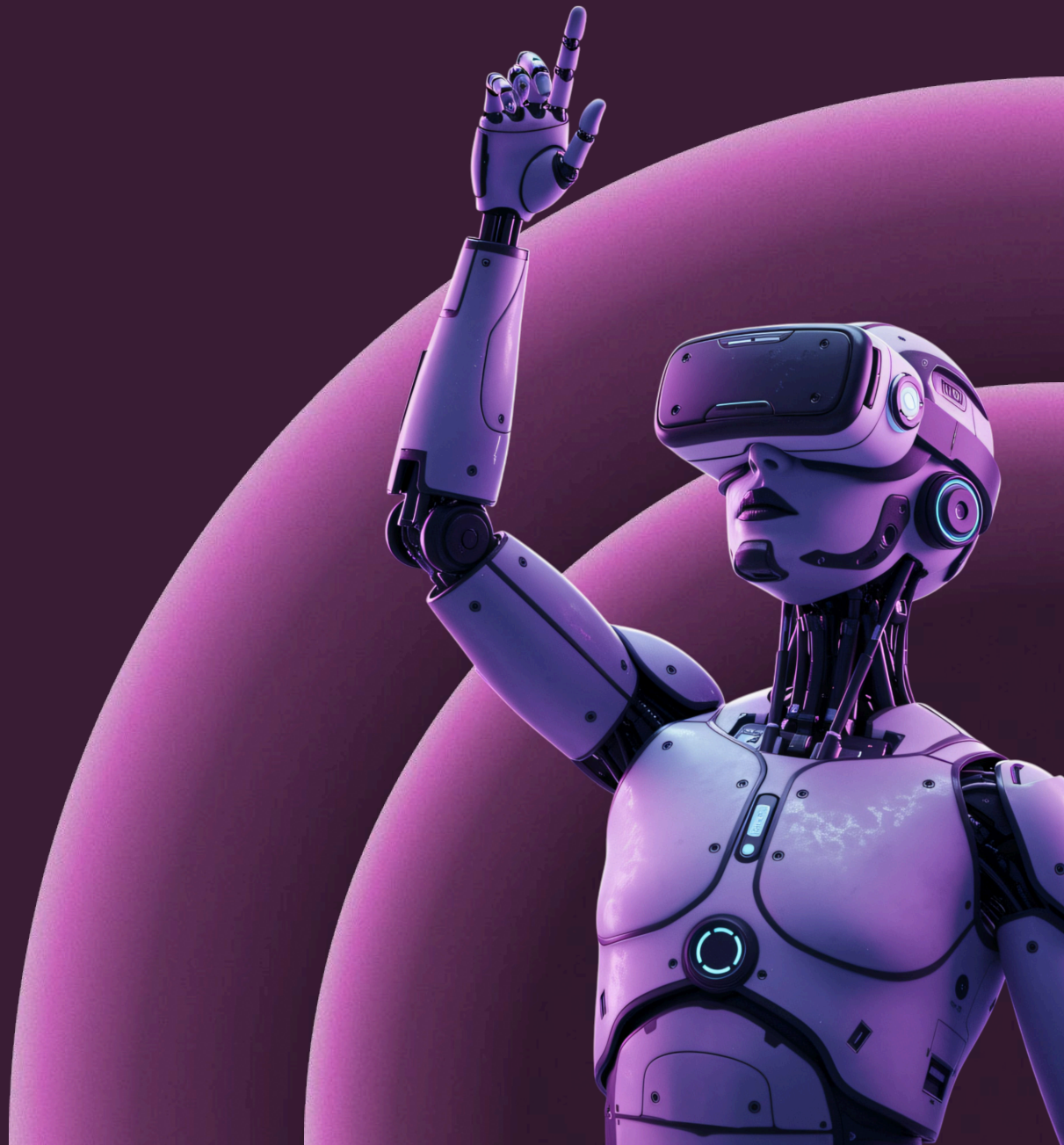


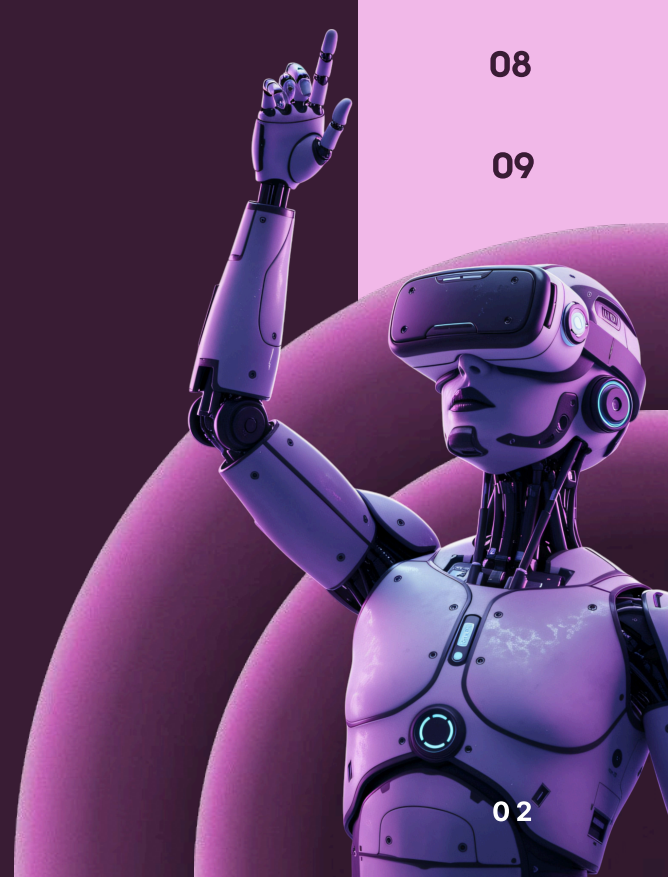
AI-powered customer engagement

The future of AI & loyalty platforms



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Introduction

Artificial intelligence (AI) is reshaping loyalty marketing. As customer expectations rise and data becomes more abundant, AI-driven loyalty platforms are enabling brands to deliver smarter, more personalized, and more effective engagement strategies.

From predictive analytics to adaptive rewards, AI is shifting loyalty from a transactional function to a dynamic, experience-centric engagement model.

According to a 2023 McKinsey report, companies that use advanced personalization driven by AI can boost revenue by 10–15% (McKinsey & Company, 2023). In loyalty programs, this manifests as improved retention, deeper brand affinity, and increased customer lifetime value.

This paper explores how AI is transforming loyalty programs, the key capabilities it unlocks, and the implications for marketing leaders.

The shift from rules-based to intelligence-driven loyalty

Traditional loyalty programs operate on fixed rules and broad segmentation. AI introduces a shift toward dynamic, predictive, and adaptive engagement, fundamentally changing how value is created and perceived:

- *Predictive analytics: AI models analyze historical and behavioral data to forecast customer actions, such as likelihood to churn, upgrade, or respond to specific rewards.*
- *Personalization at scale: Using real-time inputs, AI tailors offers, content, and experiences to match individual preferences and intent.*
- *Adaptive rewards: AI adapts incentives based on a member's context, activity, and potential value, enhancing relevance and ROI.*

This evolution allows brands to replace the "one-size-fits-all" approach with intelligent, nuanced engagement strategies that resonate with modern consumers.

Core AI capabilities in loyalty platforms

Modern loyalty platforms are embedding AI across several key functions to improve efficiency, agility, and effectiveness:

Customer segmentation

Move beyond static segments to dynamic clustering based on multidimensional inputs such as transactional history, online behavior, loyalty engagement, and sentiment. In a 2024 study by Forrester, 68% of CMOs reported improved campaign performance after implementing AI-driven segmentation (Forrester, 2024).

Offer optimization

Reinforcement learning engines dynamically test and refine promotional mixes to maximize redemption rates and incremental revenue. AI also considers individual thresholds for incentives, helping reduce over-discounting while improving perceived value.

Churn prediction

Machine learning models assess engagement frequency, redemption patterns, and behavioral changes to flag at-risk customers early. Salesforce data indicates that AI-powered churn prediction can improve customer retention rates by up to 25% (Salesforce, 2024).

Next best action (NBA)

AI recommends contextually relevant actions (e.g., points redemption prompts, personalized content) based on a customer's current state and future propensity. This approach not only increases response rates but fosters a sense of being understood, which drives emotional loyalty.

Conversational AI

Chatbots and virtual assistants powered by AI can answer queries, deliver offers, and assist with redemptions, creating a seamless omnichannel loyalty experience. IBM reports that AI-powered chatbots can reduce customer service costs by up to 30% while improving satisfaction (IBM, 2023).



Strategic implications for loyalty leaders

Embracing AI is not just a technological upgrade—it requires strategic realignment across several fronts.

Cross-functional collaboration

AI projects sit at the intersection of marketing, data science, and IT. Success requires aligned goals, shared metrics, and joint accountability.

Agile experimentation

Loyalty marketers need to adopt a culture of continuous testing. AI facilitates rapid iteration, but organizational processes must support fast feedback loops.

Data readiness

AI models rely on clean, integrated, and timely data. Brands must invest in unified data layers, identity resolution, and robust governance practices.

Marketing leaders must champion both technical capability and organizational maturity to fully capitalize on AI's potential in loyalty programs.

AI ethics and customer trust

With greater personalization comes greater responsibility. The use of AI in loyalty must be transparent, fair, and respectful of consumer rights:

Transparency

Consumers should understand how their data is used. This includes clear disclosures and simplified terms of service.

Consent

Compliance with GDPR, CCPA, and other regulations is mandatory. More importantly, ethical brands go beyond legal compliance to earn trust.

Bias mitigation

Algorithms must be tested for bias regularly. Bias in reward distribution or targeting can erode fairness and damage brand reputation.

A recent Deloitte survey found that 62% of consumers are more likely to engage with a brand that is transparent about its AI use (Deloitte, 2023). Ethical AI is not only a moral imperative but a business advantage.

Expanding AI applications in loyalty

Personalization within gamification

Gamification is increasingly central to loyalty programs, and AI makes it smarter. By analyzing how users engage with games, challenges, and competitions, AI can tailor experiences that align with intrinsic motivators like achievement, status, and belonging.

For example, AI might detect that a segment of users prefers short, instant-win games and tailor content accordingly. AI-driven gamification also enables progression systems, dynamic difficulty adjustment, and predictive challenge suggestions—all of which keep users engaged longer and returning more frequently.

AI-driven segmentation

AI-driven segmentation allows brands to understand not just who their customers are, but why they behave the way they do. This enables:

- *Behavioral segments*
- *Propensity segments*
- *Dynamic segmentation*

Approximately 70.6% of brands segment their campaigns rather than broadcasting to the full loyalty database, boosting relevance and ROI (eMarketer, 2024).

AI within A/B testing

AI-enhanced A/B testing overcomes many of these limitations by automating test setup, dynamically adjusting variants, and analyzing multivariate interactions in real time.

Traditional A/B tests are slow and resource-heavy due to the need for statistically significant sample sizes, manual test design, and long observation windows.

AI supports multivariate testing and Bayesian optimization, rapidly identifying winning combinations of offers, visuals, and messaging. Algorithms adapt in real-time, phasing out underperforming variants and reinforcing successful ones. A/B testing powered by AI unlocks continuous program optimization and improves decision-making (Grazitti Interactive, 2024).



Rethinking tiers with AI

Tiered programs incentivize engagement, but static tiers risk disengagement. AI enhances tiering through:

- *Dynamic tier assignment*
- *Predictive progression*
- *Personalized benefits*

Well-structured tier programs have driven significant engagement, with 74% of customers increasing interactions when offered higher status levels.

Smart tiering ensures that loyalty feels earned, attainable, and uniquely rewarding—driving both transactional and emotional engagement.

Fraud detection and prevention

Loyalty fraud is a growing threat, costing brands billions annually. AI enhances protection by:

- *Monitoring transactional and behavioral data for anomalies.*
- *Detecting bot-driven activity, account takeovers, and suspicious redemptions in real time.*
- *Automating response protocols to lock accounts or flag for manual review.*

Loyalty program fraud results in significant financial setbacks, with around \$1 billion lost annually in direct and indirect costs (Agilence, 2023). AI is critical for maintaining program integrity, protecting brand equity, and preserving customer trust.

The main takeaways

AI is not a silver bullet, but when integrated thoughtfully, it significantly elevates the effectiveness of loyalty programs. By enabling hyper-personalized, data-driven engagement, AI helps brands foster deeper, more durable customer relationships.

For loyalty leaders, the path forward is clear: invest in data readiness, embrace agile experimentation.

About us

NeoDay is a loyalty software platform that's disrupting the way companies think about traditional customer loyalty. Using the power of AI, we help brands drive sales by understanding and influencing human behavior—boosting engagement and encouraging customers to return, both in-store and online.

Trusted by well-known names like Heineken, Tesco, and Pathé, NeoDay supports businesses in retail, consumer goods, convenience, fuel, and leisure. Whether you're running a short campaign or a full loyalty program, our platform gives you the tools to connect with shoppers in a smarter, more personal way.

By combining creativity with smart technology, NeoDay helps you stand out in the market, build stronger customer relationships, and get more out of your marketing—across both web and app.

Want to find out more?

Reach out to us: neoday.com

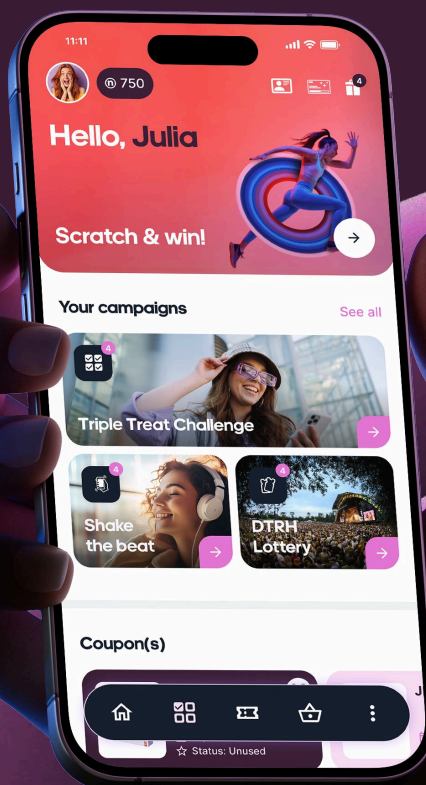
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