

A Glance at the Future

GARY BRIDGE, San Jose

Executive Summary

What will life be like in 20 years? The answer depends, in large part, on the decisions we make today about education, science, healthcare, global infrastructure, and social and economic policies.

These decisions are driven by three factors - technology, demographics, and economies - that continuously interact to shape our lives and our culture. How we live, work, learn, and play are all impacted by these factors. For the past 50 years, the technology part of the equation has had the most dramatic effect on our lives.

In the next 20 years, technology will be even more important in helping countries deal with the imminent "Productivity Imperative" that looms on the not - too - distant horizon. In most developed countries, the aging population is resulting in a rising number of retirees, while the number of individuals in the workforce is declining. Workers in the future must be more productive than workers today, or the global standard of living will erode. To simply tread water, each worker will have to produce 2.5 times more than a worker does today. To move beyond that and improve the standard of living, each worker will need to produce five times the output of a worker today. Information technology is the key to these productivity gains, as it has been for the last half - century.

Every entity in the private and public sectors must embrace three dramatic shifts in how it meets customers' and constituents' demands in the upcoming "Productivity Imperative":

Trend 1: Companies will accelerate their efforts to create customer experiences that increase loyalty: Business is now on the offensive after years of survival thinking. Cost reduction and avoidance is secondary; revenue and profit growth is primary. To embrace growth, organizations must move closer to their customers and increase customer loyalty. The goal, in short, is to create a superior customer experience. For governments, it means engendering constituent satisfaction. For healthcare providers, it means patient satisfaction. The more competitors offer the same products or services at essentially the same prices, the more the customer *experience* will translate into a competitive advantage.

Technology plays a starring role in creating this "experience economy." Why? Because organizations will need to integrate all their various customer touchpoints - in person, call centers, Web - based interfaces - to meet the demands of their customers. By building "Customer Interaction Networks" that create a single view of the customer, organizations and corporations not only empower employees to deliver excellent customer service, they also improve employee productivity.

Trend 2: Growth will be driven by services. A large part of the customer experience is the services that accompany the product. To compete in the "experience economy," companies will outsource much of their basic manufacturing and move up the value chain to create service -

enhanced offerings, complete solutions rather than point products. And a vast majority of these services will be driven by technology.

The auto industry provides a good example of the trend toward service - enhanced products. Their vehicles are becoming platforms for a services business - financing, extended warranties, XM or Sirius satellite radio, and OnStar roadside assistance services. Not only is the customer experience enhanced, the company drives revenue growth through these services: it costs less to wrap services around physical products than it does to manufacture the product itself. The average net margin on the physical product is 1% but, over the lifetime of the vehicle, automotive companies can sell services that are worth 22% of the original purchase price, with a margin on these services of 10%. That's a lot of revenue due to services, many of which are technology based.

That is the economic opportunity, but it is a cultural challenge for the auto sector - the very definition of heavy manufacturing - to create and deliver services profitably.

Trend 3: IT leaders will lead the business transformation. In order for companies to successfully improve the customer experience and transform themselves into services, rather than product, companies, they need to operate more efficiently and seamlessly. In the past 10 years, companies have focused on improving productivity within functional organizations - or silos. Moving forward, the productivity gains will come from smoothing the seams *between* functions. Connecting, for example, supply chain management (SCM) within manufacturing with customer relationship management (CRM) in the customer - facing part of the business so that customer demand drives production - dynamically.

At the end of the day, it is these three trends - the move to offering a superior customer experience, the transformation of product companies into services companies, and the IT organization's unique ability to smooth the seams between functional silos - that will harness technology to generate the productivity gains required to improve the global standard of living. And it's not as far off as you might think. Leading organizations are already moving in this direction, and moving quickly. The transformation is already underway.