Complexity of Choice

CHOICE AND SIMPLICITY WHITE PAPER

ABSTRACT

Communicating through multiple channels in the commercial setting is not a matter for debate. The speed and utility of digital technology, and businesses intent on reducing costs have incented consumers to demand alternatives for receiving their regular correspondence from businesses and governments. Transactional communication has become a new battleground for customer service and marketing, so the tyranny of choice now affects it as well. Companies implementing and managing multiple channels face a variety of challenges that create complexity. Layers of choice complicate multi-channel transaction communications and a counter-intuitive fact further confuses matters: research suggests that while choice is a critical factor, sometimes more is not always better. Choice needs to be managed or it will complicate business and lead to consumer confusion. And that applies to both customer communication alternatives and how a business addresses the challenge. Companies that manage the complexity of choice are likely to be successful.

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From anywhere... to anyone

Complexity of Choice

Communicating through multiple channels in the commercial setting is not a matter for debate. The imperative to do so has developed gradually and steadily over the years, punctuated by brief leaps to new technologies and capabilities. What began with in-person contact (at the store) or paper (at a distance) expanded to include the telephone, facsimile and, more recently, the Internet while new channels, such as text messaging and Internet messaging, threaten even more standard choices.

Serving customers through multiple channels developed first in the customer service and marketing functions where customer relationship management (CRM) found its most fertile ground. Focusing on these two obviously critical points for revenue creation and customer satisfaction made perfect sense, but left it all too easy to overlook another persistent, deep point of contact with customers: the transactional communication.

Transactional communications are regular interactions with existing customers, for example, statement mailings. It was once very simple: every thirty days put it in an envelope and mail it. Mostly by being conditioned to the speed and utility of digital Internet technology, but also pushed into it by businesses intent on reducing costs, consumers now want alternatives for receiving their regular correspondence from businesses and governments[I]. According to a 2005 survey by Forrester Research, in 2005 Canadian online consumers were making a demand of between 14% and 47% for the electronic alternative of common commercial statements such as banking, credit card and tax documents.[1] So the tyranny of choice now affects transactional communications as well.

Businesses get driven to multi-channel communications because customers who don't receive precisely what they want—when and how they want it—are likely to go elsewhere. Today, competition in business is fierce, making lost customers hard to win back. The literature is rife with tales of just how little it takes for customers to leave. And, when the distinction among competing products is small, even the mode of communication takes on significance.

Companies implementing and managing multiple channels face a variety of challenges, including satisfying customers and the risk associated with customer-satisfying channel selection, added costs and ensuring superior, fully-coordinated service from all options. Like network value, the complexity of managing options seems to increase as the square of the number of choices provided.[II] These challenges and more create complexity. In this paper we'll highlight not only the various layers of choice that complicate multi-channel transaction communications, but also expose a counter-intuitive fact about choice that only further confuses matters.

FOR THE CUSTOMERS, AND . . .

Obviously, servicing finicky customers is a key driver. But in 2004 research, Schijns and Blokland found that businesses say they implement multiple channels as a means of generating revenues, developing deeper customer relationships, and cutting costs (in that order). These variables alone, however, do not fully explain channel selection. In addition to "the behaviors, preferences, and demographics of the current and prospective customers ('demand pull'), and the nature of the product… channel selection by competitors; available technology ('technology push'); know-how and the availability of personnel; experiences on [*sic*] channel selection in the past," affect the choice.[2] No doubt existing system compatibility and constraints also contribute to taking what's simple in concept and complicating it with choice nested in choice nested in choice. If it were only as easy as giving customers what they demand—which itself isn't as simple as it might seem.

CRUCIAL COMMUNICATION

Great communication is key to connecting and to achieving customer expectations. In a world where the "medium is the message," the channels chosen and their individual and collective effectiveness is as important as the content.

In this "how I want it" culture, recipients of business communications demand contact by the channel of *their* choice, *not* the company's. And, naturally, recipients are

[I] The ideas presented are applicable to government in most cases, although the driving motive may or should be less about commercial gain. For the sake of convenience and readability, however, I'll refer to businesses and commercial application in the remainder of the document.

[II] In the world of telecommunications networks, this phenomenon is known as Metcalf's Law, which states that the value or power of a network is proportional to the square of the number of users (nodes).

all different. Some are hyperconnected, implementing the latest technologies, while others don't even own a computer, still write letters and review bills that arrive in an envelope. Wired or not, people switch between channels and delivery methods depending on what is being communicated—and when. To make sense of it, we have to remember that customers have different communication needs and prefer different channels depending on their stage in the purchase life cycle.[3] Since every business has customers in each activity stage, the complexity grows.

EVERYONE WANTS CHOICE. OR DO THEY?

Our Western world view is informed by the belief that choice is empowering. Capitalism's primary premise is choice as competition, and so, in a purist sense, alternatives are generally a prerequisite to commercial success. That applies to the wares being offered and to everything else about the customer experience. "Have it your way," as one fast food restaurant's ad copy closes, neatly summarizes the prevailing consumer mentality.

So the more choice we have, the better, right? Wrong. In reality, the relationship between options and value is not that straightforward. Recent research suggests that although choice is a critical factor and some is better than none, more is not always better than less.[4,5]

Barry Schwartz, author of *The Paradox of Choice*, makes the case that at some point more choice is actually harmful. Based on the fact that losses tend to have a greater psychological impact on humans than gains, and on the prevalent psychological need to make universally optimal decisions, Schwartz identifies four key, interrelated reasons why choice can be detrimental.[6] The first of two prime reasons is *opportunity cost*, wherein choosers weigh not only real comparisons but also the comparative costs of *not* choosing an option (i.e., the sense of loss in the choice not taken). The second is the *regret* often felt for making the wrong choice—real or not—and it becomes clear how and why too much choice can paralyze or sub-optimize decisions. To these, Schwartz adds *adaptation* and *high expectations* as two further reasons for decisions coming apart and satisfaction declining.[7]

Such is the paradox of choice—it's desired and good but ultimately too much of a good thing isn't that good at all. Choice needs to be managed or it will complicate business and lead to consumer confusion, and that applies to both customer communication alternatives and how a business addresses that challenge. Companies that manage the complexity of choice are likely to be successful.

REDUCING COMPLEXITY: FILTERING

Filtering is one way to manage choice. Its essence is selection: determining, amid the noise, what to attend to and what to ignore. It's an age-old method for sorting.

There are many bases for filtration, among which are experienced intuition, research and ranking, expert recommendation, and emulation. In the context of customer communication channels, the channel alternative demand is identified and by some combination of filtering/development techniques winds its way to being a channel for the customer. Principally, the choice of channel options reflects not only customer demand satisfaction but also reducing or at least containing costs.

In business, there are two forms of filtering: in advance and after the fact.

Pre-filtering

Our familiarity with the concept is typically with pre-filtering: sorting and reducing options before they are genuinely considered. Whatever funnelling process and criteria are used, the critical feature is predetermination of the option set. Whether the customer is consulted or not, pre-filtering limits options, costs and investments before they are implemented and incurred.

The advantage of pre-filtering is that it eliminates cost and complexity in advance. The price paid for that advantage is that the market-optimal choice may not make the cut, and customers who do want the withheld alternative may take their business elsewhere. The expertise and insight required to make informed decisions about what to offer also comes at a cost: market research and testing are but two common means to identify the "right" choice early.

Post-filtering

With post-filtering, the implicit pre-filtering criteria are looser so many more options are presented for market trial. They are graded in the real world or even left in-market for the few customers who might be interested. Post-filtering accepts a higher cost and investment, and a higher failure rate to satisfy more customers with unique needs.

Amazon and Google ad words are examples of post-filtering. In both cases, the number of options presented and evaluated—in real time—is enormous, and everything is ranked. The filtering criteria are popularity, expert opinion and consumer history, but could be anything. Amazon's collaborative filtration uses the customer's own browsing and purchasing patterns to guide recommendations for future purchases.[8]

Unrestricted post-filtering, of course, is impractical in any situation in which financial overhead, fulfillment and management would present untenable burdens. What's more, it requires a sophisticated feedback loop that is practically achievable only when all participants respond electronically.

REDUCING COMPLEXITY: OUTSOURCING

Another way to manage choice is to let somebody else deal with it. According to an Accenture survey of more than 800 executives in the United States and Europe, outsourcing is very popular. Over 80 per cent of survey respondents expressed commitment to permanent outsourcing of at least one key business function.[9] While cost saving was identified as the key benefit, the business controls that outsourcing creates are driving the trend toward external providers.

More specifically, companies are outsourcing to deal with the challenges of document creation and distribution. As a measure of the worldwide momentum for document process outsourcing, research by InfoTrends/CAP Ventures indicates compound annual growth (CAGR) of 17.9 per cent in the United States and 37.4 per cent in Europe.[10] According to a recent Decima Research report, 49 per cent of participating companies currently outsource parts or all of their document printing, organizing and distribution.[11] This makes good sense, because outsourcing to a company that specializes in providing and managing document processing services has the potential for significant costs savings, can simplify business, and manage customer choice efficiently and cost-effectively. Managers remain free to focus on what's most important—their core business.

Outsourced document processing solutions vary, but generally encompass several services and activities that manage the process from end to end, including the transformation of paper-based processes. Some outsourcing companies provide a solution for only one part of the process, while others provide a solution covering document conception and creation through to document delivery and returns management.

MULTI-CHANNEL TRANSACTIONS, BEHIND THE CURTAIN

Every month, a business repeats a conversational communication cycle with its customers. Each communication leads to a response, which in turn leads to more communications. In the context of the developing Transpromotion trend, which integrates one-to-one marketing discipline into the transaction communication process, the monthly conversation becomes geometrically more important. Optimizing it while managing the multiplicity of delivery channels and personal relevance demanded by customers is complex and costly for most organizations, which is good cause to involve an expert.

There are many competing approaches to solving this challenge of providing multi-channel transactional communications. While the same functions are required and outcomes desired to achieve success, how to go about it can range widely.

When the curtain is drawn back, one sees the extensive breadth of activity that constitutes document processing: well beyond printing and mail preparation. Commonly, it includes management of receivers' channel preferences and profiles, transforming of outbound communications into the required format (print or electronic), providing multi-channel delivery, and offering online payment options. A robust, CRM-integrated solution also manages customer requests, collecting and managing customer information and fulfilling orders, to complete communications cycles faster. Streamlining data collection and capture optimizes the development of new customer relationships, management of existing ones, and production of statistical analysis of that customer information for better marketing and better service.

Communications that do not reach intended recipients, due to an incorrect address for example, are useless and expensive. A full document-processing system would ensure that corrections are quickly made so that the conversation can continue, and future production, operational and delivery costs are reduced.

DAMN THE COMPLEXITY; KEEP THE CONVERSATION ALIVE

In this paper, we have barely scratched the surface of what makes deployment and management of effective, ongoing multi-channel transaction communications challenging to the business. The fact is: getting new customers is important, but keeping them is critical. That's why transactional communication has become a new battleground for customer service and marketing. Maximizing the value of the regular, monthly conversation with the customer is just now being feasibly exploited. Dealing with this and similar complexities is a key business challenge of the early twenty-first century. The global economy and the Internet have been substantially responsible for revolutionizing how we do business and communicate, never mind for accelerating the pace of change and the volatility of its impacts on the businesses navigating these new challenges.

To transactional communicators, customer choice is prerequisite. For commercial success, however, limiting and managing the choices to reduce costs and potential for error are also necessary. The complex requirements for effectively processing multi-channel transaction communications today is not to be underestimated given the channel choices, competing demands and alternative approaches to addressing the challenge. It is compounded by the reality that impatient customers, who expect things their way, are on the receiving end of the live implementation. Let's not forget that the process should also reduce cost, producing suitable return on the investment.

All of which creates a Gordian knot. Cutting through this knotty problem will, however, achieve significant commercial rewards, the statistics for which vary by specific solution set and circumstance. So it's well worth having professionals at least design the system—maybe taking the opportunity to renew the overall customer communication process as well. With an integrated multi-channel capability and possibly even an updated transaction communications strategy, whether you manage the process internally or have a specialty firm handle it is really a matter of preference and desired focus.

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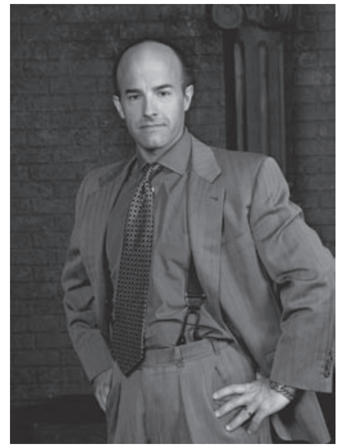

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