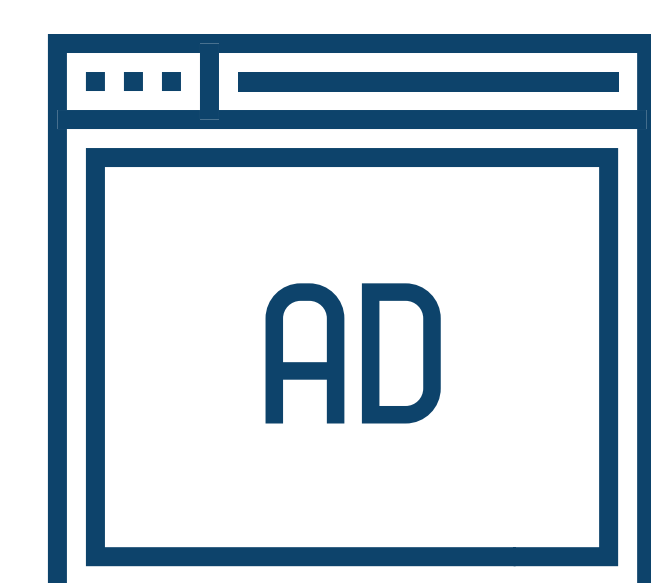
RMNs give advertisers access to a retailer's first-party data, combined from both online and offline sources, with a privacy conscious focus. Advertisers can use this data to reach the retailer's customers with relevant advertising, using ad inventory across the retailer's digital channels, including web, app, and social.

Crucially, RMNs allow brands to connect with potential customers when they are actively shopping and interacting with retailers, rather than when they are browsing the internet or scrolling through friends' social posts. This ability to accurately connect with customers anywhere also means better measurement – true closed-loop becomes possible, from ad impression through to purchase.

But retailers aren't the only ones taking advantage of the ad revenue opportunity first-party data brings.

Gaming platforms are already building successful ad-funded businesses, and streaming services are also getting in on the act, with Netflix and Disney+ opening ad-funded tiers in late 2022 and early 2023 respectively. Last year, food delivery service DoorDash announced a suite of products that would enable advertisers to serve ads on its platform. And earlier this year, Apple announced it would expand the inventory it makes available to advertisers on its devices, meaning more ads and sponsored products on App Store, Stocks, and News.

From travel and financial service providers to food delivery services, first-party customer data is being used to sell highly sought-after advertising inventory and create valuable revenue streams.



55%

of businesses believe RMNs will deliver higher conversion rates because adverts appear when consumers are actively shopping and willing to spend.

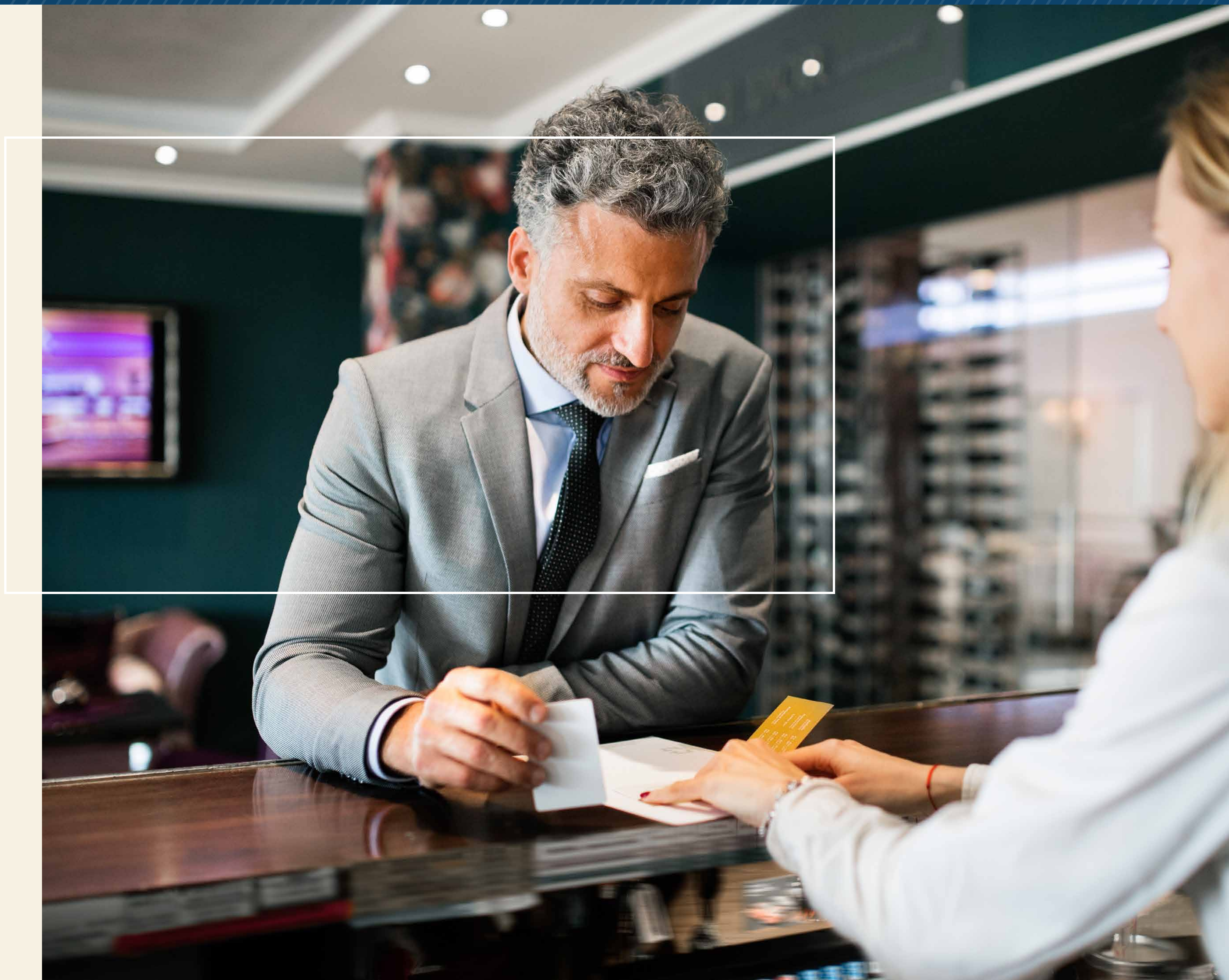
The savviest service providers are realizing the value of their first-party customer data, and are unlocking this value through proprietary ad networks.



Case Study

Marriott Media Network: new channels emerge for advertisers

In May 2022, Marriott announced the launch of the Marriott Media Network in partnership with Yahoo.⁶ The network will use anonymized customer data from past searches and reservations on its app and websites to enable brands to display relevant ads to travelers. The network will provide access to premium inventory spanning its own channels including display, mobile, video, email, and eventually TVs and digital screens in guest bedrooms. It will enable advertisers to reach travelers throughout their travel journey, including the path to purchase, pre-arrival, and even during their stay. Marriott believes that their network offers an unprecedented combination of scale and personalized media to an audience of in-demand, high-intent travelers, providing new channels for brands to effectively reach their target audiences.





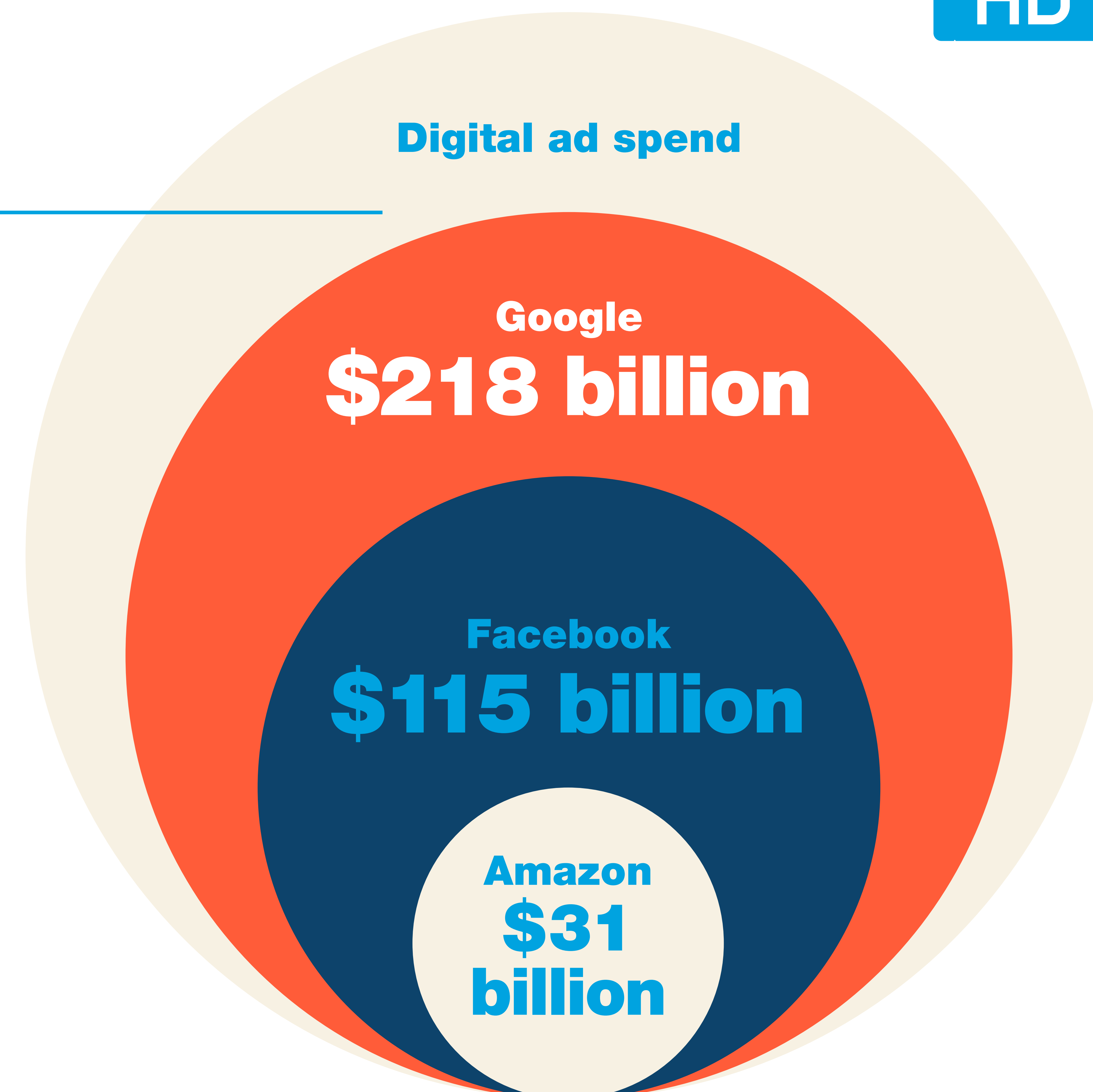
Platform policy changes and tightening privacy regulations present opportunities for companies with first-party customer data

Digital advertising is dominated by Google, Amazon, and Meta (Facebook). In 2021, Google generated \$218 billion in ad revenue, while Facebook generated \$115 billion.

Together with Amazon, these three advertising behemoths account for 74% of digital ad spend.⁷

But as privacy regulation tightens and third-party cookies are phased out, it is becoming increasingly difficult to collect and share user-identifiable conversion data between third parties. These changes look set to disrupt the very nature of how advertisers reach consumers, potentially shifting the balance of power away from the likes of Google and Meta to platforms with extensive first-party data.

In this era of privacy-first advertising, online platforms that possess first-party customer data will become increasingly attractive to advertisers that can no longer rely on third-party customer data for contextual reach.



Third-party cookie deprecation will have a significant impact on the digital advertising landscape



of businesses believe the end of third-party cookies will make it harder to reach audiences at scale

RMNs are becoming a more attractive and realistic proposition for many retailers, as their online offers grow

After a pandemic-related increase in online retail spending, ecommerce penetration across all categories continues to grow. Online sales in US retail jumped 40% year-over-year in 2021. As a result, retailers have more first-party data and valuable digital media inventory to make available.

Digital ad spend continues to rise, and digital retail media's share of it is growing. In 2023 it is expected to capture 19% of US digital advertising dollars, driven largely by phenomenal growth in Amazon's advertising business.⁸



of businesses believe measurement and attribution will suffer without third-party cookies

Retailers are attracted by the prospect of a new high-margin revenue stream – others will follow

Retail media advertising is nothing new, but traditionally it was confined to in-store signage and shelf placements, or coupon programs. RMNs are a step up from these activities due to the sheer volume of revenue involved. Amazon launched its network in 2012 and by 2021 it was generating \$31.2 billion in annual revenue, behind only Google and Facebook,⁹ while Walmart Connect generated \$2.1 billion.¹⁰

At a time of ongoing economic uncertainty, the opportunity to diversify retail offerings and explore new, high-margin revenue opportunities is incredibly attractive, and we will see more retailers enter the market in 2023.

Consumers are open to the idea of RMNs but there is work to be done

Consumers react poorly to environments that are cluttered with ads, or where they feel the messages shown aren't trustworthy or meaningful. Overall, they're more receptive to lighter, less intrusive ad experiences that offer products or services they are actually interested in. As a result, brands thinking of launching ad networks should do so in a way that supports rather than inhibits the customer experience (CX). They need to add value to the customer journey, perhaps by offering discount codes within ads or by identifying a product the user would be interested in and taking them straight to the product page. These are both strong reasons for a consumer to click on an advert.¹¹

What's more, our study found a significant variation in how open consumers of different ages are to advertising on online shopping sites. Around half of 16-44 year-olds are happy to see advertising on a retail website. A similar proportion believe personalized ads improve their experience when online, and ads can help them find the right products. But there is work to do to convince those over 55 of the value of advertising on online shopping platforms. Only about a third of people in this age group welcome ads or see them as beneficial.

Younger consumers are more likely to perceive the benefits of RMNs when shopping online

Happy to see sponsored products on an online store



Personalized ads and sponsored products improve my experience when shopping online



Sponsored products and ads can help me find the right products when they are targeted to my needs



Advertisers can more easily identify, understand, and reach audiences with relevant ads

The benefits of emerging ad networks vary based on the quality of the inventory they offer, the audiences they can reach, and the quality of the first-party data they can use to optimize that reach.

RMNs are particularly attractive to advertisers because ads can be placed directly on retail sites, rather than on social feeds or within editorial content. In addition, because RMNs have access to their own transactional data, they can also build reliable look-a-like models for finding new customers. All of this means advertisers can engage audiences at the most appropriate point on their purchase journey, when they are in the buying mindset, maximizing the effectiveness of ad campaigns. RMNs also offer closed-loop reporting, linking ad impressions to sales on the platform, so advertisers can see the real impact of their ad spend.

Whether they are run by retailers or service providers, the new generation of ad networks also has benefits relating to privacy compliance. These networks use permissibly collected customer data to generate behavioral signals and audience segments that are only used within the networks themselves and are not shared with third parties. This means advertisers can serve audiences with relevant, personalized ads in a privacy-first way.

Retailers are excited to unlock the value of their first-party customer data

Retail media is an attractive proposition for the retailer because (upfront tech investment notwithstanding) they can deliver profit margins of over 50% – significantly higher than the low margins of the classical retail model.¹²

A retail media business also gives retailers access to real-time insights about consumer preferences that can help them deepen their connection to customers, shape their strategy, and effectively close the loop from advertising impression to sale.

RMNs are well on their way to convincing advertisers that they offer great value... not bad for a form of advertising that was relatively unheard of five years ago



Find

56%

businesses think RMNs can help brands find and connect with new customers



Personalize

53%

businesses think RMNs leveraging first-party customer data enables marketers to deliver more relevant ads



Measure

50%

businesses think it's easier to track the impact of ads displayed on RMNs

Where next?

Businesses have a unique opportunity to generate new high-margin revenue streams, but must not lose focus on the customer experience

While ecommerce giants including Amazon, eBay, and Walmart have already established successful RMNs, it's not too late for other retailers and online platforms to start extracting value from their first-party data. Businesses who have an online platform with significant size, scale, and detailed first-party customer data should be asking themselves – what's stopping us from launching our own ad network? For those brands with a smaller footprint, RMNs are still a viable option; however, they will need to consider partnerships, alliances, and even co-ops they can form in order to compete with their larger rivals.

Media networks present clear opportunities for online platforms to generate new revenue streams and personalize the customer experience.

It is clear businesses embracing their first-party data as a tool to drive personalization through media networks now, will be well positioned to capitalize on the opportunities presented by the transition to truly immersive experiences spanning both the physical and digital worlds.

But it is critically important platforms do not lose focus on the customer experience. Increasing ad load (the ratio of ads shown to each user relative to organic content) too drastically can ruin the customer experience, reducing user engagement, and ultimately increasing churn.

Trend 02

Anything- as-a-Service

From grocery stores to streaming platforms, brands are exploring how a shift from selling goods to offering products as-a-service can extend their customer relationships beyond the point of purchase.



Here are just a handful of the sectors already being transformed by the as-a-service model:



IT and Technology

The as-a-service business model was pioneered by the software industry and dubbed Software-as-a-Service, or SaaS. It was enabled by the internet, which made everything more accessible, and allowed companies to lease software from providers instead of buying it outright. Now, the IT and technology Anything-as-a-Service market (also known as XaaS) also covers hardware and infrastructure.



Retail and Banking

XaaS is enabling financial services and products to be embedded into other consumer activities, such as e-commerce, travel, retail, health, and telecom. Someone could buy a travel insurance policy, for instance, when they book a holiday online. Or they could take out a loan when they purchase a high value item, such as jewelry or furniture, and pay for it using a buy-now-pay-later (BNPL) model.



Consumer goods

Consumer-facing brands are realizing the value of customer data, and offering digital services that enable them to connect more deeply with their customers is a great way to collect it. From subscription boxes to membership programs, these services enable brands to establish long-lasting relationships with their customers, while accumulating valuable first-party data.



Entertainment

Streaming services such as Spotify, Netflix, and Disney+ are the ultimate as-a-service brands. Rather than buying music albums or movies, customers have access to them for as long as they pay their subscription. These digital-native businesses leverage the enormous swaths of customer data their digital platforms collect to continuously improve and personalize CX.



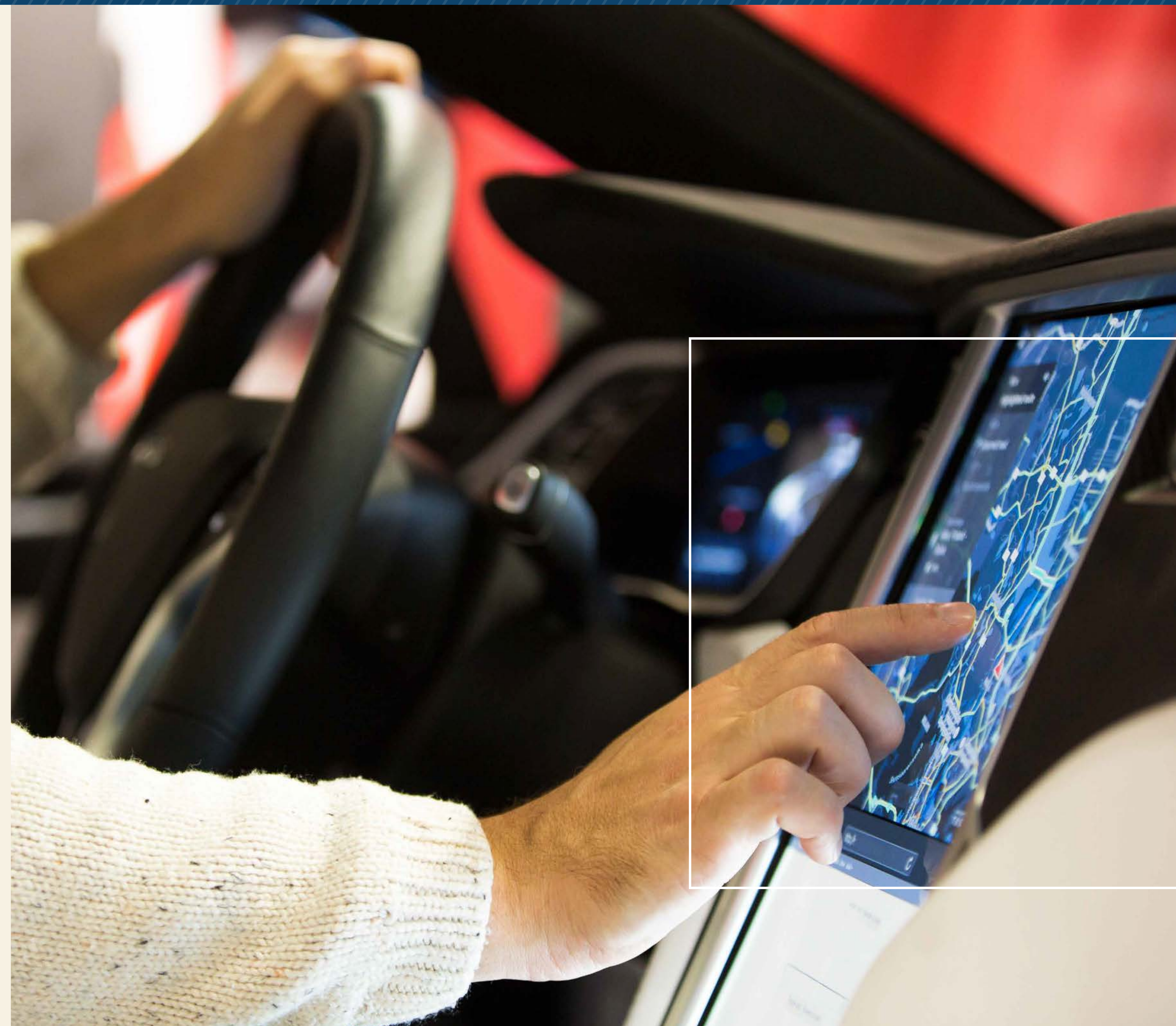
Transport and Travel

The as-a-service model is transforming how every sector operates, from manufacturing to transportation. Rolls Royce even provides its jet engines as-a-service on a fixed price per flying hour basis. Automotive OEMs are also exploring how Mobility-as-a-Service can enable them to reach new customer segments with pay-per-use offerings.

Case Study

Embedded insurance: Tesla and the embedded customer journey

Tesla was an early adopter of embedded finance when it bundled insurance into the customer purchase journey.¹³ By offering embedded insurance, Tesla is able to provide a more seamless integrated value proposition to its customers, allowing them to purchase insurance directly when purchasing a vehicle, without going through a third party. Not only does this streamline the customer experience, it helps Tesla boost revenues, increase customer loyalty, and can be used to unlock new high-value services that provide deeper insights into their customers. For example, Tesla expanded on this offering earlier this year, when it launched its real-time insurance product. Now available in seven US states, this embedded insurance product offering uses real-time driving data to assess driver behaviour and accident risk more accurately, allowing it to provide lower cost cover than traditional insurers.



XaaS growth is being driven by cloud computing, which enables the servitization of everything from hardware to software. Also key, is the prioritization of building and maximizing direct-to-consumer relationships, which can generate annually recurring revenue. In the last 10 years, XaaS has proliferated into a wide variety of sectors, ranging from content services to subscription food boxes. In 2023 we'll see the next phase of growth, as brands strive to sustain customer relationships, gain a more complete understanding of their audiences, and deliver personalized omnichannel experiences.

Banking-as-a-Service

Embedded finance, which is part of Banking-as-a-Service, is growing as non-finance brands such as travel companies and retailers seek to create more holistic offers, reduce friction in the purchase journey, and improve the customer relationship. Bain & Company estimates the value of transactions flowing through embedded finance will triple from \$2.6 trillion in 2021 to \$7 trillion in 2026. Payments and lending will lead the way, followed by value-added services such as insurance.¹⁴

Mobility-as-a-Service

The Mobility-as-a-Service market, known to many of us through rideshare services such as Uber, as well

as shared urban transport solutions for bikes and scooters, will transform the transport industry. The market is growing rapidly due to the rising cost of owning a car, and an increasing awareness of the environmental impact of driving. It is expected to reach \$122 billion by 2026.¹⁵

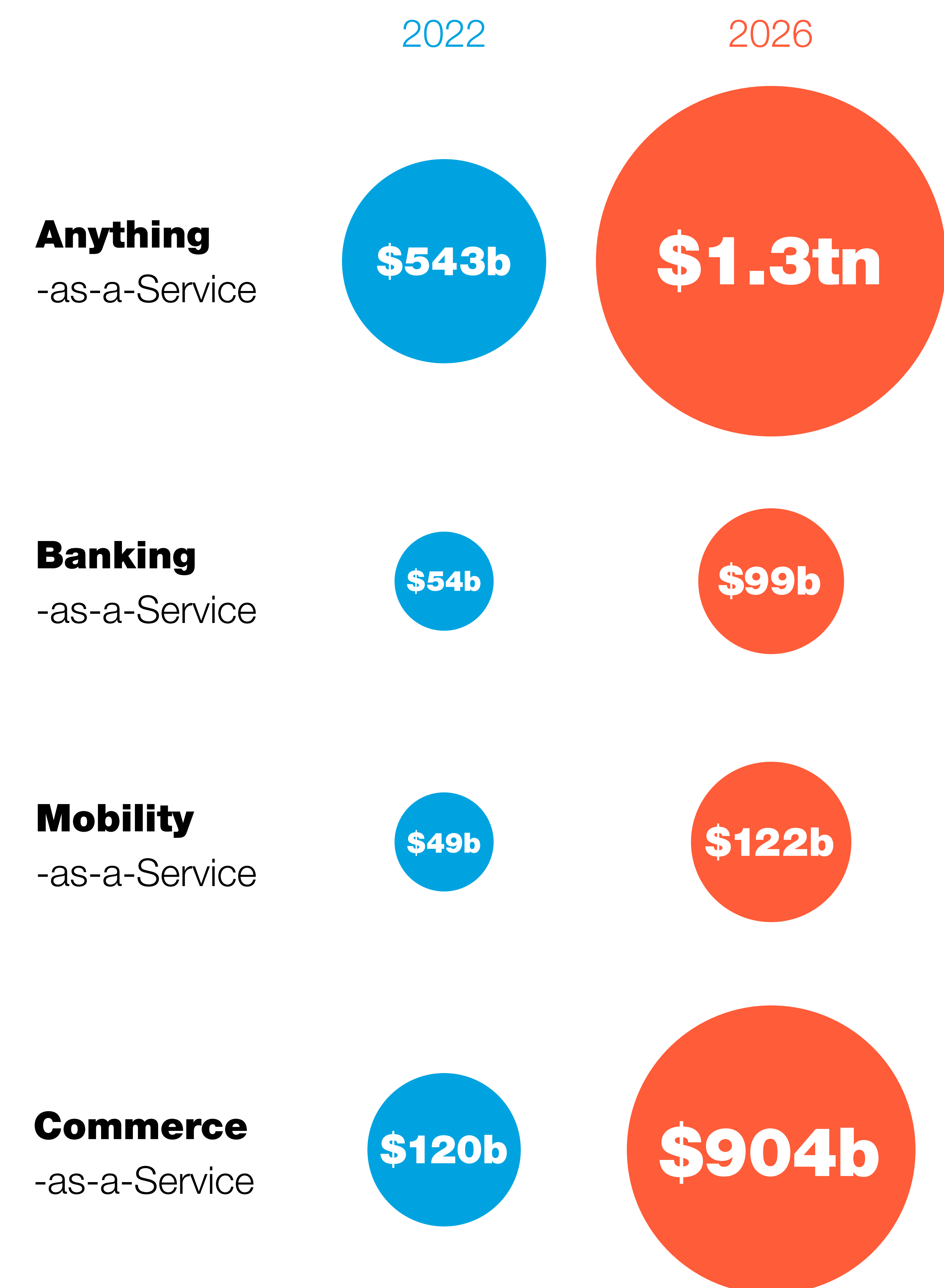
Commerce-as-a-Service

The e-commerce subscriptions market – which includes meal kits, grooming products, and fashion subscription boxes – is already changing what we buy and how we buy it. It will experience enormous expansion over the next four years, growing from a \$120 billion market in 2022 to a \$904 billion market by 2026.¹⁶

These new B2C services are distinct from the largely B2B services that have already been completely transformed by XaaS. And while the approach brands are taking to servitize their products varies across sectors, all of these services represent a changing perspective from selling products to selling outcomes.

This paradigm shift puts the focus on the customer experience. Everywhere we look brands are using servitization to establish deeper customer relationships that are about more than just selling products, to gain a better understanding of their customers.

Market size and forecast growth of selected as-a-service markets¹⁷

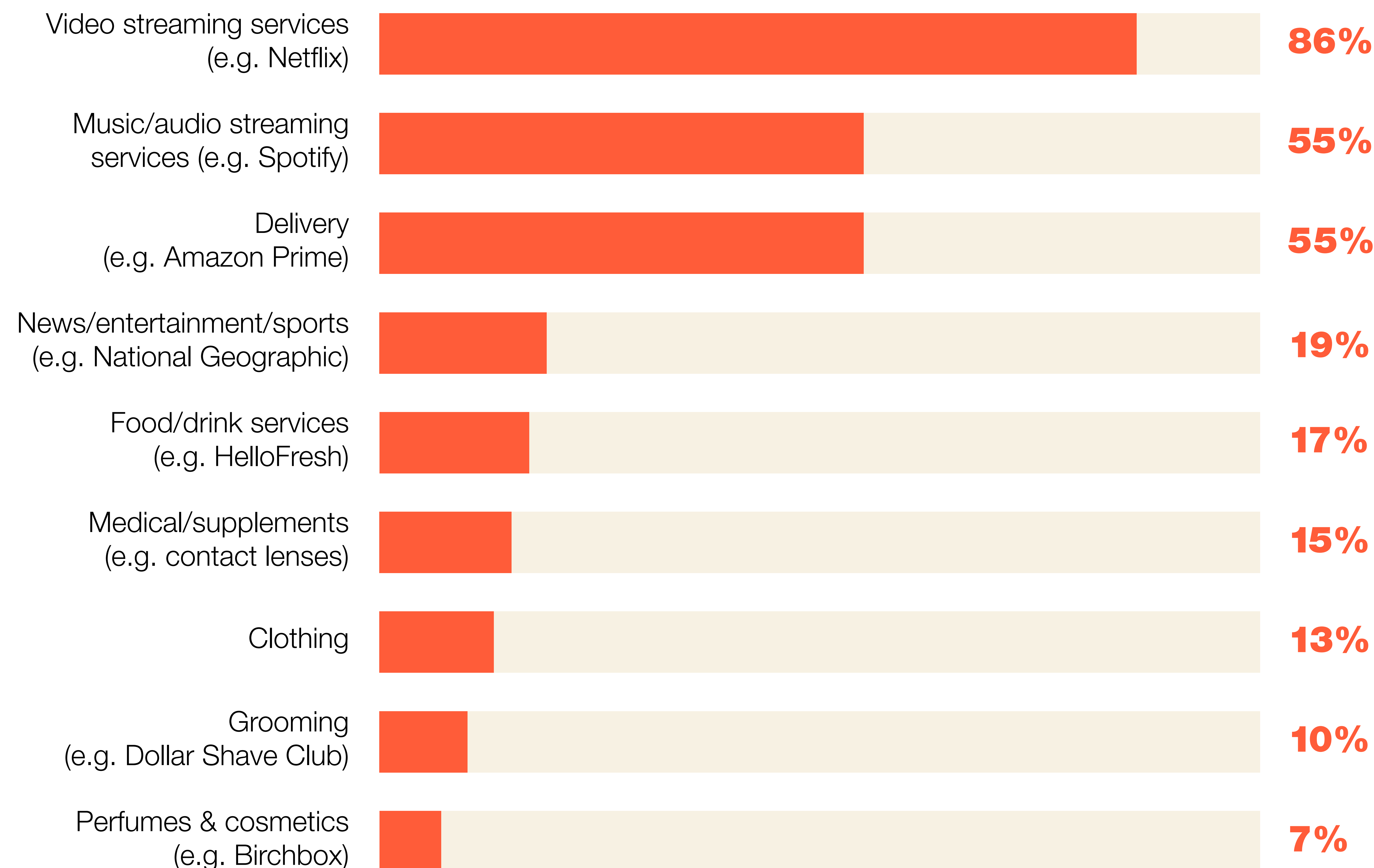


Consumers already use a wide range of subscription services

Anything-as-a-Service is already well embedded in the consumer sector in the form of subscription services. Video streaming services are the most common type of subscription (an average of 2.1 per person), followed by music and delivery services (0.8 per person). Consumers are increasingly happy to share their data with these services in return for the personalized benefits and rewards they provide.

A 2022 report from the Global Data and Marketing Alliance (GDMA) indicates a growing preference for data sharing-led value exchange models, with roughly equal numbers of consumers preferring to share data to receive music or video streaming services for free as prefer to pay for them directly.¹⁸

Video streaming services are by far the most popular subscription service among those that subscribe to at least one service

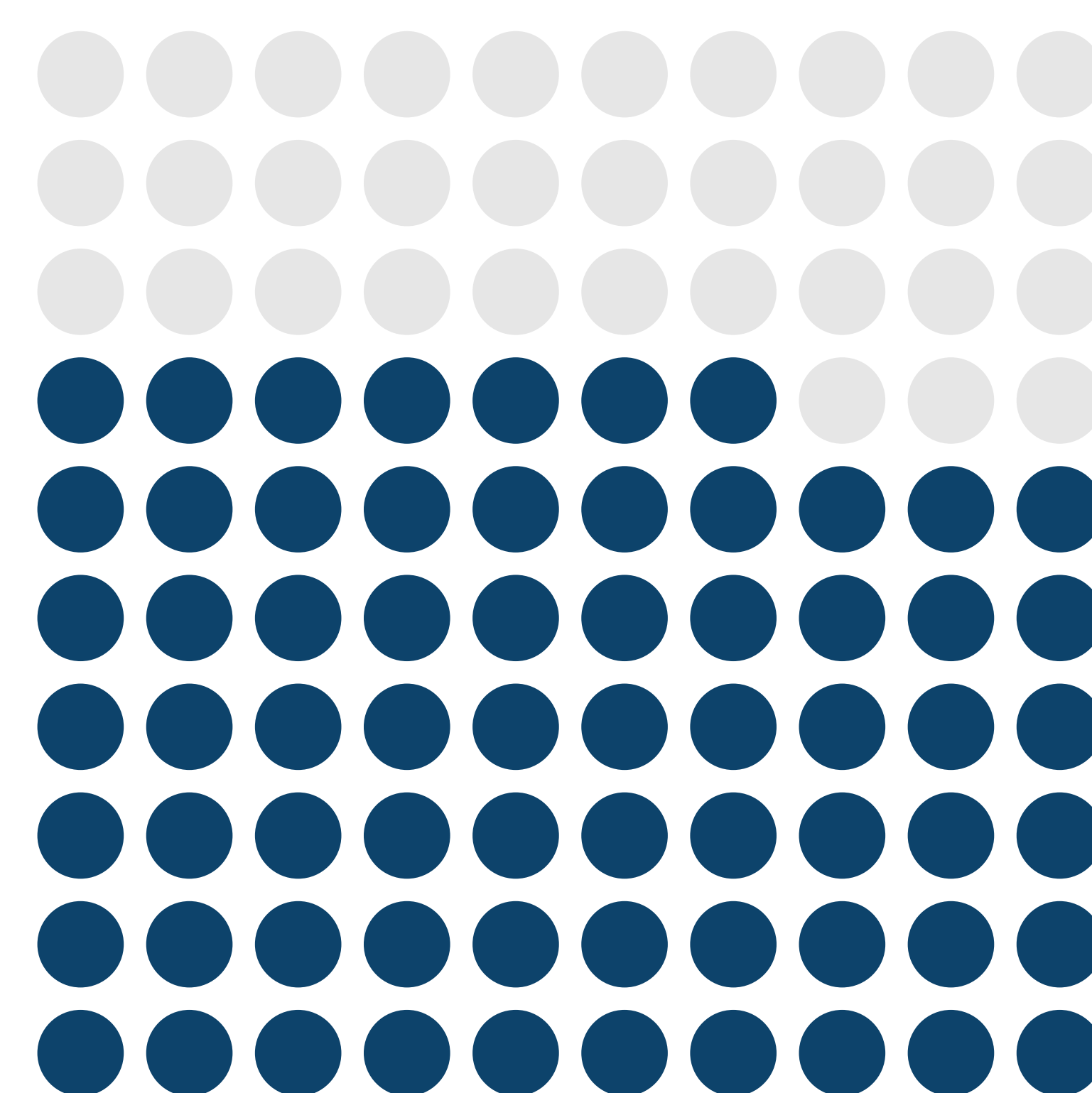


Consumers believe service-based offerings can improve their experience

While the reasons consumers subscribe to these services vary considerably by product, there are a number of recurring themes. The majority (57%) of consumers agree they get a better customer experience when brands offer their products as services, while 54% feel brands who adopt service-based models can better understand their needs. Younger consumers in particular see servitization as a way of improving their experience. Over two-thirds of consumers aged 16-34 feel closer to brands who provide them with services beyond the point of purchase.

Service-based products bring many benefits to the consumer

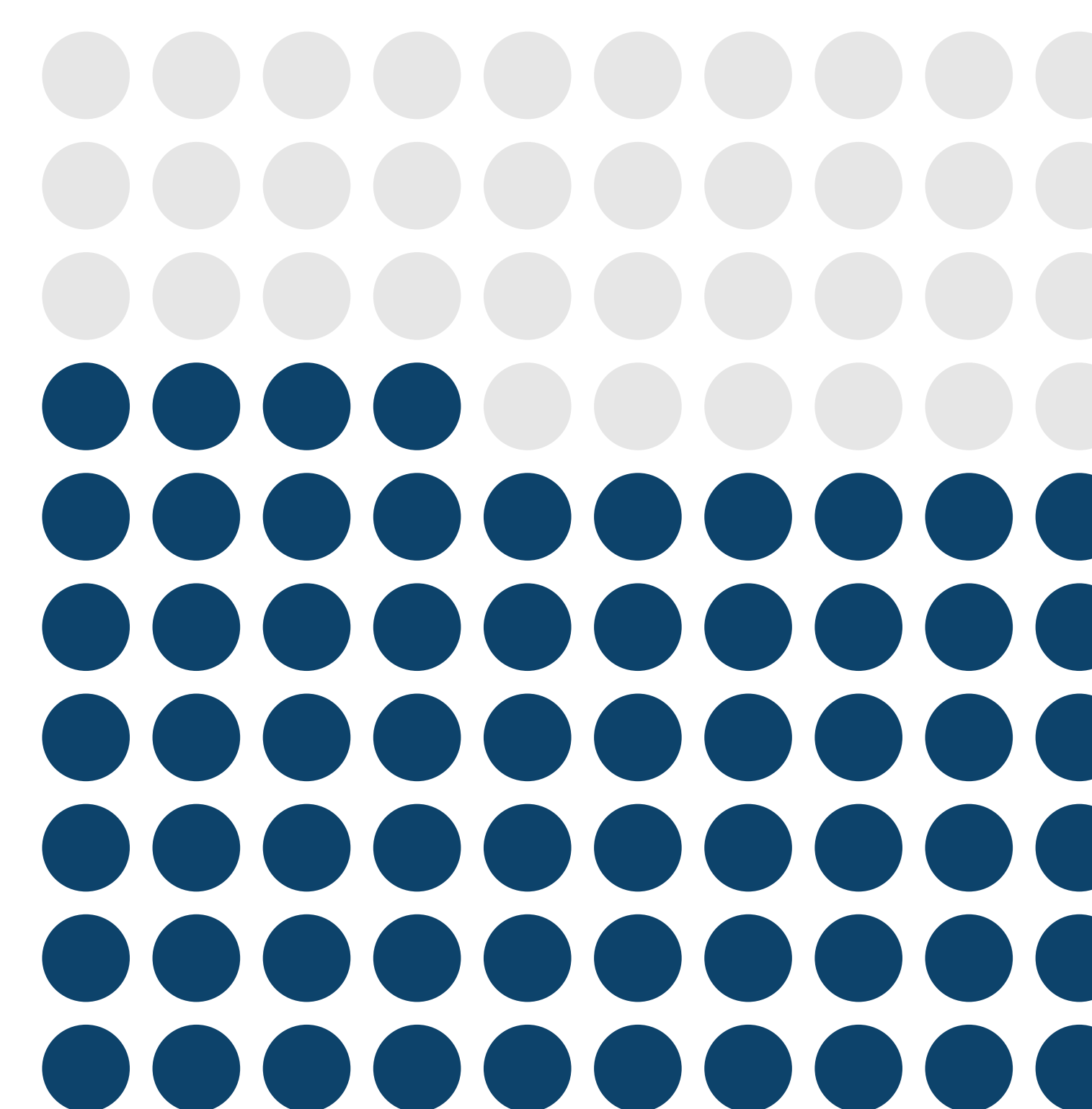
Understand



67%

of consumers aged 25-34 agree brands offering their products as services can better understand their needs

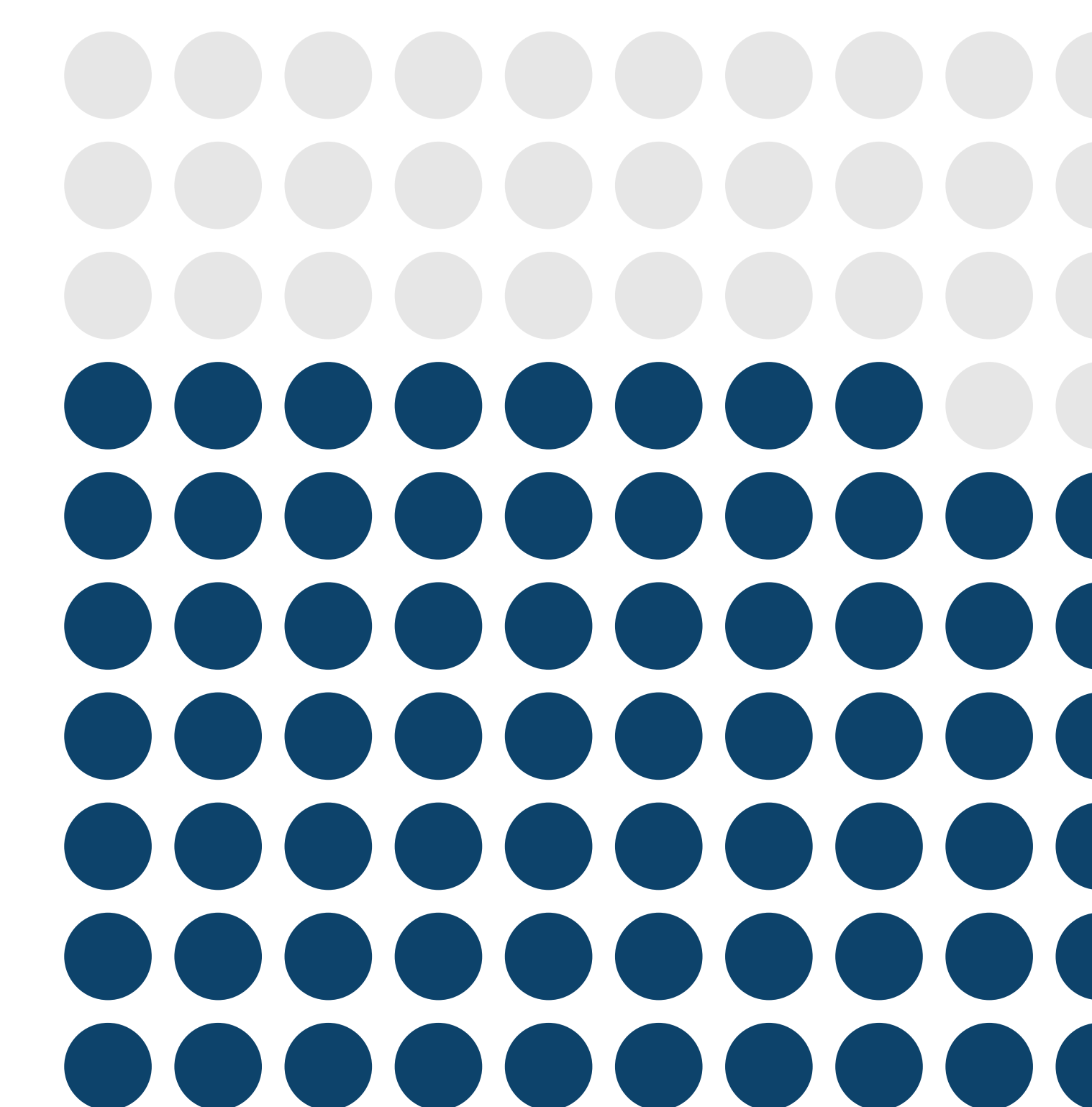
Experience



64%

of consumers aged 25-34 agree brands offering their products as services deliver a better experience

Loyalty



68%

of consumers aged 25-34 feel closer to brands who provide services beyond the point of purchase

Consumers are very positive about embedded finance even though usage remains low

According to our consumer survey, less than a third (31%) of consumers have used embedded finance offerings from non-financial companies such as retailers or ecommerce sites, but satisfaction among adopters is high. In fact, over three-quarters of consumers who have tried financial services like BNPL are open to using them again.

For embedded payments, the appeal for consumers is ease of use and value. For example, a customer can pay for their coffee using a closed-loop card with the coffeehouse chain and can potentially earn discounts or points through repeated purchases.

There is still some work to do to help consumers fully understand the benefits, however. Only half of 16-44 year-olds say they would trust their favorite non-financial brand to offer them financial services such as payments and embedded insurance.

But the rewards can be high for companies who do implement embedded finance, in terms of improved conversion rates. Almost half (49%) of 16-34 year-olds say they are more likely to make a purchase when a brand offers insurance as part of the sale.

Service and subscription models help businesses build deeper relationships with their customers

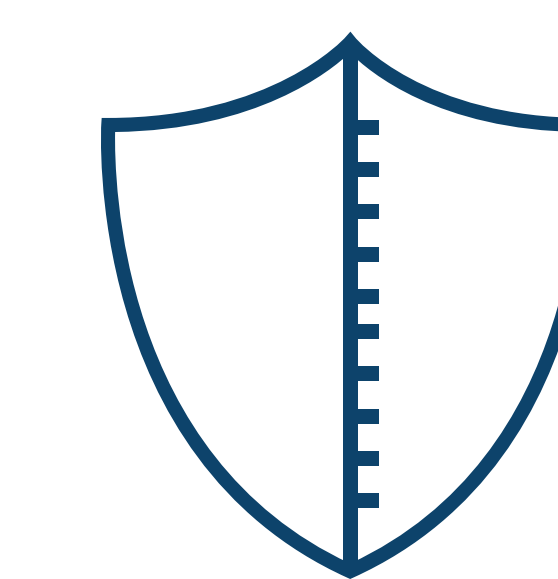
Whether it's transitioning toward a service or subscription model or embedding digital services into their platform, many businesses are beginning to see the value of exploring service-based offerings.

68% of brands agree they can build better customer experiences through as-a-service models, and a similar proportion believe offering products as-a-service can help them build deeper relationships and drive brand loyalty.



31%

of consumers have used embedded finance offerings from non-financial companies



49%

of 16-34 year-olds say they are more likely to make a purchase when a brand offers insurance as part of the sale



68%

of brands agree they can build better customer experiences through as-a-service models

Traditional businesses are learning from digital-first innovators

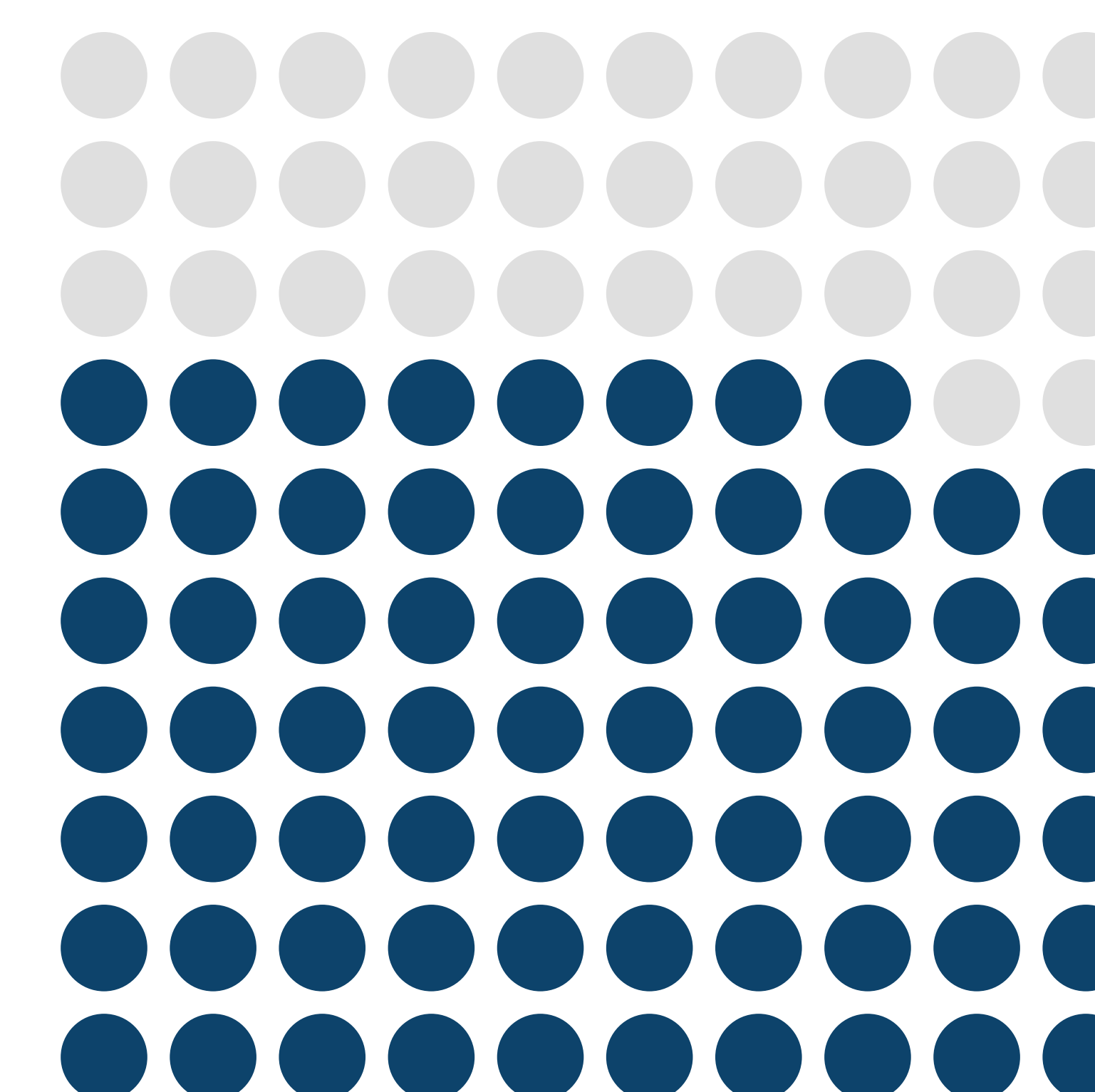
The as-a-service model delivers a continuous stream of first-party data, helping businesses build a holistic view of their customers, their preferences, and their spending habits. This data, and the insights generated from it, can be used to refine the product, tailor offers, provide reminder services, and much more.

Data-driven digital-first companies have largely mastered the art of using the data their platforms collect to continuously improve the customer experience. In contrast, brands selling products through traditional, physical channels have limited visibility into who their customer is, what they buy, and how they behave – and struggle to personalize their offer as a result. In response, some brick-and-mortar retailers have integrated digital payments and reward programs into their offering in an attempt to build a more detailed understanding of what products their customers are buying, how frequently they're visiting, and even how their buying habits vary across stores and channels. This data presents opportunities for brands to personalize all aspects of the customer experience, from offers and rewards to cross-sell and upsell activities.

From reward programs to integrated payments, traditional businesses are learning from digital-first innovators, and are building embedded services that enable them to connect customer data points to establish a complete view of each and every customer. As these services evolve and become increasingly integrated into every customer journey, traditional businesses are starting to unlock the value of customer data for delivering superior CX both online and in store.

Businesses perception of the key benefits of service-based models for CX

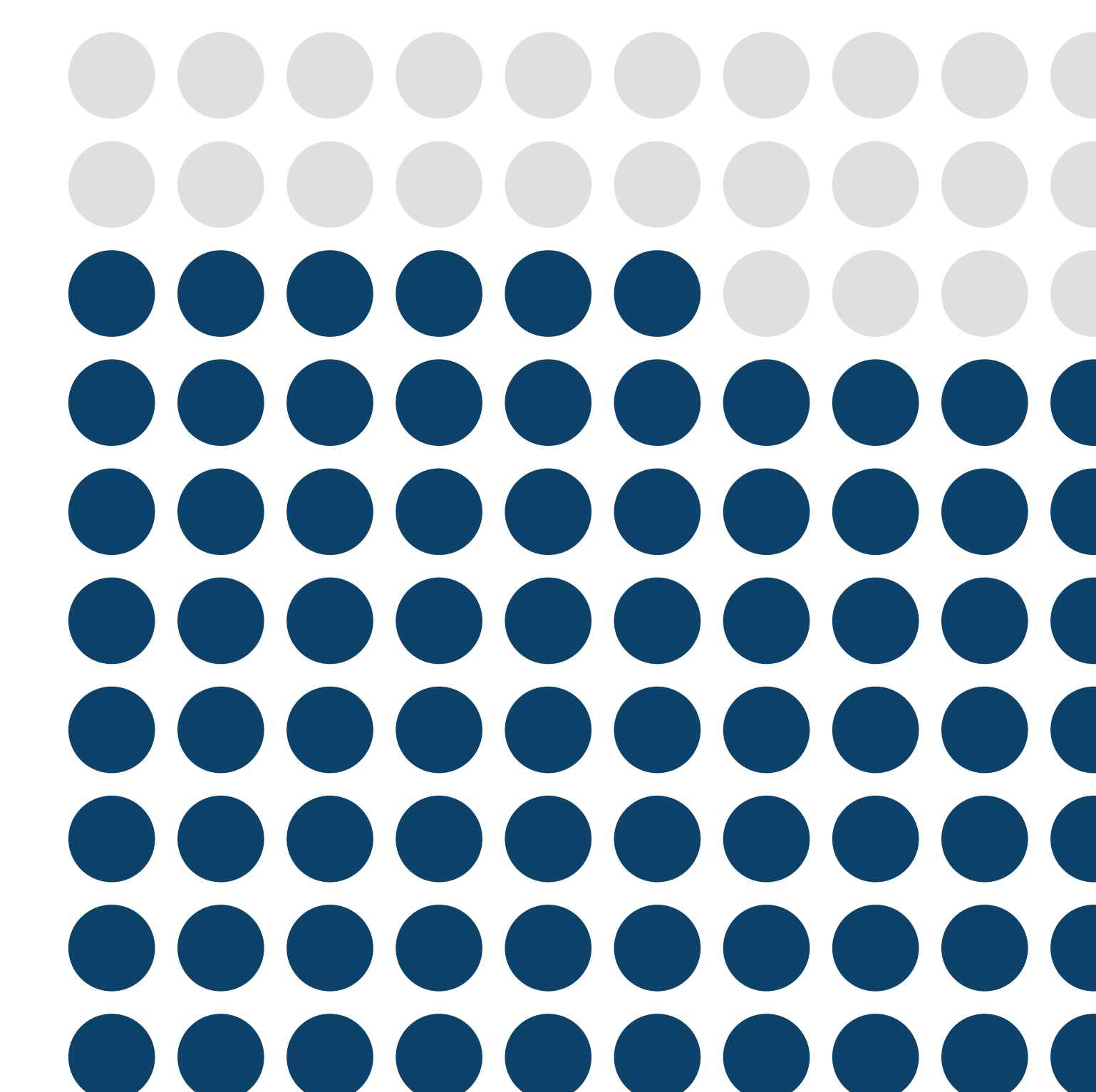
Customer Experience



68%

of large businesses agree providing their products as a service can help them adapt and improve the experience to meet the customer needs

Customer Loyalty



76%

of large businesses agree offering their products as a service can help them establish deeper relationships with their customers, driving brand loyalty

Embedded finance is emerging as a valuable tool for improving outcomes and CX

Embedded financial services such as BNPL can make products more affordable to a wider proportion of the population. At the same time, embedded insurance can increase customer confidence. Both of these factors lead to an increase in average basket value.

Perhaps most importantly, these services can extend the customer relationship beyond simply making a purchase, enabling brands to establish deeper connections with their customers.

Embedded finance offers benefits to both businesses and consumers

According to our survey:



69%

of retailers believe embedded finance can increase average basket value



74%

of retailers believe embedded financial services such as BNPL can improve checkout completion rates



69%

of retailers agree embedded finance can help them better understand their customers, their spending habits, and their needs, and that this can help them deliver a better experience

Today, companies of all types and levels of maturity — including retailers, coffeehouse chains, grocers, telcos, big tech and software companies, car manufacturers, insurance providers, and logistics firms — are considering embedded financial services to serve both business and consumer segments.

To meet the rising demand for embedded finance, financial institutions are increasingly developing Banking-as-a-Service bundled offerings (often white-labeled or co-branded) that non-banks can use to serve their customers. This presents an exciting opportunity for the entire financial services ecosystem.

Financial institutions can reach a greater number of customers at a relatively low cost, and distributors can open up new lines of revenue while building deeper relationships with their customers.

Where next?

Brands are realizing the value that can be unlocked by Anything-as-a-Service

In 2023, we will see brands from all market sectors embrace the opportunities presented by the transition to the as-a-service operating model. A massive 84% of businesses believe companies in their industry will be more likely to offer service-based products in the next five years. This perception is particularly prevalent in retail (91%) and telecoms industries (95%).

Similarly, 75% of businesses believe companies will be more likely to offer embedded financial services to their customers in the next five years.

Businesses who embrace these opportunities will generate valuable first-party data that enables them to better understand the customer and offer personalized experiences across all channels.

Digital-first businesses are still leading the way. Many have already implemented sophisticated customer data platforms (CDPs) that enable them to build constantly evolving customer portraits, at scale. Non digital-native brands are beginning to follow, and are connecting customer touchpoints across both physical and digital channels by embedding services into their offering or transitioning toward as-a-service models.

But customer understanding alone is not enough. The more effective digital-first businesses have built closed-loop models where they can act on the insights their systems generate, personalizing the service at an individual level, to drive satisfaction, customer retention, and ultimately customer lifetime value. In 2023 we will see more and more traditional businesses seeking to follow.

“By 2023, 75% of organizations selling direct to consumers will offer subscription services, but only 20% will succeed in increasing customer retention.”

Gartner¹⁹

Trend 03

**Seamless
Service**

Brands are combining automated tools and technologies with human-centered approaches to deliver best-in-class customer service and support.



Brands use automated technologies and Artificial Intelligence (AI) throughout the customer journey.

From personalized product recommendations for undecided shoppers to auto-generated emails for cart abandoners.

But some critical touchpoints in the customer journey – namely customer service and support – are still delivered predominantly by humans. While almost two-thirds (64%) of businesses are already using AI to deliver customer support, this is likely to be largely through simple chatbots that are only able to deal with a limited set of basic, high frequency questions and complaints.

Over the next few years, we expect to see a step change in the world of customer service, driven by advances in AI technology and the deployment of next-generation digital assistants across the customer journey.

We expect a dramatic reduction in scenarios that require us to wait in telephone support lines or to be passed around a call center in search of someone who can help.

One type of technology that will help accelerate the automation of customer service and support is digital identity verification. This uses biometric technologies such as facial or voice recognition to streamline verification and authentication processes, ensuring people really are who they say they are. Apple's mixed reality headset, expected in 2023, is already touting iris scanning for payment options.²⁰ The bottom line – biometric verification saves time for the consumer, reduces cost for the business, and increases security for both.

Automation is already removing friction from other parts of the customer journey, and in 2023 we will see it remove friction from customer services, too.

We've seen a breakthrough in conversational AI in the last couple of years, with digital assistants and AI chatbots increasingly able to understand complex questions and hold sophisticated, natural conversations.

This is partly due to the emergence of large, general-purpose language models such as OpenAI's GPT-3.

These models are trained on internet-scale datasets on thousands of compute clusters and are more powerful and more versatile than their predecessors. Using natural language understanding (NLU) and natural language processing (NLP), they can excel at an ever-wider range of customer service and support tasks.

Banking, for example, is one area where AI-powered digital assistants can play a vital role. They are already used for customer authentication, call classification, and basic account management tasks such as balance checking. But next generation assistants will offer a wider range of services, potentially delivering advice on financial management or issuing personalized offers.

Crucially, people are increasingly comfortable engaging with digital assistants. More than 60% of 16-34 year-olds told us they can't tell the difference between interacting with an automated system and talking to a real person.



of businesses are using AI to deliver customer support

Case Study

Onfido: digital identity verification for streamlined customer onboarding

Onfido provides a digital identity verification solution that helps businesses verify the identities of their users using advanced AI algorithms that compare a user selfie to a photo of their ID. If the algorithm is confident the selfie matches the photo ID, the user is automatically verified. If the algorithm is not confident the images match, the verification is sent for review by a human operator. This hybrid approach enables businesses to reduce the time and cost of customer acquisition, provide them with greater confidence their users are who they say they are, and help them deliver a seamless onboarding experience for their users. Since integrating Onfido, Check, a mobility as-a-service provider who operates a fleet of e-scooters, is able to verify 90% of its customers within 15 seconds.²¹



People are increasingly comfortable with digital assistants for customer service

Businesses tend to build customer experiences under the assumption humans prefer human-led interactions. And it's technically true. The overall majority do still prefer to speak to a human assistant. But this view is shifting – fast.

As people increasingly interact with digital assistants and communicate via instant messaging platforms, their comfort with – and demand for – these always-on, responsive support systems is increasing. Demand is particularly high among younger age groups, with around half of 16-44 year-olds saying they prefer self-service and digital assistants to traditional human-centered interactions across various aspects of the customer journey, from purchasing to customer service and support.

Preference for digital assistant compared to human assistant, by age

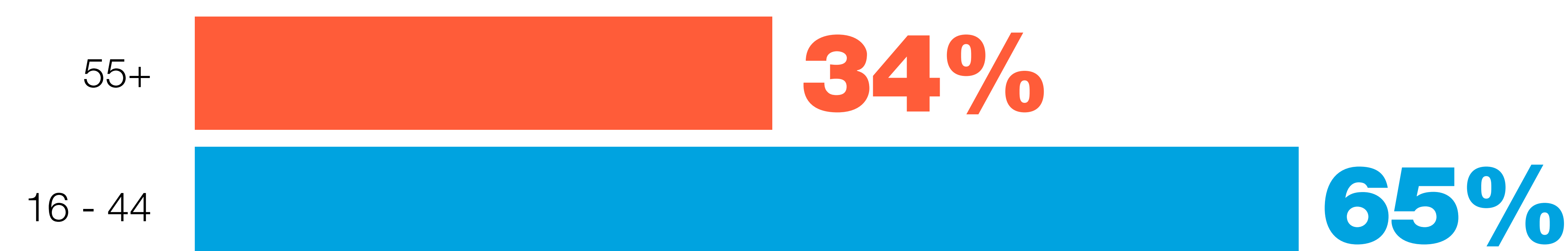
Feel most of their customer service issues can be solved by a digital assistant



Happy for first point of contact to be with an AI chatbot



Prefer to use an automated self-checkout at the grocery store



The majority of people are happy for digital assistants to access personal information

Businesses can't afford to operate digital assistants and AI chatbots in silos. People expect these automated assistants to be fully integrated with business systems, and to have access to the data that enables their issue to be resolved.

The majority (58%) think it's important for digital assistants to remember details about previous conversations they have had with a brand or business when they get in touch again, whether that's on the same channel as before or on a new channel. 67% of consumers expect digital assistants to have access to all the information that's relevant to their query.

Digital identity verification is seen positively by those who use it

Digital identity verification is still in its early stages. Half of consumers have used it for basic tasks such as unlocking a mobile phone, but this falls to 20% for opening a bank account, and 10% for making a large-scale purchase.

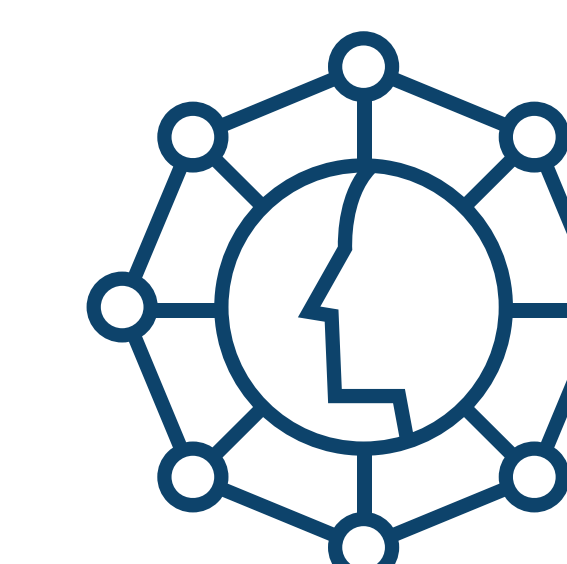
That said, consumers who have used digital identity verification seem to see it as a positive, perhaps preferring its flexibility and autonomy over human-led processes. An impressive 69% of those who have used digital identity verification found it improved their experience, rising to 79% for those who have used it for unlocking a banking or finance app.

Younger people, in particular, trust it for high-security actions, with over half of 25-34 year-olds preferring to open a bank account using digital identity verification than face-to-face or paper verification.



58%

think it's important for digital assistants to remember details about previous conversations



69%

of those have used digital identity verification found it improved their experience



Companies are exploring new tools and systems that combine the best of human interaction and sophisticated technology

This combined approach can improve the customer experience by delivering support more quickly, while also having a better understanding of customer issues and complaints. It should also help to cut expenditure on customer service operations, as automated tools can respond to queries at scale with virtually no additional marginal cost per query.

Digital identity verification tools are a vital part of this approach, allowing businesses to streamline interactions by quickly verifying a customer’s identity before their query is dealt with. These tools can also speed up processes such as setting up accounts, with digital identity verification allowing customers to open bank accounts in minutes rather than days. Not only do these systems improve the customer experience, they can reduce operational costs associated with Know Your Customer (KYC) compliance and enable banks and financial service providers to deliver seamless services remotely and at scale.

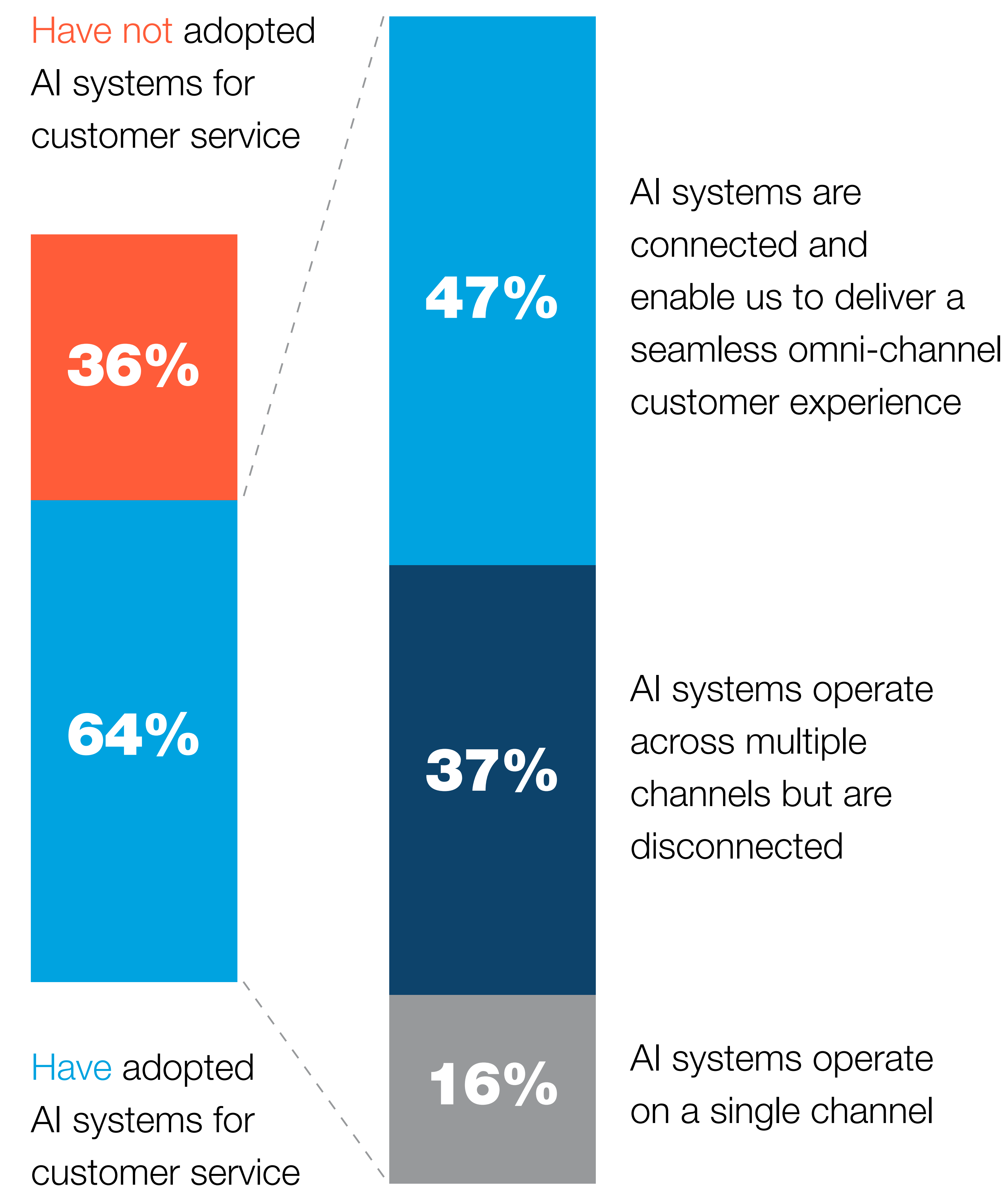
It is, however, early days. Although almost two-thirds of businesses have adopted AI for customer service, over half of those have done so in a way that is not fully connected across channels.

And there are still some obstacles to AI adoption and implementation. When we asked businesses who have not yet adopted AI for customer service what is standing in their way, 56% state they prefer to deliver human-led customer service. But there are also some technological concerns, with 38% saying their technology stack is not yet prepared for the integration of AI systems.

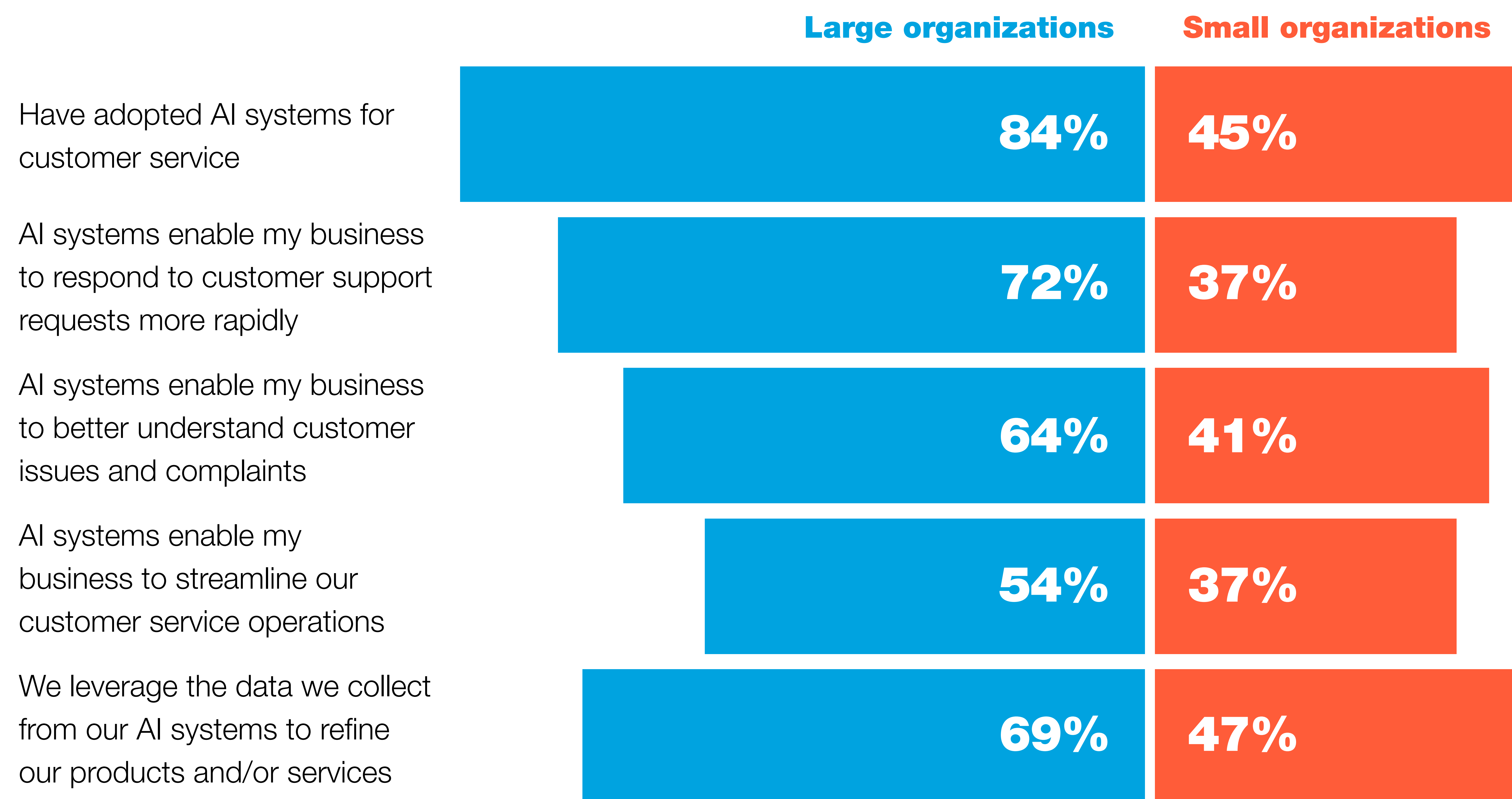
AI adoption for customer support also varies significantly between different businesses, depending on the size of the organization and the sector within which they operate.

Larger organizations are almost twice as likely to have adopted AI systems for customer service, compared to smaller organizations. Not surprisingly, organizations who have higher adoption see greater benefit across customer support, in terms of streamlining operations and delivering enhanced customer service, as well as in refining products and services.

The degree of integration varies among those who have adopted AI for customer service



Larger organizations are almost twice as likely to have adopted AI systems for customer service, and are much more likely to see the benefits



Similarly, there is variation by sector in the perceived value of AI for customer service. Two-thirds (66%) of retail businesses believe AI systems, like digital assistants and chatbots, enable them to respond to customer support requests more rapidly. And 69% believe these systems enable them to better understand customer issues and complaints.

But the value of AI is not just limited to customer service. Digital identity verification is already helping businesses deliver a more seamless experience for their customers. According to our survey, 65% of businesses agree it helps them deliver a more seamless user experience than manual identity verification. This viewpoint is particularly prevalent in the finance sector where 75% of financial service businesses agree it both helps them onboard customers more rapidly and helps them deliver more seamless experiences for their customers.

Businesses are already seeing the value of these solutions and expect them to become more widely adopted in the next five years. In fact, 70% of large businesses think these solutions will be widely adopted across industries in the next five years.

Where next?

Businesses have an exciting opportunity to capitalize on these technologies to deliver what customers want: a seamless, cross-channel customer experience that extends from finding the right product or service to receiving exceptional customer support

While many organizations have already implemented chatbots and digital assistants for customer service and support, we are only just scratching the surface of what advances in AI will enable. The future of seamless customer service will combine the best of human-led and automated systems to deliver exactly what the customer wants, when they want it.

Imagine contacting your bank about a possible loan and beginning your interaction with an AI assistant. After a few simple questions and a digital identity verification, the assistant can offer the best options currently available to you.

Because you've authenticated your identity, these options can be based on your actual financial circumstances rather than a hypothetical situation, making it more likely your ultimate application will be successful.

At any point you can choose to be transferred to a human advisor, who will have access to all the information and context the AI has already collected. The AI assistant can continue to monitor the conversation, providing the operator with additional information or even new offers based on its real-time interpretation of the interaction. You can then be passed back to the AI assistant to complete the loan application process quickly and easily using the information already collected.

As businesses continue to refine their systems and processes, we will see customer service and support evolve to a world where human and digital assistants work together, channeled toward the types of support they are best suited to.

This will likely mean smaller customer support centers, built around high performing and well-trained individuals, with the more mundane tasks carried out quickly and effectively by digital assistants. Humans and AI will support each other, with the AI learning from human interactions, but also supporting advisors with information like customer history, intent, predicted next steps, and even special offers.

Customer service and support in this world will be always-on, channel agnostic, personalized, and proactive. AI assistants will have access to detailed, actionable customer insights built from interactions across physical and digital channels, making them well suited for life in the metaverse.

Communication
/ Battery
/ Navigation
/ Mirrorless
/ Ecology

Trend 04

Intuitive Technology

The smartphone transformed the way we communicate with businesses and each other. Now, intuitive technologies that can interpret and understand our intentions look set to transform how we interact with products and services, as well as the technologies that underpin them.

Intuitive technologies are already here in a variety of shapes and forms:



Voice & speech recognition

Speech recognition identifies spoken words and uses intelligent back-end technologies such as Natural Language Processing (NLP) to make sense of those words. This allows us, for example, to call a friend or play a song just by asking our smart device. Voice recognition is a biometric technology that identifies a specific voice, and it can be used for identity authentication. These two technologies are often used together in digital assistants.



Facial recognition

Facial recognition enables us to unlock devices and accounts without having to enter passwords, providing a more intuitive way to verify our identity.

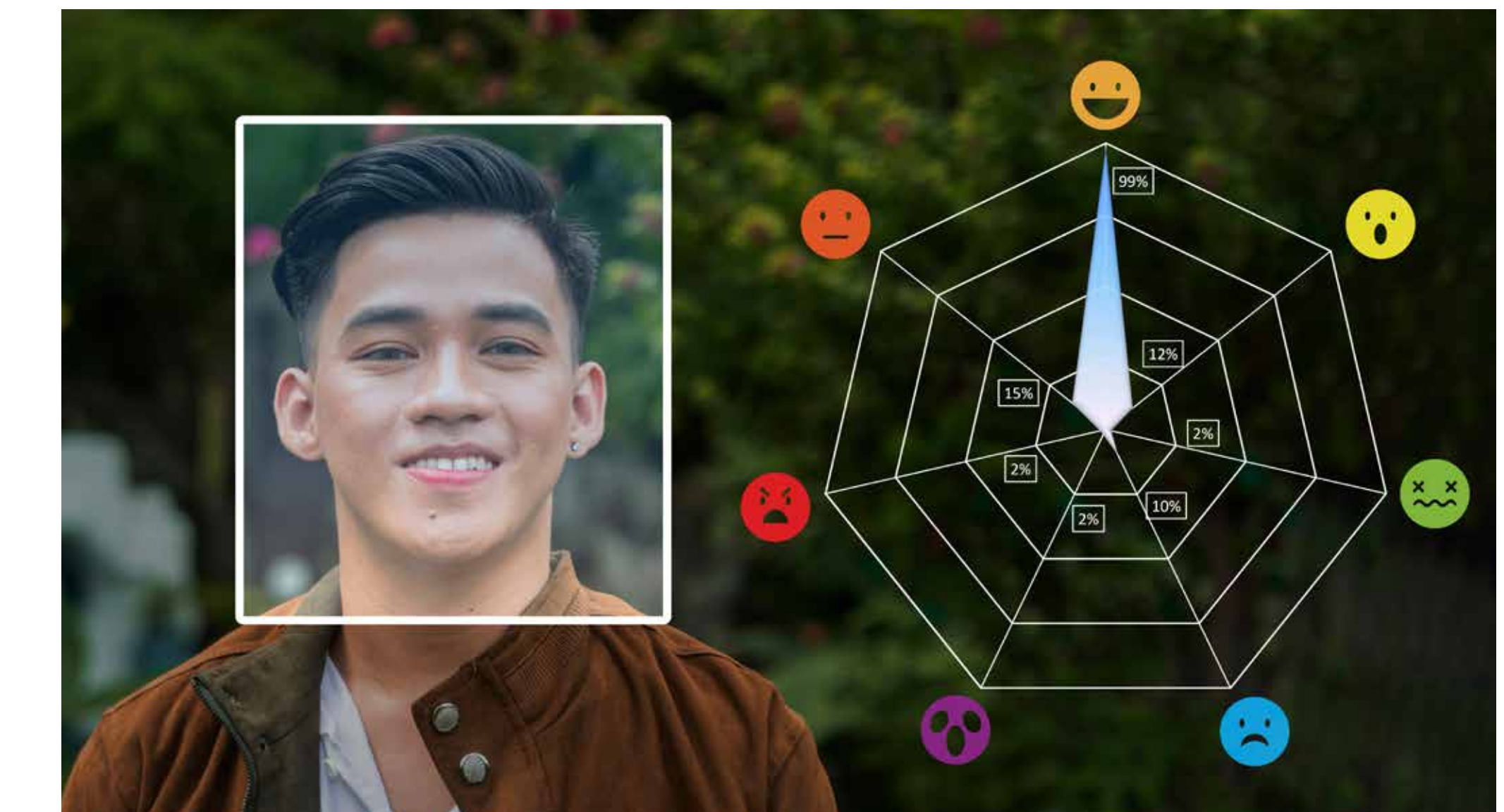
Apple's FaceID, for instance, allows users to unlock their iPhone or iPad just by glancing at it and can also be used to make purchases, authorize payments, and sign into apps.



Gesture recognition

Gesture recognition enables us to perform certain tasks, actions, or functions by making specific, predefined motions or gestures.

The value of gesture recognition is demonstrated most clearly by touchless controls in the automotive sector.



Emotion recognition

Advances in computer vision mean digital systems can passively recognize and understand human feelings and emotions, enabling them to adapt and respond to the user's emotional state without active input. The field of sentiment analysis is rapidly evolving, with an increasing number of technologies trying to capture a customer's perceived mood, e.g. delight or frustration, and using that as a first-party data point to direct interactions.

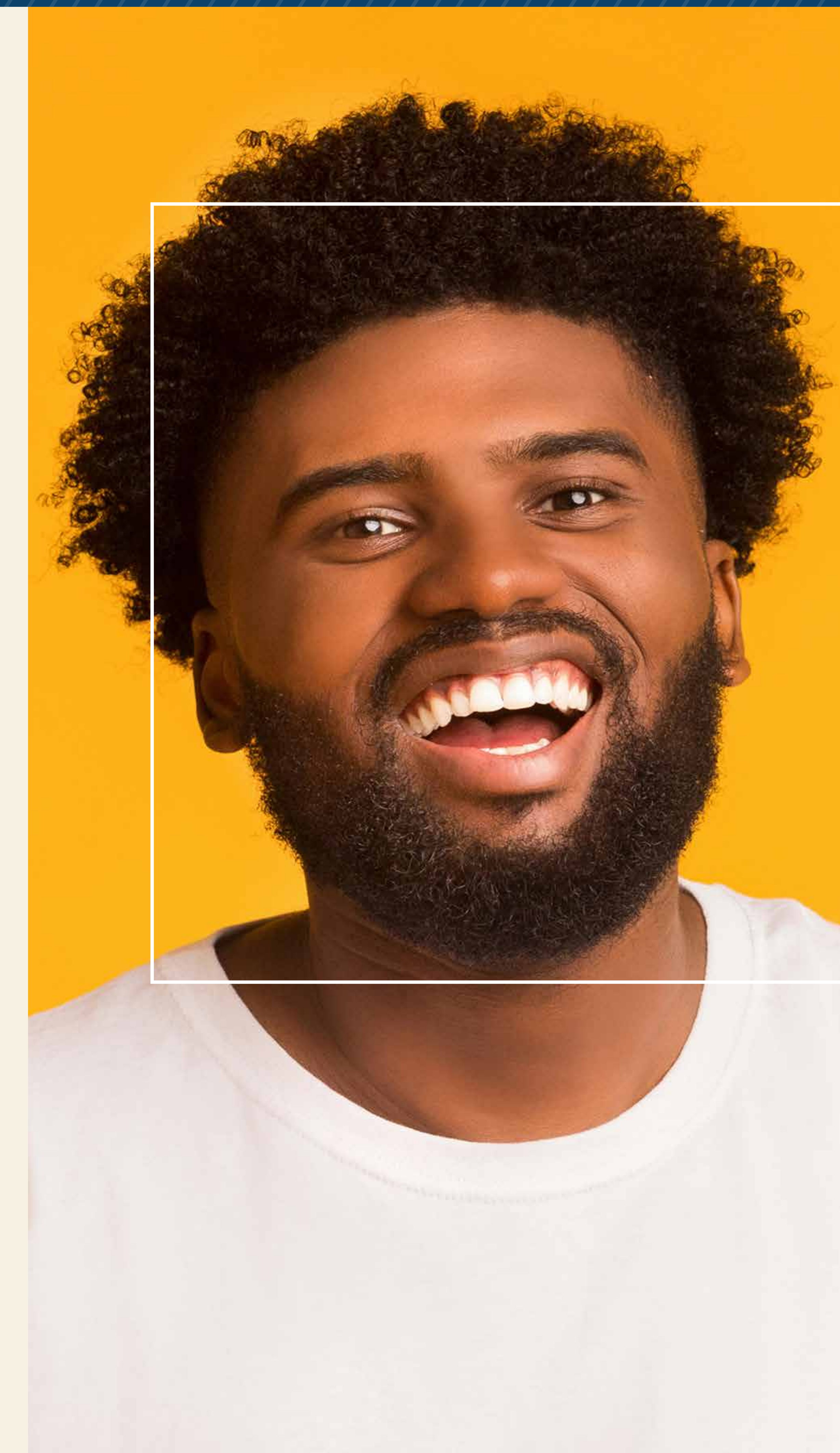
Case Study

Gesture recognition: making Android more accessible for everyone

Millions of people are already using digital assistants like Siri or Google Assistant to perform tasks and navigate their phones using only their voice. Late last year, Google rolled out two new innovations which make Android more accessible for everyone. Camera Switches²² turns the front-facing camera into a sensor that detects facial gestures, enabling anyone to use eye movements (look left, look right, look up) and facial gestures (smile, raise eyebrows, and open your mouth) to navigate their phone. Project Activate takes this one step further and enables users to use facial gestures to active customized actions like sending a text, making a phone call, or playing a song, making Android more accessible to those with speech and motor impairments.

**“Looking to
the future, the
next big step
will be for the
very concept
of the ‘device’
to go away.”**

Sundar Pichai – Google CEO²³



Why now?

The COVID-19 pandemic made everyone more cautious about touching anything, particularly in public places such as train stations and grocery stores, and this accelerated demand for touchless technologies in places where screens or devices must be shared. Some predicted customer and employee interfaces would quickly be transformed into touchless experiences.

Two years on, that transformation hasn't quite happened.

The use of personal assistants has increased, but still only 36% of consumers in our study believe they have ever interacted with one using their voice.

Ask people what they use assistants for, and the use cases are mostly limited to weather checks, playing music, and basic question-answering. In the background, however, things are changing.

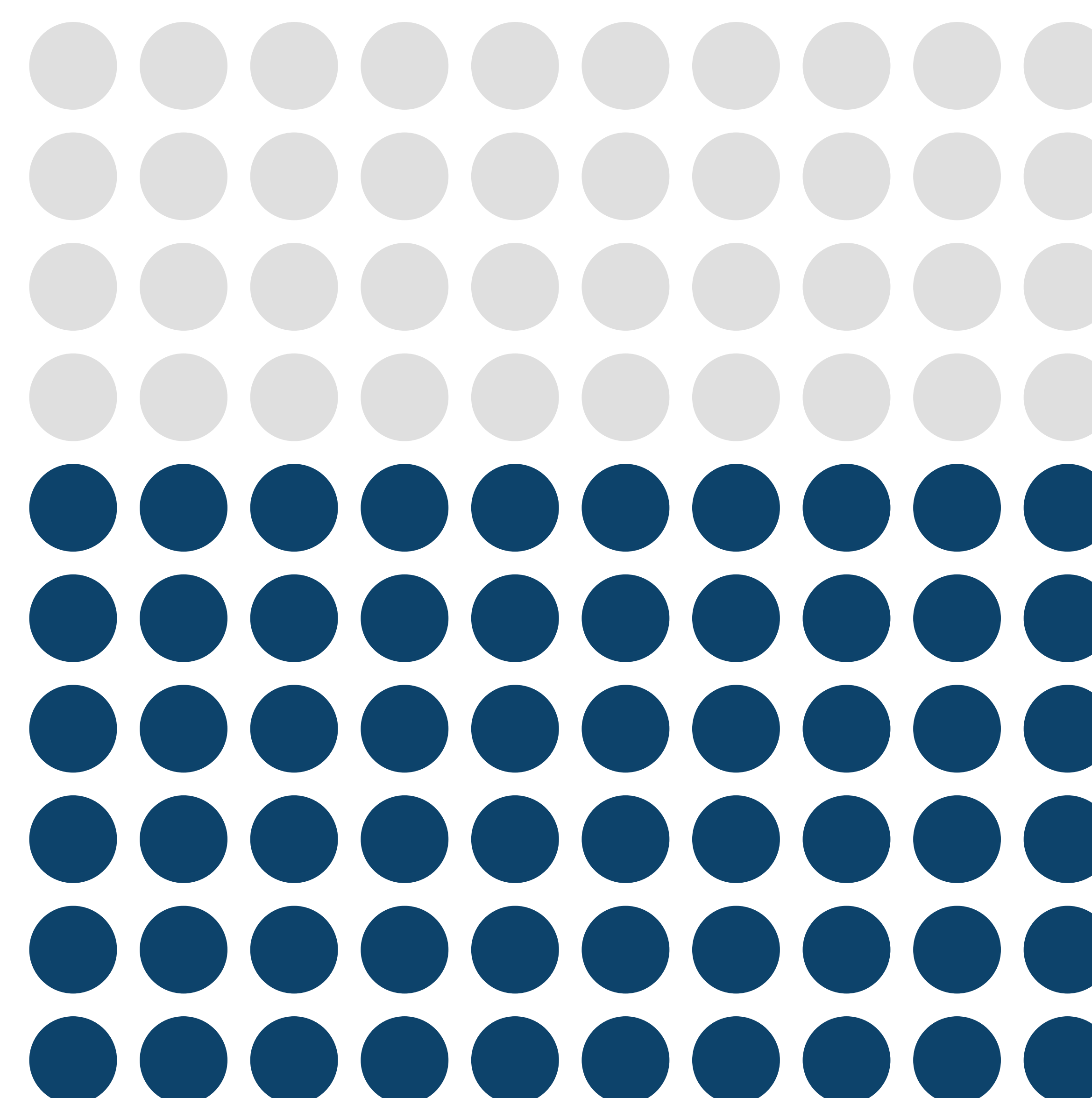


Advances in conversational AI are enabling more natural conversations between humans and intelligent devices, with Google Assistant beginning to understand the imperfections of human speech, including pauses, “umms,” and other interruptions.²⁴ Financial organizations are introducing biometric banking, so we can identify ourselves and perform account management tasks using facial or voice recognition.

More and more products are using gesture recognition – from earphones that respond to gestures by enabling ambient sound to infotainment systems that can be touchlessly controlled while driving – but adoption remains low.

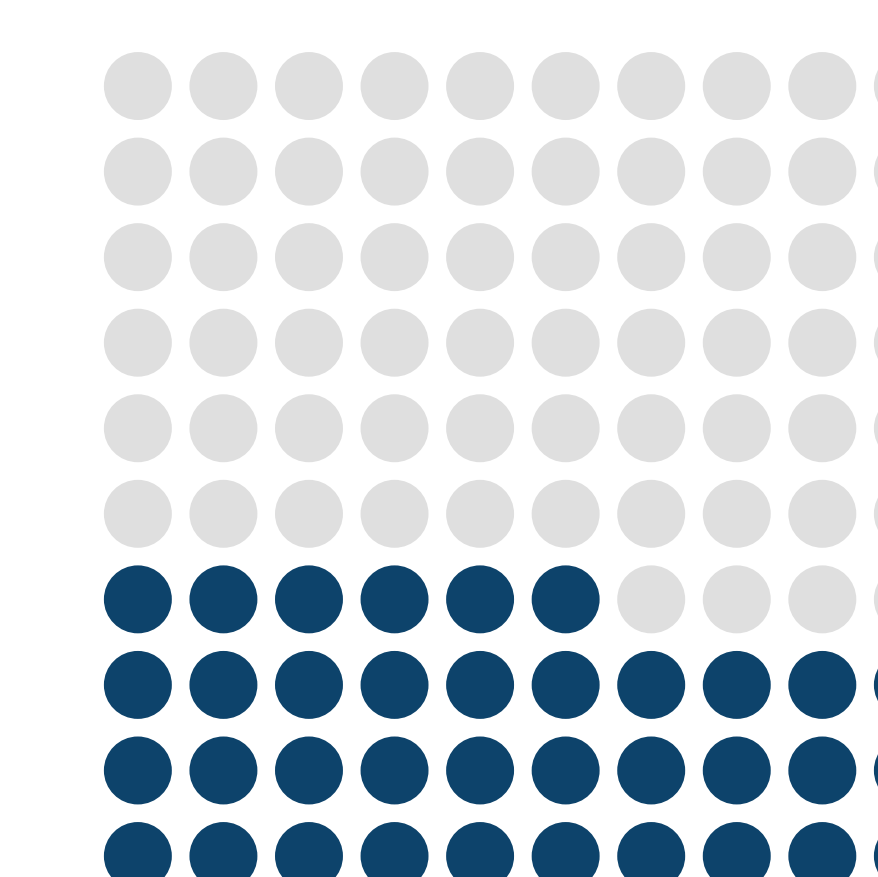
The pandemic crystalized the value proposition of touchless technologies, accelerating their development and deployment. In 2023 we’ll see these touchless interfaces gain ground in everyday use. Facial and voice recognition, already the standard for unlocking smartphones, will become the norm for unlocking everything from smart home devices to vehicles and will start to feature intuitive controls that better understand us and deliver more natural experiences and conversations.

Adoption of intuitive technology by US and UK consumers



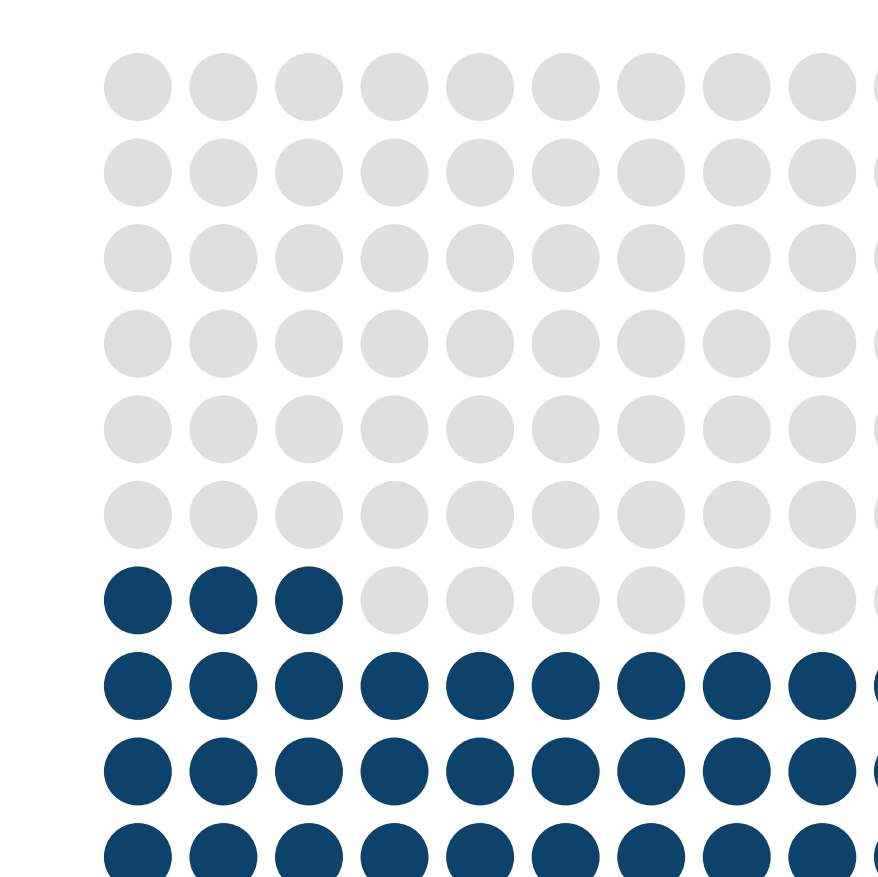
60%

Percentage of users who have used any touchless technologies



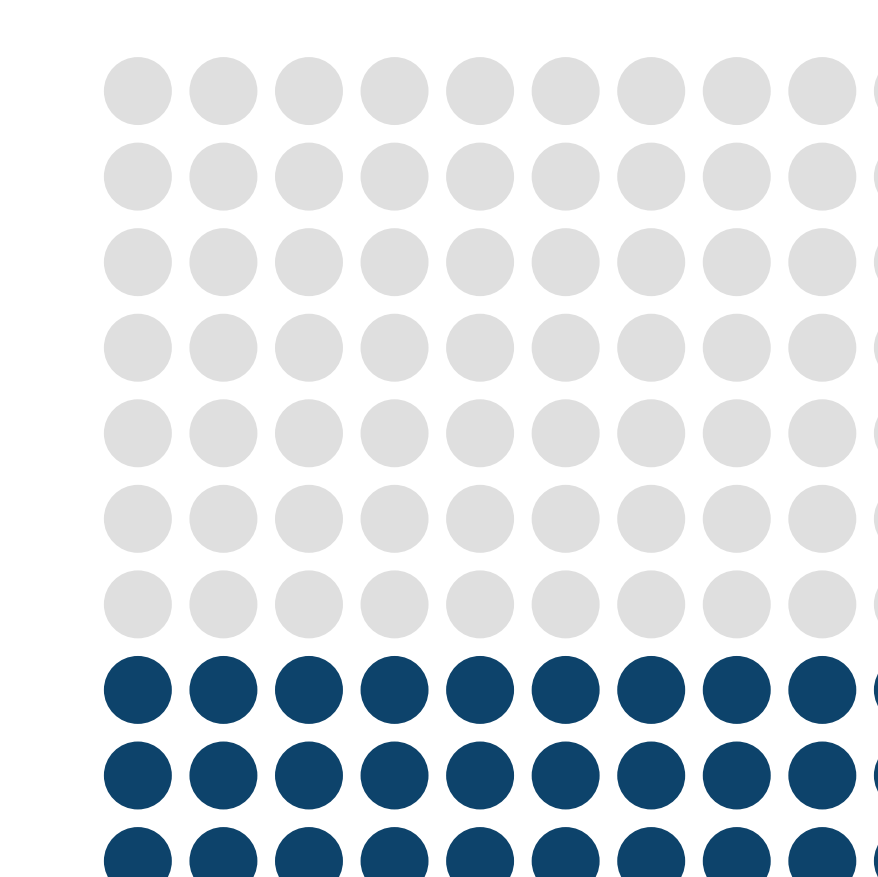
36%

Interacted with a personal assistant (e.g. Siri, Google Assistant using voice)



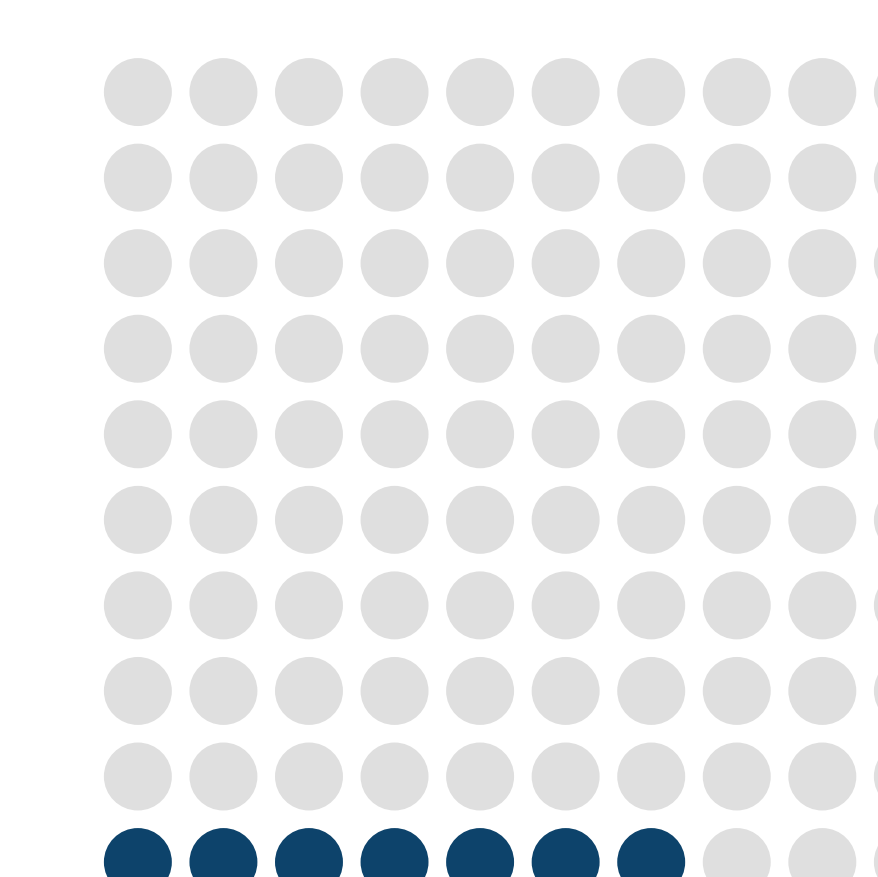
33%

Voice activated speakers (e.g. Amazon Echo/Alexa)



30%

Facial/biometric recognition (e.g. Apple Face ID/Touch ID)



7%

Gestures (e.g. Microsoft Kinect)

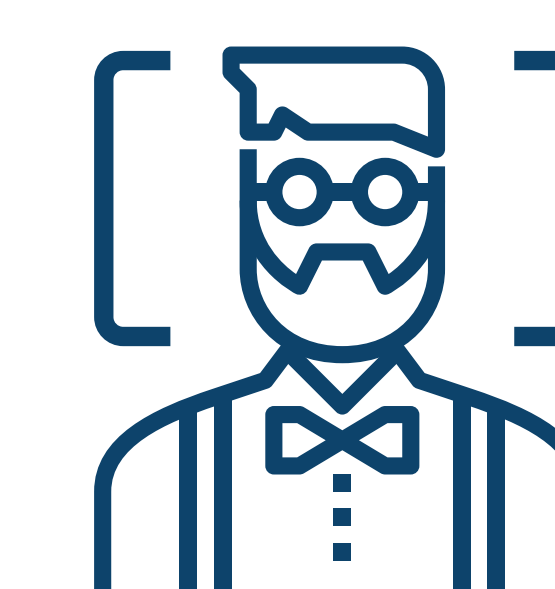
Consumers are already comfortable interacting with personal devices such as smartphones or smart speakers through zero-touch, intuitive interfaces

There are those who happily rely on facial recognition to open their smartphones, tablets, and apps, and can't imagine life without digital assistants like Google Assistant and Siri performing simple tasks like setting their alarm or calling a taxi. Our survey shows 30% of consumers use tools like FaceID to unlock their devices, and 36% of consumers have interacted with personal assistants like Google Assistant or Apple's Siri. Unsurprisingly, younger consumers are much more likely to use these interfaces, with usage rising to 55% and 52% for facial recognition and digital assistants, respectively.

While the people regularly using these individual technologies might be in the minority, the important thing is they are extremely positive about them. Overall, 51% of consumers believe using intuitive interfaces can save them time, but this soars to 87% for those using gesture recognition on a weekly basis. Similarly, just 33% of consumers who haven't used intuitive interfaces believe they can help reduce screen time when interacting with brands, but this rises to 77% for those using gesture-based interfaces on a weekly basis.

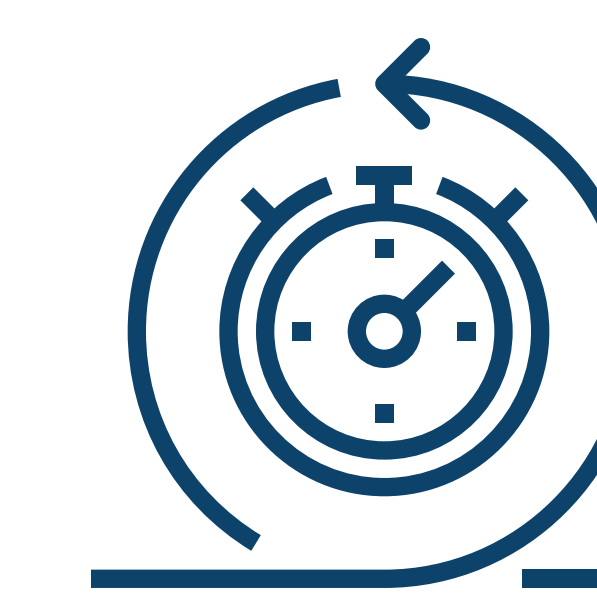
This perspective extends beyond interactions with their own devices. Over half of consumers already using these technologies want to see brands deploying intuitive interfaces to improve the customer experience.

There is one clear message here. The 40% of people who have not used intuitive technologies are largely uninterested in them – just 19% would like to see brands adopt more intuitive interfaces to improve their experience. Those who have used them see their value and want brands to embrace them – 89% of those who use gestures want to see brands adopt more intuitive interfaces to improve the customer experience.



30%

of consumers use tools like FaceID to unlock their devices



51%

of consumers believe using intuitive interfaces can save them time



89%

of those who use gestures want to see brands adopt more intuitive interfaces to improve the customer experience

Businesses are positive about the opportunities intuitive technologies present – 70% are planning to offer more intuitive ways to interact with customers, rising to 88% for larger businesses.

There are several reasons for this positive sentiment. First and foremost is the potential to enhance the customer experience, with 61% of US businesses believing intuitive interfaces will enable them to deliver more seamless, responsive, and personalized experiences. From integrating online platforms with smart speakers to support voice-based shopping to enabling users to pay with the unique signature of their palm,²⁵ businesses understand these new interfaces will help customers interact with their products and services in more natural, intuitive ways.

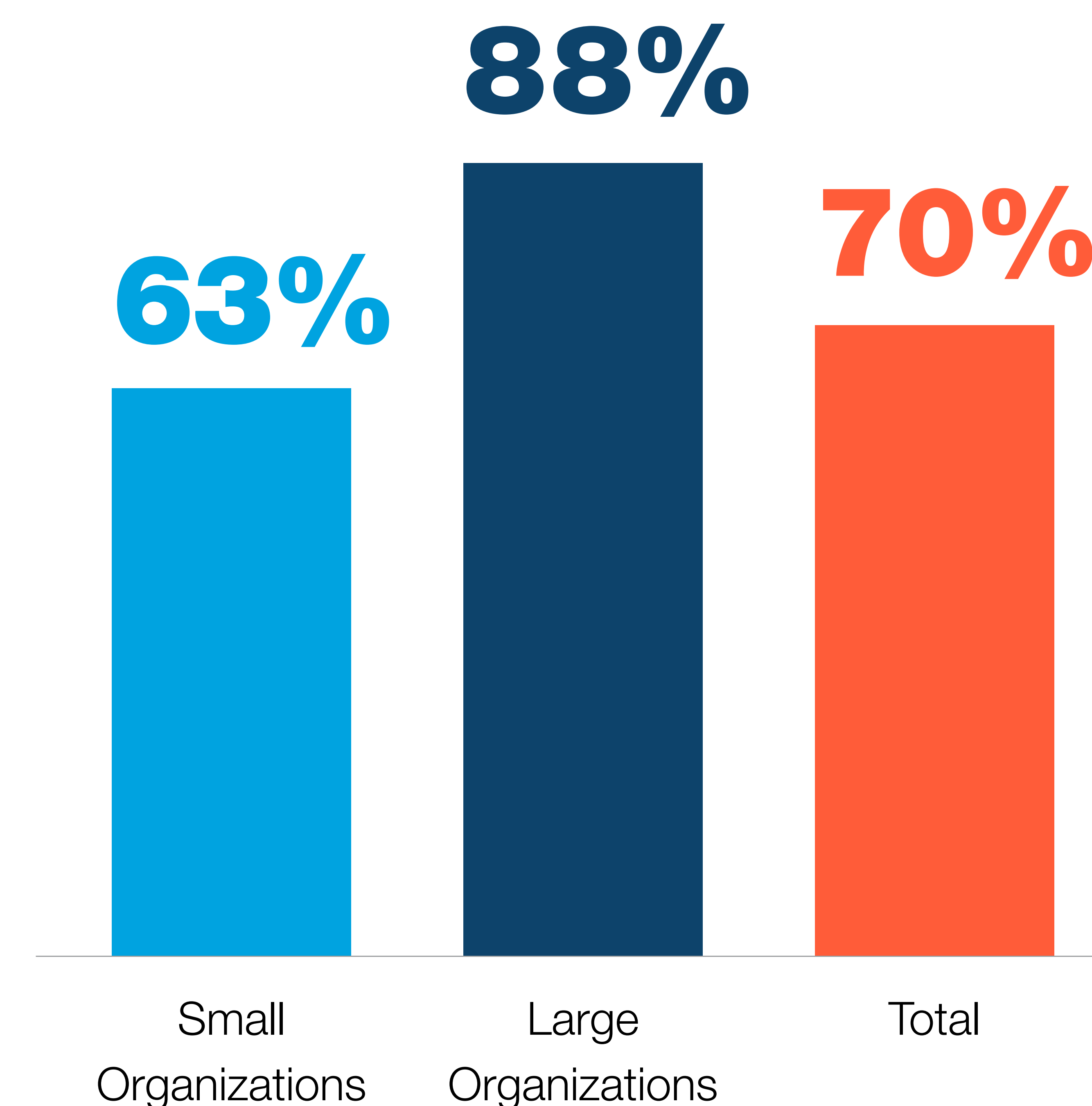
A second driver of the positive sentiment around intuitive technologies is the potential for businesses to collect more first-party data and better understand their customers.

Overall, 53% of businesses see this as a potential benefit, rising to 70% of businesses in the financial services sector, where the ability to understand the needs of individual customers and meet them with relevant products or services appears to be particularly important.

Finally, businesses are convinced specific aspects of intuitive technology, such as digital identity verification through facial or voice recognition, have the potential to both enhance security and improve acquisition. They enable businesses to onboard customers more rapidly and reduce drop-off during the onboarding process.

Given this wide range of possible benefits, most businesses expect intuitive technologies to give them a competitive boost. 64% of large businesses believe intuitive interfaces will become a source of competitive advantage for consumer-facing businesses in the next five years. And for retail businesses this rises to 74%.

Businesses are looking to offer more intuitive ways for their customers to interact with them



Where next?

The first generation of assistants such as Siri, Alexa, and Cortana helped to increase acceptance of voice user interfaces

Today, using smart speakers and speech recognition for online search queries doesn't seem nearly as futuristic as it did 10 years ago.

But the new era of voice user interface is only just beginning, and ongoing advances in AI and NLP will enable us to have ever-more natural, fluid conversations with these digital assistants. Next-generation interfaces will leverage an array of sensors to add context to gaze, motion, and voice, and will be able to perform increasingly complex, multi-step tasks with ease.

As technological development continues, use cases will proliferate, and so too will deployments. The voice interface market is forecast to double in size by 2027, by which time it will be worth \$46 billion.²⁶

Similarly, the evolution of sensing, signal processing, and AI is creating more intelligent systems capable of recognizing increasingly complex motions and gestures. Advanced gesture control will penetrate new markets, enabling intuitive interfaces in everything from smart navigation and consumer electronics to gaming and healthcare. As with voice interfaces, the gesture interface market is expected to experience significant growth, doubling in size to reach \$25 billion by 2026.²⁷

But the potential of intuitive technologies isn't just limited to voice and gesture-based interfaces.

Biometrics, including facial recognition, will reduce our reliance on physical documents for identity verification and will open possibilities for new, intuitive, and secure ways to prove we are who we say we are online.

Intuitive interfaces will transform how we interact with brands across both physical and digital channels. As we step toward the metaverse, these interfaces will enable the virtual worlds around us to understand us and our intentions intuitively, enabling brands to deliver personalized experiences that adapt and respond to our every need, all without touching a screen or device.

The gesture interface market is expected to experience significant growth, doubling in size by 2026 to reach

\$25b

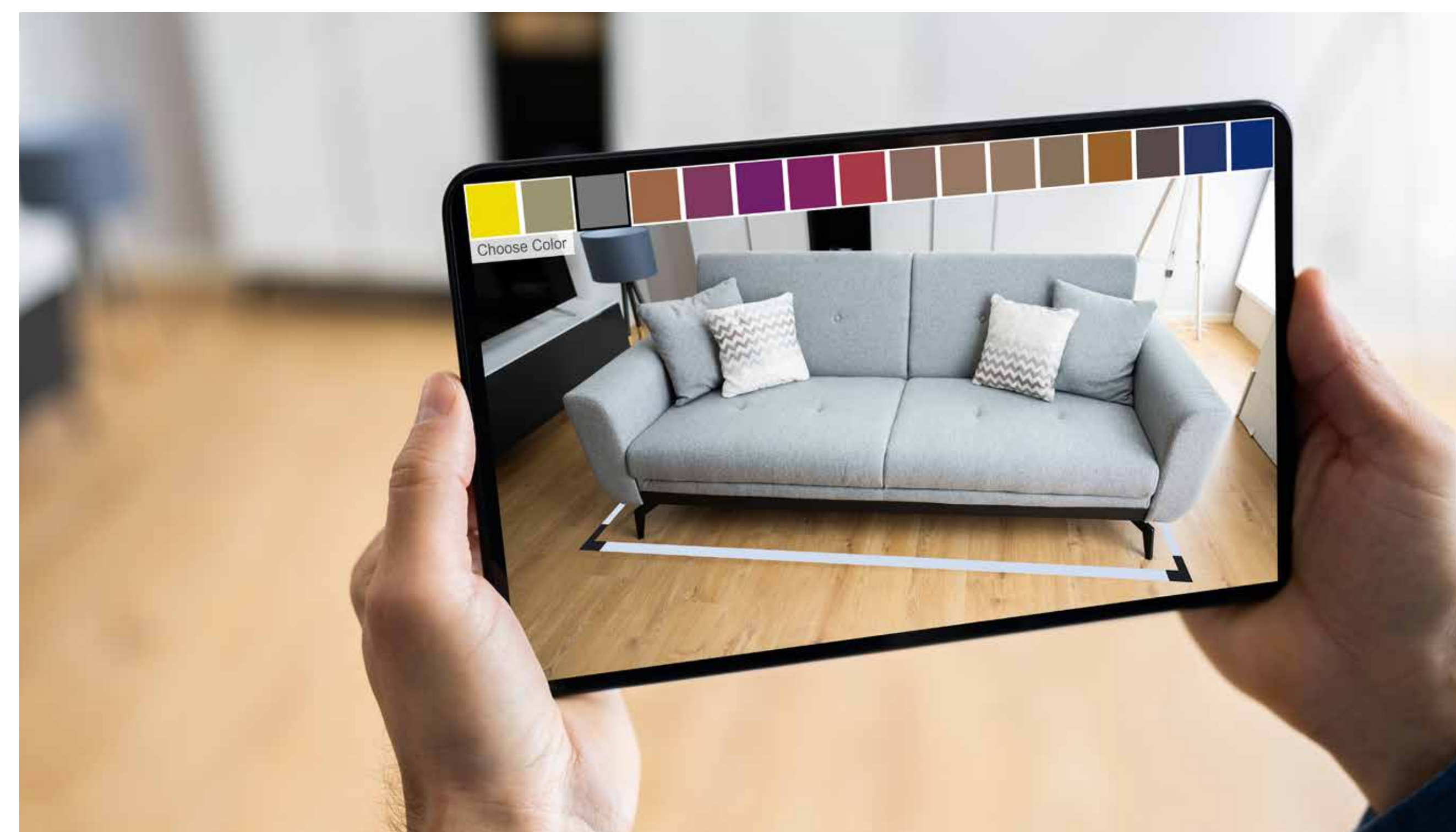
Trend 05

Immersive Shopping

Immersive shopping uses simulation-based technologies such as augmented and virtual reality to create interactive and highly personal shopping experiences.



While retailers are only just getting started, current use cases include:



Virtual try-on

Beauty and fashion brands are leading the way with virtual try-on experiences, using smartphone cameras to project a product – such as lipstick or glasses – onto a live image of the shopper’s face or body. But the principle is also widely used in the homeware sector, with shoppers able to use Augmented Reality (AR) to see how items of furniture or accessories look in specific locations.

80%

of consumers who have used immersive shopping find AR shopping experiences appealing²⁸



Virtual showroom

Virtual showrooms bring the store to the shopper using AR or Virtual Reality (VR) visualizations. Virtual car showrooms are the early leaders, enabling potential customers to get up close and personal with vehicles before they make the journey to the dealership. Home appliance, fashion, and B2B brands are also exploring the opportunities presented by virtual showrooms.

78%

of consumers who have used immersive shopping find virtual showroom shopping experiences appealing²⁹



3D modeling

3D modeling is an extension of the virtual showroom that uses simulation technologies to model a product or an entire space — think designing a full holographic kitchen or completely customizing a car. This technology is particularly valuable for people who want to immerse themselves in a space before making a high value purchase decision, such as investing in a remodel or buying a new house.

85%

of consumers who have used immersive shopping find 3D modeling shopping experiences appealing³⁰

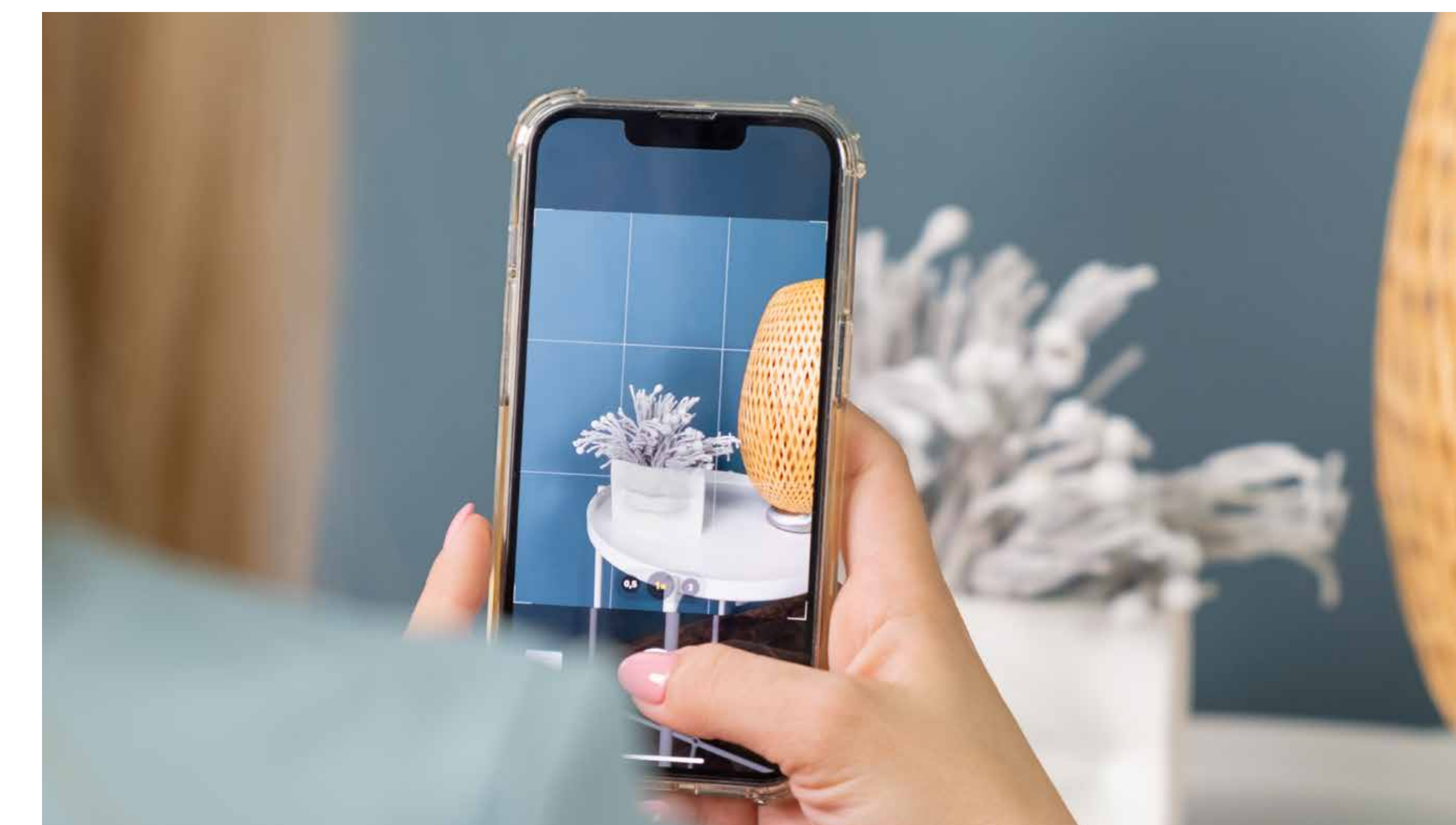


In-store AR

AR presents opportunities for brands to bring new, exciting technology-driven experiences to brick and mortar stores. From interactive digital products overlaid on the real world, to immersive experiences that capture the essence of the brand, AR can enable the next generation of experiential retail that is more interactive and more engaging than traditional retail.

56%

of consumers are excited to see immersive shopping experiences used by more stores



Visual search

Visual search allows people to use their smartphone to shop the world around them. By simply taking a photo of an item in the real world and doing a visual search, consumers can access information that's available about it online – such as where they can buy it and how much it costs. They can also find similar or related products for comparison.

90%

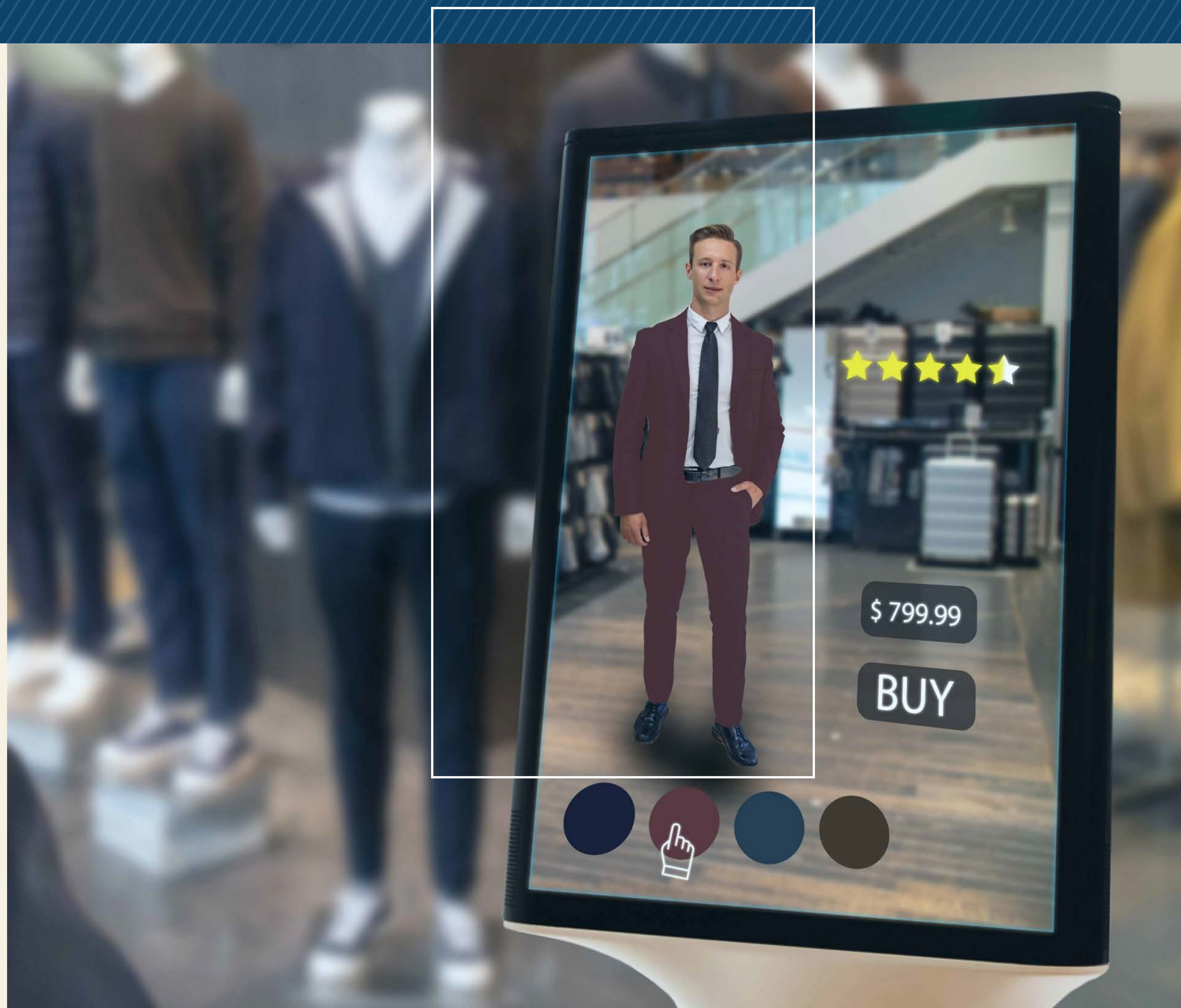
More than 90% of Americans currently use, or would consider using, visual search for shopping³¹

Case Study

Digital avatars: increasing consumer confidence when shopping online

Reactive Reality is using AI, photogrammetry and image-based rendering to automate the conversion of 2D images of people and products into photorealistic 3D models. Their technology enables shoppers to create a digital avatar of themselves to virtually “try on” items of clothing prior to purchase. It is working closely with ecommerce brands, including NET-A-PORTER, to improve the customer experiences, increase sale conversions, and overall customer satisfaction.

Perhaps most importantly, the technology is helping brands reduce costly and environmentally damaging returns by up to 30%, by increasing consumer confidence when shopping online.³²



Why now?

It is still early days. Nearly half of consumers haven't yet used immersive shopping experiences or aren't even aware these options are available. But immersive shopping is growing quickly, driven by a number of factors.

Necessity is known to be the mother of invention, and this was certainly in evidence during periods of pandemic-related lockdown, where businesses such as car dealerships turned to immersive shopping when their showrooms were forced to close.

Overall, the pandemic accelerated a shift to ecommerce, which consumers now rely on ever-more heavily. Immersive shopping enables brands to create well-imagined virtual experiences that can replicate or replace the in-store experience, making it a vital part of any ecommerce strategy. Although the impact of the pandemic may be subsiding, the market is still disrupted by global events and economic uncertainty, meaning any developments that can increase customer delight, conversion, and loyalty, while potentially also reducing costs (more on that later), are very welcome.

Technological progress and adoption are also driving growth. Smartphone cameras and the AR software underpinning immersive shopping are getting better every year. And an estimated 56 million Americans used AR at least once a month in 2022, albeit mostly for gaming.³³

While the above are all important drivers of immersive shopping, by far the most important factor behind its growth is consumer behavior. People are becoming pickier about the brands and stores they choose. It's getting harder to grab and keep their attention, and they are looking for new and innovative shopping experiences. They also want more information to make sure a product is right for them before they buy. In this context, virtual experiences that capture the essence of a brand and tell its story in a meaningful way, while also enabling the shopper to experience its products, are a vital part of any retail strategy.

Crucially, over three quarters of the consumers in our study who had tried immersive shopping were satisfied with their experience, and just under half bought a product as a result.



30%

have used an immersive shopping experience...



78%

of those who have, were satisfied with the experience...



48%

of those who have used an immersive shopping experience ended up making a purchase

We've already seen how consumer expectations of brands and the shopping experience are increasing. People want to sink into shopping, to be inspired, to try out products, and to ask friends for their opinion, all before committing to a purchase. Here are three ways immersive shopping can improve the experience from the consumer's perspective:

1. Greater confidence in the product

Consumers want reassurance they are buying the right product. If they're choosing an item of clothing, for example, they want to be able to identify the size, color, and style that suits them best. Of those who have used immersive shopping, 73% agree it makes them more confident in the product they are going to buy.

2. A fun and social experience

In an era of social networks, instant messaging, and rich visual communication, people want a more fun and social experience when shopping, whether in-store or online.

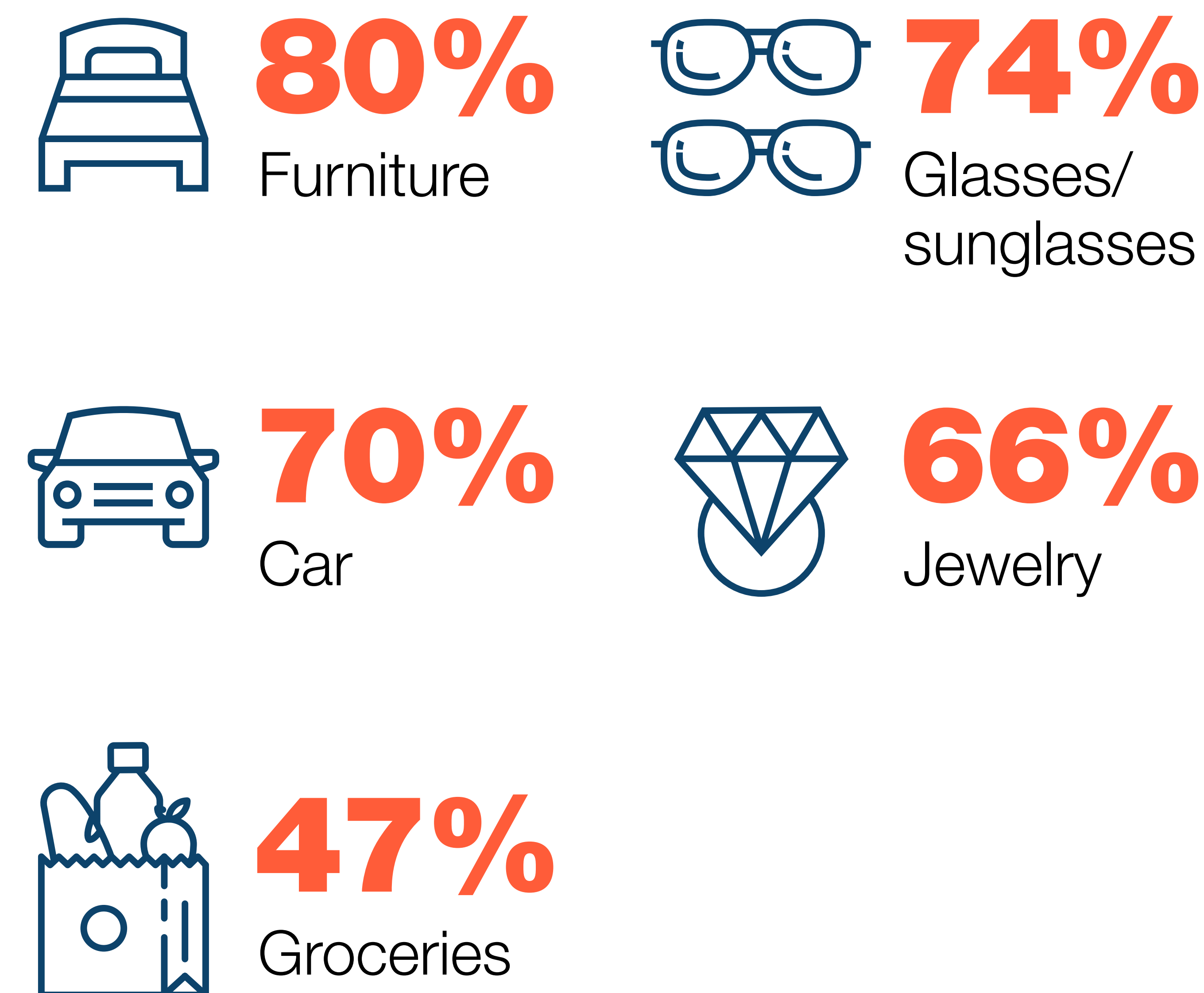
They want to share potential purchases with their friends via platforms like Instagram and TikTok, to get opinions before making a decision. Immersive technologies complement this social sharing to make shopping more engaging and interactive than ever before.

3. A more personal encounter

Immersive shopping provides richer sensory feedback to the brain, which – when properly implemented – can elicit more powerful emotional reactions. This opens up the opportunity to give a more personal feel to shopping, be that through trying on a virtual winter coat or placing a coffee table in an AR re-creation of your living room.

While furniture is most often identified as the retail sector that could be improved by immersive shopping, the majority of consumers also think it would enhance the purchase experience for cars, glasses, and jewelry. And almost half would welcome its use in grocery shopping.

The proportion of consumers who believe their shopping experience would be improved by an immersive shopping experience related to the products below:³⁴



The appeal of immersive shopping for the consumer is clear. So, what about the brand? Below are three of the ways brands could benefit:

1. Engaging the omnichannel shopper

Online retail spending continues to grow. In the US it increased 40 percent in 2021, and in the UK it remains above pre-pandemic levels.³⁵

But contrary to expectations, in-store has also recovered well, with about 75% of US consumers researching products and making purchases in both brick-and-mortar and online channels (across all categories spanning consumer electronics to groceries).³⁶

With consumers increasingly taking an omnichannel path to purchase, brands need to work harder to offer seamless, personalized, and differentiated experiences, which in turn drive conversion, basket size, and brand affinity.

Retailers know immersive shopping has a key role to play in engaging the omnichannel shopper.

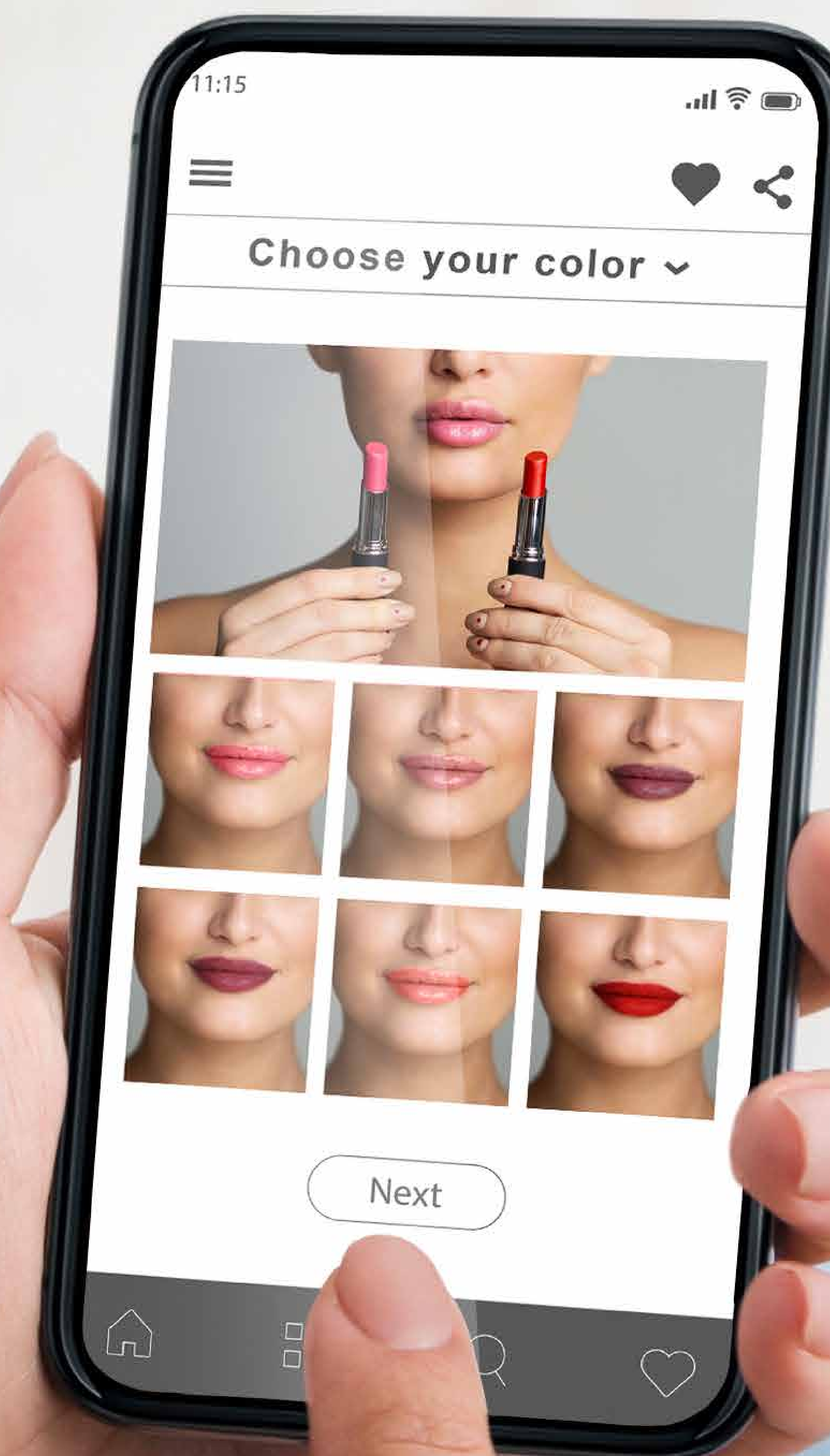
Two-thirds believe immersive shopping experiences will become a useful tool to help their company better engage customers and generate brand loyalty.

2. Saving costs by reducing returns

At a time when retailers are struggling with supply chain challenges and rising costs, immersive shopping has a key role to play in driving commercial efficiency by reducing returns.

The rise of ecommerce has caused a corresponding surge in returns, with one study showing the average value of returns for online shopping is around 30% of purchase value, compared to less than 9% for brick-and-mortars.³⁷ Without the ability to try products in store, many customers order multiple variations because they are not sure which size or style will best suit them. They then return the ones they don't want. Items not fitting is the single biggest reason for products bought online being returned.³⁸

By enabling shoppers to explore and try out products virtually, immersive shopping allows customers to make more informed purchase decisions which should ease the burden of returns on retail brands.



3. Understanding the customer through valuable data

Over three-quarters of retailers believe immersive online experiences will generate new data streams that enable businesses to better understand their customers and their buying habits.

In virtual environments, retailers can collect extensive passive and active customer data. Virtual try-on experiences, for example, can deliver data about which products are catching shoppers' attention, and which colors or styles they are finding most engaging. Equally, a virtual car showroom can help auto brands capture data about what models, features, and vehicle colors customers are considering.

With the right technology stack, brands can integrate this information with other data points from across the customer journey to further personalize the experience and to inform marketing across physical and digital channels.

80% of retailers think in five years time most ecommerce retailers will have built immersive shopping experiences.



Where next?

The shopping experience is changing rapidly. From AI assistants and social-media shopping to a variety of click and collect models – there is a long list of new shopping formats, both inside and outside the physical store.

The future of shopping is a combination of technologies and innovations that can make the experience richer, more interactive, and more integrated. Immersive shopping – aided by AR and VR – will have an increasingly prominent part to play in this exciting future.

Our research shows consumers are excited about immersive shopping but many have yet to try them. Almost half of consumers haven't tried immersive shopping because they don't think they have been offered them, suggesting opportunity for brands and retailers to build and grow awareness of these exciting new ways to shop.

Stepping stones to the metaverse

While we're still some way from going shopping in an entirely immersive reality, the experiences available today are a stepping stone to commerce in a fully-formed metaverse. Brands such as Gucci and Tommy Hilfiger have launched virtual shopping experiences in platforms like Roblox this year and others will likely follow, but for now the heart of immersive shopping will still be AR or VR experiences we look into on a screen, rather than something we are inside.

Adapting to a phygital world

Customer behavior is continually evolving, but the current trend is toward a “phygital” world, where the lines between physical and digital retail are increasingly blurred. Brands must take the best elements of each and use them to enhance the performance of both and deliver a better customer experience.

Immersive shopping experiences will be designed around this requirement, allowing users to research, explore, interact with, try on, and purchase a product virtually.

They will be a key tool for retailers to re-center the digital shopping experience around the specific needs of the consumer.

Embracing new technology

The technologies that enable immersive shopping will evolve rapidly. VR headsets are still the exception not the rule, but in 2023 we will see ever-more sophisticated AR tools emerging to enhance immersive shopping through the smartphone and other devices. For example, Apple's ARKIT 6 upgrade enables sophisticated 3D models to be created by scanning rooms with smartphone cameras – so products can be placed and modeled within them.

Similarly, avatar-based fit technology is coming to the online shopping experience, which should help address incorrect sizing and ultimately returns. Customers can create realistic avatar representations of themselves and use these to try on virtual clothes.

Industry leaders such as Amazon are currently working on digitization technology such as body mapping and virtual dressing, so customers can take a photo of themselves and adjust or input their measurements once the avatar model has been rendered. Many fashion brands are already digitizing their inventory in anticipation of these new technologies.³⁹

AI analytics and customer data

Truly immersive experiences are made possible by technology working in the background to deliver the frictionless experiences customers expect. As retailers refine their ability to capture data and provide a single customer view across channels, they will increasingly be able to apply AI and analytics technologies to their real-time decision making – all to ensure the immersive experiences they deliver are as flexible and personalized as possible.

The most successful brands will be those who test and learn. They will need to become content creators and software designers, masters of the user interface, and experts in real-time data analytics, all at the same time.

Conclusion

The CX revolution is just getting started.

Research has shown time and time again, a great customer experience is key to driving customer satisfaction, brand loyalty, and ultimately customer lifetime value.

To capitalize on the five CX trends highlighted in this report, businesses of all shapes and sizes are investing in tools and technologies to help them gain a better understanding of their customers, and to use that understanding as the foundation for more engaging experiences.

These technologies are transforming how the customer experience is delivered, from tailoring marketing materials and personalizing product recommendations to optimizing purchase journeys and cross-selling activities. But we've only just scratched the surface of how technology, data, and analytics will combine to transform the customer experience.

Everywhere we look, the lines between the physical and virtual worlds are blurring

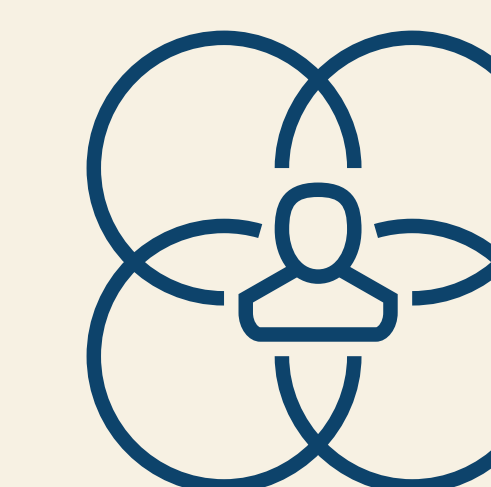
From AR and VR to AI and intelligent digital services, sophisticated technologies are transforming the very world(s) in which we live, work, and play. While the metaverse may seem nascent and abstract today, these new and emerging technologies, systems, and approaches are opening up new ways of engaging, interacting, and understanding customers at an individual level.

In 2023 and beyond, we will see an ever increasing number of brands adopt data-first approaches, buoyed by tech, to deliver what customers now expect: seamless, omnichannel experiences personalized to their every need. Whether it's immersive shopping or intuitive, friction-free service, these advances will enable brands to seamlessly blend the best of physical and digital to deliver experiences that delight their customers.

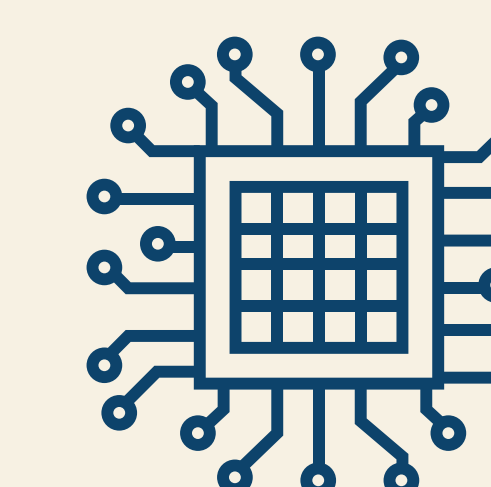
These tech-enabled customer experiences will require:



Sophisticated tools and technologies to capture customer data, as digital interactions increase in volume and complexity



Customer data platforms that maintain a holistic and constantly updated view of each and every customer



Advanced analytics underpinned by ML to analyze and understand customers at an individual level to facilitate hyper-personalization

To succeed in the future of CX businesses must:

1. Establish a data foundation

Businesses must adopt data-driven approaches to deliver the exceptional, omnichannel, personalized experiences that their customers now expect. To facilitate data-driven decision making, CX leaders must build a strong data foundation to establish:

- A deep understanding of what data they currently possess, and where their data gaps and opportunities lie
- The technologies, systems, and approaches required to streamline, organize, and integrate relevant data from touchpoints throughout the customer journey
- Data security and governance practices to ensure data is well maintained and distributed securely throughout the organization

We've only seen the beginnings of the revolutionary potential opened up by technologies like the metaverse. As the number and complexity of digital touchpoints explode, so does the potential for data chaos. That's why a strong data and identity foundation – with first-party data and a first-party identity graph at its core – is going to be even more critical for brands in 2023 and beyond.

2. Consider data partnerships

With a robust first-party data and identity foundation in place, businesses are on their way to delivering the kinds of experiences their customers now expect. But to gain an even deeper understanding of their customers (and to reach more people like them), we're going to see more brands forge strategic data partnerships to expand and enrich their datasets. These data partnerships, if correctly architected, can facilitate privacy-preserving data sharing, enabling businesses to combine datasets to establish a holistic and evolving view of their customers.

For example, airlines and hotel chains can partner using clean rooms, an increasingly popular technology that facilitates the sharing of data in a secure environment with data hygiene and advanced matching capabilities. By combining separate, siloed data in this way, two brands can safely join forces to create a dataset that's greater than the sum of its parts, and use it to design bespoke loyalty programs – win, win.

3. Redefine the customer value exchange

Next-generation customer experiences are underpinned by data and analytics, but customers are increasingly cautious about sharing their personal information. So before businesses earn the right to engage and delight their customers with new tech-enabled experiences, they must be proactive about explaining the data value exchange to their customers. They should clearly articulate which services will be impacted by opting out of data sharing and crucially, should highlight how opting in will improve their experience through personalization.

The bottom line is great customer experiences will require and generate more data connected through identity. The most successful brands will embrace this reality, setting them up for the metaverse and beyond.

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Trend 5

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29. MTM/Acxiom: Q: Now thinking about how immersive experiences could be part of your shopping experience, how appealing do you find each of the following technologies? A: Virtual Reality: a simulated experience that can be similar to or completely different from the real world e.g., virtual car showrooms.

References

Trend 5

30. MTM/Axiom: Q: Now thinking about how immersive experiences could be part of your shopping experience, how appealing do you find each of the following technologies? A: 3D Customisation: Using 3D models to better customise your product's appearance and features e.g., Tesla custom order.

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Figure data

Page 15

Source: MTM/Axiom – CX Trends for 2023 – B2C Survey. Question: To what extent do you agree with each of the following statements about advertising in online stores? Base: Total n = 2018, 16-44 (n = 949), 55+ (n = 753).

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Source: MTM analysis using market size data from various sources including Business Insight, Future Market Insight, BCC Research. Adjusted for 2026 based on forecast CAGR.

Page 22

Source: MTM/Axiom – CX Trends for 2023 – B2C Survey. Question: How many of each of the following types of subscription services do you subscribe to? Base: Total n = 2018.

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Source: MTM/Axiom – CX Trends for 2023 – B2C Survey. To what extent do you agree with each of the following statements about service-based products? Note: n = 2018.

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Source: MTM/Axiom – CX Trends for 2023 – B2B Survey. To what extent do you agree with each of the following statements about service-based products? Note: n = 200; Large businesses = 25% of total.

Page 42

Source: MTM/Axiom – CX Trends for 2023 – B2B Survey. Question: To what extent do you agree with each of the following statements about zero user interface technology? Base: Total n = 200, small organization n = 75, large organization n = 50.



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