CX game changers

Using emerging technology to build loyalty and trust

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Executive summary

In the digital age, the foundations of customer loyalty are as relevant as ever. Success still relies on a company's ability to build a positive emotional connection between its customers and its brand. That connection, based on trust, drives repeat business and often leads to new business when loyal customers act as brand advocates.

What has changed in the digital era are the means companies use to build and maintain loyalty. According to 63% of the executives we surveyed for this study, emerging technologies such as artificial intelligence (AI), machine learning (ML) and advanced analytics are now instrumental in such efforts.

But brands should be careful. In customer interactions, technology can be a double-edged sword. Used correctly, it can lead to positive customer experiences that translate into greater retention, reduced churn and, ultimately, a loyal customer base. However, get the technology – or the balance between machine and human interactions – wrong, and the opposite outcome is likely.[1] Our research suggests that not all companies are currently getting this right.

To understand how companies are using emerging technologies to improve customer loyalty, we surveyed 500 marketing, customer service and technology executives from different parts of the world and across multiple industries. Their observations, and those of other executives whom we interviewed for this report, reveal a keen appreciation of the opportunities such technologies offer to bolster loyalty as well as the challenges companies face in using them to build the desired connection with their customers.

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[1] For a discussion of how consumers perceive the role of "machines" in their interactions with brands, see *The human connection: Using technology to create a better customer experience*, Verizon, 2021
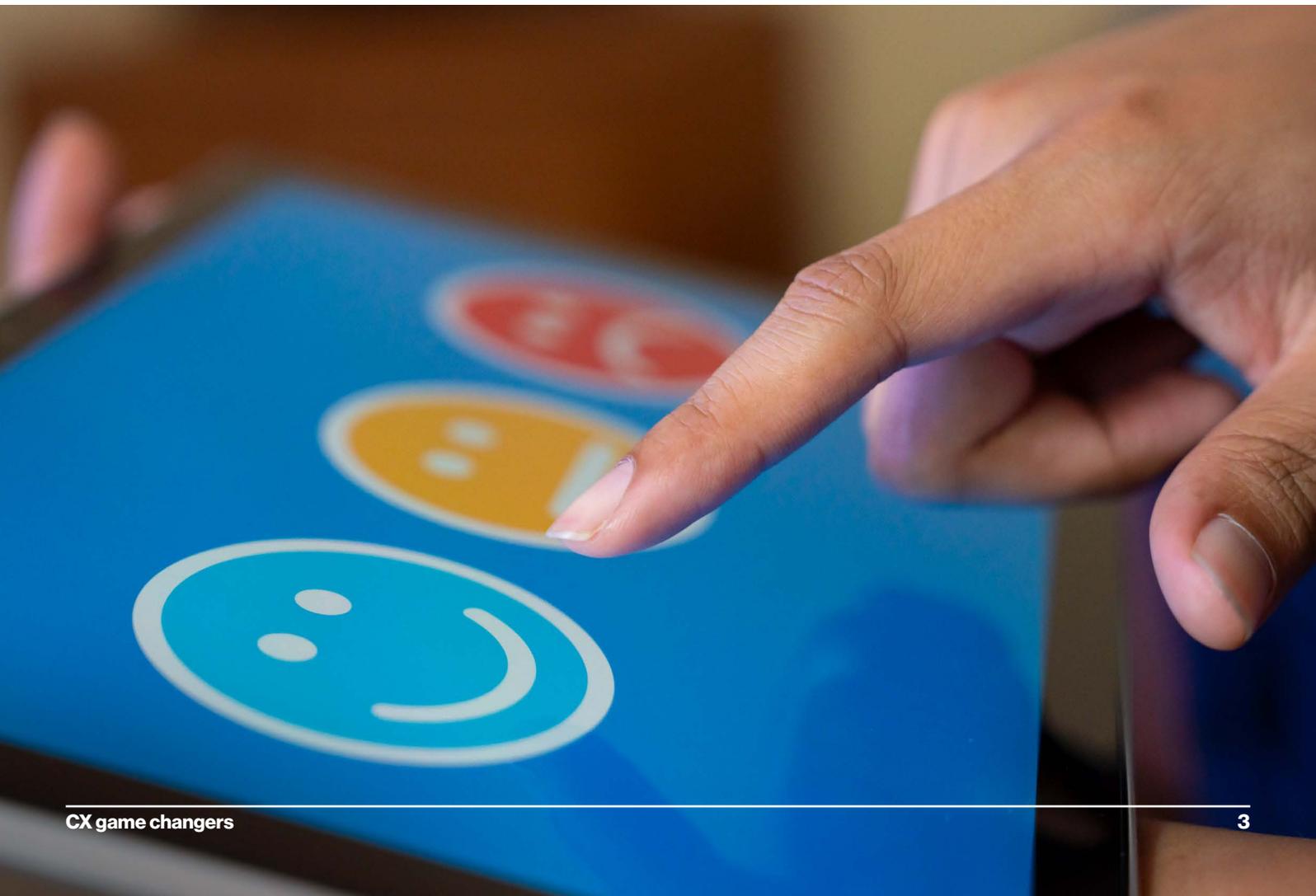
Our key findings

Mastering emerging technologies is pivotal to winning customer loyalty
Close to half of the companies in the survey appear to be using technology effectively in their loyalty-building efforts. For those that in recent years have recorded improvement in key customer metrics – such as churn, retention and lifetime value – technology factors have been a vital ingredient in their success. The key factor, respondents say, is an ability to act on insights generated by the analysis of customer behavior. Also important in this context has been investment in emerging technology to improve customer experiences.

Many brands struggle to use new technologies to build loyalty effectively
A large minority (39%) of respondents say their companies have failed to capitalize fully on the advanced technologies they've deployed in recent years in their customer-facing operations. The problems stem chiefly from employees struggling to adapt to new tools and methods; difficulties integrating the new technologies with existing ones; and the failure to create sufficiently intuitive processes for customers.

AI, chatbots and AR are future investment priorities
According to respondents, chatbots and AI (often used in tandem) have been the most impactful of the newer technologies used in building customer loyalty. These will remain investment priorities in coming years, while companies in sectors such as financial services, retail and media will also prioritize spending on augmented reality (AR) in their efforts to enrich the customer experience.

Technology can help build empathy
Another large minority (37%) of respondents' companies (and a higher proportion of consumer goods producers and financial services firms) struggle to use technology to strengthen customers' emotional attachment to the brand. Executives believe better empathy training of agents is vital, but many also cite a need for better visualization of analytics insights about customer preferences. Technology that captures customer preferences effectively – and at first time of asking – will also be important.

37%
of respondents' companies do not yet know how to use technology to strengthen customers' emotional attachment to the brand.
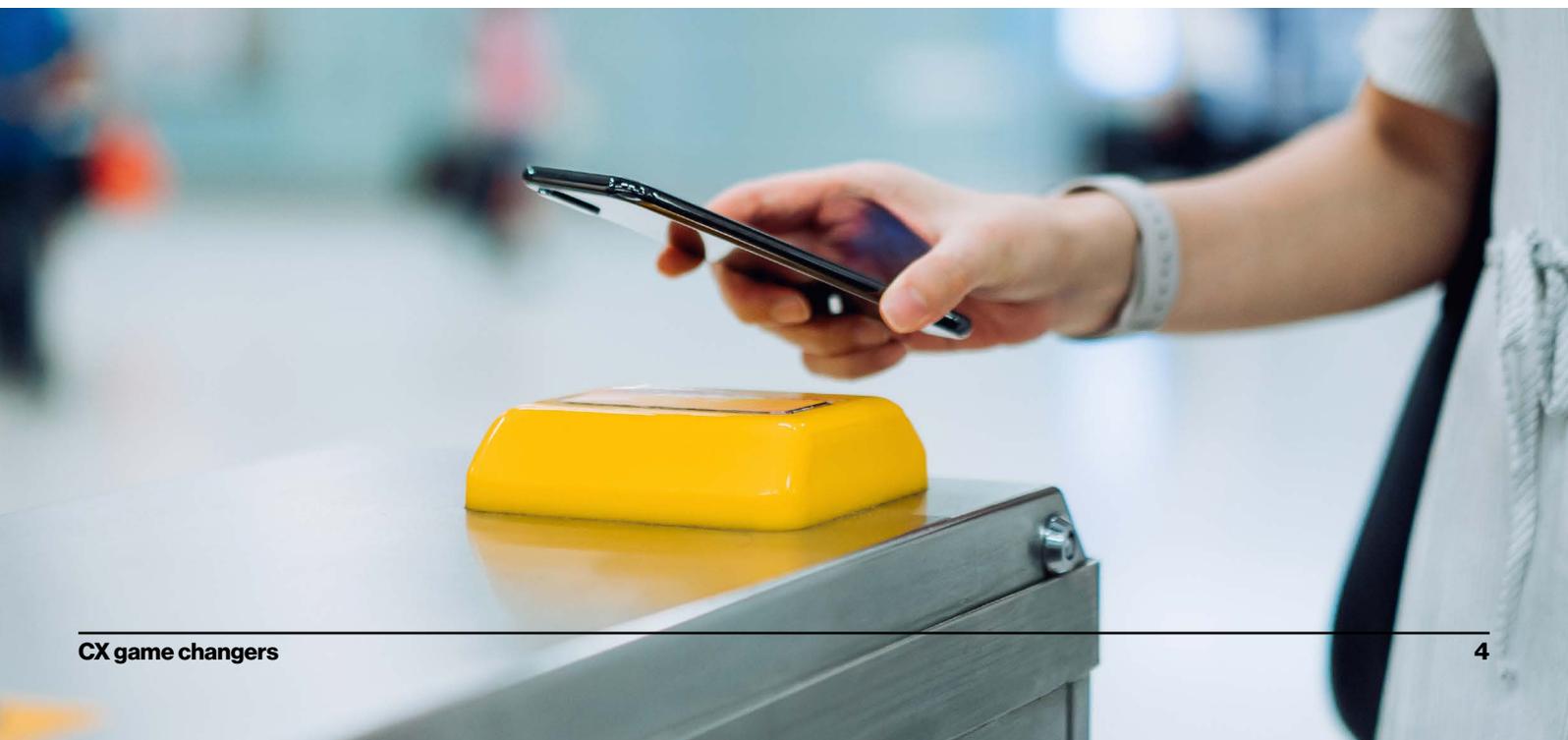
Continuity and change in customer loyalty

Today's consumers enjoy unprecedented opportunities to compare products and services. With so much information available online, switching brands is quicker and more convenient than ever. Recent studies in the US and UK indicate that, amid the uncertain economic and supply conditions arising from the Covid-19 crisis, switching has indeed been on the rise. [2]
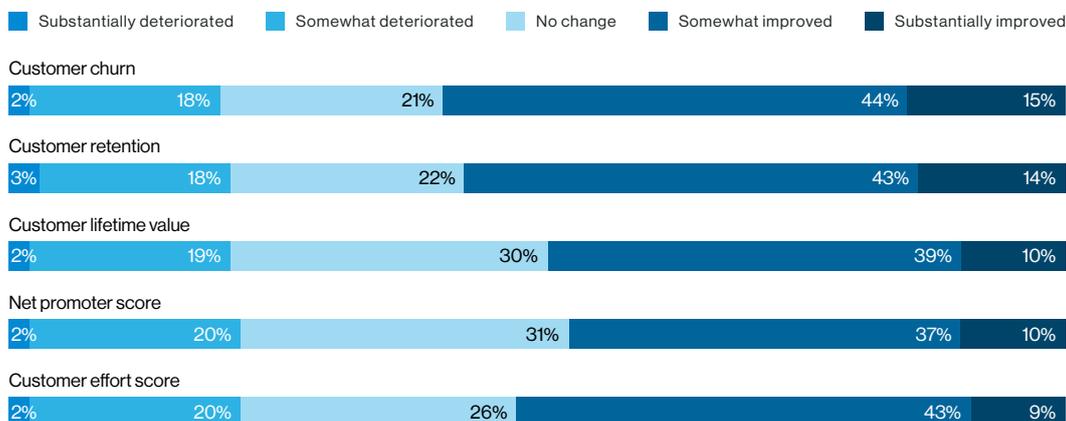
"Although the fundamentals of customer loyalty remain unchanged, brands are having to work harder to maintain it in today's environment," says Sana Mohammed, Director of Global Loyalty Strategy at McDonald's. "They have to do a lot more speaking and a lot more engagement in order to get the same amount of loyalty as before."

"Building the emotional connection and trust with customers that underpins loyalty has always required hard work," adds Steven Bushong, formerly Senior Vice President of Marketing at Walt Disney and currently an executive coach and consultant. "It's getting easier for customers to go somewhere else, however, if that trust is broken."

The companies represented in our survey appear to be putting in the hard work to strengthen loyalty. While around one-fifth of respondents report deterioration over the past two years in their key customer loyalty indicators (customer churn, retention, lifetime value, net promoter score and customer effort score), between 21% and 31% say those indicators remain unchanged since 2020. In the case of churn, retention and customer effort, between 52% and 59% even report a net improvement.

Trends in customer loyalty since 2020

Substantially deteriorated	Somewhat deteriorated	No change	Somewhat improved	Substantially improved

Customer churn

2%	18%	21%	44%	15%

Customer retention

3%	18%	22%	43%	14%

Customer lifetime value

2%	19%	30%	39%	10%

Net promoter score

2%	20%	31%	37%	10%

Customer effort score

2%	20%	26%	43%	9%

Figure 1: Change in five customer loyalty indicators in the past two years

Their effective use of emerging technologies goes some way towards explaining these companies' apparent success. Among those that have seen improvement in at least some customer loyalty indicators, an ability to act on insights generated by analysis of customer behavior – thereby generating consistently positive experiences – is the most frequently cited contributor. Following closely in importance are firms' increased investment in technology to improve such experiences and their ability to generate customer trust in their data practices.

[2] "US holiday shopping 2021: Strong demand meets big challenges," McKinsey, November 2, 2021;

"Switching brands was common during pandemic, finds research," *Talking Retail*, November 1, 2021.

Conversely, technology factors can also be causes of deterioration in loyalty indicators. Among respondents reporting declines in such metrics, problems experienced in encouraging customer advocacy are cited most frequently as a reason, but another is an inability to build trust in data practices. Brands clearly need to be careful in how they use new technologies in interacting with customers, and striking the right balance is a complex challenge.

Factors affecting change in customer KPIs

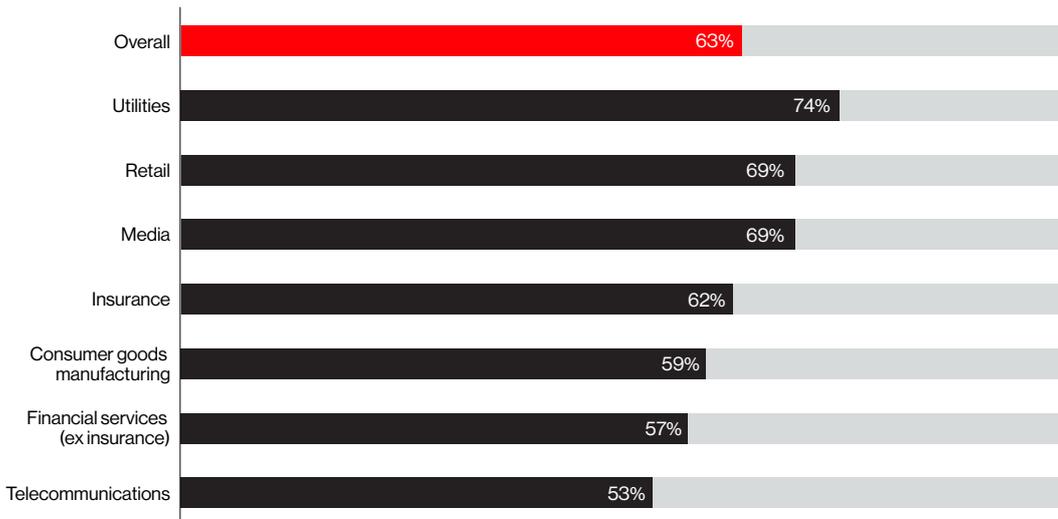| Improvement		Deterioration	
Acting on insights generated from analysis of customer behavior and preferences	25%	Difficulties in encouraging customer advocacy	24%
Increased investment in technology to improve the customer experience	23%	Difficulties building trust in the company's data practices	21%
Building trust in the company's data practices	22%	Problems with analysis of customer behavior and preferences	20%
Analysis of customer behavior and preferences	21%	Problems with customer feedback channels	18%
Customer feedback channels	19%	Limited investment in technology to improve the customer experience	18%
Encouraging customer advocacy	16%	Difficulties building/expanding our rewards program	16%
Approach to pricing/discounts	16%	Insufficient improvement in responsiveness	16%

Figure 2: Principal contributors to improvement or deterioration in customer loyalty indicators in the past two years

Stimulant of change

Respondents emphasize how extensively their use of emerging technologies has impacted their efforts to improve customer loyalty in recent years: 63% say that recent advances in technology have "completely transformed" their approach. Executives from utilities, retailers and media companies are particularly vocal about the technology impact.

"Recent advances in technology have completely transformed our approach to improving customer loyalty"

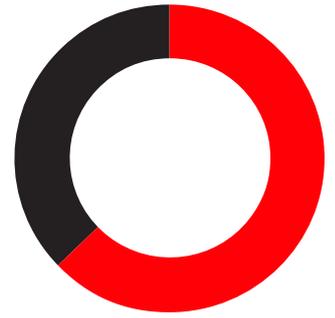|	
Overall	63%
Utilities	74%
Retail	69%
Media	69%
Insurance	62%
Consumer goods manufacturing	59%
Financial services (ex insurance)	57%
Telecommunications	53%

Figure 3: Share of respondents stating that they "strongly" or "somewhat" agree with the indicated statement about technology and efforts to improve customer loyalty

63%

say recent advances in technology have completely transformed their approach to improving customer loyalty.

The impact of technology on such efforts manifests itself in different ways:

- Variety of channels made available to customers for interacting with brands

- Functionality of customer-facing apps and websites (such as personalization options)

- Speed with which AI-based chatbots – supported, where needed, by human customer-service agents – can answer customers' questions and resolve problems

- Use of social media and other technologies to encourage customer advocacy

- Visibility provided to customers into how their personal data is used

For Sana Mohammed, the biggest impact of technology on the customer experience – and, ultimately, on customer loyalty – has been brands' ability to generate insights from data and act on them. "We have a lot more data and much more powerful technology than we've ever had before," she confirms. "We also have the ability to pull insights from [that data], and use it to define the next initiative. Technology has become a major enabler of unique, personalized, seamless, frictionless and memorable customer experiences. That's huge."

Technology catalysts of loyalty-building

A simplified way of thinking about how companies use technology to strengthen customer loyalty is to separate the "front end" from the "back end." The former comprises all the ways that brands interact directly with their customers, including websites, chatbots and apps. The latter consists of the ways in which brands seek to better understand their customers – such as by using data analytics – as well as the mostly cloud-based infrastructure they use to deliver richer, faster and more efficient interactions.
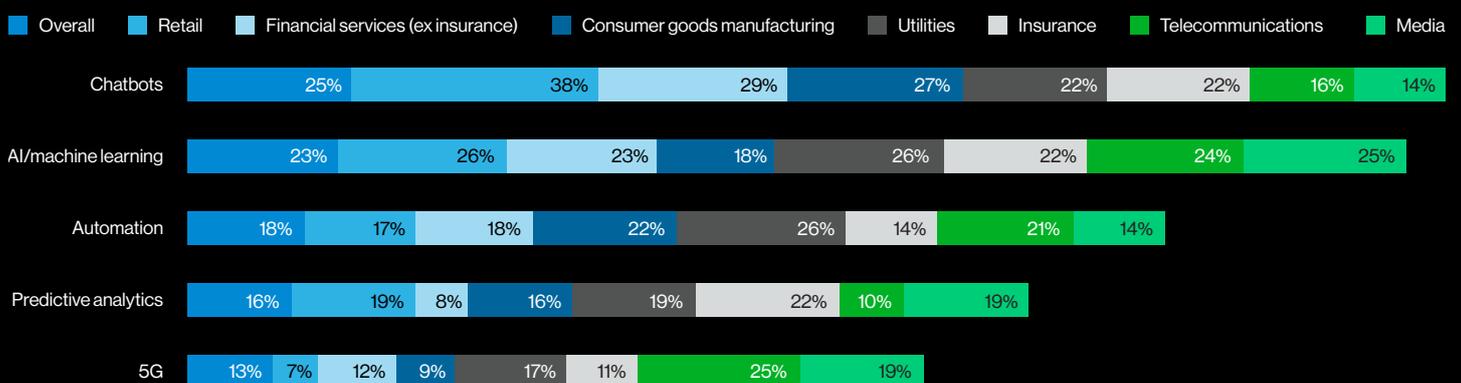
Bradly Sax, US-based Vice President of Customer Strategy & Experience at Lendlease, a global infrastructure and investment group, has observed huge progress in recent years in the extent and sophistication of companies' use of emerging technologies to improve the front end. He provides as examples the use of chatbots and mobile apps, as well as self-service kiosks in stores.

That view is supported by the survey findings. The respondents put chatbots at the top of the list of technologies that have had a significant positive impact on their companies' key customer-loyalty indicators in the past two years. Following closely in terms of impact is AI which, among other things, powers many types of chatbots in use today.

Loyalty-building technologies: An industry view

The impacts of emerging technologies on efforts to foster customer loyalty vary by industry. For example, while respondents from retailers and financial services providers laud the positive impact of chatbots on their customer-loyalty efforts, executives from utilities also emphasize the impact of automation technologies. Insurers, meanwhile, say that predictive analytics have considerably boosted their efforts, while telecom sector respondents highlight the beneficial impact of 5G technology.

Loyalty-boosting technologies

Legend: Overall | Retail | Financial services (ex insurance) | Consumer goods manufacturing | Utilities | Insurance | Telecommunications | Media

Technology	Overall	Retail	Financial services (ex insurance)	Consumer goods manufacturing	Utilities	Insurance	Telecommunications	Media
Chatbots	25%	38%	29%	27%	22%	22%	16%	14%
AI/machine learning	23%	26%	23%	18%	26%	22%	24%	25%
Automation	18%	17%	18%	22%	26%	14%	21%	14%
Predictive analytics	16%	19%	8%	16%	19%	22%	10%	19%
5G	13%	7%	12%	9%	17%	11%	25%	19%

Figure 4: Technologies having the biggest positive impact on companies' key customer loyalty indicators in the past two years; overall and by industry

When it comes to generating and acting on insights from data about customer behavior, however, Sax believes that companies have only scratched the surface. "AI has much more to offer brands in helping them understand customers' spending habits, their journeys, and what attributes of that are most closely connected to loyalty, satisfaction and purchase behavior," he says.

According to Sana Mohammed, McDonald's has sought actively to combine those capabilities. "We have, for example, a global data analytics hub that leverages AI and ML and helps us understand which technologies we should apply to particular business challenges, including in how we interact with our customers," she explains.

Investing in the future

Respondents' companies will continue to prioritize development of their AI capabilities (including chatbots) to support efforts to strengthen customer loyalty. AI and ML are their top priorities for technology investment over the next two years. Technologies that are currently less well established will also attract greater investment. Chief among these is AR.

Interestingly, the stated intentions to invest in AR and virtual reality (VR) are stronger among companies that have seen a deterioration in customer loyalty indicators than in those registering improvement. The "net decliners" evidently see these immersive technologies as the best way to enrich interactions and reconnect with their customers.
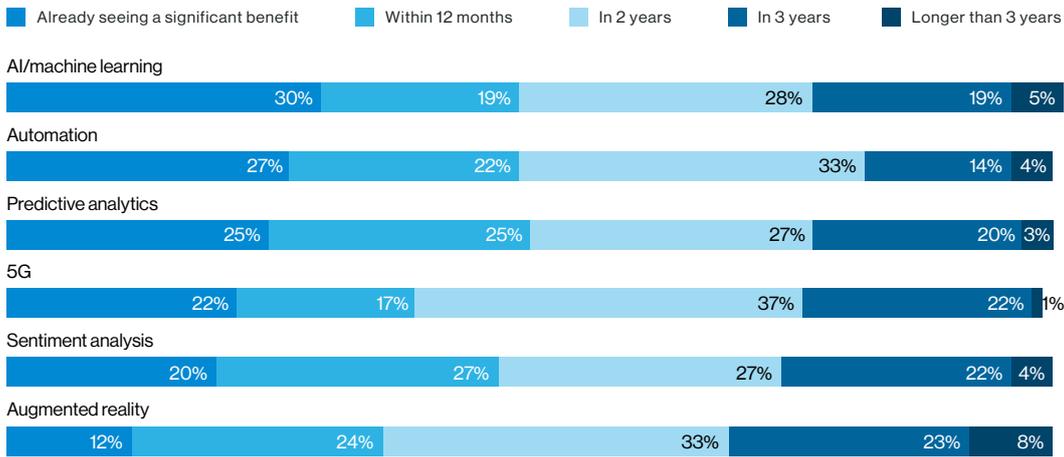
A sector comparison shows that financial services providers and retailers, as well as utilities, are placing bets on their development of AR capabilities, while media companies are keenest to invest in VR. Consumer goods producers, meanwhile, appear to be prioritizing investments in predictive analytics and sentiment analysis.

Tech investment priorities to strengthen customer loyalty

	Overall	Consumer goods manufacturing	Financial services (ex insurance)	Insurance	Media	Retail	Telecoms	Utilities
AI/machine learning	1		1	1			2	1
Augmented reality	2		2	3	3	2		2
Chatbots	3			1			1	
Predictive analytics		1				3		
Edge computing		3			2			2
Biometric voice recognition			3				3	
Virtual reality					1			
Automation			3			1		
Sentiment analysis		2	3					

Figure 5: Technologies holding the highest investment priority over the next two years in support of efforts to improve customer loyalty; overall and by industry

When to expect customer loyalty returns from emerging technologies

■ Already seeing a significant benefit ■ Within 12 months ■ In 2 years ■ In 3 years ■ Longer than 3 years

AI/machine learning

| 30% | 19% | 28% | 19% | 5% |

Automation

| 27% | 22% | 33% | 14% | 4% |

Predictive analytics

| 25% | 25% | 27% | 20% | 3% |

5G

| 22% | 17% | 37% | 22% | 1% |

Sentiment analysis

| 20% | 27% | 27% | 22% | 4% |

Augmented reality

| 12% | 24% | 33% | 23% | 8% |

Figure 6: The time frames in which companies expect to see a significant benefit from the use of emerging technologies in their efforts to improve customer loyalty

Telling stories to your customers

Chip, a UK-based fintech that allows users to invest in assets, funds and savings accounts, interacts with its clients primarily through its eponymous mobile app. While the company supports its chatbot-based service with an in-house customer-service team, most of the information its customers obtain is from self-service functions in the app itself or the chatbot. According to Alex Latham, the company's co-founder and Chief Marketing Officer, Chip will soon be ramping up its self-serve content.

In the near term that will be achieved through the launch of in-app video stories, Latham enthuses. "These will look and feel exactly like Instagram stories, but they will be inside our app. They will help users understand how to get the most out of the app and, more broadly, the ins and outs of investing."

Initially, says Latham, all app users will select any video they want but, later, the function will get smarter. Eventually, different videos will be offered to different types of users based on analysis of user data. "We know, for example, that some users have a balance in Chip of £100k [around US$120k], whereas others have a balance of around £500 pounds [$600]." Each group is likely to require advice specific to its investment capacity, Latham explains.
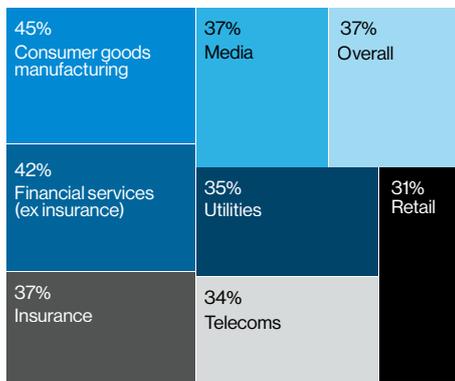
"Since the stories we develop are based on the pain points customers are telling us about," he says, "we think this capability will enhance the trust they have in us."
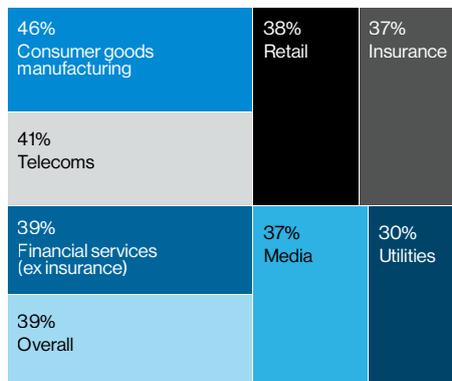
Why brands struggle to harness technology

While many companies have reaped dividends from using emerging technologies to boost customer loyalty, far from all have found it smooth sailing. For example, nearly four in ten survey respondents say their firms have failed to capitalize on the advanced customer technologies they've deployed in recent years. The same number say that, although improving customer loyalty is recognized as business-critical, their firms have not yet invested sufficiently in it.
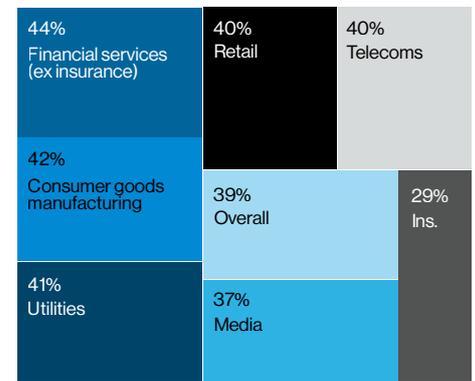
Technology troubles

We have not yet figured out how to use technology to nurture a stronger emotional attachment to our brand.

45% Consumer goods manufacturing	37% Media	37% Overall
42% Financial services (ex insurance)	35% Utilities	31% Retail
37% Insurance	34% Telecoms	

We've adopted several advanced technologies in recent years to help us build customer loyalty, but we're not utilizing them to the fullest.

46% Consumer goods manufacturing	38% Retail	37% Insurance
41% Telecoms		
39% Financial services (ex insurance)	37% Media	30% Utilities
39% Overall		

Increasing customer loyalty is critical for our business, but we've not yet invested enough to achieve that aim.

44% Financial services (ex insurance)	40% Retail	40% Telecoms
42% Consumer goods manufacturing	39% Overall	29% Ins.
41% Utilities	37% Media	

Figure 7: Share of respondents stating they "strongly" or "somewhat" agree with statements about the difficulties they experience in using technology to improve customer loyalty

"For a lot of companies, using AI, predictive analytics and other emerging technologies with customers is still new," says Sana Mohammed. "We've come a long way in [understanding how to use them], but there is still far to go."

The survey shows that employee difficulties in adapting to new technologies form the most common barrier to making effective use of them to boost customer loyalty. Other barriers highlighted by the respondents are problems integrating new technologies with existing ones and the failure to create simple processes to help customers.

Those struggles manifest themselves in different ways but all lead to customer frustration, and potentially an erosion of the trust between customer and brand. "Using new technologies in customer interactions can backfire if, in the process, the brand's values or its chief purpose get lost," says Steven Bushong. "If customers perceive use of a new technology as a gimmick, their loyalty could come under question."

Bradly Sax ascribes such struggles, at least in part, to short-sighted attitudes on the part of senior management. "Management too often see only the direct financial gains to be made, such as reduced costs of servicing customers. They lose focus on forward-looking aspects such as user experience. They should be asking, 'How can the technology improve the user experience? How can human staff interact with it to ensure it is personable and the experience positive?'"

39%

say their firms are not fully utilizing the technologies they've deployed to help build customer loyalty.

Soothing pain while building empathy and trust

Asked to identify their customers' chief pain points when interacting with their companies, the surveyed executives most often cite the inability to speak or chat with a human agent in real time and the company's failure to fulfil expectations for customer service or care.

Over one-third of survey respondents (37%) also say their company has not yet figured out how to use technology to nurture a stronger emotional attachment to their brand. Considerably more consumer goods producers and financial services providers struggle to build such attachment than do firms in other sectors.
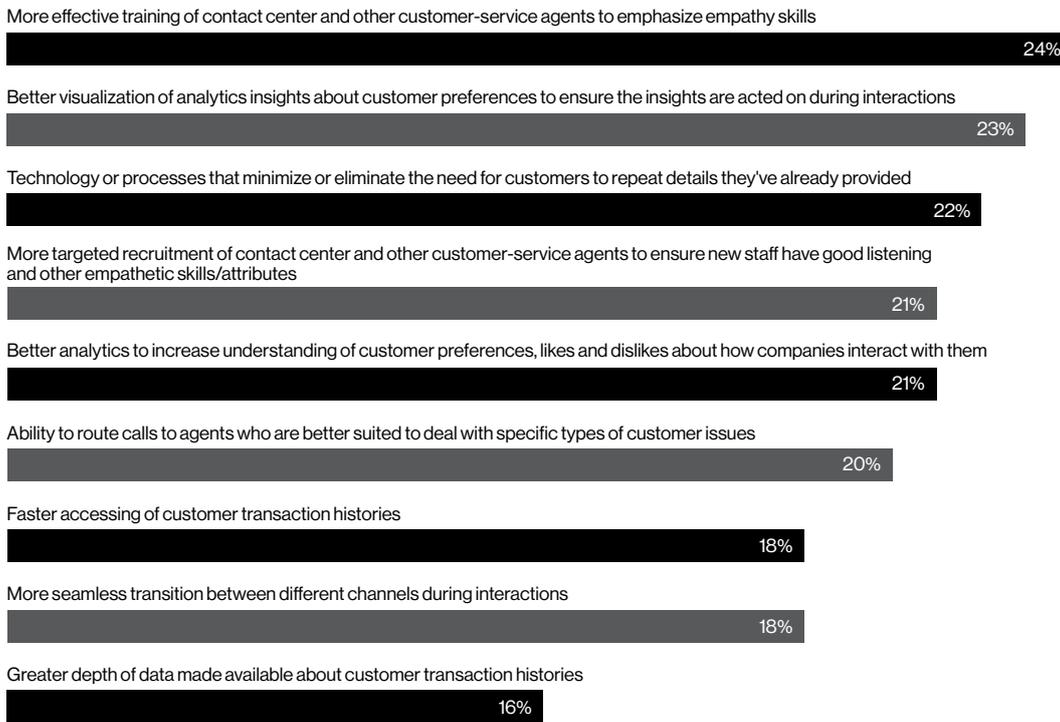
When interactions go wrong

Inability to speak or chat with a human agent in real time	23%
Failure to meet their expectations for customer service or care	23%
Awkward, error-prone transitions from digital/automated to human channels, or the reverse	19%
Failure to address or act on customer feedback provided during interactions	19%
The need to repeat information during interactions that the customer has already provided	19%
Failure to exceed their expectations for customer service or care	18%
Incorrect information held about the customer	18%
Overly complex or difficult processes for self-service problem-solving	15%
Evidence that the company has obtained information about the customer from a third party	14%
Inadequate personalization	13%

Figure 8: Chief pain points experienced by customers in their interactions with brands

While the human touch is vital to conveying empathy with customers, advanced technologies can make important contributions to such outcomes. Many respondents believe that better empathy skills training of contact center and other customer-service agents is an effective way of strengthening emotional attachments, but respondents say that technology-focused initiatives are also likely to be effective. These include better visualization of analytics insights about customer preferences, and technology or processes that minimize or eliminate the need for customers to repeat details they've already provided.

How to boost empathy

More effective training of contact center and other customer-service agents to emphasize empathy skills

24%

Better visualization of analytics insights about customer preferences to ensure the insights are acted on during interactions

23%

Technology or processes that minimize or eliminate the need for customers to repeat details they've already provided

22%

More targeted recruitment of contact center and other customer-service agents to ensure new staff have good listening and other empathetic skills/attributes

21%

Better analytics to increase understanding of customer preferences, likes and dislikes about how companies interact with them

21%

Ability to route calls to agents who are better suited to deal with specific types of customer issues

20%

Faster accessing of customer transaction histories

18%

More seamless transition between different channels during interactions

18%

Greater depth of data made available about customer transaction histories

16%

Figure 9: Effective steps companies can take to convey empathy with customers

Finally, companies need to learn how to strike the right balance between automated and human elements in customer interactions. As we showed in our *Human connections* report, while technologies such as AI are now capable of handling entire interactions with customers, consumers still want the option of speaking to a person. [3]

Companies must also understand that not all customer interactions require the most advanced technology. "Companies have to be careful about where they're using newer technologies," says Mohammed. "They can end up deploying a Lamborghini for a problem that doesn't necessarily need a Lamborghini."

McDonald's: Finding the balance between human and machine

When McDonald's launched digital kiosks as an in-store ordering channel, says Sana Mohammed, there was an assumption that the company would take staff out of the process. "That is absolutely not the case," she says. "The kiosks are helpful in showing big, bold images of the products that we sell and typically lead to a lot more orders being sent to the kitchens, but we need our crew to be guest experience leaders [GELs]."

GEL is now a formal job role for in-store McDonald's staff. As the title suggests, the GEL's responsibility is to "manage the customer's experience during their entire time in the restaurant," says Mohammed.

"Were they welcomed? Were they able to have a conversation about what specifically they wanted? Were they quickly identified as a loyalty customer, and could they earn points and redeem a reward from the reward menu without difficulty? Did they have a personalized experience?"

The crew must bring the in-store technology to life for customers, says Mohammed. That happens through the ability of people to use the technology in ways that create better customer experiences. "I don't think we will ever need fewer people," she says. "We will, though, need people with the skills to create such experiences."

[3] *The human connection: Using technology to create a better customer experience*, Verizon, 2021

Conclusion: More than deployment

Our research makes clear that brands' use of emerging technologies can greatly enhance the customer experience and help to strengthen loyalty, but that, if misused, they can be ineffective or even detrimental to the brand-customer relationship. Ensuring the former outcome requires a strategic, well-thought-through approach to the adoption and use of such technologies in all a company's customer-facing operations.

At a minimum, such an approach should provide for the following:

Analysis
Companies must conduct thorough research into their customers' needs and behaviors and discover how best to use emerging technologies to create a positive emotional connection with their brands. Only then should they begin to make decisions about which technologies to invest in and how they should be deployed.

Integrated change
As in all facets of enterprise activity, making effective use of emerging technologies in customer-facing operations requires considerable attention to ancillary areas, such as training, process change and culture change. It also requires technology integration — in particular, the elimination of data siloes to ensure that all agents and technology tools act on the basis of common, accurate and current customer data.

Experimentation
AI and other emerging-technology fields discussed in this report remain relatively nascent, and businesses are having to learn by trial and error how best to use them in an enterprise environment. Brands should adopt a "crawl, walk, run" approach to using new technologies in customer-facing operations. Experimentation with use cases should be the norm before seeking to scale them up.
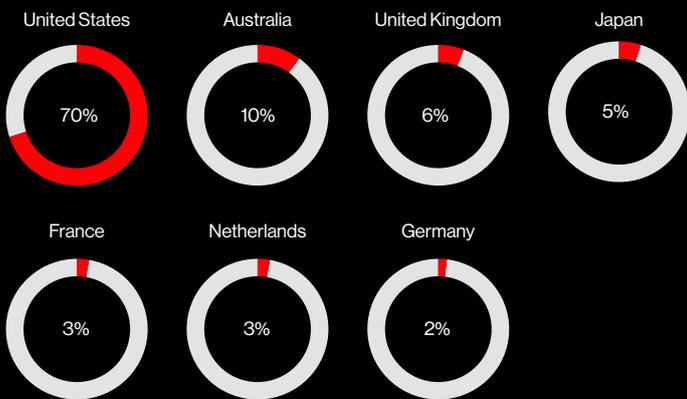
Leadership buy-in
Customer experience, and by extension loyalty, cannot benefit from new technologies if the data and insights flowing from them do not influence decisions made at senior levels about how to improve customer interactions. A C-level voice is needed — from marketing, technology, or other key functions — to ensure that this link is strong.
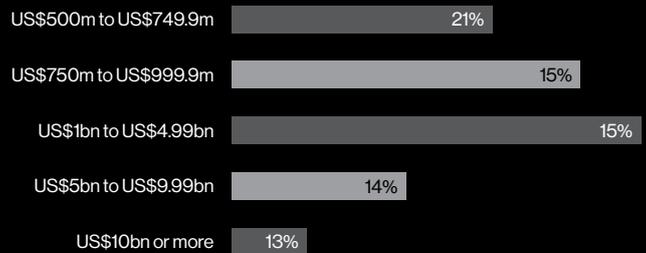
Appendix:
About the research

The analysis in this report is based on a survey of 500 marketing, customer service and other executives conducted in April and May 2022. The survey was carried out by Longitude, a Financial Times company, on behalf of Verizon. Based in seven countries, the respondents hold senior roles in their organizations (one-fifth are C-level executives). Their businesses all earn annual revenue of $500 million or more and span seven industries. Below are the key details of the survey sample.
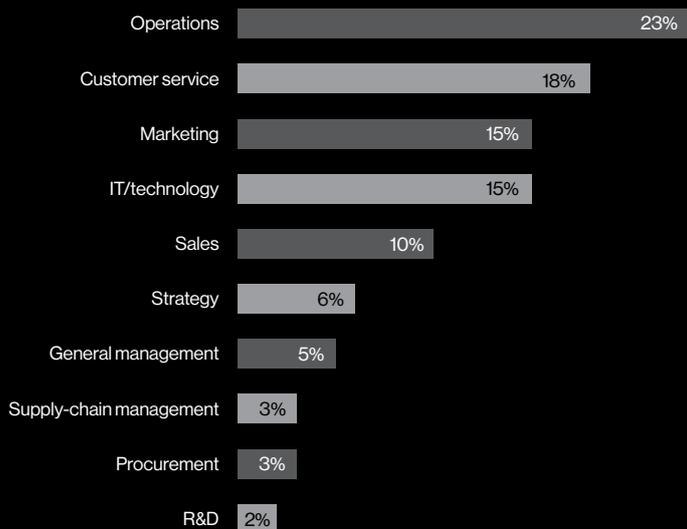
Country

United States	Australia	United Kingdom	Japan
70%	10%	6%	5%

France	Netherlands	Germany
3%	3%	2%

Company size (annual revenue)

US$500m to US$749.9m	21%
US$750m to US$999.9m	15%
US$1bn to US$4.99bn	15%
US$5bn to US$9.99bn	14%
US$10bn or more	13%

Job function

Operations	23%
Customer service	18%
Marketing	15%
IT/technology	15%
Sales	10%
Strategy	6%
General management	5%
Supply-chain management	3%
Procurement	3%
R&D	2%

Industry

Retail	21%
Consumer goods manufacturing	15%
Financial services (ex insurance)	15%
Telecoms	14%
Insurance	13%
Media	12%
Utilities	11%

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