



How AI Technology Will Transform Customer Engagement

Based on a study of leading retail executives

Retail customer service and AI survey.
Brought to you by BrandGarage in
partnership with Linc.

BrandGarage

 **Linc**

Letter from BrandGarage

Maybe we aren't battling evil robots for universal domination or unwittingly falling in love with perfectly programmed soulmates, but Artificial Intelligence (AI) has subtly and permanently snuck into all our lives.

Hollywood primed us for years, foreseeing a future AI-centric world, dreaming up hundreds of amazing and daring uses for AI. Now, the average consumer has easily adapted to living in that future, as AI applications continuously emerge to make daily routines easier and quicker. We're comfortable amongst self-driving cars and automated personal assistants that predict when we'll need more milk. It was only a matter of time before the retail industry and the most innovative ecommerce giants started adapting, too.

Since BrandGarage helps large companies innovate, we wanted to research this trend and answer the billion dollar question: how exactly is this new AI technology going to change retail?

Ecommerce is a data-rich industry, making it a perfect fit for AI. Plenty of AI applications can transition seamlessly to retail, streamlining processes and personalizing the entire customer journey in unprecedented ways. Retailers that ignore this trend will find themselves playing catch-up for years. This report looks at one area in which AI will transform retail—customer engagement. And, for those ready to join the revolution, we hope this helps guide you in your efforts to provide the best possible customer experience.



Thanks,

A handwritten signature in black ink that reads "Mark Evans".

Mark Evans

Table of Contents

Executive Summary	4
Part I: The Changing Landscape of Customer Service	6
Part II: Innovating the Customer Service Experience	11
Part III: The Future of Customer Service Shaped by AI	24



Executive Summary

Eighty-nine percent (89%) of customers will ditch a retailer if they have a bad experience—and they won't come back. Consumers today are tougher critics with tighter attention spans. Customer centric Internet companies like Uber, AirBnB and, of course, Amazon are aggressively setting new bars. Many traditional marketing tactics are becoming outdated, costly, and ineffective within this increasingly sophisticated market. **How does a retailer survive this daunting trifecta of marketing pitfalls? Simple—through providing stellar customer service, powered by AI.**

We conducted this study to prove the heightened value of customer service and the transformative role AI plays, and will continue to play, as retailers strive to stand out from the crowd. Retention (through customer satisfaction) is cheaper than acquisition, and a great end-to-end commerce experience can organically supercharge a brand's popularity, catching positive attention on social media like wildfire. No other method of marketing has ever promised such results. To stay ahead of the curve, or just keep up with the competition and the demands of savvy consumers, the time is now for retailers to integrate AI in order to better serve their customers.

¹Lithium, "The Path to Happy Customers".

Our 12-question online survey polled **104 senior level marketers and executives from leading retail brands**. Respondents represent the majority of retailer categories: 36.5% are retailers selling multiple brands; 22.4% are direct to consumer brands and wholesalers; and 25.9% are retailers that sell their own products and brand. Of the 104 participants, 4 were selected for follow-up phone interviews that deeply examined the impact of AI on their individual business structures.

Q: Please describe your business model.



The study's results highlight the undeniable shift in the way retailers will prioritize and design their customer service programs in the next few years. **87% of retailers surveyed plan to enhance and expand their customer experiences with AI tools, recognizing customer service as both the new frontier of marketing and catalyst for retention.**

The Changing Landscape of Customer Service

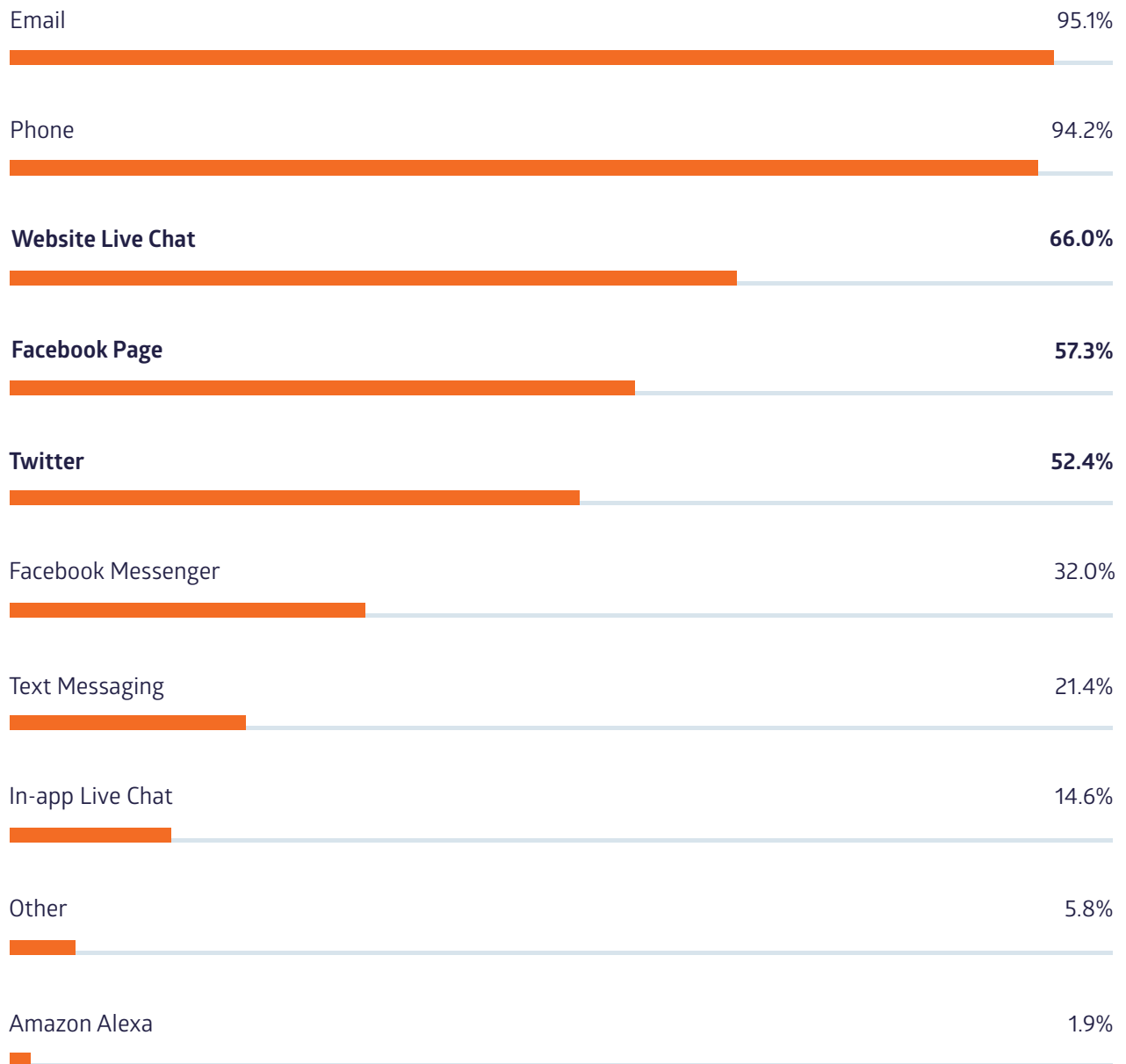
They know what they want, and they know where they want it.

As technology advances and customers' expectations swell in response, the retail industry felt forced to evolve. Retailers have been increasing their number of supported communication platforms, from basic email and texting to Facebook Messenger and self-serve online services. Thanks to trailblazing companies like Uber and AirBnB, the world expects everything conveniently at its fingertips—literally. Inundated by social media and on-demand products/services, consumers quickly established their own specific preferences for engaging with retailers. They choose communication methods with brands based on perceived ease, quality, and timeliness of service. And, they expect to receive that service in the same way they originally engaged—if they messaged you on Facebook first, you better message them back and not ask them to email!

To combat these growing expectations, retailers have broadened their customer service presence across communication channels.

In addition to traditional communication channels (email and phone), 66% of surveyed retailers currently support LiveChat, 57% provide customer support on their Facebook page, and 52% respond to Twitter outreach.

Q: What are all the platforms you currently support for customer service questions?



Most customer service questions are simple enough to handle. The two most common issues, according to our participants, pertain to (1) order tracking (i.e. “where is my order?” or “how long will it take to arrive?”) and (2) returns and exchanges.

Q: What are the most common customer service questions?



“Where is my order?”



Returns and Exchanges



Order Problems



Order Modification
(i.e. change shipping or quantity)



Billing
(i.e. “What is this charge?”)



Coupons

Erik Lautier, EVP of Ecommerce and Chief Marketing Officer at Francesca’s, a US-based women’s clothing and accessories boutique with hundreds of locations, notes what a no-brainer AI should be for these types of issues.



“The majority of customer service inquiries today are still WISMOs (‘Where is my order’)? This is the type of basic request that AI should be able to handle swiftly, and in many cases proactively, to prevent customers from becoming frustrated in the first place.”



— Erik Lautier, EVP of Ecommerce and CMO at Francesca’s



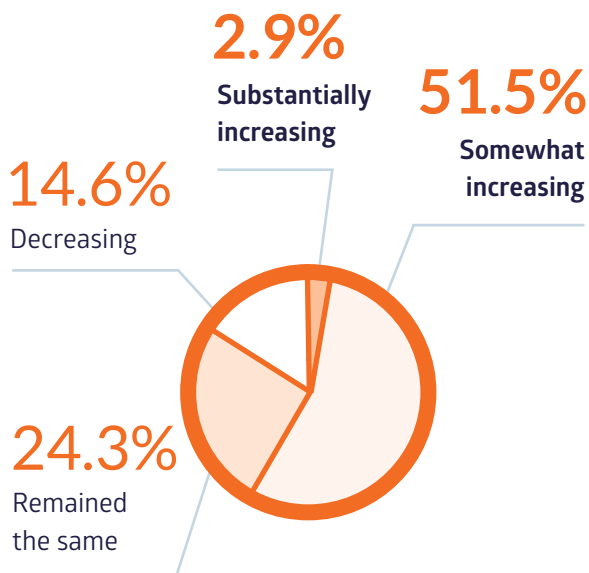
As customers ask more questions across more channels, delivering timely and quality support becomes, consequently, more complex, especially when relying solely on human intervention. AI presents an easily programmed solution for these new omnipresent consumers and their uncomplicated requests.

It's not just the products that matter anymore—it's also the service.

Providing support across so many platforms is costing retailers more these days. Building and delivering delightful customer experiences is a complex and resource-heavy endeavor:

More than half the retailers surveyed (55%) attested their customer service costs have been rising. Furthermore, 55% of those retailers seeing cost increases attribute them to human resources, and 38% to shipping and logistics/reverse logistics problems.

Q: Have your customer service costs been increasing in recent years?



Q: Why have customer service costs been increasing?



But, the reward is indisputably worth the investment of resources, with customer service now being predominantly responsible for winning and, more importantly, retaining the “always on” customer. **82% of consumers will not give a brand another chance after just one bad experience and over 90% will look to other brands for a more satisfactory experience².**

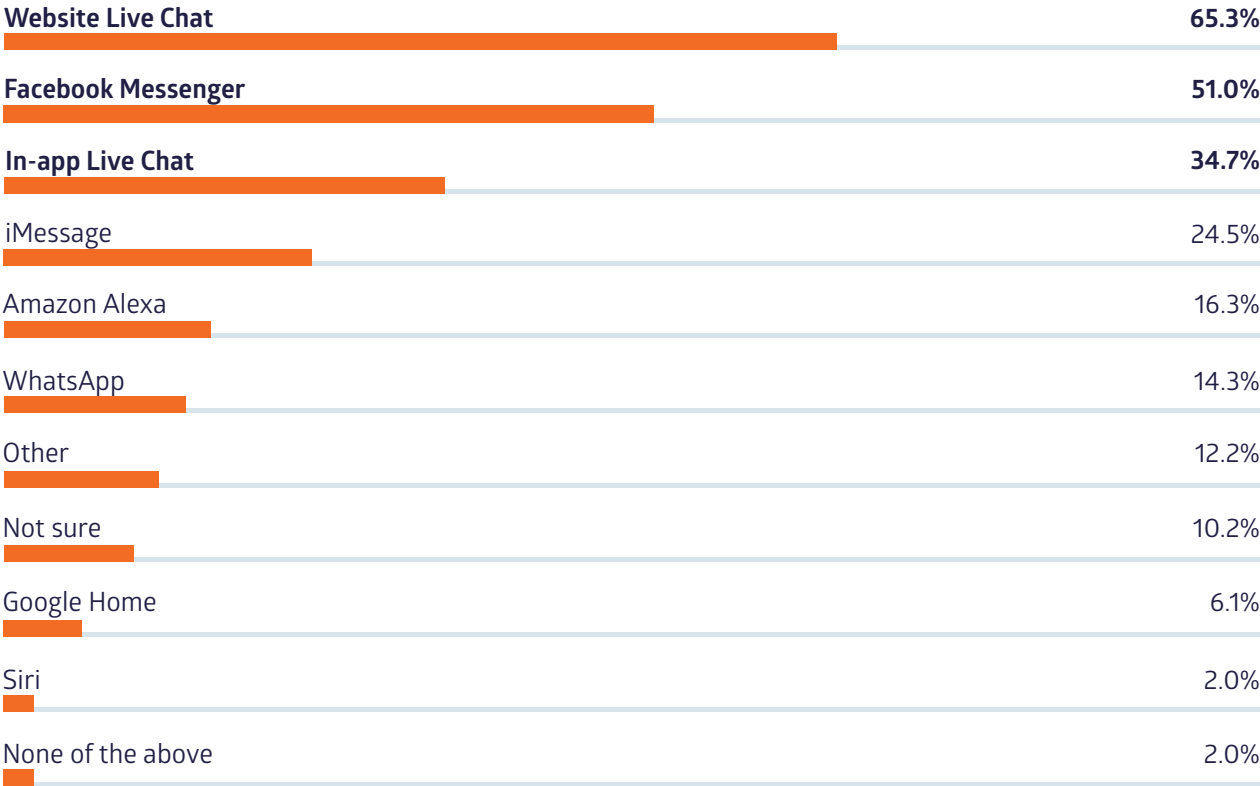
² Mary Meeker, Kleiner Perkins Internet Trends Report 2017.



Retailers embracing the automation of timely responses by leveraging AI solutions will be the new winners.

Sixty five percent (65%) of respondents predict the rising importance of Website LiveChat in the next two years, and 51% predict the same for Facebook Messenger. And, it's not just text chat that has the attention of retailers—1 in 4 respondents believe voice will become an important channel within the next 24 months through platforms like Amazon's Alexa and Google Home. With AI-powered solutions readily available for these channels, human resources costs can stop rising, while staff saves time and boosts brand loyalty by focusing wholly on the most complicated, high touch customer issues.

Q: Other than phone and email, which conversational channels do you think will be most important to your business in 24 months?



Innovating the Customer Service Experience

AI has arrived—and it's here to stay.

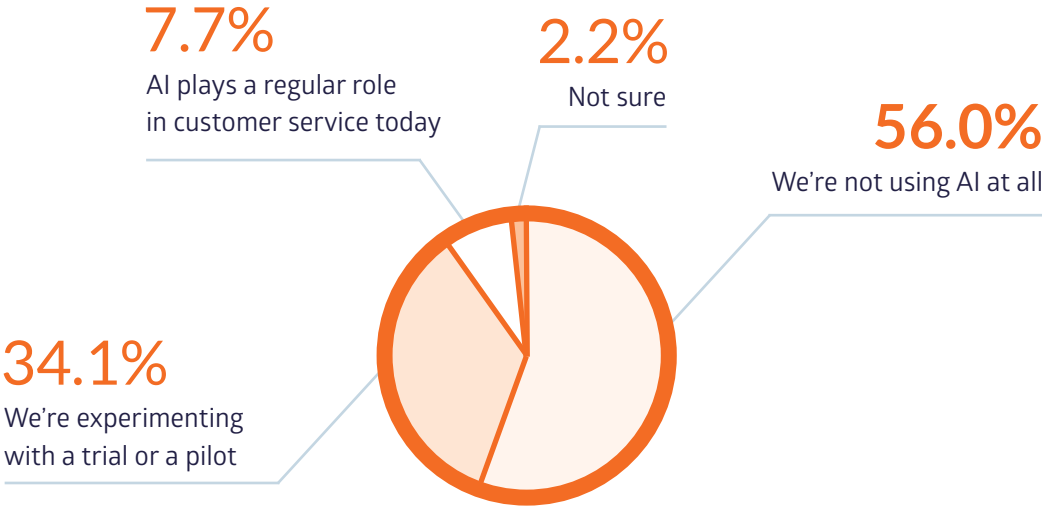
Innovation leaders like Amazon, Apple, and Salesforce represent the early adopters and benchmark success stories of AI implementations. They interweave AI throughout their platforms, attracting new customers and serving existing customers better. But, we can't confuse automation with AI. What sets AI, and these companies, apart is the use of natural language processing, decision making, and deep learning.

While the retail industry, as a whole, has been slow to adopt AI, it's no longer denying its growing impact and importance. **Only 7.7% of surveyed retailers confirm AI currently plays a regular role in their customer service programs, but 34% have begun experimenting** with customer-facing AI trials or pilots.

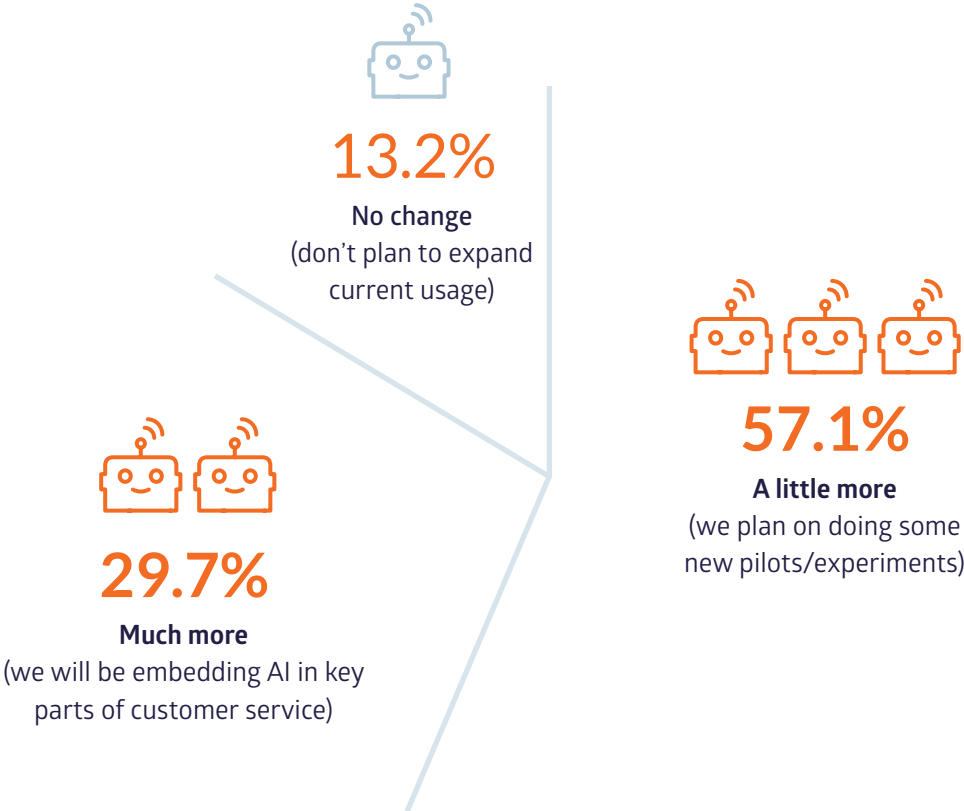
87%

87% expect to increase their use of AI in customer service over the next 24 months.

Q: Which best describes how you are using AI today in customer service (e.g., customer-facing ChatBots, AI-driven voice interactions, AI assisting human agents to resolve problems)?

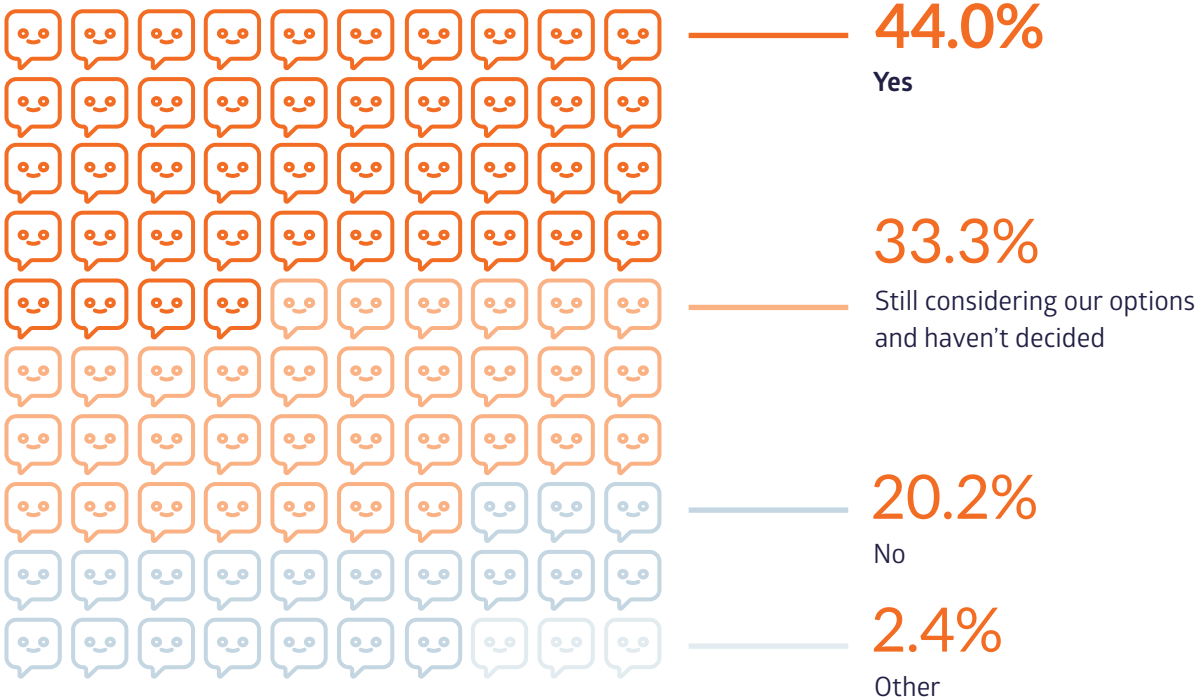


Q: If you were to look 24 months ahead, how much more do you expect to use AI?



Retailers are mostly exercising some kind of caution, carefully considering and easing in through experimentation and various levels of investment. **44% of those retailers who are planning to increase their use of AI will do so through conversational interfaces**, and the rest are either actively evaluating their options or looking to embed AI elsewhere.

Q: Do you plan to use AI-powered conversational interfaces like messaging platforms or voice assistants (e.g. Facebook Messenger, Google Home, Amazon Alexa) in the next 24 months?



Many retailers already support customer communications through Facebook Messenger or LiveChat, turning these conversational channels into the natural AI testing ground. 1800flowers.com, JustFab, and Sephora are just a few examples of retailers engaging with customers through their own Facebook Messenger chatbots.

Lautier sheds light on Francesca's recent AI adoption:

““ We're currently experimenting with two things: first, our chatbot on Facebook messenger shows our customers weather-based outfitting recommendations, closest boutique locations, etc.; second, our customers can receive shipping updates via Facebook Messenger or SMS.”

He continued, explaining the reasoning behind Francesca's AI trials:

““ While ROI is a challenge to measure near-term, as we enhance our capabilities in CRM, I expect we'll develop an understanding of how segments that interact with AI perform relative to others. We also haven't approached our testing with an 'ROI first' mentality. **We've developed these things because we felt a certain customer segment would find genuine value in it, and we expect that segment to grow in the months to come.**”

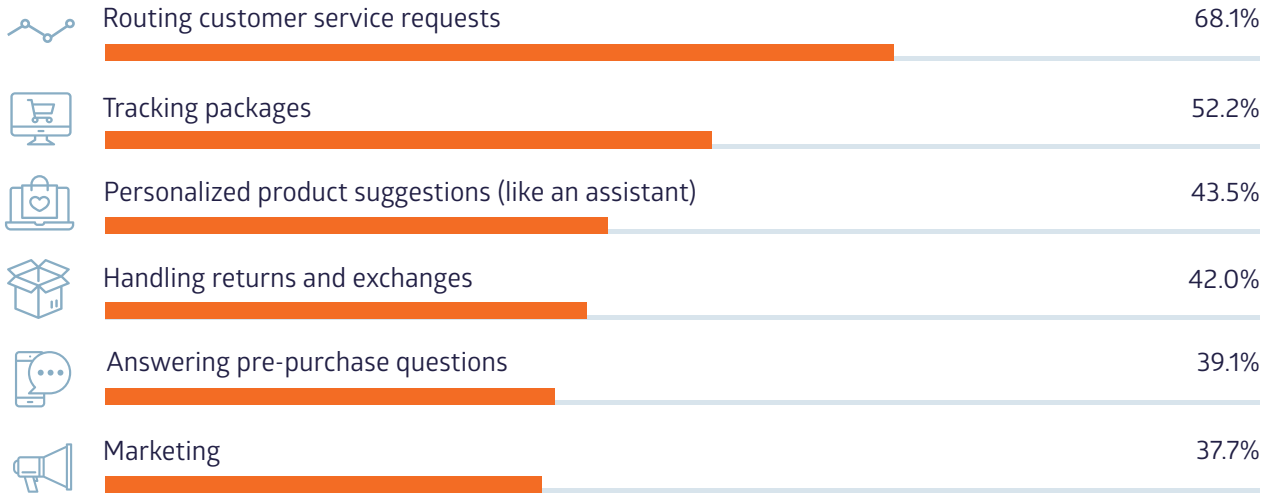
Sure, not every retailer jumped head first into AI solutions. But, major brands are already leading the pack in innovation. The simple computerization of calls is reducing resource costs for companies by 60-80%. Those with the foresight to start testing early are using the coming months and years to build from their learnings. They'll leverage their AI experiments with basic functionalities into more comprehensive and robust offerings to propel them well ahead of the competition.

The new face (and voice) of customer service.

Retailers are in the hot seat—they need to make every customer experience as pleasurable and personalized as possible to beat the heavy competition and retain customers. The easier it is to interact and do business with a retailer, the more likely customers are to stay with that brand. And boy, do you want them to stay. **Bain & Co. reports a 5% increase in customer retention can increase profitability by 75%, while Gartner asserts that acquisition can cost five times more than keeping an existing customer.**

Everyday, more and more customers ditch the live sales people at the mall because they can shop from their homes and phones. US shoppers made 39 billion store visits in 2010, decreasing by half to 18 billion in 2015. Yet, increased ecommerce sales means customers will have plenty of questions that need to be answered across more customer service channels. How does the industry manage this shift in behavior (and geography)? Our surveyed retailers expect to use AI to solve a number of customer service challenges: **68% will use AI to route customer service requests (similar to what Interactive Voice Response does today), 52% plan to use AI to help track packages, 43.5% will have AI for product suggestions, and 42% want AI to handle returns.**

Q: For what types of customer engagements do you plan to use AI-powered conversational interfaces like messaging platforms or voice assistants?



³Forbes, “Five Customer Retention Tips for Entrepreneurs”
⁴Forrester, “Retail Moves from Seasonal to Continuous Planning”

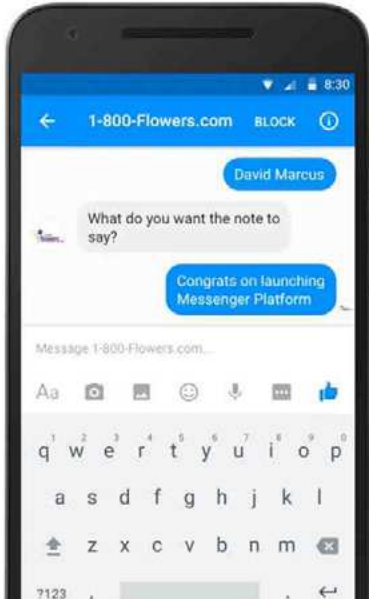
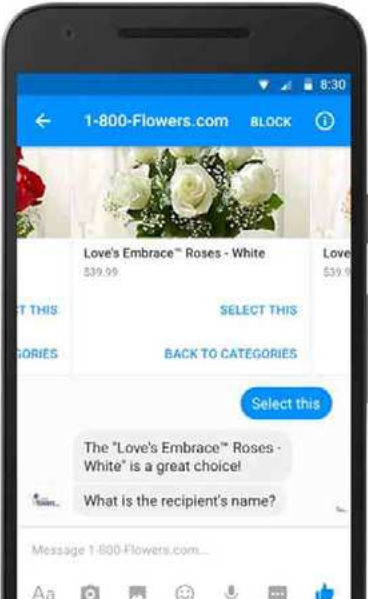
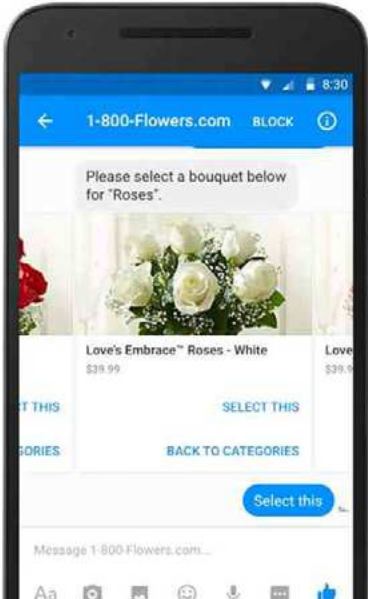
Jon Mandell, current SVP of Consulting at Teneo and former SVP of Marketing at 1800flowers.com, describes the advanced kind of personalized problem solving AI can enable across digital channels that customers love to interact with:



“At 1-800-Flowers.com, we strived to interact with our customers on their preferred medium, including social media platforms. We first utilized Facebook Messenger for customer service, supported by live staff. Then, we enhanced our capabilities on Messenger by incorporating a chatbot. The chatbot expanded the customer experience, moving beyond fielding customer inquiries to providing the ability to shop for products within Facebook Messenger.

The company also debuted its first AI-powered online gift concierge bot, GWYN (Gifts When You Need) powered by IBM Watson, which helped customers find the right gift, for the right person and right occasion, and served up recommendations from the 1-800-Flowers.com family of brands. AI means customers can interact with a brand on their own terms and it makes what’s old new again—having a conversation! The same conversations that took place with in-store customers, now occur online and at scale.”

— Jon Mandell, SVP of Consulting at Teneo



By letting AI handle the uncomplicated tasks, retailers can save their customer service staff for the most complex customer engagements while keeping up with consumers' changing behavior and higher expectations. **Nilofer Vahora, VP of Licencing and Product Innovation at Rebecca Minkoff**, recognized early on the value of AI, in both internal and external contexts:



REBECCAMINKOFF

“We prioritized AI integrations for both our internal and customer-facing systems. We invested in automating our data dashboard and developed an Alexa skill to have the dashboard read out via Alexa. In this case, Alexa acts as an intra-office assistant helping to review and summarize information. AI implementations like voice assistants are clearly changing the way content is consumed throughout our industry.

In the future, we expect virtual assistants can essentially become personal shoppers for our customers, from helping them shop Instagram to being alerted when something they want goes on sale. We see customer service in a linear fashion. For example, imagine if the AI was integrated with a CRM like Salesforce and could identify high value customers. They could actually service those customers even better than a human who wouldn't automatically and instantaneously know that.

Once an AI learns something, it knows it—and they can never un-know it.”

— **Nilofer Vahora**, VP of Licencing and Product Innovation
at Rebecca Minkoff



Humanation and preserving the human touch.

Where does all this leave those real human interactions every consumer craves (and requires) from time to time? Despite all the improved experiences and new capabilities AI provides, human customer service professionals won't disappear anytime soon (all the traditional, phone-loving, tech-averse consumers need not panic).

On the contrary, human customer service will live hand-in-hand with chatbots and VAs, and, quite possibly, will improve in quality from having AI handle the vast majority of issues. Bonin Bough (host of CNBC's Cleveland Hustles and former Chief Media and eCommerce Officer of Mondelēz International) defines this delicate balance as **“humanation”—the intersection of human interaction and AI technology.**

High end brands see immediate opportunities to finesse a cross-section between AI and human customer service. **Charlie Cole, Chief Digital Officer at Tumi**, outlines one of his company's first automation goals:



“Tumi has a unique set of questions around warranty signups and repairs that we want to automate. I believe we can automate the entire repair process by looking in people's purchase history, helping them identify the item that they want to repair, confirm whether it's in warranty, and process a label to ship it out for repair. If the item's not within warranty, the customer will likely want to speak to a person, in which case we can transfer them with a “click X to call customer service” or “click X to have customer service call you” type of engagement.”

— **Charlie Cole**, Chief Digital Officer at Tumi



Lautier at Francesca's further illustrates how he sees the entire concept playing out in retail:

“ I think retailers will be thoughtful about the tasks they assign to AI vs. humans. Certain things simply require a human touch that should not be the domain of AI, but many basic tasks (order tracking, store location) can be automated in a way that shortens response time and improves customer satisfaction. We've all had that moment talking to an automated phone system where we impatiently exclaim 'OPERATOR!' to reach a real person, and that's a critical handoff retailers will have to manage. At all times, there should be an option to transfer a chat or other AI conversation to a human, while preserving the history of the conversation so that the human to whom the baton is passed can be of greatest assistance.”

Others agree the relationship between AI and human remains crucial to the success of AI-powered customer service programs. Mandell affirms:

“ AI won't scale until a seamless handoff between AI to the person is established. If people feel like they are starting down one customer service channel, and then they are directed to start over in another channel, they will default to their previous channel (i.e. phone or chat) and that customer could potentially be lost in the long run.

Triggering tasks robotically like phone calls is easy. Capturing the phone log and handing off the conversation to the representative in seconds is more complicated. The technology to establish those connection points is still a bit far off because there are so many platforms for things like IVR, website chat, and chatbots, and there are also an almost infinite number of connection points. It will be a little while before the tech can provide a solution for connecting those services seamlessly, but it's definitely coming.”

The “here’s why” of AI.

Customers now prefer—and demand—speedy, precise, and convenient customer service experiences over days-long email exchange or long hold times on the phone. The modern consumer is channel-less, never committing to just one; if a retailer isn’t here, there, and everywhere all the time, customers can easily switch to a competitor with a more fluid experience that’s more to their liking. With far more complexity in serving customers now compared to just a few years ago, what’s the scalable and most costefficient answer? You guessed it: AI.

87% of retailers surveyed believe that incorporating AI solutions will improve customer service, 48% believe AI-powered conversational channels will increase their Net Promoter Score, and 48% also believe it will increase Customer Lifetime Value.

Q: What benefits do you expect to gain from implementing AI-powered conversational interfaces like messaging platforms or voice assistants (e.g., Facebook Messenger, Amazon Alexa)?



Vahora from Rebecca Minkoff is one of the believers:

“ AI can service the customer anytime and does so entirely based on customer preferences. It can manage more than just order tracking, following up with customers regarding things like abandoned carts and offering proactive recommendations and alternatives to customers. Furthermore, for internal support and analysis, AI can quickly run and spit out analyses of returns, so retailers know why and how people are returning.”

59% of retailers surveyed also see AI applications as an immediate chance to save money. Mandell explains the potential upside:

“ It costs a company \$2-\$4 for a customer to call and find out where a package is, so using a chatbot or something similar for these basic requests could yield significant savings.”

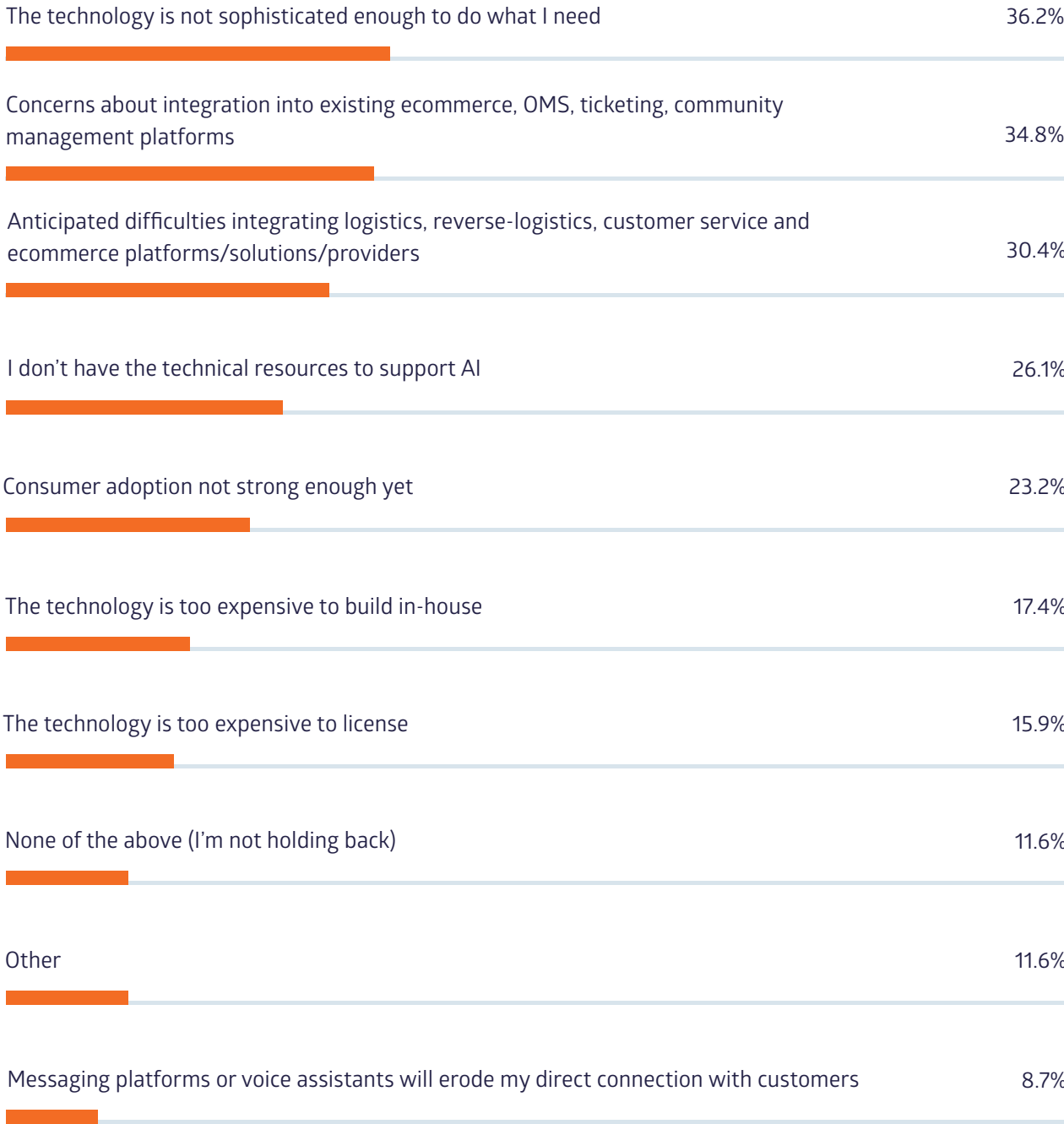
And Cole from Tumi concurs:

“ AI allows you to accomplish more with less people, saving costs and increasing EBIT. Customer service should focus on profit, initially. I think it can increase lifetime value too, but we won't know that for a while.”

With all these pros and virtually no cons, why isn't everyone jumping on the AI train as quickly as possible? Retailers are still holding back on implementing AI for a number of reasons—36% of respondents believe technology is not yet sophisticated enough for what they need, while 35% are concerned about the potential issues when integrating AI technology into legacy ecommerce, OMS, ticketing, and community management systems.



Q: What reasons, if any, have been holding you back from implementing AI-powered conversational interfaces like messaging platforms or voice assistants?



Technology may be the overarching reason retailers are hesitating, but it's also the easiest to overcome.

While some are happy to play the waiting game, leaders in ecommerce are proving the technology is more than sufficient for prime-time, and modern platforms already allow rapid and low-cost integration with existing ecommerce, customer service, and logistics platforms. As capabilities expand, so too will the gap between those benefiting from AI automation and those who are still holding back. Because technology and customer expectations evolve faster than many retailers' infrastructures can keep up with, many retailers are turning to economical, commerce-ready platforms like Linc, popular API platforms like IBM Watson, or opting to work with a specialized agency so they don't have to wait or build tools from the ground up.



HOT TIP

Approaches vary according to the desired outcome, however, the best starting point is to identify the cost and risk of deploying a pre-built vertically-specific platform compared to either building in-house using APIs or having everything built and integrated from the ground-up for you by a 3rd party developer.

The Future of Customer Service Shaped by AI

Customer experience is the new marketing battlefield.

It's no secret now that, if done right, a smooth customer journey that includes a high quality customer service experience can create a huge competitive edge. Gartner predicts that by 2018, more than 50% of companies will redirect their investments to customer experience innovations. Brands will nurture a deeper, longer lasting bond with their customers and grow their customer base organically through positive word-of-mouth.

71%

71% of shoppers will socially share a positive experience with other shoppers

86%

86% of adults will spend more on a product with a brand they love

43%

43% of adults will purchase a supposed inferior product if they've had "happy" experiences with that brand

(Lithium, "The Path to Happy Customers")

Customers need consistency across communication channels, while occasionally needing that human touch. **Zendesk found that 87% of customers think brands need to put more effort into providing consistent experiences.** AI, in its current forms, isn't advanced enough to solve every customer service challenge, yet there's no shortage of advantages. Utilizing platforms like Linc can replace the bulk of the busywork, up to 68% of post-conversion inquiries⁸. Traditionally frustrating customer service issues transform into convenient and pleasant experiences. AI services customers when and where they ask for it, freeing up human resources to focus on the most complex types of issues, all of which boosts brand loyalty.

Final Thoughts:

The upsides of AI aren't the result of a marketing fad or tech bubble—automation leads to higher retention, higher profits, and higher customer lifetime value. AI-powered customer service is the retailer's new reality. Shoppers aren't waiting for retailers to catch up, they simply shift their loyalty to a competitor with superior experiences. Retailers hesitating to adopt, or even experiment, with AI are already losing the innovation game, and losing customers. AI is the future and the future is now.

⁵ Loyalty360, "Mercedes Benz CEO: Customer Experience is the New Marketing"

⁶ Gartner, "Gartner Says Organizations Are Changing Their Customer Experience Priorities"

⁷ Zendesk, "Omnichannel Customer Service Gap"

⁸ Linc internal reporting

About BrandGarage and Linc

BrandGarage is a strategic innovation consultancy and a global brand's connection to Silicon Valley. BG's mission is to bring innovations to market. Primarily, BG acts as the "market-maker" for innovation ecosystems across various industries, such as Retail, CPG, Financial Services, and Media. Ultimately, in collaboration with strategic partners, BG can be a "one stop shop" that delivers and activates innovation solutions for big brands.

BrandGarage

To learn more about Brand Garage, please email Mark Evans at mark@brandgarage.com.

Linc's Customer Care Automation platform powers the digital experiences that strengthen the relationships between brands and shoppers, transforming one-time purchasers into lifetime customers. Brands, retailers and CPGs leverage Linc to provide their customers with exceptional tracking, return, exchange and re-ordering experiences, and create new revenue channels via personalized upsells, cross-sells and sampling.

The platform ties together the emerging channels of Voice (Amazon Alexa, Google Home) and ChatBots (Facebook Messenger, WhatsApp) with email, SMS and a web portal with a single customer profile to strengthen the customer care experience and increase engagement, customer satisfaction and retention, reduce service and reverse logistics costs, and drive revenue.

As the platform of choice for leading brands who want to build stronger relationships with their customers and accelerate their ecommerce growth with increased customer lifetime value, Linc has served tens of millions of shoppers, and has an expanding customer list that includes brands such as Carter's, Crocs, GoPro, Hugo Boss, Jockey, eBags and L'Oreal.



To learn more about Linc's Customer Care Automation platform, please visit www.letsline.com or email info@letsline.com.

Acknowledgements



BrandGarage would like to thank Rachel Klein, Damion Parsons, Veronika Sonsev, and Liis Peetermann from **Chameleon Collective** for their work on this report.

Special thanks to every retailer surveyed and to our featured thought leaders for sharing their time, experience, and perspectives.