

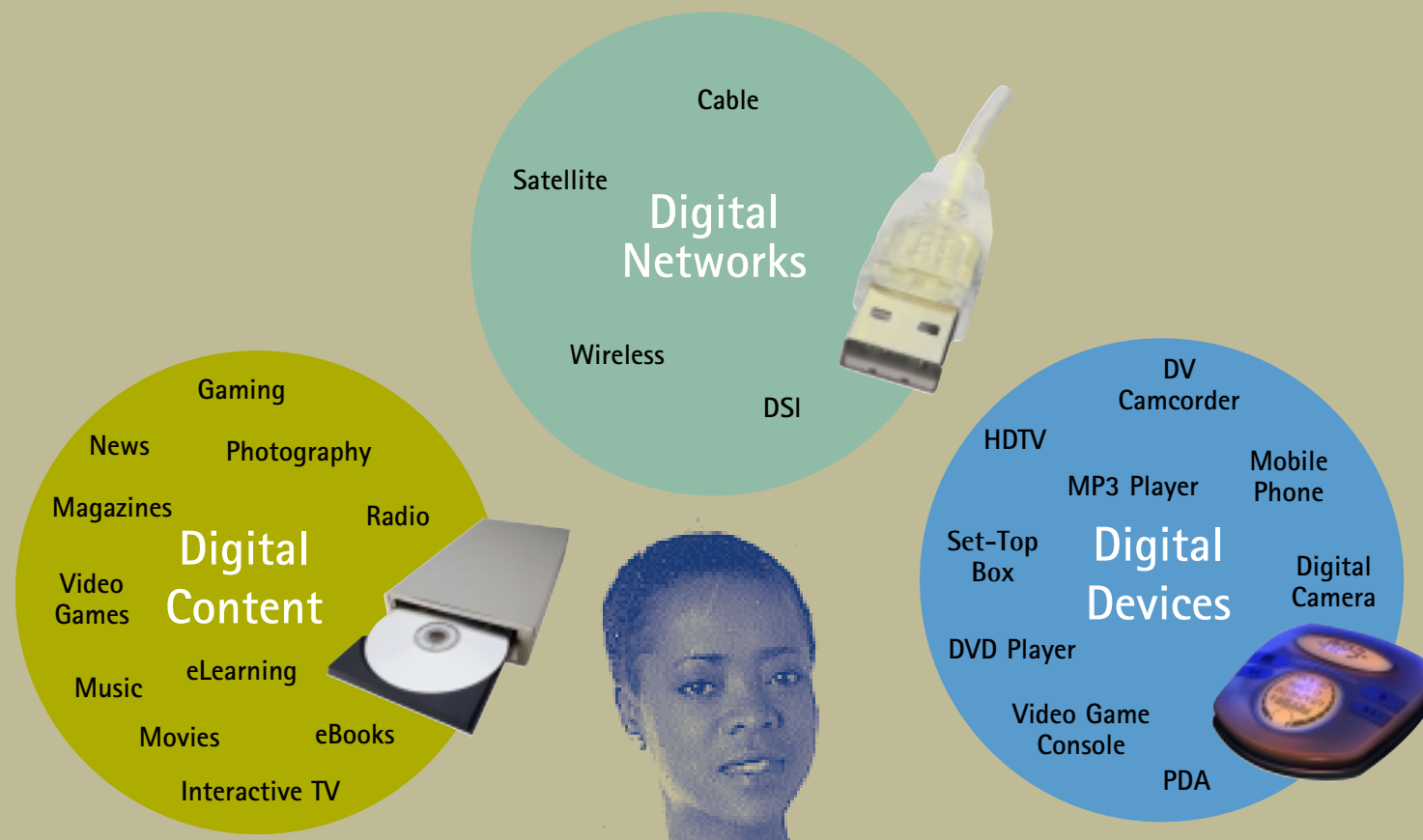
Creating the  
digital customer

The Accenture logo, featuring a white chevron symbol above the word "accenture" in a lowercase, sans-serif font. The logo is overlaid on a blue-tinted photograph of a woman in a dark dress with her hands clasped in front of her.

accenture

A blue-tinted photograph of two business professionals. On the left is a woman with short dark hair, wearing a dark dress and a necklace, with her hands clasped in front of her. On the right is a man with a beard, wearing a suit and tie, also with his hands clasped. The background is a plain, light color.

• Consulting • Technology • Outsourcing • Alliances • Venture Capital



Today, the consumer has an unprecedented opportunity to mix and match digital products and services.

## Everyone knows the digital economy has had a tough year.

Most major stock markets around the world are down. Many leading digital companies are downsizing or even closing their doors. And the hype about dot-com millionaires has quickly given way to doom and gloom with headlines like, "The year the bubble burst!" and "Is there life in eCommerce?" Which way will the market swing next?

Accenture believes digital products and services still represent a big opportunity for companies in the high tech, communications, and media and entertainment industries to capture new revenues and achieve market leadership. Globally, the value of the consumer digital market could eventually reach \$500 billion per annum, in today's dollars.

But the eventual size of the market and the rate at which we get there will depend on how effectively the industry can "create" digital customers – by listening to consumers' needs and creating the right offerings at the right prices. If the digital industry can get this right, accelerating the adoption curve for the new products and services ahead of the natural progression, it could earn an additional \$530 billion in revenue over the next 10 years.

This report explores this point of view, and discusses the critical priorities for creating digital customers as well as the transformations companies will need to make to successfully compete for these customers. The report draws on recent Accenture research<sup>1</sup>, which involved interactive questionnaires with 440 consumers who are enthusiasts of music, photography, and computer games. Roughly half the sample had already invested in digital products and services to support their interest, while the other half had not...the survey aimed to understand the former group's experience with digital products and services, and the obstacles keeping the latter group from going digital.

<sup>1</sup>Accenture "Creating the digital customer" Survey, March 2001

# Creating the digital customer

## Big opportunity for digital services

Unlike the old analog world—where media, delivery methods, and devices were largely linked together for a single purpose—new digital technology and formats now enable consumers to mix and match content, networks, and devices in a myriad of different ways.

These opportunities create new possibilities for how consumers pursue a whole range of activities, including communicating, getting news and information, reading, shopping, enjoying TV and movies, listening to music, playing games, and creating photographs. These activities make up a major part of our lives—nearly 40% of the year for the average consumer in the U.S.<sup>2</sup>

Digital formats provide consumers with more choice and control, which can enhance their enjoyment of these activities and thus help create the digital markets. For example, Accenture's "Creating the digital customer" survey found that people who currently take digital photographs also value sending images over the Internet (46%) and editing their photos themselves (35%). People who enjoy digital music value

creating their own play list of songs (64%) and having more options for how and where they listen to their favorite music (26%). Those who love video games value the enhanced competition digital enables (48%) and the new challenges it can bring (44%).

Another recent Accenture study<sup>3</sup> found that a significant number of people say they are likely to buy key digital devices, provided that the right content is available, the devices are easy to use and of an acceptable size, and the price is right. This same survey suggests that if these conditions are met, by 2005 up to 64% of consumers are likely to buy interactive TV, 66% are likely to buy eBooks, and 71% are likely to buy digital music.

Today, digital products and services represent only a tiny portion of the industries that support these activities. Consumer spending on these activities totals \$7.7 trillion<sup>4</sup>. Of that, only around \$11 billion or 0.15% is attributed to digital products and services. We believe that, under the right conditions, this could grow to \$500 billion per annum in today's dollars, making the global consumer digital market comparable in size to the current global communications services industry<sup>5</sup>.

**The global market for digital products and services could eventually reach \$500 billion.**

Current and potential value of consumer digital market worldwide

Activity	Market Size	% Digital	Digital Potential
Retail Shopping	\$5,000B	0.1%	\$155B
Movies/Television	\$340B	0.9%	\$120B
Education	\$1,900B	0.1%	\$100B
Photography	\$90B	0.5%	\$60B
Music	\$130B	0.001%	\$25B
Video Games	\$20B	0.4%	\$25B
Reading	\$240B	0.004%	\$15B
<b>Total</b>	<b>\$7,700B</b>	<b>0.15%</b>	<b>\$500B</b>

<sup>2</sup>Accenture Analysis: Veronis Suhler "Industry Forecast Communications", July 2000

<sup>3</sup>Accenture, "Content Company of the Future: The future of digital devices and content", June 2000

<sup>4</sup>Sources: Jupiter, Veronis Suhler, Forrester, Paul Kagan, MBI, Datamonitor, and Zenith Media, Accenture Analysis

<sup>5</sup>That is, the non-wireless telephone services market, including installation, subscription, local, long distance, and international call charges for fixed telephone service. Source: International Telecommunications Union, "Key Indicators for World Telecommunications Service Sector," April 2000

To accelerate adoption, the industry must remove the considerable barriers to consumer take-up that exist today.

### Fast adoption could yield \$530 billion bonus

How quickly the digital market reaches this size depends on the speed at which consumers adopt digital products and services. In the past, it has taken between 10 and 20 years for new technologies to reach 50% penetration in the U.S. If the industry serving digital customers can accelerate the adoption rate of its products from average to fast, it has the potential to earn an additional \$530 billion in revenue over 10 years<sup>1</sup>.

To date, only a narrow range of digital products has achieved high penetration rates. So while TVs, VCRs, CD players, cell phones, and PCs are in most U.S. and European households, the penetration of DVD players, personal data assistants (PDAs), and other new digital devices is still below 10% in most parts of the world. In addition, to date most digital sales have been to the more technologically savvy segment of the market and much of the sales growth has come from selling upgrades to this same segment. The market hasn't really expanded. For example, of the home computer sales in the U.S. in 2000, only 39% went to new households, with the remaining sales as

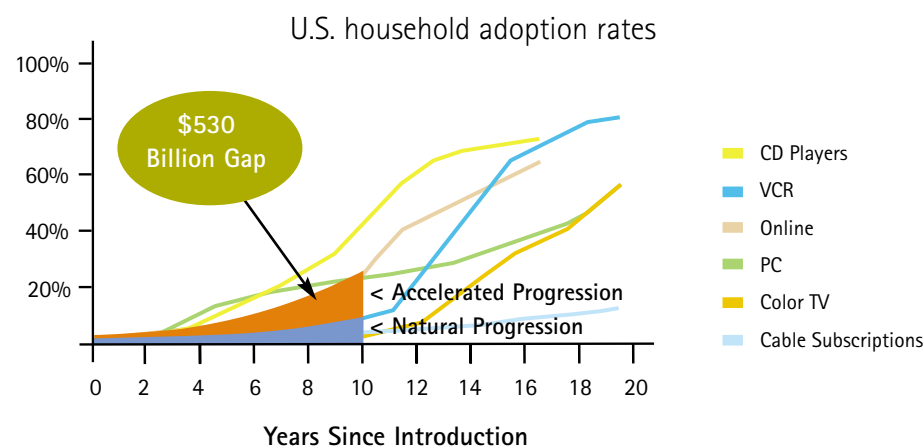
either new upgrades or additional units within households.<sup>6</sup>

To accelerate the pace of adoption for all digital products and services and unlock bonus revenue, the industry serving the digital customer must remove the considerable barriers to consumer take-up that exist today. Accenture's survey found that for the most part, consumers don't feel the need for advanced digital services or recognize the benefits they offer. Many are daunted by the complexity of integrating the various options and confused by the sheer number of options. Most buyers believe the total costs are simply too high.

Turning these perceptions around will not be easy. It will require digital product and service providers to focus on four critical priorities:

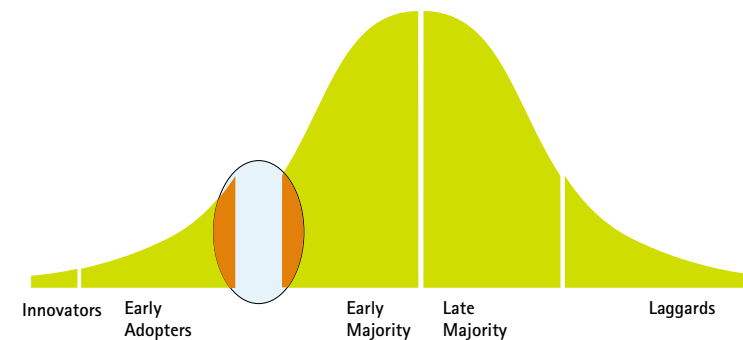
- Engaging the "early majority", not just the early adopters
- Simplifying the digital value chain
- Engineering to an acceptable price point
- Developing "aggregator" channels

### \$530 billion "bonus" from accelerating adoption rate



<sup>1</sup>Accenture Analysis; eBrain consumer PC household penetration data, 2001; IDC "Do You Compute? Consumer Computing Survey", 1999

### The industry needs to "cross the chasm"



Source: *Crossing the Chasm* by Geoffrey Moore, 1991

### Engaging the early majority

To accelerate adoption, digital firms will need to target and engage the early majority of consumers, not just the innovators and early adopters. This challenge, first identified by Geoffrey Moore in his 1991 book, *Crossing the Chasm*, is critical because much of the revenues and profits comes from this segment of the market.

The early majority is a much larger group than the innovators and early adopters (representing around 35% of all consumers) and has very different characteristics. While early adopters tend to be visionaries or "techies", the early majority are pragmatists. They have less household income and are more price-sensitive, as well as more risk-averse. Whereas early adopters are easy to sell to but hard to please, the early majority are loyal once they are won over. The extent of the difference between these consumer segments is reflected in the fact that

today, early adopter-households are up to five times more likely to already have digital products and services than all households<sup>7</sup>.

The key to engaging the early majority will be convincing these consumers of the benefits of going digital. The technologically savvy people in today's high tech companies will need to remind themselves that most of the world is not like them. To date, most people have never had a digital experience. For example, 77% of U.S. households have never shopped online; 69% of German households have never accessed the Internet; and 75% of Italian households have never owned a PC<sup>8</sup>. For them, the benefits of digital are not obvious.

In fact, Accenture's survey indicates that the most common reason why early majority consumers have not yet purchased additional digital products and services related to music, photography, or video games is that they don't see the benefits. Many are satisfied with what

The key will be convincing the early majority of the benefits of going digital.

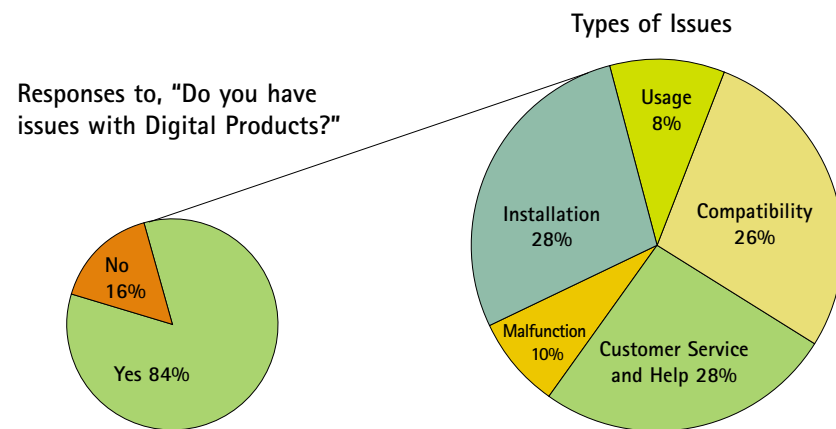
they already have. They are not sure they would use digital products or services even if they had them, nor are they sure of the full functionality of these products.

To communicate and build awareness of the benefits of digital products and services to early majority consumers, companies will need to develop a deep understanding of these consumers—what they value and what motivates them. Companies will need to take a bi-directional approach to product development, using customer insight to help shape products and services that customers will want to buy, rather than drive out new technology in search of a market.

<sup>7</sup>Yankee Group "The 2000 Technology Advanced Family: The Point of Convergence", December 2000; Paul Hagan "US High Speed Data Market Stats 2001 -2005"

<sup>8</sup>Reuters, "The Online Home in Europe", June 2000

### The majority of users have problems



Source: Accenture Survey and Analysis.

### Simplifying the digital value chain

To achieve fast adoption, digital products and services must be simple and easy to use for most consumers. Today, this is not the case. Getting the full experience in the digital world requires getting all the elements in the digital industry to work together. In many cases, customers must coordinate web content, a web application, a broadband connection, PC software, the PC itself, and a peripheral device. If a single interface or connection does not work, the whole digital value chain breaks down and the customer becomes frustrated. So much can and does go wrong for the consumer.

Accenture's survey found that 84% of respondents had some problem or issue with new digital products. These difficulties were related to installation, usage, compatibility, customer service and help, and malfunction. The fact that many people who have digital products and services do not use them provides further evidence of the challenges facing the consumer. For example, there are 15 million WAP-enabled mobile phones in service in the U.S., but only

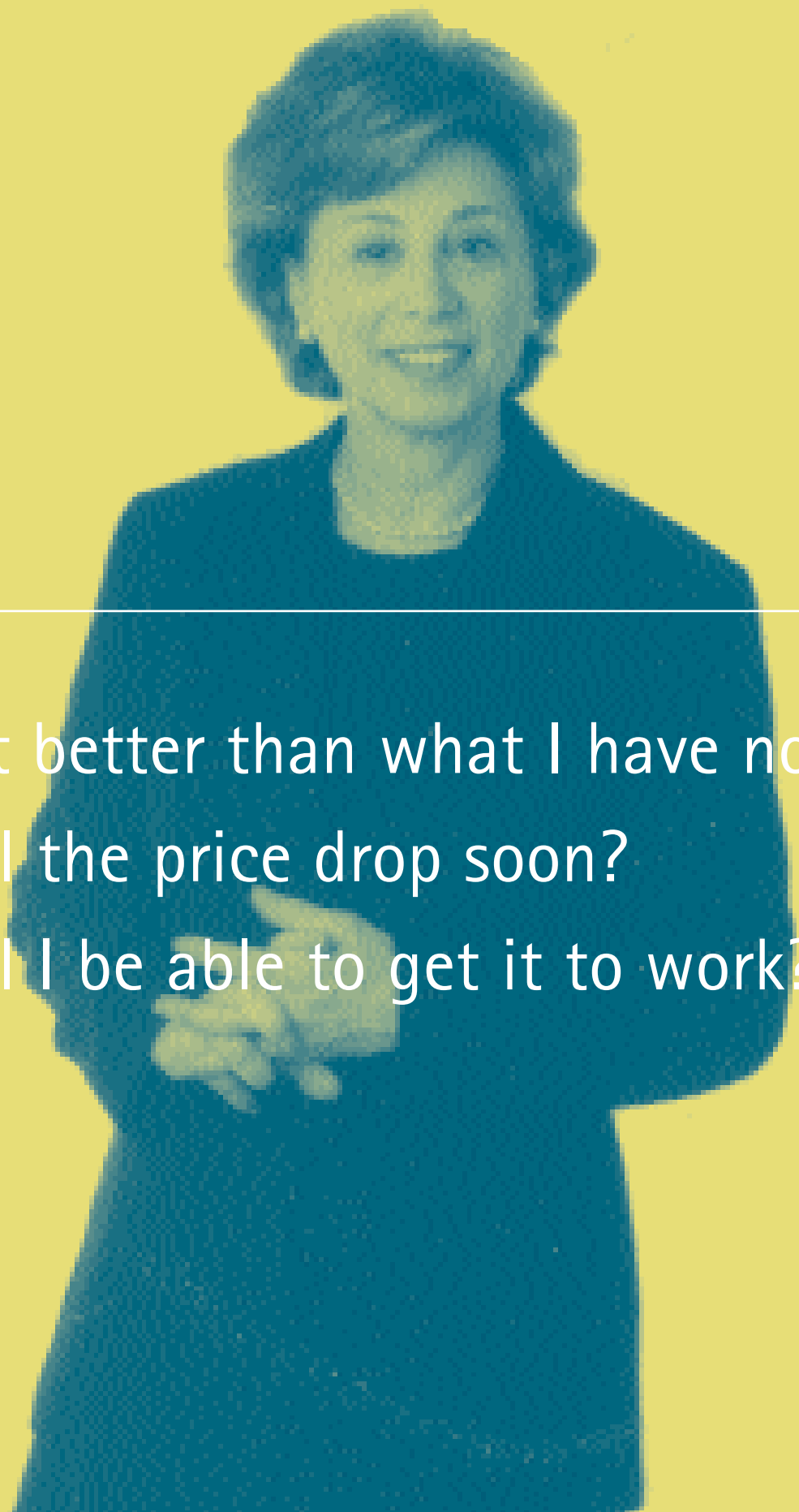
1.8 million people have used them to access services on the Internet, and only 700,000 subscribe to WAP services<sup>9</sup>.

Removing complexity will require industry players to work together to make it easier for customers. This could involve:

- Setting standards collectively to ensure compatibility of devices and equipment, as well as instill confidence in customers
- Building alliances and working with partners to create joint market offerings that can be cross-marketed and promoted as being compatible
- Creating bundled products and services that will work together, providing customers with a "one-stop shop" and packaged pricing to support a given set of activities
- Engineering for simplicity across the entire, end-to-end customer experience—removing obstacles, ensuring compatibility, and making it easier for the customer.

**Removing complexity will require industry players to work together to make it easier for customers.**

You can't just take something home and expect it to work. It makes me angry that I can't trust what I buy these days.



Is it better than what I have now?  
 Will the price drop soon?  
 Will I be able to get it to work?

### Engineering to an acceptable price point

The third priority for achieving rapid adoption of digital products and services is finding the right price point. Customers have said that when they weigh the value of a purchase they consider the total cost of ownership, along with the benefits and their ability to make it work (do-ability).

$$\begin{aligned} \text{VALUE} \\ = \\ (\text{Benefits} \\ - \\ \text{Total Cost of Ownership}) \\ \times \\ \text{Do-Ability} \end{aligned}$$

This is important because digital products and services can be costly. The equivalent monthly digital spend for a music aficionado in the U.S. is roughly \$200<sup>10</sup>, taking into account the useful life of one-time purchases, all the software required to run it, and the monthly fees for services. This dollar amount is close to the average monthly cost of food or even payments on a used car. In the U.K., the same equipment and services would cost around £200 a month<sup>10</sup>—which is more than the monthly spend on food or a used car and may even approach the cost of a shared flat.

The Accenture survey found that price is a significant barrier for customers. Of those survey participants who said they were holding off on purchasing digital products and services, 40% said their reasons were related to price or cost issues. Around two-thirds said they were waiting for the price to come down, while the remaining third were unsure it was worth the cost.

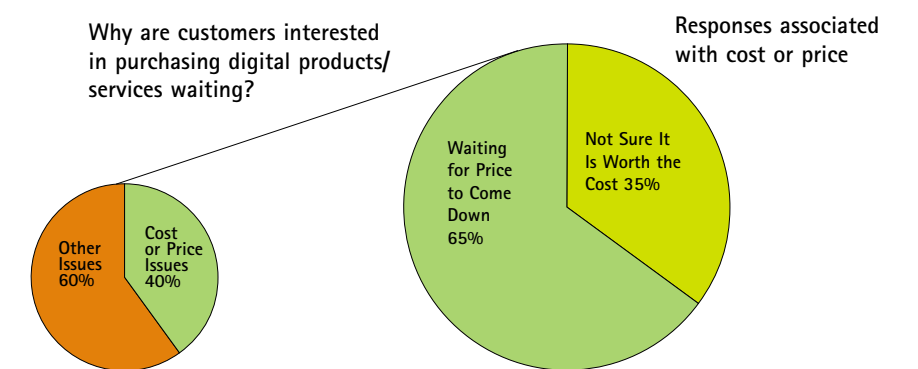
At present, few customers have made the necessary base investment to be in the market for digital content and additional devices. Only 6% of U.S. households have PCs and broadband; another 42% have PCs and dial-up access with slower line speeds<sup>7</sup>. Companies wanting to sell digital devices and services to customers in the latter group will need to consider the customers' need to invest in computer upgrades and broadband connections. Until the benefits outweigh the total cost of ownership, the market will be slow to develop.

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### Developing aggregator channels

The final priority for accelerating adoption is the emergence of strong aggregators that will make it easier for consumers to select and integrate their digital products and services. Currently, customers report that they are frustrated by having to play the role of systems integrator themselves for all these products and services. Most say they need help in the entire buying and usage cycle—from choosing what to purchase to setting up advanced functionality.

### Customers rank price as a significant obstacle



Source: Accenture Survey and Analysis.

<sup>10</sup>Accenture Analysis; Dell, AOL, Yahoo websites, March 2001

So far no clear providers have stepped in to meet these needs by aggregating marketing, sales, and service across the digital industry.

Consumers don't seem to trust retailers in this role. Instead, around 40% of our survey respondents say they rely on friends, family members, and people at work to learn about what is available. They are also doing much of their own research by searching the Internet to determine what is available, what they want, and what to buy. Around 50% say the Internet is their primary source of help when making choices.

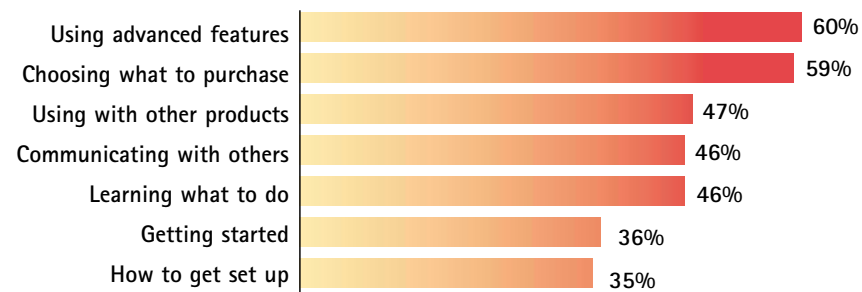
It is unlikely that the majority of customers will be willing to invest this level of time and effort on a regular basis to justify and legitimize the services and products they purchase. This will slow the rate of adoption, unless digital companies are prepared to play the aggregator role themselves or form partnerships with aggregators (for example, retailers or home network installers) to help simplify the choices and use of digital products and services for their customers.

### New approaches needed

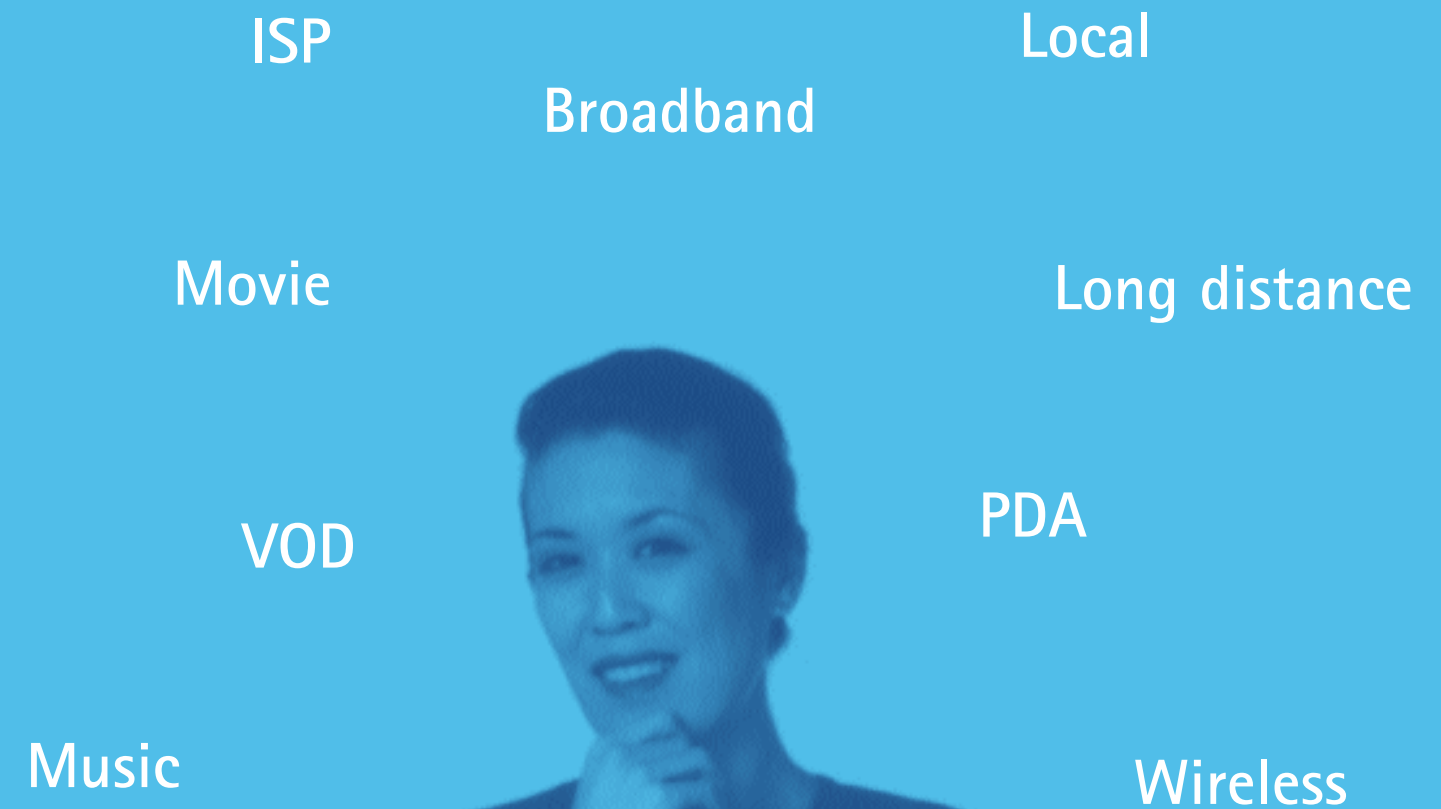
While our research has laid out some clear imperatives for creating digital customers to unlock the potential value of the digital market, Accenture understands that doing so will require difficult transitions for many companies. Some of the major changes companies face include:

- **Moving to an "integrated strategy".** That includes linking the broad strategic-planning activities with the meaningful day-to-day choices companies must make about target markets, complementary products, value propositions, and channels.
- **Applying flexible and adaptable business models.** Many companies are constrained by their own infrastructure and perceived need to control the entire business system. Winners in the digital industry will be more open to new models that provide them with the flexibility to put the right market offerings in front of the customers. In some cases, this could require them to give up a share of the total profit potential, but it could also increase the size of the market and their chances of success.
- **Achieving success though growth and profitability.** While it is important to pay attention to investors' need for profitability, creating the digital customer will require companies to make growth a priority as well, and find the right way to balance profits and growth.
- **Accepting reasonable cannibalization.** Successful companies will find a way to view cannibalization as part of their growth and renewal cycle.
- **Tolerating risk as part of the learning process.** Today's leaders are willing to face ambiguity to make bold market moves. The digital marketplace is sure to be risky, but the rewards will be commensurate.
- **Elevating marketing, not just technology, as the claim to fame.** Being a high tech leader isn't enough. Having a good sense of the early majority customer for whom products and services are designed is the true key to taking the market lead.
- **Developing a mass-market mindset.** Like many technology-based companies today, successful digital players will recognize that locating themselves in Silicon Valley (or equivalent high tech epicenters around the world) makes it easy for them to keep in touch with the latest developments in technology. But like many leading consumer-products companies, they will also know that living and breathing beside middle-market consumers—often far away from the technology centers—can help them to get closer to true market demands.

% of consumers who need help...



Source: Accenture Survey and Analysis.



Customers are frustrated playing systems integrator for the home.

**Many of the successful early players in the digital industry did not rush to be first, but rather took an appropriate amount of time to tailor their offerings.**

## New thinking

The quest to create the digital customer will also cause companies to reassess some widely held myths about how to compete. We expect to see some new thinking, including:

- **More evolutionary experimentation.** The common mantra of "first-to-market" is not a winning strategy. Speed is important, but not the only priority. Many of the successful early players in the digital industry did not rush to be first, but rather took an appropriate amount of time to tailor their offerings to the needs of targeted, segmented customers. They launched many parallel initiatives in small, controlled experiments to learn more about what worked, then adjusted their strategies accordingly.
- **Help create the tipping point.** Many companies are consumed with the myth of the killer app. This has, in many cases, caused companies to overlook the aggregation of smaller wins that induce a customer to make a purchase. For example, customers rarely buy a home PC so they can do just one activity—rather, an aggregation of activities and benefits drive their purchase. Winning companies will focus more on this dynamic than seeking the one big thing.
- **Consumer research is critical for getting closer to the early majority.** There is a widely held belief that research doesn't work for new technologies—that customers do not know enough about

what they want to make research effective. However, a well-designed research program can help companies develop a deeper understanding of the values, needs, beliefs, and purchasing processes for digital products and services—and thus will be key to accelerating the adoption rate for digital products and services.

The move to digital products and services is going to happen—whether it is sooner or later depends largely on players in the digital market place. Right now, the field is open for companies to step in and take the lead in **creating the digital customer**, and thus create the digital industry. To succeed, leaders will need an integrated strategy that focuses their business on reaching new levels of customer understanding, and enables it to meet customer needs effectively. It is not for the faint-hearted, but the size of the potential pay off makes the risk and effort worthwhile. We believe the digital industry will reach \$500 billion per annum—and could yield a \$530 billion bonus over the next 10 years if players can speed up the adoption curve. Are you willing to seize the lead?



### About the Author

Steve Lamont is a partner at Accenture in the Communications & High Tech Industry Group, and focuses on strategy, marketing and revenue-generating opportunities for communications companies. He has led and contributed to successes in new product development, channel expansion, and customer relationship management in wired and wireless communications, information services, airlines and retail companies.

### About Accenture

Accenture's Communications & High Tech Market Unit serves the rapidly converging areas of Communications, Electronics & High Tech, and Media & Entertainment. With 14,000 dedicated professionals and revenues of \$2.8 billion in 2000, the unit provides services to more than 80 percent of the world's largest electronics, communications, media and entertainment companies, as well as leading ".dot.coms."

Accenture is a \$10.3 billion global management and technology consulting organization. The company is re-inventing itself to become the market-maker, architect and builder of the new marketplace, bringing innovations to improve the way the world works and lives. More than 70,000 people in 46 countries deliver a wide range of specialized capabilities and solutions to clients across all industries. Under its strategy, the company is building a network of businesses to meet the full range of client needs—consulting, technology, outsourcing, alliances and venture capital. Accenture's home page address is [www.accenture.com](http://www.accenture.com).

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