COMMENTARY

August 9, 2019

Dear Clients and colleagues:

Most companies today have streamlined business systems and processes that allow them to operate economically with an acceptable level of customer service. When issues or problems arise, that service is put to the test.

During these moments, the customer wants to interact with the business about something that is important to them. This is when customer service really needs to shine. Customers want to be treated as unique and expect a high level of attention.

For its part, the business must recognize the importance of retaining customers, given today's competitive environment. At the same time, there is pressure to reduce the cost of customer service. To make matters worse, customers now have multiple ways to interact with companies, including phone, email, online chat, social media, etc. The solution to this problem is automation.

Before we go ahead, let's take a quick stroll down memory lane and see how technology has changed how customers interact with businesses.

Start of the Technological Evolution: 1960s – 1980s

You may be surprised to know that the first call centre was founded in 1957 by Time Inc. to increase LIFE magazine subscriptions. The invention and adoption of Automatic Call Distributor (ACD) technology replaced human operators, making automated call centres a reality.

In the early 1970s, Private Automatic Branch Exchange (PABX) systems began including ACD technology, which spawned the development of large-scale contact centres. Continental Airlines was the first to use this technology as part of their flight-booking process. PABX eliminated the need to manually transfer telephone calls, providing speedier customer support.

Beginning of the Internet Era: 1980s – mid-1990s

Modern day, large-scale contact centres are the result of two main drivers: (1) deregulation of the telecom industry reduced the cost of fixed-line calls, which boosted growth in the customer engagement industry, and (2) IVR systems went mainstream, allowing businesses to automate a portion of the customer service process. The word "Call Centre" officially came into use in the 1980s.

During the 1990s the internet also fueled growth in the industry. Websites started to become the central point for contact and sales for a growing number of companies. Call centres became increasingly important as a means of delivering customer service and technical support.

Early 2000s

By the early 2000s, social media and mobile telephone use were on the rise. The first recognizable social media site was Six Degrees. Other social media sites (Friendster, AIM (AOL Instant Messenger), HI5, LinkedIn, Myspace and Facebook) also went viral. They provided a new point of contact for customers looking to connect with brands. Mobile phones made it easier to get in touch, increasing overall call volumes. Brands seized the opportunity to leverage these social media tools within their customer service departments.

The Modern Contact Center: Mid-2000s – Present

The release of the iPhone in 2007 saw another big jump for mobility and communications, as smartphones represented a new way for companies to stay in touch with consumers. Approxminately five years ago we saw an increase in software solutions to manage customer interactions via websites, email, mobile/fixed-line phone, social media, SMS and other channels (also known as omnichannel customer service).

What's next?

Increasingly, customers expect maximum flexibility and personalization in their interactions with customer service departments. For example, they might start a call on their smartphone and then switch to an online chat or video call without missing a beat. They may also be looking for self-serve options, either through online customer forums or by visiting the company's website to find the information they need.

How have our holdings performed in the customer engagement industry?

Since inception in 2008, we have continuously maintained exposure to this space.

Nice Systems: Profiled in our March 10, 2017 weekly

- Founded in 1986, it is a leading provider of software solutions to the customer care industry
- Nice software can capture data from multiple sources and apply real time analytics and guidance, helping businesses to continuously improve customer interactions
- Global Alpha sold its holding in Q3/2018 as the market cap crossed the upper limit of the benchmark

What is our current exposure to the industry?

Global Alpha is invested in Verint.

When we think about the traditional call centre, we imagine the telephony infrastructure – the "plumbing" that allows phone calls to be routed through a system. Verint sells analytic applications that sit on top of that infrastructure and monitor client interactions across a variety of channels (phone, self-service, email, online chats). They capture and apply analytics to customer interactions to help better understand the customer journey. Ultimately, Verint provides intelligence that helps businesses improve the customer experience while reducing costs and driving revenue.

Verint (VRNT US – $54.01)
www.verint.com

Business overview

Verint sells analytic applications that help capture omnichannel client interactions. Over the last few decades, the company has invested over $1 billion in, and allocated a third of its workforce to, R&D. The company has over 1,000 patents focused on artificial intelligence and analytics.

Verint operates in two segments:

- Customer engagement
- Cyber intelligence

Target market

CRM and Customer Experience are two of the faster growing enterprise application areas, representing just under $50 billion of the company's global software sales in 2018. Customer Service is the largest subset of this market at $17.2 billion.

According to Gartner, in 2019 the five investment priorities for the customer service industry are: (1) customer analytics, (2) voice of the customer (VoC), (3) multi-channel customer service, (4) employee learning and training tools, and (5) knowledge management tools.

Competitive advantages

- Strong analytical system
- High barriers to entry — manages inside and outside threats, handles compliance/regulation and provides actionable intelligence

Growth strategy

- Increase business with existing customers via cross-selling
- Enter new geographies
- Cloud business could double in size

Management

- Insiders own approximately 2% of the company
- Daniel Bodner has been CEO since 1994 and owns $40.8 million worth of shares

Risks

- Strong US dollar or weak oil prices could affect the company's emerging markets growth.
- Data breach
- Fixed costs are high and a revenue slowdown could hurt margins

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you order an Uber ride, it is quite possible that somewhere along Ubers infrastructure, Verint has played a critical role in ensuring your ride experience was excellent.

Have a great weekend.

The Global Alpha team