TRANSCRIPT FROM THE PRESENTATION:

AI as a Brand Differentiator:

How Consumer Views of AI are Shaping the Customer Experience Journey

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For those of us who have spent a career working in marketing, marketing tends to be a position that there tends to be lots of turnover in CMO positions. I've been lucky that I've had pretty long tenures in various positions, and I have to tell you how excited I am to be at Interactions. At Interactions, we believe we're the largest standalone artificial intelligence company certainly in the customer experience, customer services space, but potentially the largest standalone AI company in the world, and I'll give you some stats to kind of back that up. I'm very excited to be here. I've got some interesting topics. I'm going to talk a little bit more about Interactions in a second, but let me tell you the five things I want to talk about, and I'm going to share some of our experience at Interactions in addition to some primary research that we can conducted in the August, September timeframe of this years, specifically regarding consumer acceptance, consumers viewpoint of artificial intelligence. Specifically, in the customer service and customer experience realm. First big trend we'll talk about is what's happening with AI projects at enterprise. We're an enterprise company. Three, four years ago, they used to be kind of a science experiment. "Well, let's just see what it might be able to do for us." I'll offer you proof points today that demonstrates an enterprise. It's not a

science experiment anymore. Big money is being spent on AI because of the benefits it delivers, and I'll talk about that. Secondly, we really focused on our research around what consumers preferences between basically typing versus using voice as a channel, and if you look at a lot of research out there, it'll see increasingly, consumers want to use texting or typing for interacting with companies. It's not been our experience that that's the case, so we wanted to understand why consumers say that, so I'll share some data that delves into that. I want to talk a little bit about chat box. I think Chatbots. I think there's been a lot of hope for what Chatbots could actually deliver, but they've quite frankly disappointed in a lot of ways, so I'll talk about that. I'll also talk about consumers' preferences for AI. We actually found in our survey there's a lot of circumstances in which consumers actually would prefer AI as opposed to a human agent. And then finally, I'll share with you some of the results we've seen not only from consumers, but with our commercial customers regarding the benefits they see when they're using effective AI. A little bit about Interactions: we operate in the customer service, customer experience space primarily. That's our primary use case. We offer an intelligent virtual assistant that is highly conversational, and what I mean by that is that consumers dealing with customers of ours can speak in their own words, say what they want, and have an intelligent virtual assistant on the other end that actually understands what they're saying. It's highly conversational. It's a combination of highly

sophisticated artificial intelligence coupled with what we characterize as human understanding, and we have a significant number of patents around this. It's a highly, highly solution, so much so that the company this year will do a hundred million dollars in revenue; that's profitable revenue. We have grown approximately 45 percent over the last five years as a compound annual growth rate. We don't see that slowing down; we have pretty good visibility into what revenue growth is going to look like next year. We see a very robust market opportunity. We think we're just scratching the service. Our customers stay. Once we get a customer, it's rare for us to lose a customer. Incredibly broad patent portfolio and currently over 400 employees; we think that'll grow 20, 30, 40 percent just based on how quickly we can hire folks over the course of the next year. The reason I just share that is not to do a sales pitch on Interactions, but to provide some context for some of the data I'm going to share with you and hopefully provide a little credibility that we actually have a pretty good sense and pretty strong point of view about our perspective.

So first, let me talk about the first topic: AI, no longer a science experience. We have a pretty strong point of view about what's happening right now, specifically in customer experience because of our experience and the research that we've done. The awareness of AI in the C-suite because of digital transformation happening at enterprises, it is very, very high on the list of C-level executives trying to figure out the best way in which they can start to, as a part of their digital transformation initiatives, to leverage AI to improve the operations of the business. So, there is very high visibility. Not the case three or for years ago where perhaps it was more of an evangelical sale. Not now. There is tremendous interest as the C-suite. And in part because they're two competing interests that are going on that are really kind of driving a strong interest in AI. The first is the imperative to start to differentiate based on customer experience. Just think about the companies you deal with on a daily basis just as a consumer. A lot of customer experience if not most today is really a pretty miserable experience. I'll talk a little bit about that. Eighty percent of CMOs according

to Gartner, and this is a stat that I definitely relate to, 80 percent of CMOs say that by 2020, they are going to differentiate based on customer experience. So, you have that, the wanting to be able to invest in technology that allows you to differentiate your customer experience. At the same time, you have to reduce cost, and they seem very much at odds with each other. Actually, if you're leveraging AI, they're not. They're very much consistent with each other. There's not only an increased expression in AI, but real budget. Real, concrete dollars. Not a 60 or 70 thousand dollar little experiment, but multiple millions of dollars being assigned to these project, and I'll give you some proof points of that in a second. On the customer service side, we think AI in customer service makes a tremendous amount of sense. We see that our customers, and we think that customer experience, customer service more than anything else is going to lead some of the early adoption of AI in the enterprise. We believe that we're just about to hit a tsunami in this space, and I'll give you some very concrete examples of that. Over the course of the past six months -- we're an enterprise-focused company; we sell to enterprises, and over the course of the past six months, these are indicative deals that we've singed. These are all major brands. I'm not going to violate our confidentiality agreement, but every single one of these companies, you know who they are. You know their brands: a major financial services firm, we expect contract revenue from that to be little north of 8 million dollars, major online retailer, over 4 million dollars, major transportation company, 7 million dollars over the course that typically a three-year deal, major US government agency, almost 8 million dollars. We expect an incredibly robust Q4 as well. Real money is being spent here. Real money. These are not science experiments anymore.

Second, I talked a little bit about this in the intro, about typing versus texting. So, once again, if you look at a lot of research out there, it'll say increasingly, consumers want to type. They don't want to use voice as a primary channel. We actually don't think that's true. Why? Because consumers -- all of us -- can talk three to four times as fast as we can type. And if you think about it,

when you're entering an address in your GPS system in your car, you press a button and you say the address. If you're changing the TV, you can talk into your remote now. Voice is an incredibly efficient way to communicate. So we're going to talk a little bit about why it is, then, that consumers are saying text over voice. So as I mentioned, in August and September, we conducted a survey with [Harris?]. Statistically valid, over two thousand US consumers and it was a great blend of different generations: Millennials, Gen Xers, and Baby Boomers. And not surprisingly, some of the results you're going to see reflect differences in generations. I don't think that'll probably surprise you. The first thing we did was we asked consumers "when you're dealing with a company, do you prefer texting or typing?" We found about a 50-50 split. It was pretty even. Now, this survey maybe two years ago would have show maybe 60, 55, 60 percent of people preferring voice. So there's definite-- when you ask this questions, you hear consumers saying, "yes, I want to go to texting." We wanted to know why. Why is it that they say that? So, part of what we did was we tested a couple of things. First, we tested "OK, so you say that you prefer texting over typing. If in fact, there was an effective AI solution that was quick and very effective in answering your questions, what would your primary channel be over voice? What would your primary channel be?" Two out of three said voice. And it was even higher among Millennials. More Millennials -- that surprised me. I thought Millennials would be a little lower, but no. They're perfectly comfortable; they want to use voice. What else did we ask? We delved down a little deeper to say, "OK, well then what's the problem with voice?" And we said, "do you have frustrations, and if so, tell us what they are, and you can say as many as you want." Well, here's what we found: 94 percent, virtually everybody, said yes, they've had all kinds of challenges with voice. And what were some of the reasons that people were frustrated by voice? Well, having to wait for an agent. You basically wait in a queue; people don't like to wait. Most of the rest of them related to IVR implementations. They talked about things like not being able to bypass the IVR system. Why? Because typically there are six, four, five options that are

irrelevant to the reason you're calling. It's an exercise in frustration. And sometimes there's speech-enabled IVR that doesn't understand what you're saying. The takeaway for us on this survey is that it's not that people don't want to use voice, consumers. They actually do want to use voice. What they don't want to use is the way in which it's implemented today, because it's an exercise in frustration. So, this is really important, and we felt it was very insightful and we've been sharing a lot of this data with our customers, and it's consistent with what they see in terms of those who have in fact implemented an intelligent, interactive voice system that is conversational.

So, next point. Companies have turned to Chatbots, and because of that perceived preference for text, many companies have experimented with Chatbots as kind of a way to put in a cost-effective solution that's going to address customer service issues. The reality is they have underwhelmed for a whole host of reasons. I went out and I just did a search as I was putting this presentation together of some stories you could find, and I found probably a hundred different ones, and I just snapped some of them because I think that the -- and all these stories are over the course of the past three or four months. Chatbots are killer customer service, here's why. Let's be honest: Chatbots kind of suck. Why are Microsoft and Amazon ditching their smart bots? I think anyone who's used a Chatbot knows that there are some real challenges. I think the notion behind it makes a lot of sense, but there are a tremendous amount of challenges. They've garnered significant support over the course of the past two to three years, but they're very limited in terms of what you can do. It's pretty typical to see a chatbot implemented in a very siloed way within a company. It's not connected to the rest of the infrastructure within the company. It's a very, very, very special-use case, and if you're using that Chatbot and you happen to try to do something that isn't in that narrow scope, it fails. Why does it fail? Well, because they're primarily rules based, which means that, in essence, they're no different than an IVR. They're just a digital IVR. They're ones that are implemented assuming that you know what consumers are going to ask, and our experience is you'll rarely know

what consumers are going to ask. They go all over the place; you can't contain that. We've seen that it doesn't work with IVRs because it leads to a bad experience. The same thing is true with Chatbots. That coupled with NLP, Natural Language Processing, or natural language understanding technology that isn't quite there yet. And no ability to seamlessly hand off in real time to humans to make up for the deficiencies of the technology. So, we think Chatbots will evolve, and in some cases, quite frankly, have been devolving into a digital IVR, and that's actually, obviously, a disappointment. Doesn't mean that there's not potential here; there is potential, but a lot of the Chatbots have disappointed.

So, with that, what does that bode for consumer preference. You've seen some AI-based Chatbots implemented and that they've not been a terrific experience; they've been very limited in terms of use cases. We wanted to test the concept in our survey. Do consumers actually say, "you know what? She has to get me to a human so I can get my questions answered." So, we tested that concept. We wanted to know do you want a human or do you want an effective AI solution? Key is effective; it has to work. If it doesn't work, of course they don't want to use it. But if it works, what was the response? Well, so we asked that question. We ask about the comfort level with an AI voice solution versus humans, and we found that 76 percent of consumers and almost nine out of ten Millennials were perfectly happy to not have a human involved in their interaction provided that the solution was effective. We specifically then pressed and asked the question "well, what kind of things are you comfortable not having a human involved? What things?" Like "well, if it's really well implemented and there's convenient, effective self service, that's great." We found around if I'm addressing a private issue. If there's embarrassing financial information, they might prefer to deal with an AI virtual system as opposed to a human. If

they're in a bad mood, if they're pissed of, they really would prefer to yell at a virtual assistant as opposed to a human. So, there are a lot of used cases where we found that the great majority of consumers actually prefer an AI solution. So, once again, doesn't surprise us at all just based on our experience with what we sell to our commercial customers. The other thing that was really interesting is -- and I thought you might find this interesting so I put it in -- we actually asked a question about use of personal data in different categories. Personal data not provided by the consumer but personal data provided that an AI engine may have access to, things like -- because you can go onto social media and you can learn a lot about folks. There's lots of data out there. How comfortable were consumers with an intelligent virtual assistant using this type of information if the consumer didn't provide it? Well, with demographic information, behavioral information like purchase history, and education history like schools you attended, it was about a 50/50 split. Consumers were like, "yeah, I guess that's OK," and some were like, "no, that steps over the line." Where it really started to step over the line for consumers was when you started to get into previous employment information, family information, and health information. If somehow an AI system had access to that information without the consumer providing it, they were like, "that's stepping over the line," except if you're a Millennial. Millennials in all cases, the majority of Millennials were like, "yeah, no problem." Very interesting when, for enterprises, is they think about who their customers are. As Millennials become more and more the consumers who are buying, and if you have a lot of Millennials as customers, interesting data, very interesting data. We also then tested what are some of the impacts and benefits of an effective AI solution? We specifically -- I'm going to talk to you about it from a commercial customer perspective. Our customers -- I'm going to talk about it in terms of our survey, what consumers said. So, we asked the questions of consumers. If there was

"… if you have a lot of Millennials as customers, interesting data, very interesting data."

a company you interfaced with or interact with had an effective voice solution, it was effective, and it was quick in answering your problems, what would it do to your satisfaction? Pretty much two out of three said, "yep, their satisfaction would increase." That's not at all a surprise to us. That's exactly what we expected to find because at the heart of our value proposition is improved customer experience. Pretty typical for one of our customers to see 10 to 20 percent improvement in customer satisfaction scores when they use our virtual system. So that didn't surprise us at all. We delved a little deeper; what else did we ask? Well, we asked, "OK, if you have this effective and quick AI voice solution, what happens to the likelihood of the following?" Well, 70 percent said that if it was effective and it worked, 70 percent of them said they would participate in a customer satisfaction survey. Sixty-nine percent said that they'd refer the company to a friend or a family member. Sixty percent said that they would increase purchases with that company, seventy-three percent with Millennials. In each of these cases, Millennials were higher. Compliment the company on social media, 62 percent of Millennials said they'd do that. And provide personal information so that the AI solution could be more effective, once again, 60 percent of Millennials would do that. So, consumers see real benefit if it's an effective solution, and they're willing to engage with that solution. From a commercial perspective, what are the benefits for our enterprises -- and this is what we see with our customers -- increased customer engagement. In an age where you're trying to differentiate based on customer experience, the ability to engage more with your customers in a cost-effective way, not deflect and contain, but engage and delight, really, really powerful. And in the process, improved customer satisfaction as a result. Right at the heart of that issue I teed up at the beginning about competing interest, improving customer experience while you're lower in cost, and that is a big benefit of using an effective AI solution. Our customers absolutely see a decrease in cost associated with delivering this. We have a general rule -- it's not always the case, we do businesses on each one of our customers,

but we have a rule of thumb we try to follow: spend a dollar, save a dollar. So real demonstrable benefits. The bigger benefit is the customer experience, improvement in customer experience. There's demonstrable savings. Another one, reduce agent churn and hiring challenged. In an economy where unemployment is three-and-a-half percent, it's really difficult to hire. About three weeks ago, I was at a large retailer; they have thousands of agents; and they showed a really kind of mind-blowing stat with me: their agent turnover on an annualized basis is 70 percent. It costs about 2,500 dollars to train an agent. Do the math. You have that versus an agent, virtual assistant, an intelligent virtual assistant that always shows up for work, never has a bad attitude, works 24 by 7, and can scale at the business. It's compelling. It's compelling. And by the way, at then end of that, then, what ends up happening is your agents, then, that you do have can actually work on really high value, much more complex things, and it translates into higher satisfaction with those agents as well. So, the benefits of an effective AI solution are very real; we see it with our customers.

As I kind of close out, a couple of things. I know that I saw people taking pictures with their cameras of some of the data. We actually are more than happy to share that data. If you want to -- over there on the way out, we'll scan your little badge and we're happy to send you the data. We have it put together in a very nice e-book and we'll be happy to share that data with you if you'd like. You can also come to our website, to Interaction.com, and get it there. And then last thing I'd like to say is if you'd actually like to see our virtual assistant in action, we're actually doing a demo during the session tomorrow, building intelligent assistants. It's Tuesday in the Beacon Complex; I have no idea where that is, but you're all smart people; I'm sure you'll figure it out. Our demo is at 2:05 and hopefully -- I have to say, I'm thrilled that I got to speak the first day, not the last day, when everybody's energized, and I appreciate your attention; I appreciate you showing up. Thank you very much. 🔷i