AI Natives Among Us

A new kind of consumer taking over the marketplace

PROLEGO

AI Natives are your emerging customers

For several years Prolego has struggled to reconcile our clients' competing AI perspectives. Savvy companies want the market dominance of AI-based consumer apps like TikTok. But they can become paralyzed with fears about consumer backlash over AI's potential downsides. This tension impedes their AI transformation programs.

In response, Russ and I launched a research campaign to answer the question, What do consumers actually think about AI and the companies that embrace it? Do AI-driven products represent more opportunity or a loss of control?

What we discovered surprised us: focusing on AI modernization as being either "good" or "bad" is unhelpful. Far more relevant to business decisions is recognizing the emergence of a consumer who has a whole new perspective on AI. We call this consumer the AI Native.

AI Natives understand AI to be much larger than just a technology. It's a relationship that can anticipate their needs and delight them in unexpected ways. It's a collaborative partner they can train to simplify their lives.

This report doesn't address AI ethical issues such as potential inequality, bias, and privacy. These are critically important topics, and we fully support continued research into them. AI Natives, like all customers, expect companies to behave ethically.

Instead of addressing those issues, this report offers insight into how customers think about this technology. It introduces you to AI Natives and suggests steps for integrating their perspectives into your services. We hope it helps illuminate your road ahead. If you have questions, feel free to contact us at russ@prolego.com.

Kevin Dewalt & Russ Rands, co-founders, Prolego

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ARTIFICAL INTELLIGENCE REAL PEOPLE

For the last few decades, the widely told story of AI has been one of fear and uncertainty.

This mindset has tempered conversations in boardrooms and newsrooms across the world.

But the lived experience of evolving AI has been a much different story. In step with AI developments, a new type of consumer has emerged who has a whole new perspective on AI. We call this consumer the AI Native.

AI Natives are poised to fundamentally change the rules of business for every industry. Businesses that truly understand this audience can determine whether their future leads to wild success or obscurity.

AI Natives see AI as something much larger than just a technology. It's a collaborative partner that can anticipate their needs and delight them in unexpected ways. It can be trained to make their lives easier. It can signal whom to trust or buy from, who cares, and who's committed to a better future.

In this new paradigm, AI and its related technologies are no longer a footnote. They're quickly becoming one of the most powerful outward-facing status symbols a company can have.

Who is the AI Native?

Whereas Digital Natives were born within the advent of the Internet and defined by an ability to navigate new digital environments.
AI Natives are defined by their ability to build relationships with the AI around them.

They have an intuitive understanding of the rules of AI and how to shape it for their needs. They co-create with AI and are willing to invest in it over time. AI Natives see this technology not as an amenity but as a way of life. Without it, life quickly starts feeling less comfortable, less convenient, and less connected.

Consumers' profound change in behaviors, values, and mindsets is moving the business benchmark from digital experiences to AI relationships. In this transition, many companies are already feeling the encroaching threat of irrelevance.

On the next few pages, we present several graphs that illustrate the findings of our consumer surveys.

The Two-Way Relationship with Technology

Technology has long been viewed as a one-directional force that impels consumers forward. Innovations have forced us to adjust, think differently, and learn new behaviors.

But AI users are rethinking what new technology should mean to them. For them, the old rules of tech don't always fit into the new world of AI. They want to change the technology as much as they want it to change them.

At Prolego, we wanted to understand just how many AI Natives make up the US consumer base. And we wanted to know how their shifting perspectives are fundamentally changing the marketplace.

Here's how we set out to learn more:

01 We began with a deep dive into 150 resources on cultural dynamics in the AI consumer space.

02 We surveyed 1,055 adults all across the US, ranging in age from 18 to 64 and representing all walks of life.

03 We conducted 20 in-depth interviews with people in 13 states.

04 We spoke with 20 industry leaders and experts in the world of AI.

SKILL SHARE

STAYING SHARP

"WE'RE GOING ON VACATION IN A MONTH AND WE'RE ACTUALLY PACKING MY GOOGLE HOME BECAUSE I'M SO USED TO TELLING IT THINGS."

– Elizabeth, Chehalis, WA

Nearly two-thirds of people think that over the next 10 years, AI will have a positive impact.

Many people actually didn't believe AI was possible 20 years ago.

"A HUNDRED YEARS FROM NOW, THERE PROBABLY WILL BE NO INTERNET OR SMARTPHONES. BUT THERE WILL CERTAINLY BE AI."

- R&D Strategy and Portfolio Director at Fortune 30 Healthcare Company

AI Natives have an intuitive understanding of the rules of AI and how to shape it for their needs. They co-create with AI and are willing to invest in it over time. AI Natives see this technology not as an amenity but as a way of life. Without it, life quickly starts feeling less comfortable, less convenient, and less connected.

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THE REVOLUTION THAT ALREADY HAPPENED

Vibing
That AI Life

Digital environments have created countless layers of complexity in daily life, from what to post and who to follow, to what to buy and where to go. Now AI promises a remedy to the complexity. With that remedy comes a new lifestyle. AI brings a fundamental shift in consumers' expectations of technology.

Whereas organizations used to focus on empowering users by adding new features and options, the advent of AI Natives requires a different question: "How can we empower users by automating features and reducing complexity?"

Digital tech that's visible, that proliferates endless choices, and that adds overhead can feel burdensome. It creates a sort of friction that makes invisible, effortless tech far more appealing.

AI Natives don't want
to <u>see</u> technology;
they want to <u>feel it</u>.

DIGITAL NATIVES:

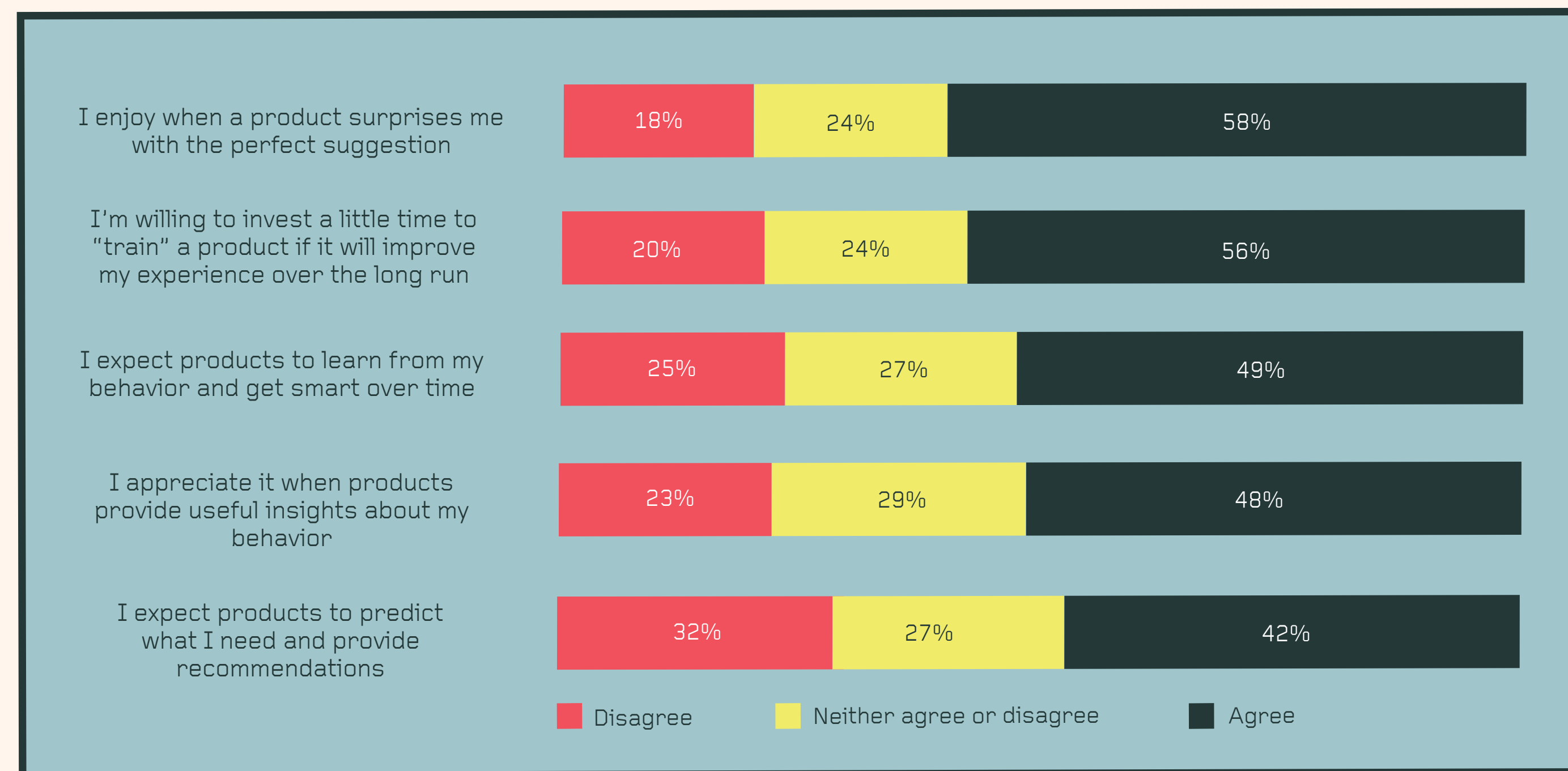"Look at all of the things I can do now!"

AI NATIVES:

"Look at all of the things I <u>don't</u> have to do now!"

Collaborating with AI is the new normal.

People increasingly expect platforms, products, and services to act like AI technologies.

On the next few pages, you'll see graphs that illustrate the findings of our consumer surveys.

Statement	Disagree	Neither agree or disagree	Agree
I enjoy when a product surprises me with the perfect suggestion	18%	24%	58%
I'm willing to invest a little time to "train" a product if it will improve my experience over the long run	20%	24%	56%
I expect products to learn from my behavior and get smart over time	25%	27%	49%
I appreciate it when products provide useful insights about my behavior	23%	29%	48%
I expect products to predict what I need and provide recommendations	32%	27%	42%

■ Disagree ■ Neither agree or disagree ■ Agree

"[AI ASSISTANTS ARE] SOMETHING THAT'S BEEN REALLY DYNAMIC IN ELEVATING OUR HOME, TO MAKE IT FEEL MORE LIKE A HOME AND A PLACE WE ENJOY . . . BECAUSE WE CAN REALLY TRANSITION THE MOODS OF THE HOME."
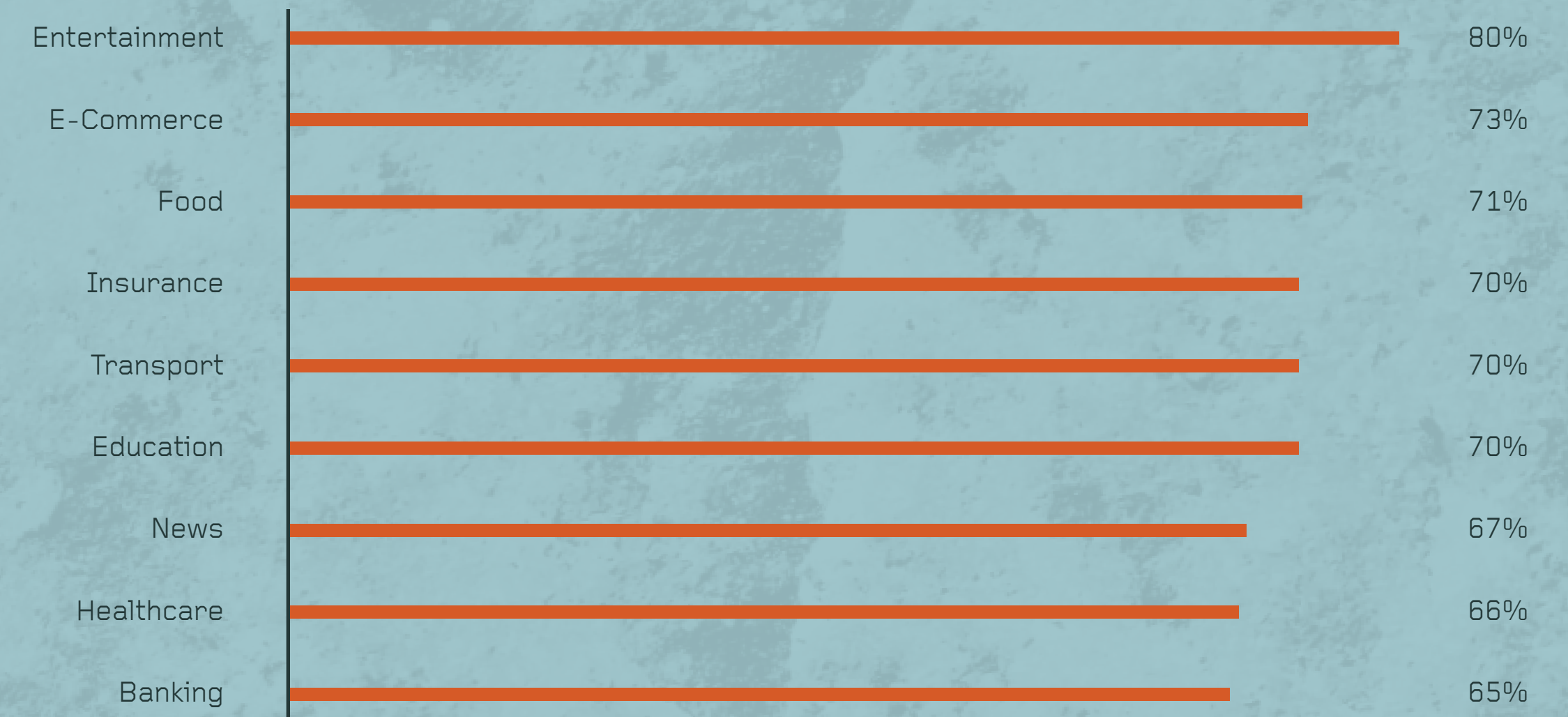
DENZEL, PHOENIX, AZ

Americans no longer see AI as restricted to tech products.

Across the board, they're very willing to engage with AI products and services in nearly every industry, from entertainment to education and from food to banking.

The foundation for profound industry change is already in place. The only limiting factor now is company adoption of the technology.

How comfortable would you be purchasing or using products from companies that utilize AI in the following industries?

Industry	
Entertainment	80%
E-Commerce	73%
Food	71%
Insurance	70%
Transport	70%
Education	70%
News	67%
Healthcare	66%
Banking	65%

"WE WERE LATE ADOPTERS OF . . . ALEXA, AND I USE THAT ALL THE TIME NOW. AND I'M LIKE, THERE MUST BE SO MUCH MORE OUT THERE THAT WE COULD BRANCH OUT INTO."

— MEGAN, HADDON HEIGHTS, NJ

2020 may have been one of the most important years in the trajectory of AI.

As millions of people started working from home during the pandemic, they turned their living rooms into remote schools for their children. They shopped exclusively online. Through Zoom they hosted weddings, birthdays, and holidays.

Relying on smart services that ranged from grocery delivery to banking, entire nations of consumers suddenly experienced the breadth and power of AI all at once. Behaviors that might have taken decades to develop occurred in months. People adapted quickly.

What they learned was that AI can be an entirely new experience. And it's one worth paying for, whether the currency is dollars or data.

"WHEN WE'RE SUCCESSFUL, NOBODY'S EVEN GOING TO KNOW THEY'RE USING IT. THAT'S HOW YOU MAKE A CULTURE CHANGE. YOU GET IT TO WHERE PEOPLE STOP OBSESSING ABOUT IT AND THEY JUST ACCEPT IT. THEY MOVE INTO IT AND ENJOY THE BENEFIT."

TOD NEWMAN,
LEAD, ARTIFICIAL INTELLIGENCE AND
MACHINE LEARNING CENTER AT RAYTHEON

Talk to me

The key to AI adoption: Good communication

Concerns about the potential of AI boil down to transparency and communication.

AI Natives see their experience with the technology as a relationship they've already agreed to. As part of that relationship, they expect the company that creates the technology to be responsible. They look for language and signals that give them peace of mind when they make purchasing decisions.

"I WANT [COMPANIES] TO TALK ABOUT THEIR SUCCESSES AND CHALLENGES. [I WANT] TRANSPARENCY IN TERMS OF WHAT'S GONE WRONG AND HOW . . . YOU RESOLVED IT OR ATTEMPTED TO RESOLVE IT. HOW ARE YOU WORKING TO MAKE SURE THAT [PROBLEM] DOESN'T HAPPEN IN THE FUTURE?"

- MARK, LOS ANGELES, CA

61%
of people feel more comfortable when companies clearly explain how they protect personal data.

54%
of people feel more comfortable when companies clearly communicate details about their technology.

35%
of people feel more comfortable when companies demonstrate clear values and mission.
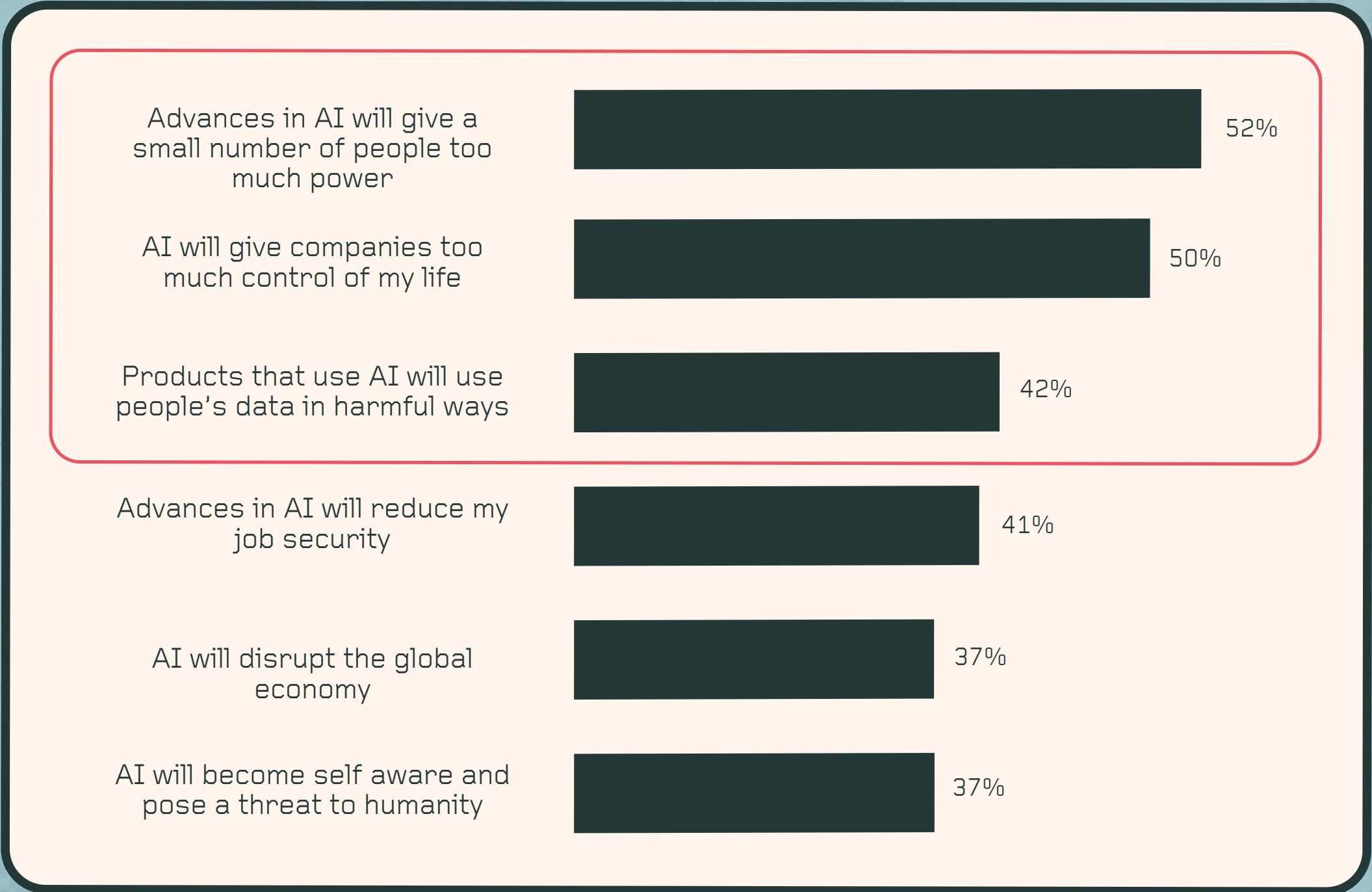
The most common concerns about AI focus on the concentration of power .

Half of adults agree with predictions that advances in AI will give a small number of people too much power and that AI will give companies too much control over their lives.

More than a third of adults agree with the prediction that AI will become self-aware and pose a threat to humanity. This has become a mainstream point of view, nudged along by support from the media and influencers like Elon Musk.

How much do you agree or disagree with the following predictions about the impact AI will have over the next 10 years?

Prediction	%
Advances in AI will give a small number of people too much power	52%
AI will give companies too much control of my life	50%
Products that use AI will use people's data in harmful ways	42%
Advances in AI will reduce my job security	41%
AI will disrupt the global economy	37%
AI will become self aware and pose a threat to humanity	37%

Concerns about privacy and security consistently arise in conversations about AI. However, concerns about AI have little connection with privacy habits.

9 in 10 adults say they're at least somewhat concerned with the privacy of their data online. Nearly a third say they are extremely concerned. But no more than 20% of adults consistently take basic steps to protect their data privacy.

"I DON'T CARE IF PEOPLE KNOW THE PLACES I SHOP OR THE NEWS I READ [OR] MY POLITICAL AFFILIATION. I DON'T CARE IF EVERYONE KNOWS THAT AS LONG AS MY FINANCIAL ACCOUNTS ARE SECURE."
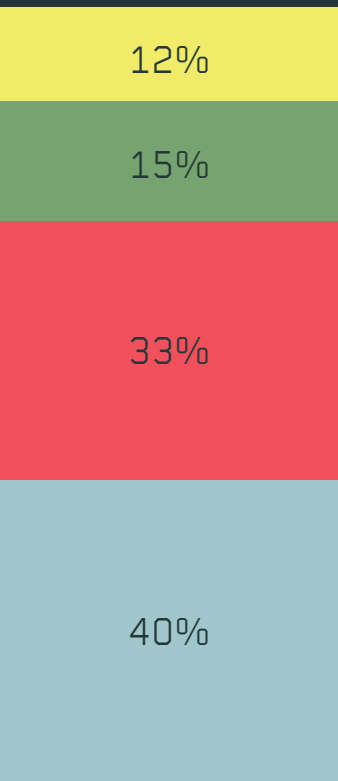
- STANLEY, NEW YORK, NY

How often do you do each of the following when you sign up for a new product or service?
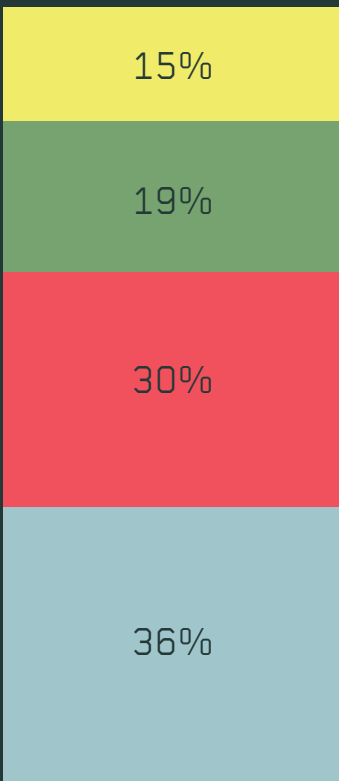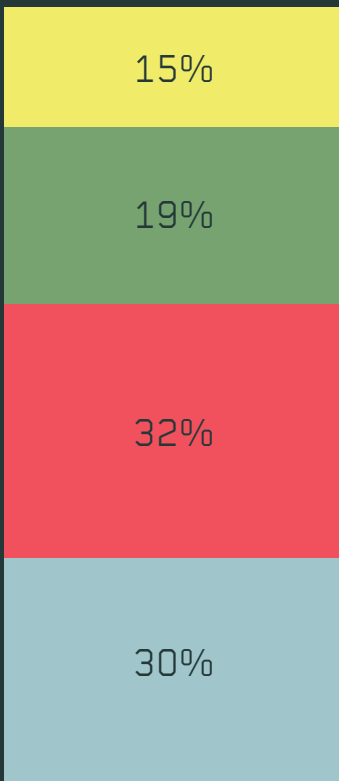
- Rarely or never
- Sometimes
- Most of the time
- Always
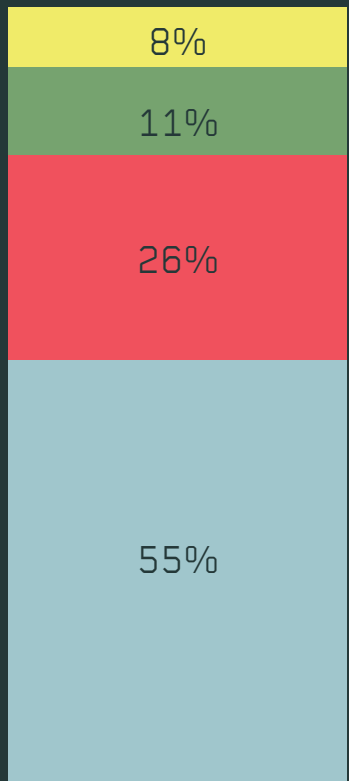
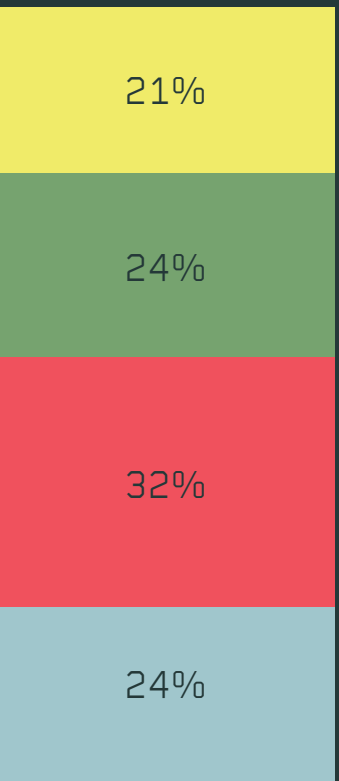|	Use a VPN when accessing the product or service	Research the company's privacy policy practices online	Read terms & conditions and/or privacy policy in detail	Set up two-factor authentication (if possible)	Use a unique password I haven't used before
Always	8%	12%	15%	15%	21%
Most of the time	11%	15%	19%	19%	24%
Sometimes	26%	33%	30%	32%	32%
Rarely or never	55%	40%	36%	30%	24%

Transparency becomes a competitive advantage

People increasingly expect platforms, products, and services to act like AI technologies.

Leading AI companies initially used transparency as a crisis-response tool. Now they see it as a competitive weapon. If you were an unlucky Alexa owner in 2018, you might remember hearing what some described as "creepy laughter" coming from your smart device.

Hundreds of owners who had that experience quickly took to social media, and Amazon was forced to respond.

Compare that experience to Apple's recent App Tracking Transparency update, or ATT, which allows consumers to opt out of third-party tracking. Apple wants to put more power in the hands of the consumer, setting them apart from AI competitors, most notably Facebook.

Leaders are already staking out their communication and transparency practices, signaling to AI Natives the benefits of their relationship.

"The current state of the market and consumer expectations [is] beginning to force companies to be more transparent and better communicators about how they're using consumers' data. Market conditions, trends, legislation, and now even big tech player announcements are forcing all companies to be more transparent about how data is used."

- Benjamin Flusberg,
Senior VP of Data Solutions,
Cox Automotive

The Great Uncoupling

AI has changed the economics of business. AI Natives have changed the business of brand perception.

Companies that see AI initiatives as too risky or that relegate AI to small and narrowly defined projects to prove ROI are playing a dangerous game. To assess threats, they mistakenly watch only their direct competitors, not the AI titans of the world.

FAANG (Facebook, Amazon, Apple, Netflix, and Google) and companies like them have become direct competitors to every other company out there.

These companies have amassed so much data and AI capability that they can move into seemingly unrelated markets almost overnight—and win.

AI has created a winner-take-all business reality that many companies won't survive. The situation is even more dangerous given that AI Natives already perceive AI-forward companies to be superior to others.

46% of people under the age of 45 feel that cutting-edge technology is the **most important product characteristic to consider** in new purchases, aside from the producer's overall reputation.

AI has a halo effect on businesses. AI-driven companies are seen as innovative and as contributors to society.
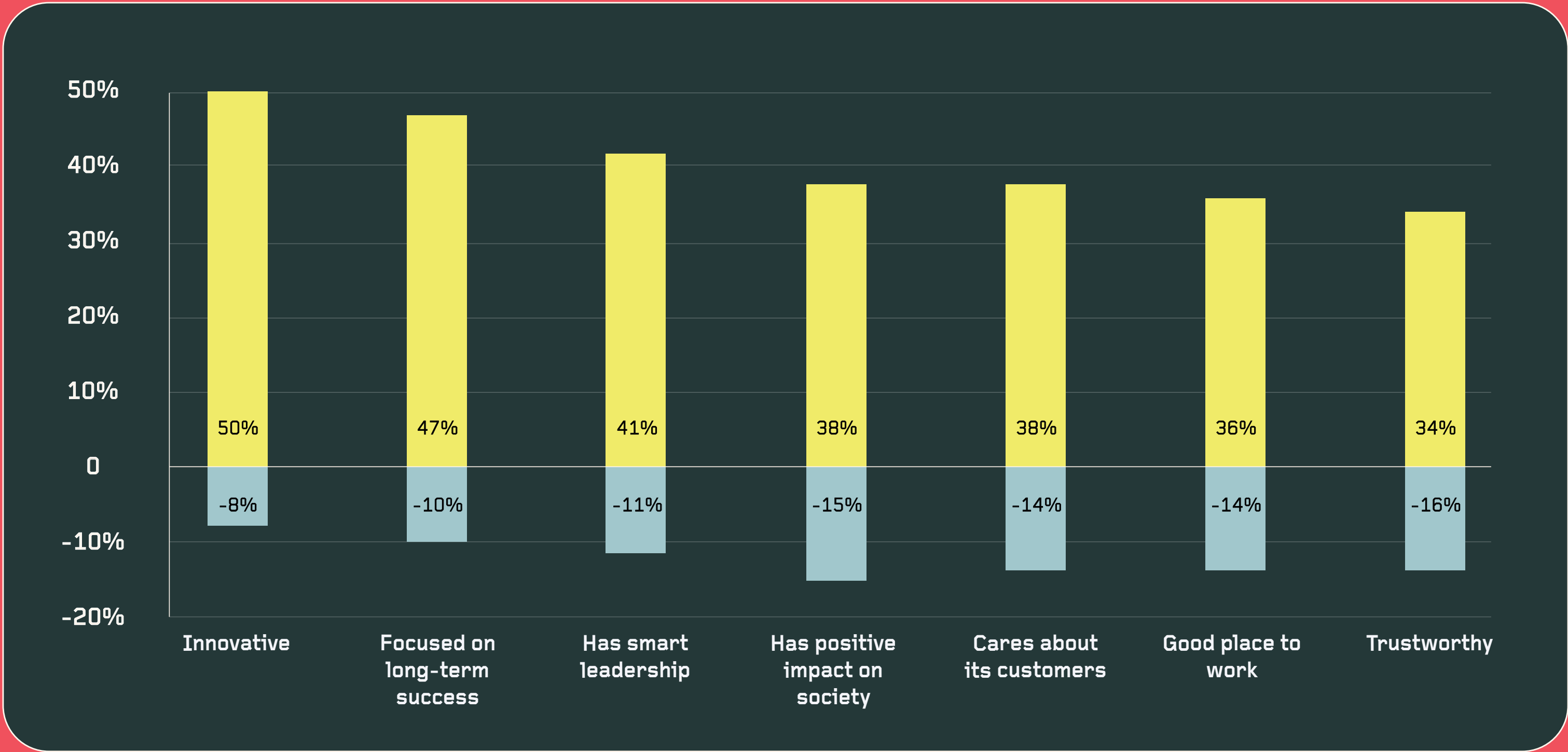
When asked how news that a randomly selected company was investing in AI would influence their perceptions, adults were far more likely to say they'd react favorably rather than negatively toward the company. This positive response was true for a host of factors, even core reputational factors not directly related to technology, such as being a good place to work and caring about customers.

The effect is more pronounced among younger people. After hearing about a company's investment in AI, nearly half of adults under age 45 were more likely to believe the company positively affects society and cares about its customers (46% each).

Imagine you saw a headline about a company saying that it was planning a major investment in AI to help it better serve its customers.

How would seeing a headline like this influence your perceptions of this company?

Choose how strongly you agree with the following answers.

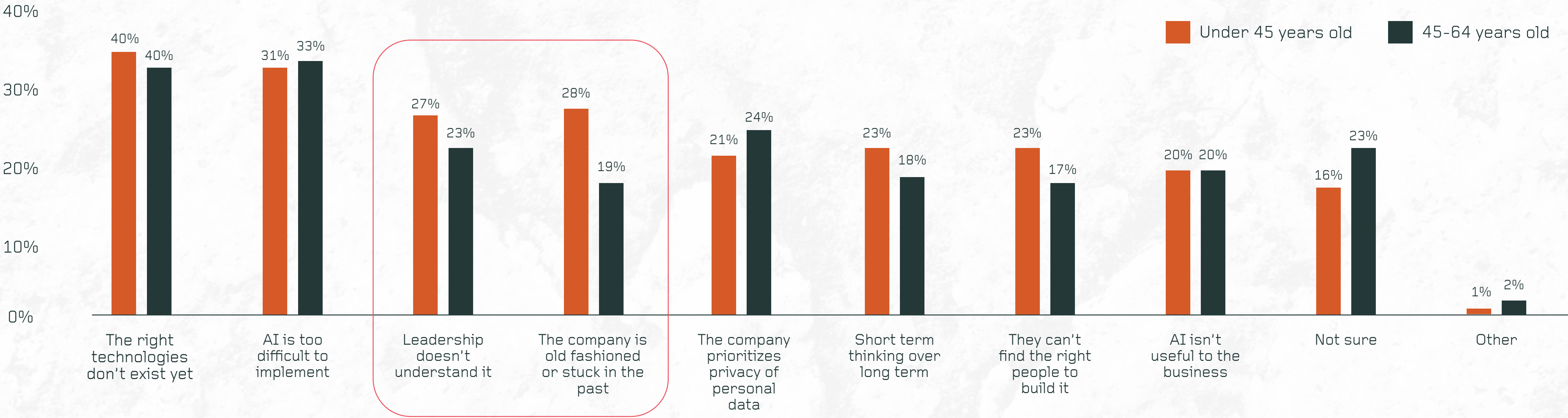|	Innovative	Focused on long-term success	Has smart leadership	Has positive impact on society	Cares about its customers	Good place to work	Trustworthy
Positive	50%	47%	41%	38%	38%	36%	34%
Negative	-8%	-10%	-11%	-15%	-14%	-14%	-16%

AI Natives have changed the business landscape. They often make harsh judgements of companies that don't meet their AI expectations.

Among the top reasons why people feel more companies don't leverage AI are "Leadership doesn't understand it" and "The company is old-fashioned or stuck in the past." Among younger adults, these responses are more common than sympathetic views such as "The company prioritizes privacy of personal data."

Companies are already paying a high reputational cost for falling behind on AI transformation.

In your view, why don't more companies leverage AI in their business? **Select all that apply.**

Legend: ■ Under 45 years old ■ 45-64 years old

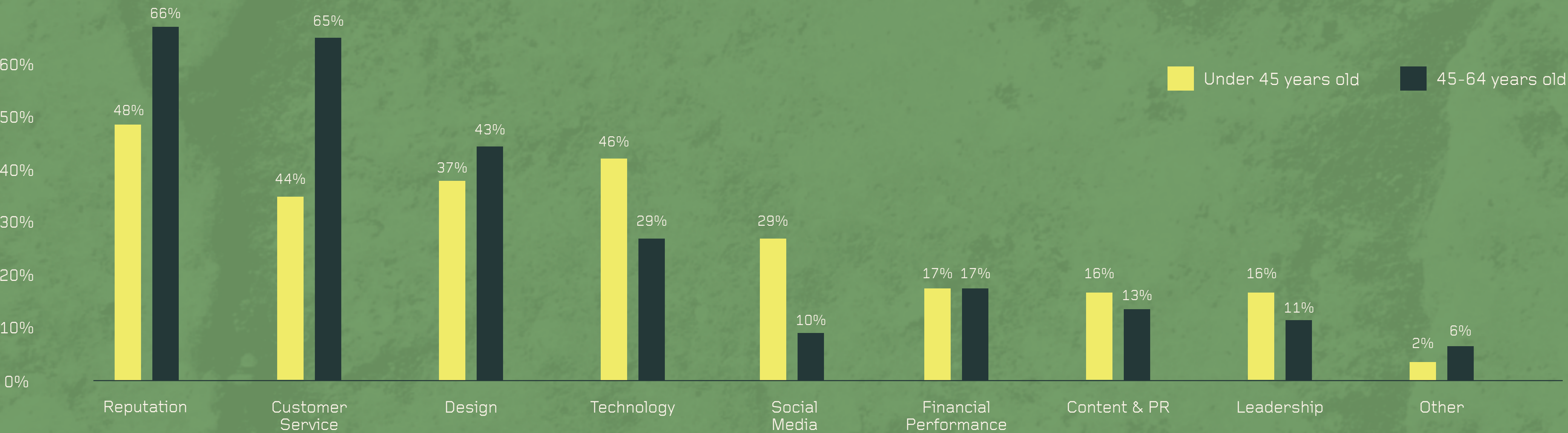| Category	Under 45 years old	45-64 years old
The right technologies don't exist yet	40%	40%
AI is too difficult to implement	31%	33%
Leadership doesn't understand it	27%	23%
The company is old fashioned or stuck in the past	28%	19%
The company prioritizes privacy of personal data	21%	24%
Short term thinking over long term	23%	18%
They can't find the right people to build it	23%	17%
AI isn't useful to the business	20%	20%
Not sure	16%	23%
Other	1%	2%

Technology is now one of the most important decision-making factors for consumers under the age of 45. It's more important than customer service, design, social media, and even company leadership.

For incumbent businesses, this change raises a very real threat that upstarts and early adopters can leapfrog multimillion-dollar marketing and customer service budgets by leading with technology.

By the time many organizations recognize and respond to this profound change in perception, they might have already lost the market.

When you consider whether to buy or use a product from a specific company, what factors are most important to you? **Please select up to 3 factors.**

Legend: Under 45 years old | 45-64 years old

Factor	Under 45 years old	45-64 years old
Reputation	48%	66%
Customer Service	44%	65%
Design	37%	43%
Technology	46%	29%
Social Media	29%	10%
Financial Performance	17%	17%
Content & PR	16%	13%
Leadership	16%	11%
Other	2%	6%

With the rise of AI comes a new set of benchmarks for all tech companies.

New qualifications are quickly changing what's relevant and irrelevant.

Consider the rash of companies rebranding themselves: Kia Motors became Kia. General Motors and MasterCard released new visual brand identities, creating space for a broader range of offerings. Google Research became Google AI. Many other companies added "AI" to their names or removed category identifiers.

What do all of these rebrandings have in common? They untether the company from the industry.

Organizations that fully embrace AI no longer have to fit into a single category. They can be anything to anyone. The proliferation of rebrandings is just one signal that the business landscape is splitting into two factions: AI adopters and AI laggards.

Economic incentives for AI are here to stay. We've already passed the early-adopter phase.

YOU ARE HERE

PROLEGO

How do you gauge your company's progress toward meeting the needs of AI Natives?

Where does your company stand now, and how can you improve your odds of success?

What factors affect your rate of progress?

As you consider these questions, you'll want to understand the important dynamics, timelines, and benchmarks.

You'll also want to assess your company's readiness for change. AI modernization might well be the biggest cultural and organizational change your company will undergo. We recommend laying the groundwork with a few basic actions.

ACTION 01

Start with Experience

Think of experience, not features.

Program features, while important, can mire a company in the digital past. To move your company forward, consider how AI can create experiences that draw people deeper into your brand.

Start by rethinking your products and services from the foundation. Unleash yourself from the shackles of the past and consider your actions from the perspective of the AI Native.

ACTION

02

Edit out the cognitive friction

Your primary competition for the AI Native isn't your current competitors, startups, or Google—it's all the things that demand your customer's attention.

Understand that simplicity, better UI, or better onboarding isn't enough. **You must find ways to reduce cognitive friction in your customers' lives.**

The old technological paradigm was about choice. But although advances brought more choices, they also brought decision fatigue. AI Natives expect companies to reduce the scope of choice in a way that makes sense for them.

They want you to think *for* them. So do it.

ACTION

03

Double down on transparency

Like all consumers, AI Natives expect you to leverage this technology ethically. But they also understand that the two-way relationship with AI creates unavoidable new risks and potential downsides.

Too many companies react to these risks with debate and paralysis. **Instead of being paralyzed by fear of what could go wrong, double down on transparency.**

Tell customers how you use their data, how you build your models, and how you make money. The perceived risk of AI decreases with communication and transparency. Just tell them the truth.

ACTION

04

Create stickiness through model training

AI Natives gravitate to products that slowly get better with use. They don't expect—or even want—a product to instantly work perfectly. They are very willing to invest time in model training as long as it doesn't increase their cognitive load.

Empower them to train models through experience, and your product becomes *their* product. You'll have them forever.

A Simple First Step

Most of your peers will read this report and find it convincing. And then they'll do . . . nothing. How about you? The biggest mistake you can make is waiting for clear proof of the AI Native's preferences. That kind of surety only happens in hindsight, and by then we'll already know the winners and losers.

We've provided four general action paths, but you need a plan to get your company behind them.

Here are two suggestions:

01
Create an AI Natives strategy team

Choose 3 to 5 of your best data scientists and product people. Send them to an offsite retreat for two days. Ask them to reimagine your core product for the AI Native. We can provide you a facilitator if you need one.

02
AI Natives assessment

If you prefer an outsider's perspective, Prolego can perform an AI Natives assessment for you. We will capture the ideas of your best people and combine them with our expertise with AI technology and AI Natives.

About the AI Natives study

The survey referenced in this report was conducted by Concept Bureau on behalf of Prolego. The representative sample included 1,055 US adults aged 18 to 64. The survey was conducted from March 31 to April 9, 2021. Participants were sourced from the Centiment online panel. Quotas were applied to match the total US adult population aged 18 to 64, based on age, gender, and region. Data was weighted to match the US Census population proportions for these variables.

NOTE: Throughout this report, when we refer to "adults," we're referring to US adults between ages 18 and 64.

About Prolego

Prolego is a trusted guide for your AI journey.

We are an elite team of AI engineers and creative technologists committed to guiding the world's largest companies through the AI transformation. Of course we are experts at building AI technology and love talking about the latest deep learning techniques and MLOps architectures. But our real passion is leveraging the technology to maximize your assets and solve your hardest problems.

We see AI the way you do: as a key to unlocking the trapped value of your business.