

# AN EFFECTIVE PERSONALIZED TARGETING – THE CASE OF LOYALTY PROGRAMS

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**Abstract:** *The retail sector is facing more intense competition in creating personalized experiences to build customer loyalty. With the proliferation of new technologies, the customer journey is being transformed, narrowing endless options of products to the most suitable for each customer. Customer-level data are used for creating personalized offers, which generate greater engagement and loyalty. This paper presents one case of effective personalization in Super Kartica, one of the most popular retail loyalty programs in Serbia. Within this program, recommended products for each individual customer are obtained based on the suggestion of the machine learning model. Using a case study method, this paper highlights the power of customer data for achieving a two-way marketing strategy. The aim of this paper is to identify challenges in the existing model and opportunities for driving greater customer loyalty. The findings suggest the importance of the understanding cause-and-effect relationship between loyalty programs and personalized approaches.*

**Key Words:** *Loyalty Program, Personalization, Marketing Strategy*

## 1. INTRODUCTION

Serbian retail market is seeing dynamic development of loyalty programs. Retailers are competing for customers' attention through attractive, personalized incentives [1]. The mechanism behind loyalty cards enables retailers to remodel cold data on customers into warm relationships. Loyalty programs aim to develop and maintain relationships with customers by delivering valuable offers, customizing the interactions, and building customer perceptions of brand value through meaningful brand experience [2]. With an increasing demand for personalized experiences and the important role of emerging technologies in omnichannel retail settings [3], retailers are adopting models that provide an automatic selection of products that correspond to customers' preferences [4]. Collecting, integrating, and analyzing customer data is considered a baseline for personalized marketing efforts.

This paper examines the potential of personalization in driving customer loyalty and the role of technology in

aiding the process. *Super Kartica*, the loyalty program of the second largest retailer in Serbia *Mercator-S*, is selected for case analysis. Using a single case design, the current execution of tailoring personalized offers was evaluated and opportunities for improvements were identified. Finally, the paper poses the effectiveness of personalization in loyalty programs and its potential in building brand experience and loyalty.

## 2. PERSONALIZATION IN LOYALTY PROGRAMS

The main drivers of business include building a new customer base and retaining existing ones [5]. In order to nurture relationships with existing customers and encourage their loyalty, retailers are improving their loyalty programs. Loyalty programs are considered a structured marketing effort that deepens relationships with customers [6]. Instead of following a one-size-fits-all model, loyalty program initiatives should be created to meet customers' preferences. Nastasoiu & Vandenbosch (2018) identified three aspects for loyalty program improvements: personalization, reward types, and additional services [7]. Loyalty programs based on personalized interaction give a perception of value. They enable retailers to reward their most valuable segments [6].

With customer behavior being reshaped [8], loyalty programs have undergone a significant transformation. Diverse and more custom needs forced retailers to compete in creating a more personalized experience. The value of personalization reflects in the opportunity to tailor both offer and experience [9]. Omar & Musa (2011) consider personalization a significant service quality dimension in loyalty programs, while Tyrväinen, Karjaluoto & Saarijärvi (2020) identified personalization as a key driver of customer experience. Personalized tactics enable curating offers with respect to customers' desires and needs. Also, personalization decreases search and product evaluation costs [3]. Customers are put in a privileged position [1] where their buying decision is facilitated. Endless options on shelves lead to the paradox of choice and the digital cognitive load [4]. In such conditions, customers find it hard to process the

abundance of information and make a decision about what to buy. Suggesting the products that might be suitable for them significantly facilitates the buying process. Also, by providing an attractive and relevant offer, a personalized approach lures customers back to the stores. Therefore, it is an effective tool for retention strategy [6].

### 3. TECHNOLOGY TOOLS AIDING PERSONALIZATION IN LOYALTY PROGRAMS

Every interaction with the customer is an opportunity to create value [5]. Customers leave valuable information on many touchpoints on their path to purchase [3]. When customers use loyalty cards, retailers are able to collect personal information and optimize their offers tailored to customers' preferences. Technology-driven models make it possible to reach and communicate with customers in a more personalized way [5]. Those models learn from customer interactions and use data to predict their behavior [4]. Loyalty schemes involve providing personal data which are used for building customers' profiles and tracking their purchasing habits [2]. Data about customers' behavior in terms of what they buy, when they buy, how much they buy, and what product combinations they buy can serve as an input for curating offerings and creating the right initiative for an individual [4]. Such a database is a valuable foundation for marketing purposes. When collecting the right input, it is crucial to carry out the analysis [5] and detect patterns. Translating historical data on customer behavior into knowledge improves loyalty program performance [10]. Supported by recommendation systems, retailers improve the accuracy of offering the right product [4].

When implementing a personalized approach, two decisions are important: (1) whom to target and (2) what to offer [7]. Understanding the needs of customers is at the core of successfully performing loyalty initiatives. Technology facilitates the execution of marketing activities [1]: it provides insights into customer behavior and enables tracking of their responses. Having loyalty programs gives retailers access to granular insights [4]. Those insights are used by machine learning models to curate the offer in order to optimize the result both for retailers and customers.

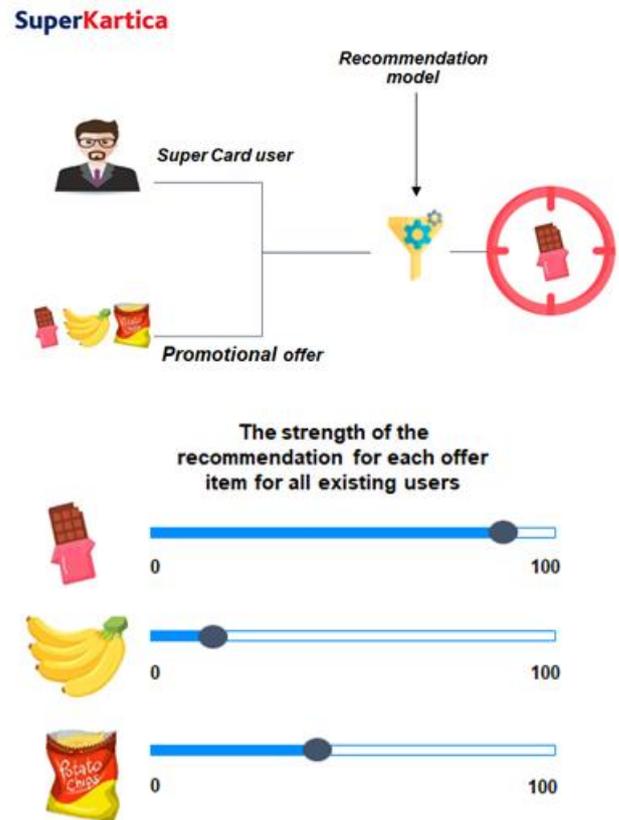
### 4. "SUPER KARTICA" CASE ANALYSIS

To evaluate the usage of a personalized approach in loyalty programs the single case design is used. The case study method is suitable for answering the how and why questions [11], giving an in-depth detailed overview of an individual case [12]. Synthesizing the existing literature with the usage in practice, a conclusion about the effectiveness of a personalized approach in loyalty programs is drawn. *Super Kartica* is selected for case analysis. It is the loyalty program of the second largest grocery retailer in the Serbian market - *Mercator-S* [13]. The program is chosen for the analysis for reasons stated below [14]:

- It has 750,000 active users and therefore a rich database as a foundation for implementing personalization activities;

- It is one of the first loyalty programs in the Serbian market with a 9 years long reputation;
- It operates within 11 brands in different industries, including the second largest retailer in Serbia, *Mercator-S*.

The analysis explains the feature and mechanisms of *Super Kartica*, with a focus on a personalized approach empowered by machine learning algorithms (picture 1).



Picture 1: The mechanism of the recommendation model

With growing competition in loyalty programs, emerging technologies are recognized as a valuable tool for facilitating the process of gaining potential customers and making them loyal. Customer data, transactions, and product data are used as input for data preparation. After conducting an analysis supported by the machine learning model, top products from promotional offers are filtered for each customer. Recommended products are used in the campaign to attract customers and improve their buying experience. Implemented recommender model selects card users, whose historical transaction data indicate a potential interest in the offer from the leaflet. Then it classifies users into already defined customer segments according to the *RFM methodology* (new, dormant, standard, loyal, and premium).

Personalized offers are communicated through different channels. Textual messages or Viber messages are sent to customers that gave permission for receiving notifications. The test phase of implementing the recommender model included modifying communication to achieve the optimal user experience. In addition to the product that is recognized as suitable for an individual

customer, the rest of the offer is sent with highlighting the discount percentage. With a clear call to action and attractive message, the average dwell time increased by 181%, while unique visits increased by 72%. Also, customers were given the opportunity to evaluate the offer. 81% of customers expressed a positive attitude. After each campaign, the level of satisfaction is tracked to ensure the offer is suitable and communicated effectively.

To efficiently monitor communication effects and campaign results in the test model identified user segments were divided into three groups:

- **Personalized** - a group of *Super Kartica* users recognized in the model, where each user within the group is sent a communication with a personalized recommended product, obtained based on the recommendation of the machine learning model.
- **Non-personalized** - a group of *Super Kartica* users recognized in the model, where all users within the group are sent a generic message with the same product.
- **Control** - a group of *Super Kartica* users that is recognized in the model, and serves to provide insight into how much sales would be without any communication (organic sales). This user group did not receive any communication for the campaign.

Table 1 shows the results of the campaign executed in the period 18.10.2021-31.10.2021. The group of users that received personalized offers had the highest percentage of customers that bought recommended products. Taking into consideration that the campaign was sent to loyalty card users, a high number of customers that made a purchase are noted in each group. However, in the next level differences are observed among groups. Customers that haven't received notification about the promotional offer purchased less. With respect to the products selected by the recommender model, there was a significant increase in the percentage of customers that responded to personalized messages and bought recommended products, compared to the customers that received a generic message or hadn't received any.

Table 1. Campaign results

	Personalized	Non-personalized	Control
Targeted customers	100%	100%	100%
Customers bought any product	99%	99%	98%
Customers bought a product from the promotional offer	<b>86%</b>	71%	58%
Customers bought a product from a personalized message	<b>19%</b>	7%	5%
Customers bought the recommended product	<b>17%</b>	6%	4%

Each campaign executed with the assistance of a machine learning tool is measured in terms of response

rate, dwell time, unique visits to the website page included in the call to action button, and the percentage of customers that bought the recommended product. The results vary among different segments of customers, but overall evaluation of implementing technology-aided personalization is considered effective. Further improvements in achieving full personalization are discussed in the next section.

## 5. DISCUSSION

Personalized offer drives a greater response rate of promotional messages and increases campaign results. Therefore, retailers' efforts should be focused on building the perception of personalization among customers [3]. Presented loyalty program adopted technological opportunities in aiding personalized engagement marketing. Such recommendation systems enable matching retailers' offerings with customers' preferences.

To efficiently harness the potential that machine learning tools provide, customer data is inevitable [4]. Boosting customer loyalty through machine learning tools is twofold: it drives sales [7] and generates engagement [5], and it creates value for customers by giving them the right product. This process requires both sides to be involved, which implies that there is a cause-and-effect relationship between a personalized approach and loyalty, where one increases another. With customers buying more and becoming more loyal, the database that serves as an input for tailoring the best offer is enlarged. Having more insights into customers' preferences and behavior strengthens the model and targets what customers really need. On the other hand, integrating personalization in marketing efforts drives loyalty and keeps customers committed. Therefore, a two-way marketing approach is crucial for building an effective loyalty program. An overview of the implementation of the recommendation system in the *Super Kartica* loyalty program is presented below.

### 5.1. Goal

Recognizing the possibilities of customer-level data, *Mercator-S* adopted a recommendation system aiming to boost loyalty and footfall with attractive offers tailored for different customer segments. By providing this added value within the loyalty program, the retailer is striving to contribute to its retention and engagement strategy.

### 5.2. Realization

Using the presented recommendation model *Mercator-S* communicates its promotional offer on a biweekly basis, targeting the right customer segment. Top products from the list of a complete promotional offer are selected as the most suitable and recommended through text and Viber messages. Historical data are used as a foundation for identifying customer-specific information [10] and influencing future purchasing behavior [3].

### 5.3. Challenges

Since having an adequate customer database is a prerequisite to building successful loyalty programs, concerns about privacy arise. Disclosing personal data can be a challenge for performing personalization processes. To reduce ethical concerns and boost customer confidence, Hemker, Herrando & Constantinides (2021) highlight the need of strengthening relationships with customers by aligning personalization processes with their expectations. Considering that genuine loyalty is established on mutual trust and understanding [2], retailers should emphasize their responsibility and transparency to increase customers' willingness to share personal data.

The competitive landscape and growing number of loyalty programs are recognized as a significant challenge for *Super Kartica*, threatening to take away customers. Therefore, the need for proactivity and providing additional value arises. In addition, customers are becoming less loyal [8] which further makes it difficult to retain them. Their privileged position allows them to use benefits from multiple loyalty programs, making them switchers rather than loyal customers. In such conditions, retailers should focus on predicting customers' behavior and providing them with everything they need, at their convenience.

Customers are not only evaluating the outcomes of loyalty programs but the entire experience [6]. Inaccurate recommendations and irrelevant offers can have a negative impact on customers' satisfaction. In addition, disturbance with too frequent offers leads to unsubscribing and losing customers. Communicating promotional campaigns to loyal customers should be carefully executed.

### 5.4. Opportunities for improvement

Rather than considering loyalty programs just as a modest discount arrangement [2], retailers need to look beyond common rewards [7]. Loyal customers should be rewarded for desirable behavior and given added value. Therefore, we recommend creating personalized offers that surpass active promotions available for all users. Individual recognition can start with fully personalized communication, and spread through the whole experience. Personalization can be extended in different activities on the customer journey. With the knowledge of customer interests, retailers can send individuals early access for product launches or suggest a replacement for products that are used on a regular basis. Based on the data showing when the product has been bought, a notification can be sent to customers reminding them to buy another one. Also, offering compatible products can provide value for customers and is considered helpful and personal. Providing valuable content and offering that corresponds to customers' everyday activities and interests would keep them committed.

Redesigning the customer journey and creating an engaging flow are suggested for achieving it. Also, gamification plays a significant role in conducting personalization activities. It drives loyalty by giving customers a reason to engage, feedback, and reward for

their achievements [15]. Gamification allows setting up special rewards for specific behavior. Creating a challenge for collecting a specific number of products from customers' regular baskets engages them more and makes them buy repeatedly.

In the end, it is concluded that every opportunity starts with customer data. *Super Kartica* has a rich database which represents a significant competitive advantage. This loyalty program should design the activities with the optimal utilization of every input provided by customers. By further personalizing the recommendation model and extending the personalized approach, mutual values for customers and retailers would be generated.

## 6. CONCLUSION

With the ability to track customers' frequency of purchase, brand preferences, and purchasing habits, retailers are given the opportunity to optimize customers' purchase paths and gain their loyalty. In order to implement personalization into engagement strategy more efficiently, different tools are adopted. Retailer Mercator-S recognized the potential of personalized targeting and the integrated recommendation system in the loyalty program *Super Kartica*. Loyalty cards are used as an instrument that enables generating customer insights, used for executing promotional campaigns. The campaign results show significant change when using personalized offers. Selected case analysis proved the power of having granular insights on customer behavior and (re)using the information to improve customer value proposition over time. An effectively established personalization strategy is a foundation of sustainable competitive advantage [4]. The findings suggest that a selected retailer utilizes its rich database to increase the affinity of customers to shop in their stores and boost loyalty. With customers buying more and becoming more loyal, they leave transactional data which represents an input for the recommendation model. On the other hand, improving the recommendation model and personalizing the offer boosts loyalty and drives sales. Therefore, there is a significant relationship between personalization and loyalty, where one increases another.

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