Transforming customer service

The impact of AI

A virtual roundtable sponsored by Zendesk

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Event summary

Artificial intelligence (AI) is transforming customer service by increasingly taking on simple, repetitive tasks. Generative AI promises to push this transformation even further, with early iterations offering huge opportunities for customer-facing enterprises. But these technologies also carry risks.

To consider how advances in technology are changing the way customers interact with businesses, on September 13th 2023 Economist Impact convened "Transforming customer service: the impact of AI", a roundtable discussion sponsored by Zendesk, a customer experience software company. Moderated by Guy Scriven, United States technology editor at *The Economist*, the discussion started by exploring the role of customer service in business success.

The speakers on the session were:

- Adrian McDermott, chief technology officer, Zendesk
- Mohamed Abdelsadek, executive vice-president of data, insights and analytics, Mastercard
- Kate Leggett, vice-president and principal analyst, Forrester Research
- Jessica Moulton, senior partner, McKinsey

Customer service departments are the front door through which people interact with businesses. And good impressions matter. "Our data shows that two-thirds of interactions that a customer has with a brand are for customer service, either pre-purchase, being onboarded or post-purchase," said Kate Leggett, vice-president and principal analyst at Forrester Research. "Our data shows that great customer service impacts customer retention, [customers'] value over time and their ability to advocate or be a reference for the brand."

The three dimensions of loyalty

Ms Leggett added that these three dimensions of customer loyalty—retention, value and advocacy—quantifiably affect the top-line revenue of a business. "Increased customer experience is linked to increased top-line revenue: deliver experiences that exceed customer expectations, as it has that quantifiable impact," she advised.

Good customer service is critical to business success. A survey conducted by Zendesk earlier in 2023 found that more than half of customers will switch to a competitor after just one bad experience, while nearly three-quarters will look for an alternative after two bad experiences.

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> Kate Leggett, vice-president and principal analyst, **Forrester Research**

Since the start of the covid-19 pandemic, which drove a major shift to online shopping from 2020, customer service expectations have changed dramatically.

"One of the longer-term impacts of the pandemic lockdowns is so many more people experienced…digital customer services," said Adrian McDermott, chief technology officer at Zendesk. "It raised their expectations as they got to deal with the best in the world, and the best of the web, and saw what good looks like. Now they have a very low tolerance for bad, and every organisation is challenged to make a connection with their users and bring technology to bear."

For Mastercard, good customer service means ensuring a customer's wants and needs are anticipated and taken care of without them having to contact the company. Its executive vice-president for data, insights and analytics, Mohamed Abdelsadek, said this takes a personalised and proactive experience across every aspect of the business: "If you do that you have solved the CX [customer experience] problem without having to have people engage and solve problems."

But inevitably, issues and questions that drive customers to reach out will still arise. Businesses must then deal with these in the most efficient and cost-effective manner that enhances rather than damages customer perceptions.

First-generation implementations of AI for customer service—eg, as online chatbots introduced to be the first point of contact—were rudimentary and often frustrated customers. "With any technology, the opportunity for it to be applied as an amplifier of crap experiences is absolutely there," Mr McDermott said, noting that early chatbots were rules-based and had poor natural language processing ability.

Those early chatbots essentially searched for information, with later versions offering decent but not excellent experiences for customers. But along with self-service, they were game-changers for companies and contact-centre managers, enabling up to 20% of customer service enquiries to be dealt with automatically without escalation to a human agent.

The excitement around generative AI

Enthusiasm for applying generative AI in customer service stems from its ability to reason about and answer complex inquiries in multiple languages.

"The application of the technology and the way we put it in front of people is where we still have the risk," Mr McDermott said. "If we focus only on efficiency, we will lose sight of the fact that…there are market alternatives. … It is extraordinarily important, as we apply the technology, we do so first in pursuit of greater experiences."

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Mr McDermott stressed that the focus needs to be on removing friction and deploying technology in the right way and at the right time, and that there should always be an "escape hatch" that lets the customer speak to a human.

Jessica Moulton, a senior partner at McKinsey, said her company conducted a study that found customer service is the area most likely to be transformed by generative AI in the short term. Its main use cases, in information retrieval and natural language response, are easier to apply in this field than, for example, drug discovery or managing intellectual property.

Productivity gains

Generative AI will not only be able to tackle basic, repetitive work, such as password resets and account balance inquiries, but also more complex tasks, leading to major productivity gains.

Ms Moulton expects customer service departments to see a 30-40% uplift in productivity in the near future. For example, one study has shown that the introduction of generative AI at scale in a call-centre environment increased issue resolution by 14% per hour and reduced the time spent handling issues by 9%. "These are tremendous gains, hard to replicate through other initiatives," she observed.

Inevitably, as routine tasks are removed from human workloads, the type of staff recruited into customer service will change. There will be less demand for generalist agents and more for people who can emotionally connect with customers or troubleshoot complex software problems. Overall, customer service roles will become more consultative. "We are already seeing a shift in jobs because of AI and automation impacting the contact centre," Ms Leggett commented.

Generative AI could especially benefit newer and low-performing customer service agents, improving their effectiveness and productivity. The technology is expected to reduce the need for follow-up calls. Resolving problems on initial contact will free time for agents to focus on other opportunities like sales. Ms Moulton said it was still too early to see the full impact of generative AI on customer service headcount: "We are in the early days of experimentation; it will be 18-24 months before we see the full effects."

Nonetheless, the panellists said human agents would remain the point of escalation for the next decade at least. "Humans ultimately like to talk to humans—especially when in a crisis or emergency," said Mr McDermott. "It is the 80% of repetitive services that you start by automating." Studies have shown that in North America, 50% of customer contact in banking, telecoms and utilities is already machine-assisted.

Taking a prudent approach

Mr Abdelsadek revealed that Mastercard is cautious about putting generative AI in front of its customers. While the technology is good at making predictions, it lacks human reasoning and is prone to errors. Firms could see severe regulatory and legal implications from customers taking action based on erroneous advice.

"It is important to be thoughtful and prudent on how to navigate this," he said. For now, Mastercard is using generative AI internally to identify and prevent fraud through scenario modelling.

Since the technology will continue to evolve rapidly in the coming years, Mr Abdelsadek said companies with greater risk profiles would be wise not to leap too soon.

Technology has already transformed how businesses interact and communicate with customers. And as it continues to improve, customers will expect communication channels to evolve, delivering better and faster responses to more complex problems. Provided that tools like generative AI are thoughtfully implemented, businesses and their customers will both benefit from the technology revolution.