



FORRESTER®

# Predictions 2018 **A year of reckoning**





# A year of reckoning

Economies are growing. Stock markets are climbing. Employment is healthy. These are all positive signs of the marketplace as a whole.

But the fate of individual companies has never been more uncertain, and the window of opportunity is closing for many companies unprepared or unable to adapt to new market realities.

Many factors are combining to define the fate of companies: Unmet customer expectations are resulting in churn; the lack of digital transformation gains is translating to loss of market share; industry lines that protected some are crumbling; and longstanding, durable business models are failing.

For some, it feels like a burning platform mandating bold action; for others, it will be the quiet but real deterioration of their business.

Forrester's 2018 predictions describe the market dynamics that favor those taking aggressive action and create existential risk for those still holding on to what has worked before. 2018 will force decisive action for firms looking to:

1. Take control of their destiny as platforms like Amazon and Google drive up disintermediation risk and make some companies unintentional utilities.
2. Shift spend away from acquisition to confront escalating churn.
3. Revitalize customer experience in a market where rewards and punishments are doled out experience by experience.
4. Transition to digital companies while maintaining their corporate identity and soul.

We hope our 2018 predictions provide new insights and help catalyze action.

# 1 CX hits a wall



**30% of companies will see further declines in CX quality and lose a point of growth.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

Customer experience (CX) became the centerpiece of business strategy as companies adjusted to the experience economy.

But according to Forrester's 2017 CX Index™, CX quality plateaued or declined for most industries and companies. Why? CX initiatives tackled low-hanging fruit to put early points on the board, and most CX initiatives had too little clout to force meaningful operational change.

Customers' expectations will outpace companies' ability to evolve or invent experiences, and the deferred transformation in 2017 means that companies can't adjust fast enough or well enough.

In 2018, 30% of companies will see further declines in CX performance, and those declines will translate into a net loss of a point of growth.

Smart executives will intervene to make CX an internal disruptive force, one that is underpinned by the fundamentals of CX management with customer trust at the core; too many executives will continue to ignore evidence of market disruption and procrastinate until the evidence is overwhelming, putting their firms at risk as we enter 2019.

**FORRESTER®**

# 2

# The digital crisis

**20% of CEOs  
will fail to act  
on digital  
transformation  
and put their  
firms at risk.**

[FORRESTER.COM/PREDICTIONS](https://www.forrester.com/Predictions)

Digital transformation is not elective surgery. It is the critical response needed to meet rising customer expectations, deliver individualized experiences at scale, and operate at the speed of the market.

The results are sobering: Over 60% of executives believe they are behind in their digital transformation.

Lagging results have created a loss of confidence in the CIO, driving up the number of chief digital officers and business units creating their own digital strategies. But that misses the point.

Digital transformation is a CEO issue and an economic question. Digital transformation is expensive; CEOs can't drive operational savings fast enough to fund it and are cautious about destroying margins.

In 2018, CEOs must show the political will and, with the CIO and CMO, orchestrate digital transformation across the enterprise.

Some CEOs will use their balance sheet to acquire digital assets and buy time. But 20% of CEOs will fail to act: As a result, those firms will be acquired or begin to perish.


**FORRESTER®**

# 3

# Talent widens the digital divide

**Those struggling to attract scarce talent will spend up to 20% above market.**

[FORRESTER.COM/PREDICTIONS](https://www.forrester.com/Predictions)



The news reports of a digital talent crisis are overblown. Continued use of H-1B, the gig economy bench, and technical training for the existing workforce have strengthened supply for commodity technical skills. The 2% to 4% growth in wages suggests a relatively balanced market.

The real story is the lack of specialized roles like data scientists, information security analysts, high-end software developers, and experience designers that are critical to CX and digital transformation.

These professionals want to work for firms further along in their digital transformation effort and with more ambitious strategies. They will work for laggards as a last resort or due to geographic necessity. Executives at digital leaders have 90% of the talent they need, while those at self-described digital laggards have only 19% of the talent they need.

In 2018, talent issues will widen the divide between digital predator and prey; laggards will need to more aggressively set up digital incubation centers in talent hotspots and pay up to 20% above the market rate to change the game.

**FORRESTER®**



# 4

# The empowered machine

**Intelligent agents will directly influence 10% of purchase decisions.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

Empowered customers are wreaking havoc on markets, changing the rules and destroying once-sturdy business models. Power has shifted away from institutions to customers.

Enter the machine.

Platforms and associated intelligent agents will collect preferences, behaviors, transactions, and emotions, creating a rich view of an individual.

Intelligent agents will use that data to increasingly influence consumer options and decisions.

This model is not new. It was a longstanding part of advertising logic in a world where brands had greater sway over customer choices. The difference is that this model is based on the emerging, dynamic, and emotional relationship between the intelligent agent and the individual.

In 2018, 10% of purchase decisions will be guided by a platform's agent and start the real economic impact of empowered machines.

FORRESTER®

# 5

# The algorithm wars

**25% of brands will lack expertise in the lingua franca of intelligent agents.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

The algorithm is foundational to digital platforms like Google and Amazon. It is how platforms make sense of customer preferences, recommend actions, learn, and act. The algorithm is the language of platforms.

Yet brands have been slow to understand the lingua franca of platform algorithms, especially when the brand is not part of the customer's existing preference and the algorithm is choosing whether to introduce that brand to the customer. It is akin to not understanding search algorithms — but with far greater consequences.

It is one thing to be disintermediated by the platform and its associated intelligent agent; it is another to not understand or have any real influence on that relationship.

In 2018, CMOs will need to source talent to interpret and influence AI-driven platforms. Twenty-five percent of CMOs will fail, resulting in their brand becoming undifferentiated and silenced in the market.



# 6

# The intelligent agent cocoon



**Consumers, representing \$24B in spend, will use intelligent agents to escape the noise.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

It's noisy out there: multitasking, endless choices, non-stop ads on any device. The emotional labor of these distractions is converting to fatigue for consumers today.

Current trends like yoga, KonMari, and hygge can be seen as fads. But perhaps they are signals that individuals are withdrawing from clutter in search of simplicity; those individuals will use intelligent agents to filter away the noise of the day.

This shift will put a dent in companies' financials. All told, 1% of the US population, with spend equivalent to \$24 billion, will join the AI revolution to cocoon themselves from the noise.

2018 is a starting point. Intelligent agents will continue to strengthen their influence on consumers and pressure brands to engage through the subtle power of conversation.





# 7 The advertising correction

**The advertising  
market will be  
flat in 2018.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

All the signals are clear: customers avoiding ads; the cost of wasted or bad ads; major brands announcing massive cuts in ad spending; and agencies providing downward guidance to Wall Street.

This is not an advertising budget crisis but simply changing priorities.

CMOs can't defend underperforming media spend focused on customer acquisition as churn rates escalate or stand idly by as digital platforms threaten to disintermediate their relationship with customers. Instead of plowing money into traditional ad spending, CMOs will increase spend on:

1. Revitalizing CX to drive affinity and stem churn.
2. Synchronizing loyalty programs to customer expectations.
3. Understanding how to decode digital platform algorithms.
4. Advancing martech to deliver individualized experiences at scale.

The result: Ad spend will be flat in 2018 and cause a painful correction in the agency and adtech markets.


**FORRESTER®**

# 8

# The GDPR challenge

**80% of firms will not fully comply with GDPR.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)



GDPR challenges how companies balance risk and cost. Full compliance with all aspects of GDPR, including the ePrivacy Directive, is a high and expensive bar to clear. Non- or partial compliance could create extraordinary costs and damage to the brand.

Companies are weighing what it means to fully or partially comply.

We predict that 80% of firms affected by GDPR will not comply with the regulation by May 2018. Of those noncompliant firms, 50% will intentionally not comply — meaning they have weighed the cost and risk and are taking a path that presents the best position for their firms. The other 50% are trying to comply but will fail.

This will be a fluid environment; any successful case against a well-known giant will change the risk/cost balance.

The sleeper issue of 2018 will not be compliance but how consumer advocate groups use GDPR to prosecute their agendas by using the regulation's "right to be forgotten" clause — exhausting companies' resources and damaging their brands.

**FORRESTER®**





# 9

# Open banking lays siege

**More than  
50% of banks will  
start becoming  
an unintentional  
utility.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

The venerable and profitable banking business model is under attack. Changing customer expectations, the onslaught of fintech, and banks' inability to deepen the value of customer relationships are to blame.

Open banking will put that attack on steroids.

Epitomized by PSD2, open banking lays siege to the banks' traditional power center: data. Banks will no longer have a monopoly on their treasure trove of customer data — account history that tells the story of life events and transactional data that lays bare the day-to-day minutiae of customers.

Most banks have failed to convert this data to strategic advantage. That failure will come home to roost in 2018. Amazon and Google, well-positioned fintech providers, and challenger banks will exploit access to data, disintermediating or supplanting incumbent banks.

In 2018, more than 50% of banks will fail to exploit open banking, starting down the slow, painful path to becoming an unintentional utility.

FORRESTER®



# 10

# Retail experience harmonization

**67% of retailers will be unprepared to exploit intelligent agents.**

[FORRESTER.COM/PREDICTIONS](https://www.forrester.com/Predictions)

The retail industry continues to grow, but challenges lie ahead for traditional retailers.

Retail has been working in parallel linear tracks: improve store experiences, transform digitally, and connect the two pieces. Those parallel tracks are hard enough. But that's not the mandate: The mandate is to leverage physical and digital assets differently.

Retailers will need to consider how to work with intelligent agents that will take a greater share of how customers discover and order; create immersive, dynamic store experiences; use physical stores as logistics nodes for intraday fulfillment; expand the digital catalog to match platforms like Amazon; and harmonize all of this in a graceful, differentiated journey for customers.

Lack of skills, quasi-differentiated brands, and aged operations are hurdles for traditional retailers — but the role of intelligent agents will be the thorniest issue in 2018. Only 33% of retailers understand the disruptive nature of intelligent agents; 67% do not.

FORRESTER®



# 11 The AI reset



**75% of early AI projects will underwhelm due to operational oversights.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

AI is rapidly changing how companies create personalized experiences at scale; how consumers balance privacy and value with brazen democratization of their data; and how employees shape their professional paths to include greater interaction with machines.

The focus of the AI conversation has centered on using AI technologies to augment intelligence or create conversational interfaces. Ideally, these investments would test how AI reinvents businesses, enabling firms to enter new markets, create new products and services, and drive growth through a reimagined operating model and an expanded view of digital ecosystems and partnerships.

But 2017 investments have focused on discrete use cases and projects to prove immediate business value. Those benefits are too narrow and will be short-lived.

In 2018, 75% of AI projects will underwhelm because they fail to model operational considerations, causing business leaders to reset the scope of AI investments — and place their firms on a path to realizing the expected benefits.

**FORRESTER®**

# 12

# Blockchain inches forward

**30% of proofs of concept will create a true foundation for blockchain.**

[FORRESTER.COM/PREDICTIONS](https://forrester.com/predictions)

Blockchain is a story of rational exuberance. Blockchain promises to fully enable bold platform and ecosystem strategies while defending against increasing cybersecurity threats.

And that extraordinary promise is, in part, the problem. The exuberance for blockchain hindered progress in 2017:

1. Marketers oversold blockchain.
2. Teams ran narrow tests that delivered underwhelming results against high expectations.
3. Teams applied blockchain-like approaches to problems that they could have solved with existing technologies.

Eighty percent of projects failed to meet expectations.

In 2018, the combination of rhetoric and enthusiasm will continue to limit blockchain gains. However, 30% of proofs of concept will accelerate blockchain for those companies able to consider its operational impact.

FORRESTER®



# 13 Security for profit

**10% of firms will  
translate security  
investments into  
company profits.**

FORRESTER.COM/PREDICTIONS

Companies face increasing cyberthreats from hackers who seek to commit cyberwarfare or industrial sabotage. There is no rest for the weary: The same security, risk, and privacy teams battling hackers encounter internal pushback that security measures negatively affect customer experiences.

But what if security investments directly enhance customer experiences and drive growth?

In 2018, we will start to see security for profit measures driven by security, risk, and privacy teams with the support of their marketing and product peers. Central to this is identity management.

Security and privacy teams need to know exactly who is accessing what and resolve identities across entry points. Marketing can use that same capability in the martech stack for personalization — transforming a security mandate into a CX enhancement. In the coming year, 10% of firms will crack this code and gain new and powerful investment leverage.

FORRESTER®



# Get aggressive

Customers demand what they demand. And when companies fail to deliver experience by experience or live up to their brand promise, customers will take flight.

Evolving customer expectations will challenge everybody — leaders, followers, and laggards. The across-the-board plateauing of CX quality reminds us that customers continuously re-evaluate experiences and reassess loyalties.

Leaders will adapt and, ultimately, thrive. Those slow to change will struggle. And the distance between the two will grow.

2018 will be a year of reckoning for those that have held on too long or tried to bootstrap their way through transforming their business. Simply put, the distance between customer expectations and the reality on the ground is becoming so great that a slow and gradual transition is no longer possible. Incrementalism may feel good, but it masks the quiet deterioration of the business.

Whether CEOs in these companies start to use their balance sheet wisely, find new leaders, develop aggressive turnaround plans, or do all of the above, they and their leadership teams must aggressively get on track to preserve market share and market standing.

For more information on the data and research that underpins these predictions, visit [forr.com/2018-predictions](https://forr.com/2018-predictions) or email us at [forresterinfo@forrester.com](mailto:forresterinfo@forrester.com).

Follow Forrester:



Become a client:

[CONTACT US ►](#)