

Winning the intelligent customer

Data, AI and the new CX battleground

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Foreword

The modern customer is more empowered, informed, and demanding than ever before. We call this the intelligent customer: someone who expects personalized, seamless experiences and won't hesitate to go elsewhere in search of this.

In today's climate of economic uncertainty and technological acceleration, understanding and meeting the needs of the intelligent customer has become a top priority for businesses.

With that in mind, we've sought to explore how U.S. business leaders across industries are responding, and reveal the existing challenges and opportunities ahead as they adapt their customer loyalty strategies.

Three themes stood out. First, economic volatility has accelerated the urgency of customer retention. Second, artificial intelligence is reshaping the loyalty landscape, promising hyper-personalization at scale. Third, data is both the fuel and the friction of loyalty programs.

The findings highlight that loyalty must be a business-wide strategy, built on data. For organizations willing to rethink their approach, there's a clear opportunity to win over the hearts and minds of the intelligent customer.

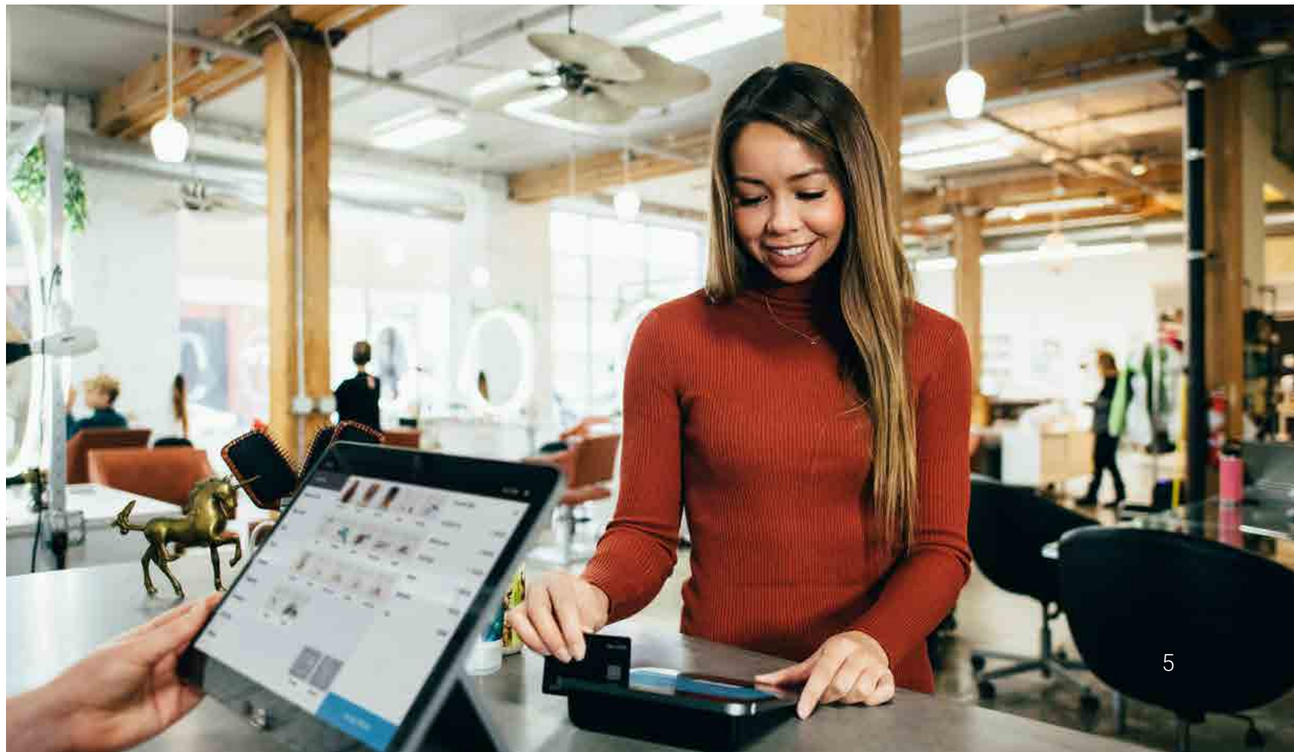
Written By Mike Lee, President, AND Digital



Methodology

To explore these challenges and the role that AI and data can play in improving customer relationships, our team commissioned extensive polling of 250 business leaders across businesses between $200 million and $2 billion in revenue. The research, conducted by independent polling agency Censuswide, explored in detail the attitudes executives have towards data collection, security, privacy, personalization, and building loyalty through data.

Respondents sit at Chief Technology Officer, Chief Information Officer, Chief Marketing Officer, Chief Experience Officer, Chief Digital Officer, Chief Data Officer, or Heads of Data, Product and Engineering levels, at businesses in the verticals of financial services, hospitality, retail, travel, public sector, and life sciences.





Introduction

Over the past few years, U.S. businesses have faced a range of pressures that have redefined customer expectations. Inflationary shocks, shifting trade policies, and rising interest rates from the Federal Reserve have created an unpredictable environment.

For many, this has led to tighter budgets, increased scrutiny on tech investment, and sharper competition for customers.

Against this backdrop, acquiring new customers has become more challenging. Leaders are turning inward, recognizing that long-term strategy hinges on deeper relationships with existing customers.

The intelligent customer, empowered by choice and informed by data, expects relevance, speed, and ease at every touch point. Anything less and they'll find someone else who can deliver.

The following report captures the views of U.S. business leaders at the forefront of this shift, providing critical insight into how loyalty strategies are evolving in a turbulent economic and technological landscape.

The customer experience conundrum

Economic uncertainty has been swirling across the globe for several years, fueled by tariffs, geo-political unrest, supply chain disruption, and post-pandemic adjustments to name just a few.

The United States isn't immune. Over the past two years, businesses have dealt with high inflation, a series of sharp Federal Reserve interest rate hikes, and ongoing uncertainty surrounding trade policy. High interest rates and financing costs continue to weigh heavily on corporate budgets and consumer confidence, creating uncertainty for both. For many organizations, this has translated into slower growth, squeezed margins, and greater scrutiny over where investment is allocated.

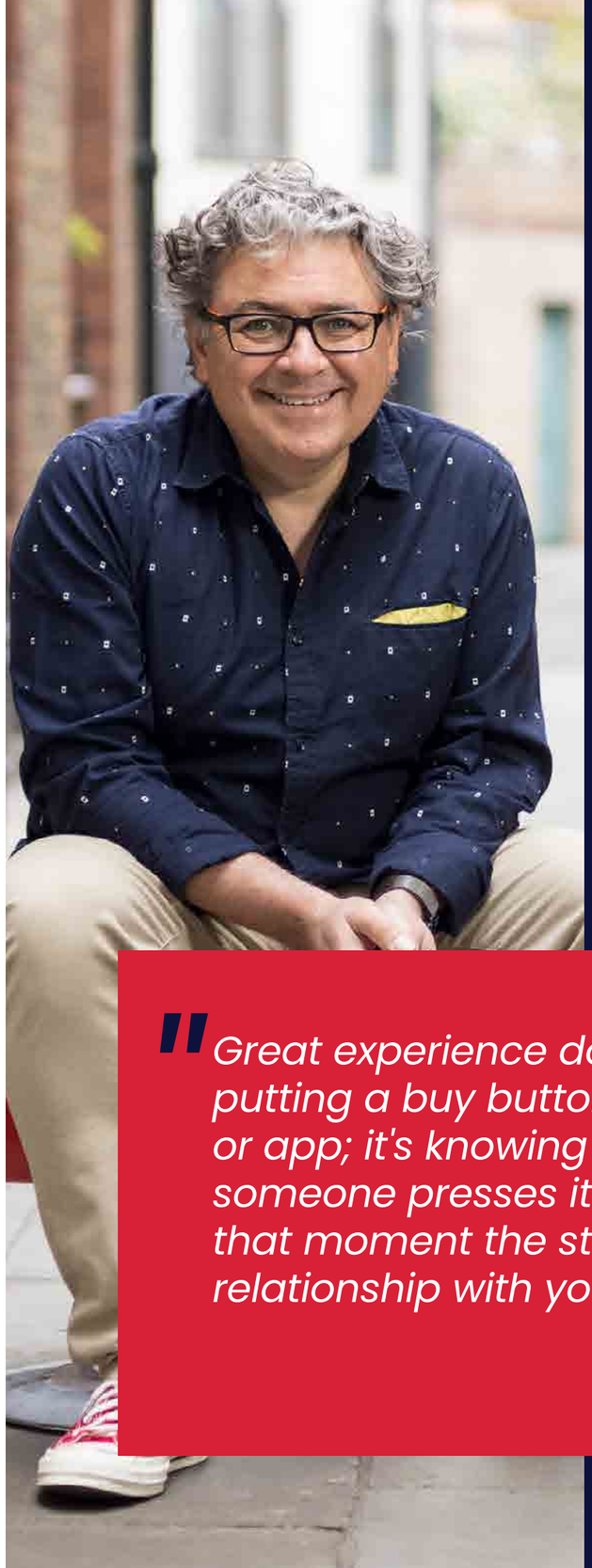
Tariff tensions have added another layer of unpredictability. Recent trade disputes with China and Europe have contributed to rising import costs, further challenging supply chains already strained from pandemic-era disruptions. Combined with fluctuating consumer demand and regional labor shortages, U.S. businesses have faced an increasingly complex operating environment, forcing them to rethink how they deliver value to customers without relying solely on aggressive acquisition strategies. In this climate, customer experience becomes one of the most reliable levers businesses can pull, with retention and loyalty programs often determining whether companies sustain growth through the turbulence.

Against this backdrop, during the turbulent economy, it's no surprise that 62% of business leaders pointed to insufficient customer experience leading to their organization losing millions in revenue, while 64% believe that their organization has lost customers because their loyalty programs aren't good enough.

The importance of customer experience isn't lost on these business leaders, with two-thirds (66%) agreeing that if their organization doesn't improve their customer experience (CX) significantly, they'll lose customers over the next year.

Facing these economic challenges, acquiring new customers becomes more challenging, often leading to businesses shifting their focus internally to prioritize retaining existing customers. Our respondents recognize the importance of CX, but a focus on delivering a first-class customer experience should be prevalent throughout a business' long-term strategy, from acquisition to retention, and not just an afterthought, or a reactionary measure to outside influences.

Budgets are an unavoidable factor when it comes to customer experience, with 69% of respondents saying that they're being expected to improve CX without an increased operational budget. This forces a focus on customer retention over acquisition, with 77% of respondents shifting their budgets in this direction. Day-to-day, teams are being asked to deliver more with what they have, optimising existing tech in order to keep up with the evolving needs of the intelligent customer.



But despite some departments feeling the squeeze, 82% revealed that their organization's CX budget has actually increased over the past year to support their loyalty efforts. This investment in loyalty initiatives is a step in the right direction for businesses looking to be more strategic with their CX. This fluctuation in budgets, tech capability and strategy between mid-market and enterprises has created an interesting point of contention. 73% feel that the future of customer loyalty will be dominated by the organizations with the biggest tech budgets.

> *"Great experience doesn't come from putting a buy button on your website or app; it's knowing what to do when someone presses it and making that moment the start of a lifelong relationship with your new customer."*
>
> **Alex Comyn**
> Brand Experience Principal
> AND Digital

Key takeaways

Harness creativity

Mid-market brands may not be able to outspend their bigger budgeted peers in building data intelligence, but they can still match (and even beat) them by focusing on creative, data-driven engagement strategies.

The Peak-End Rule states that people judge experiences based on the peak and end moments. So a loyalty program that delights and surprises at these emotional peaks still has the power to make customers eager to return.

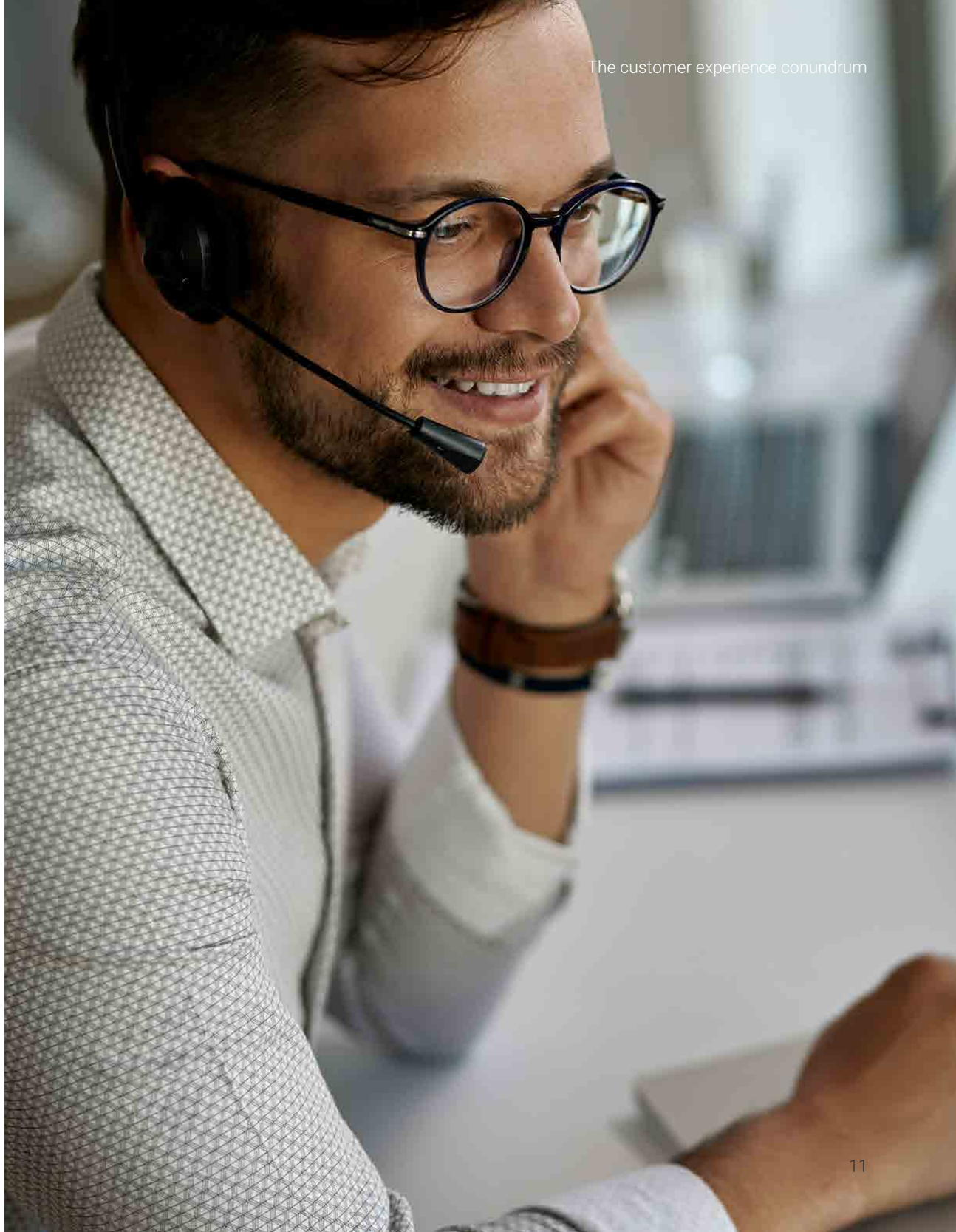
Building on the success of a creative idea still requires data, and still benefits from having unified customer intelligence, but the value of the initial creative idea should not be overlooked.

Reframe loyalty

Loyalty isn't a luxury, it's essential to the customer experience. It provides data to the business that drives retention, innovation and the means to keep engaging customers, and strategic investments in customer retention can deliver more consistent returns. Yet our study indicates that loyalty in the AI age is becoming harder to inspire, and is increasingly something that will be driven by those with higher investment in AI and better tech solutions. So how does the mid-market respond?

We'd suggest opportunity lies in exploring the very nature of effective loyalty programs. At their best, they're not points-based and they are not based on 'brand-love'; they are purpose-driven. It's still possible to develop an effective loyalty program without an enterprise-grade budget, but it needs to plug directly into your business goals and be driven by a clear commercial rationale of what matters most to your brand.

An effective loyalty program is then supported and enabled by data, which can help you track, learn, personalize and create experiences that customers truly care about.



The AI loyalty arms race

The rise of artificial intelligence is unavoidable, and businesses are turning to its rapid evolution as a means to optimize efficiency and automate core functions, all with the aim of gaining a competitive advantage.

In the U.S., the conversation around AI has become as much about policy as it is about innovation. The debate continues over whether regulation should be tightened or eased. Industry leaders argue that too many restrictions could stifle growth, while policymakers are under pressure to mitigate risks to consumers, workers, and national security. This year, the White House has issued a series of executive orders aimed at promoting American leadership in artificial intelligence, including the launch of the American Action Plan, which focuses on accelerating innovation, expanding infrastructure, and international leadership.

These initiatives mark a clear shift from the previous risk-focused oversight to establish strict guardrails for AI development, towards policies designed to fast-track adoption and maintain competitiveness. While these efforts signal the intent to shape the nation's AI trajectory, the pace of regulation has struggled to keep up with the speed of technological change. This leaves businesses navigating a landscape where AI innovation is accelerating rapidly, but long-term rules for deployment remain uncertain.

When it comes to customer experience and loyalty, almost two-thirds (64%) of respondents believe that traditional loyalty programs will be made obsolete by AI. Customer retention strategies need to constantly evolve to meet the needs of the intelligent customer, but AI has accelerated this process for data, loyalty, and CX experts.

Again, the theme of business size was evident, with 62% agreeing that AI-driven loyalty programs give enterprise brands an unfair advantage against mid-market companies. This led to 74% feeling that without significant investment in AI, their organization has no chance to compete against loyalty programs from enterprise competitors.

In response, over three-fourths (77%) of firms feel the government should regulate the AI divide to prevent smaller firms from collapsing.

Our view:
Hyper-personalization is Clienteling 2.0

We believe that for organizations willing to evolve, the challenge presented is also a massive opportunity to deliver a truly differentiated service. AI-powered personalization is about digitizing and scaling the most human element of customer service: the one-to-one relationship.

This shift is what we call Clienteling 2.0: Delivering VIP service at scale. In sectors like luxury retail, clienteling, the building of one-to-one relationships with clients, has become a cornerstone strategy. No longer a boutique practice, it's now a business essential.

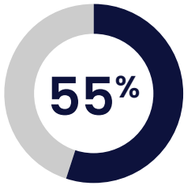
Retailers are ramping up personalized engagement efforts across channels, reflecting a clear shift in expectations: personalized service is no longer a luxury, it's the baseline.

Armed with AI and enriched customer data, sales associates can now deliver a true 'know me' experience. From product recommendations aligned with a client's unique preferences and purchase history, to thoughtful outreach around key life moments, personalization has become both scalable and deeply human.

The payoff is clear. Personalized interactions lead to higher spend, stronger loyalty, and increased lifetime value. By setting clear goals for outreach and using data strategically, luxury retailers are transforming how they connect with clients, turning every interaction into an opportunity to build trust and relevance.

As we look ahead, AI-powered curation will increasingly enhance clienteling efforts. These tools will help surface highly-relevant product suggestions, easing decision fatigue and creating seamless, tailored experiences across digital and physical touchpoints.

Barriers to adoption



of respondents agreed that the technology required for an effective AI-powered loyalty program is too expensive for their organization.

The common barriers to AI adoption in the loyalty space are skills, budgets, and, ultimately, data.

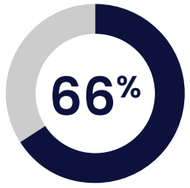
Half of respondents feel that their organization lacks the expertise and skills to leverage AI in loyalty programs, while 66% believe that people in their organization are wary of AI and see it as a threat to their jobs.

Meanwhile, 55% agreed that the technology required for an effective AI-powered loyalty program is too expensive for their organization.

The most significant barrier to AI success is data, with almost two-thirds (64%) citing fragmented data specifically as their biggest barrier to introducing AI in loyalty programs. A further 64% stated that AI-driven personalization is impossible without large-scale data operations.

Alarmingly, 61% said that their organization is already investing in AI without fixing their data problem first, and that issue is set to continue with 72% prioritizing future AI investment over fixing their data infrastructure. This has led to 64% of respondents saying that their business regularly makes AI-based decisions despite knowing their data may not be accurate.

Running at risk



of respondents said that security and compliance concerns are slowing down AI adoption in their organization's loyalty programs.

The rush to adopt AI also presents a significant risk to businesses if not tested and implemented with the appropriate due diligence.

Two-thirds (66%) of respondents said that security and compliance concerns are slowing down AI adoption in their organization's loyalty programs. While over half (54%) agreed that the urgency of embracing AI means their organization is knowingly neglecting obligations.

Consequently, 61% said that their organization's cavalier approach to AI adoption means a data leak or privacy breach is inevitable.

While rushed adoption, tightening budgets, skills, data infrastructure, and compliance concerns are all top of mind for AI in the loyalty sphere, perhaps the ultimate consideration is return on investment. If an AI loyalty program can't generate a positive financial return, it won't be given the resources needed to succeed, with 68% of organizations hesitant to invest heavily in AI loyalty solutions without a clear ROI.

The AI loyalty arms race

Key takeaways

1. Escape data chaos through partnership

If more data is to lead to better insights, organizations will need to not only collect the right data, but explore new ways of compiling and analysing it for business insights. Given the concerns about AI and data security, and in light of the ongoing tightening of privacy regulations, we can't overstate the value of trusted partnerships and tried and tested platforms. AND Digital has alliance partnerships with data solution providers including; Amazon Web Services (AWS), Snowflake, Microsoft, Google Cloud and Dynamic Yield by Mastercard. These partnerships allow us to deliver unified customer data on the platform that's right for you.

2. Find opportunity in AI

AI is often seen primarily as a cost-cutting tool. We'd question the validity of that view, especially as AI evolves. Traditional AI supports decisions; agentic AI takes action; autonomously solving problems, orchestrating workflows, and learning from results. Businesses that invest early in agentic capabilities will unlock scalable decision making, smarter customer engagement, and operational agility far beyond today's automation tools

3. Harness affordability in AI

Our study found that many organizations feel priced out of AI adoption. Yet the ROI potential of AI demands another look. By combining generative AI technologies, including large language models (LLMs), Retrieval-Augmented Generation (RAG) and agentic systems, we have driven revolutionary improvements in claims resolution. For example, at ARAG we slashed case handling times and realized up to $7 million in annual cost savings from a $450,000 investment (a 16× ROI), all while significantly enhancing both customer and employee experiences.

From siloes to single-view with data

A common theme from our findings is that data and the right technology is essential, with 80% agreeing that data is the single biggest factor in delivering good customer experience. 70% said that without the right tech stack, businesses will struggle to retain customers.

However, existing data infrastructure for many organizations isn't fit for purpose for modern and evolving loyalty programs. Over half (58%) described their organization's collection and management of customer data as 'chaos'.

Businesses know it's a problem, especially in relation to loyalty programs, with 62% agreeing that a lack of real-time insights makes it nearly impossible for their organization to compete with enterprise loyalty programs.

For some, the issue stems from governance, with 42% saying that their organization doesn't have a data governance structure in place. Although 47% disagreed and felt their governance structure was sufficient.

This has a direct impact on customer loyalty programs, as 63% feel that siloed customer data is their biggest barrier to loyalty innovation, and 58% claim their organization struggles to get a single view of their customers, restricting the effectiveness of their loyalty strategies.

Ownership of data is a core barrier for many businesses trying to achieve a unified customer view. Over half (56%) of respondents view data as the sole responsibility of the 'data department', rather than a shared, organization-wide asset. Despite this attitude towards data ownership, 74% state that real-time customer engagement is impossible without a centralized data infrastructure.

The data issue has been identified, but the challenge is addressing it to drive the effectiveness of loyalty programs.

Almost three-fourths (72%) agreed that the loyalty gap is widening due to AI and data access, and 76% believe that loyalty programs are now a data-driven arms race.

This becomes particularly difficult when 61% of respondents feel that third-party loyalty programs neglect organizations like theirs in favor of large enterprises.

With this in mind, businesses are looking inwards to enhance their customer experience, with 85% focusing on real-time data processing as their top tech investment priority for their organization.



"Loyalty isn't built on isolated moments of delight, but on an interconnected system of care delivering proactive, hyper-personalized experiences. This systemic approach requires teams fluent in data, armed with the right tools to build and deliver targeted interventions at scale, not one customer at a time."

Max Earp
Engagement Director
AND Digital

Key takeaways

Switch legacy systems for flexible, composable, scalable architecture

Personalization and AI are only as good as the data on which they are built. Clean, well-governed data must be in place before layering AI. Missing this step risks losing the customer. Improving data requires a shift from legacy infrastructure.

Yet perversely, as investment has shifted to AI, the infrastructural investment required to support it has diminished. Outdated systems make it harder to capture or analyze customer behavior effectively.

Switching to flexible, scalable Cloud infrastructure enables brands to deliver consistent, personalized, convenient experiences, regardless of channel.

Share (and tailor) the data load

Data can't sit only with one team, so make it a shared responsibility across departments to unlock better insights and faster decisions. To ensure data is the right 'fit' for each team, organizations should:

- Analyze data to understand how it can support each team
- Ensure the right people have the right access
- Tailor data visualization to different team environments

Invest in keeping customers

Shifting the budget to loyalty makes sense, as keeping customers is more cost-effective during turbulent times than winning new ones. That investment isn't necessarily about more tech, it's about:

- **Investing smartly:** Onboard the right tools needed to deliver the hyper-personalized service that makes your customer feel as loved today as when they first chose to engage with you.
- **Investing in capability:** Every member of your team must be trained up to deliver the hyper-personalized experiences that deliver the moments that matter.
- **Investing together:** Each area of your organization needs to understand the journey the customer has been on, and can deliver a seamless experience across touchpoints.

To learn more about how AND Digital is supporting businesses to deliver enhanced customer journeys, visit:

www.and.digital

AND Digital

AND Digital is on a mission to close the world's digital skills gap.

Our award-winning approach to talent development makes us the go-to digital partner for some of the world's most renowned organizations. By working collaboratively, we help you deliver value faster today, and strengthen your in-house capabilities for independence tomorrow.

With an ever-growing team of experts, we're hard at work guiding a diverse range of organizations to digital independence. Our unique model allows us to 'Guide, Build and Equip' the likes of British Airways, Nike, Sky and Subway, giving them the critical skills they need for a successful future.

The experts in accelerating digital products to market. *Fast*.

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