

COMARCH



HOW AI PERSONALIZATION DRIVES CUSTOMER LOYALTY

The Future of Loyalty Marketing



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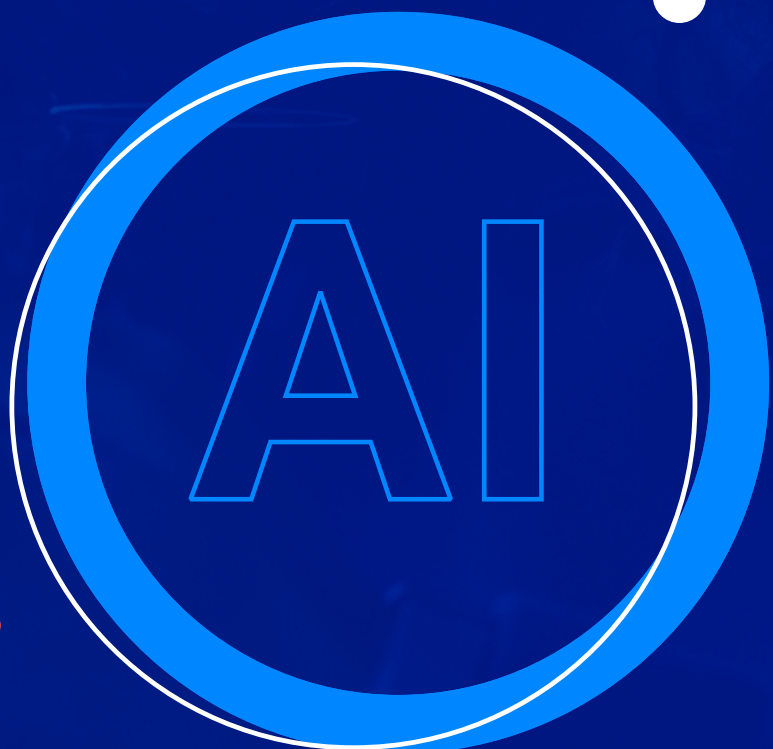
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In today's competitive business environment, customers have more choices than ever before. What's more, it's no longer just about the quality and price of a product; it's also about the quality of the service and the customer's attachment to the brand. This is where personalization comes in, as one of the key aspects of building loyalty and engagement. Its further development has led to the recently popularized hyper-personalization based on AI. Artificial intelligence enables the analysis of large databases, resulting in the delivery of even more personalized recommendations. However, the most important aspect of all this is maintaining authenticity and sincerity, as customers want to feel like they are more than just a number. How can you leverage AI-based hyper-personalization to establish friendly relationships with your customers?



1. The Importance of Personalization in Loyalty Marketing

Personalization is one of the key factors in the overall customer-centric approach, which is why it plays a crucial role in loyalty programs. It helps build lasting relationships with customers and enhances positive customer experiences, thereby increasing customer engagement.

Personalization is currently mainly based on the use of the latest technologies such as Artificial Intelligence and Machine Learning. Such personalization includes **tailored offers, advertisements, communication styles, personalized rewards, and even the timing of communications sent to the customer.**

When done right, personalization leads to a better customer experience, increased customer engagement, and greater satisfaction. This leads to the creation of long-lasting partnerships based on mutual understanding, where the customer feels “known and valued” rather than simply used to generate profit. Increased customer loyalty results in the activation of existing customers and the reduction of customer churn, which translates into long-term, stable growth in sales and revenue.

2. From Mass Customer to Individual Person - The Evolution of Personalization

Personalization has evolved alongside marketing as a whole, and while it's hard to imagine marketing without it today, marketing didn't rely on it in the beginning. Back then, loyalty tools were simple and basic, and loyalty programs revolved around earning points for purchases. This superficial nature was a result of the level of technological development. Limited online customer presence, limited e-commerce platform development, and more frequent cash payments meant that companies couldn't gather enough information about their customers.

The next stage was segmentation and targeting, techniques that used basic criteria to identify specific groups of customers. The goal, however, was to reach groups of similar customers with certain characteristics rather than individual people.

Then the development of analytical tools, technologies and data collection methods came into play. **Today, marketers have access to analytical tools and various data, such as purchases made through e-commerce platforms, location data, customer behaviors and characteristics, daily routines, preferences regarding messages and other marketing communications.**

The most significant breakthrough and current trend in personalization is AI and Machine Learning-based personalization. It enables companies to analyze individual customers, understand their behavior, and suggest the best possible options and personalized experiences.

Now, we are entering the era of hyper-personalization, where advanced algorithms are used in real time to deliver even better experiences and a more personalized approach, resulting in even better customer relationships.

No personalization



← Non-targeted customers

Segmentation and targeting



Offer A

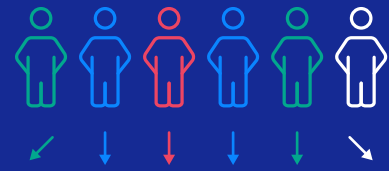
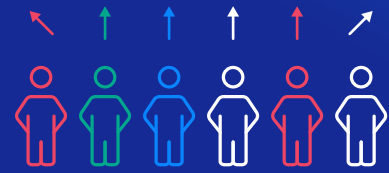
Offer B

Offer C

← Targeted customers

Hyper-personalization

Hyper customized offers

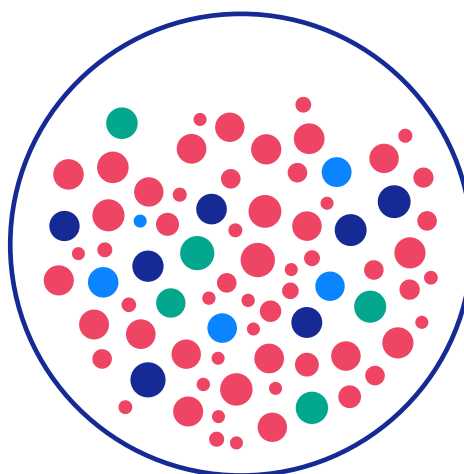


Hyper customized offers

3. Generic Ads Don't Work Anymore – Understanding Personalization in Loyalty Programs

Personalization in loyalty programs is all about providing customers with actions and offers based on their preferences and real needs. It's also about communicating with them in a way that suits them, at a time that suits them, and offering rewards that they are truly interested in. In fact, this is so important that **3 out of 4 customers (76%¹) say they are frustrated by non-personalized content.**

From the customer's perspective, the most important aspect of personalization is that it makes them feel special, heard and valued. As a result, brands should focus on delivering the best possible experiences and building individualized relationships that are more friendly than transactional. If these efforts are executed correctly, customers will naturally become more engaged in the relationship



76%

customers say they are frustrated by non-personalized content

¹ <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying>

Demand for Personalization

Loyalty programs need to be personalized because that's what customers demand. In fact, **52% of them² say they simply won't read a message that doesn't feel personalized**. Even more eye-opening, **a significant 72% of customers² won't engage with any other type of content that isn't personalized**.

In addition, properly implemented personalization leads to significant revenue growth, as accurate and relevant messages **can increase customer loyalty and boost profits by as much as 10 to 40 percent³**.

Customers also **expect relevant product and service recommendations, with 2 out of 3 customers (67%³) expressing this desire, as well as targeted promotions (65%³)**. These recommendations should be based on past activity and tailored to the subsequent needs of customers who have exhibited similar behavior. It's also valuable to be a partner that reminds and celebrates successes with customers, **as 61% of customers want to celebrate their milestones**.

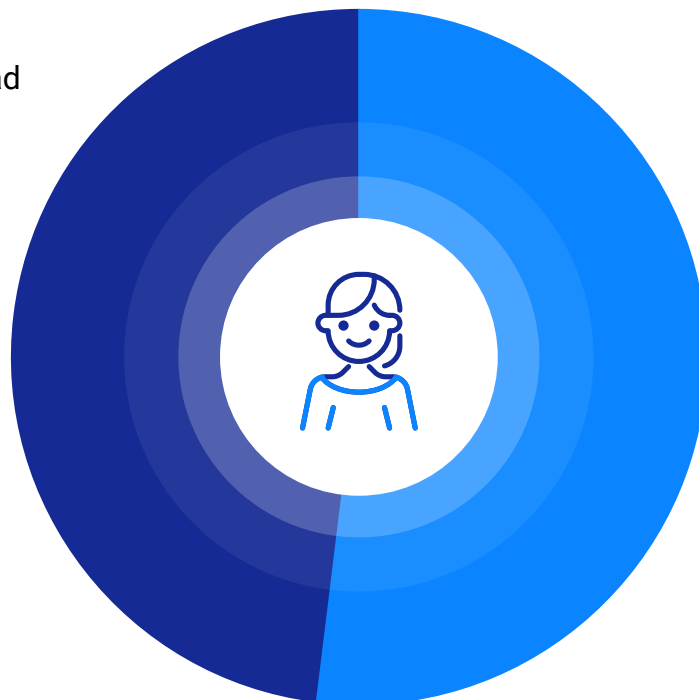
Customers' expectations are clear. They do not want to feel like one of many customers, but rather like a partner who receives the full attention of the brand that wants to build a relationship with them and use the information gathered.

It's also important to be sensitive, as otherwise the company runs the risk of making the customer feel invaded and overly monitored.

Therefore, it's safe to say that loyalty doesn't exist without personalization, as its foundation lies in building genuine relationships with personalized rewards, communication and an individualized approach.

52%

customers won't read
a message that
doesn't feel
personalized



² <https://instapage.com/blog/personalization-statistics>

³ <https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying>



Personalization Without AI - Why is it So Challenging?

There's no doubt that personalization is an excellent tool. However, it has its drawbacks and limitations. To fully leverage its potential in delivering unique experiences to users and generating personalized recommendations in real time, marketing specialists need to process large amounts of data. This, however, is a challenging task that requires significant effort and is impossible to achieve manually without the proper implementation of AI and Machine Learning algorithms.

It is important to note that personalization should not come at the cost of authenticity and sincerity. Customers want to feel like they are more than just a number, and businesses must strive to build genuine relationships with their customers.

AI personalization is the future of loyalty programs. With the vast amount of data available to businesses today, it is essential to leverage algorithms to analyze and make use of this data. By doing so, businesses can deliver hyper-personalized experiences to their customers, significantly increasing engagement and loyalty.



- Maria Wróblewska, AI Product Owner at Comarch

Business Benefits of Personalization

In today's competitive environment, where elements such as price, quality, customer service, and delivery time are expected to be top-notch, personalization helps companies gain an edge over the competition. Well-executed personalization can:

- Increase the number of purchases from existing customers,
- Increase Customer Lifetime Value,
- Enable cost savings as it is easier and less expensive to retain a customer than to acquire a new one,
- Improve customer satisfaction by making them feel valued, appreciated, and understood,
- Increase customer engagement across multiple communication channels by leveraging omnichannel marketing and reaching customers through social media, email, and push notifications in applications.

4. Hyper-personalization - The Future is Now

We are on the point of a marketing revolution that will take personalization to a new level. Hyper-personalization is an approach that more and more companies are embracing, and those that do not, may soon find out the hard way how it impacts customer relationships.

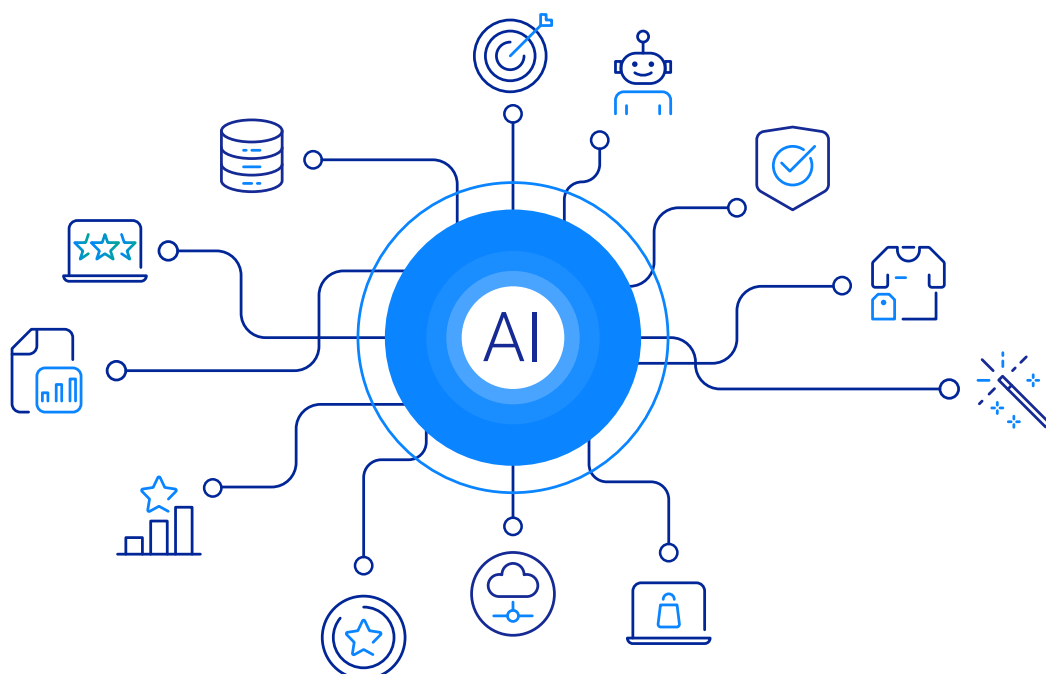
What is hyper-personalization? In essence, it's an approach that takes personalization to the next level:

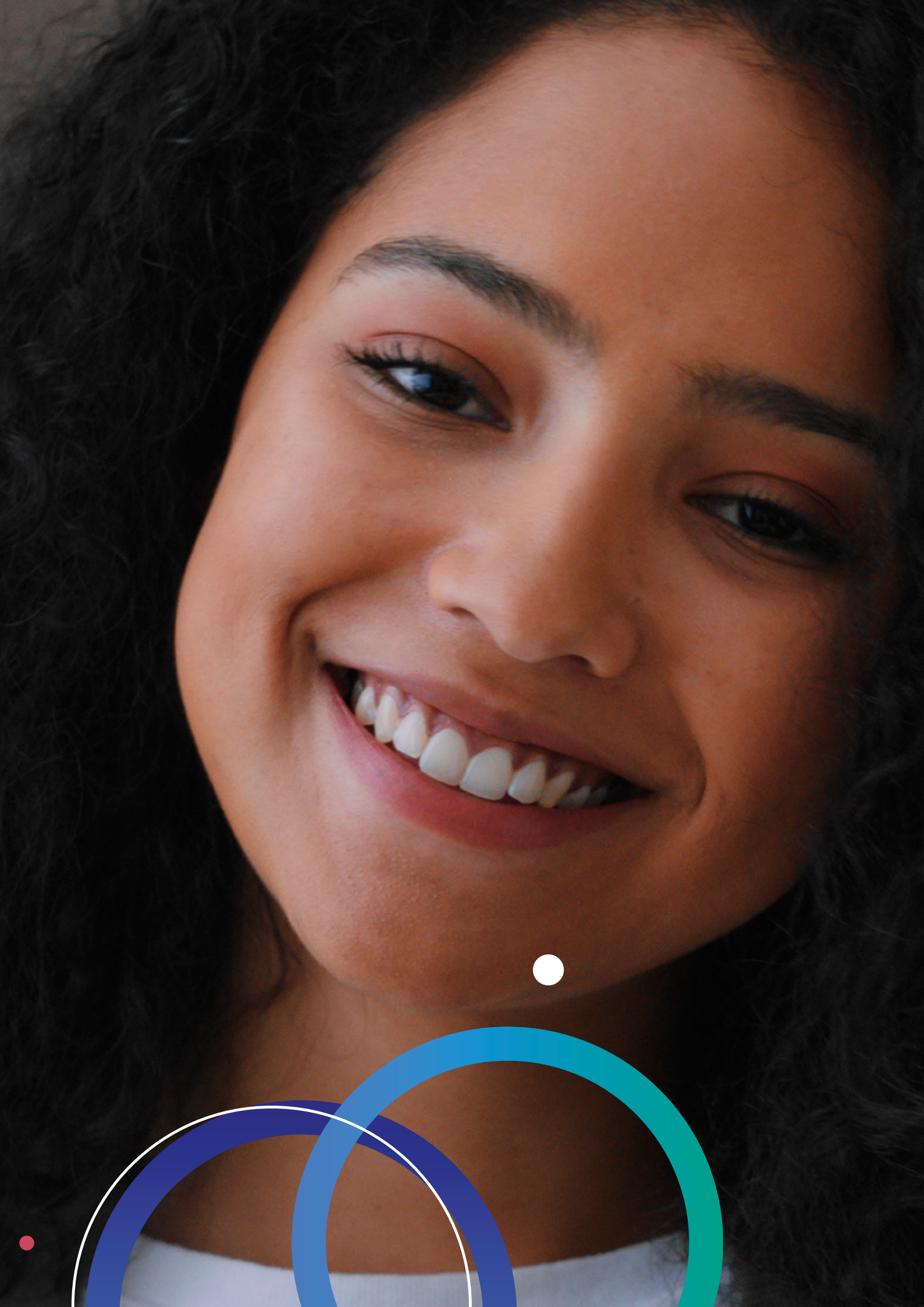
- It includes perfectly tailored messages with the right emotional tone and level of directness,
- It delivers precise product recommendations and promotions,
- Correspondence is tailored to the customer's preferences and lifestyle,
- Loyalty program rewards are aligned with the customer's interests.

Hyper-personalization relies not only on customer information but also on other types of data to present the best possible offer or content to the customer in real time. This approach uses a variety of contextual data, such as **weather information, location, the customer's recent purchases, and the company's capabilities**. For example, companies can estimate a customer's future spending and deliver promotions that offer the best price for the customer while avoiding losses for the company.

5. The Point of No Return - Why Implementing AI/ML to Improve the Member Experience is the Future of Marketing?

We've reached a point where we have access to an enormous amount of information. This is fantastic news on one hand, because as marketers we have unprecedented opportunities. On the other hand, **the reality isn't so bright because marketing has to learn how to make sense of this information**. This data includes customer transactions, app behavior, responses to emails, responses to social media posts, and other customer behaviors, as well as contextual information such as weather and customer location. However, the amount of available data is so vast that managing it requires the implementation and mastery of advanced tools.





This is where AI comes in. It is fed this data to extract different patterns and predict different events based on data that a human wouldn't be able to process. This is known as training. Implementing AI/ML allows for a better understanding of the customer and automation of tasks, freeing up humans to focus on creative work and actions that benefit the customer and their service.

AI is no longer merely a trendy buzzword; it is now boldly embraced by owners of loyalty programs. Brands possess vast amounts of valuable customer-related data that, without AI, can only be utilized to a very limited extent. No company has the human resources needed to become familiar with each customer on a truly personal level. That's where a robust AI-driven loyalty platform comes into play. As loyalty management experts, we are already achieving wonders in our clients' loyalty programs through the proper implementation of AI. However, we never rest on our laurels. The continuous development of AI constantly provides us with new ideas that we eagerly put into action. AI-driven loyalty programs are becoming so exciting!



- Marcin Przybylski, Loyalty Consultant at Comarch

6. How does Machine Learning apply to Loyalty Marketing?

Machine Learning is a vast discipline with many applications in fields ranging from marketing and commerce, to transportation and logistics, to medicine and scientific research. Here's how it can be used in loyalty programs:

- Deep Neural Networks - Artificial neural networks can process large amounts of data and automate data entry without human intervention.
- Product embedding - a natural language processing (NLP) technology that understands the meaning of words to better understand customer intent. This enables more accurate and tailored recommendations.
- Association Rule Mining - a technique for identifying associations between variables in large data sets. The Frequent Pattern Mining model uses Growth and Apriori association rule mining algorithms to better identify products that are often purchased together in individual transactions.

These machine learning applications automate time-consuming tasks previously performed by humans. Implementing them not only increases user loyalty and engagement, but also improves the management of skilled professionals' working hours.

7. Leveraging AI/ML models in loyalty programs

AI/ML algorithms can be applied to various aspects of business, automating tasks and helping to achieve better results.

Churn Prediction

Churn Prediction is one of the most critical indicators from a business perspective. It provides information about the percentage of customers who have stopped using a company's services or buying its products within a certain period of time. This factor can be calculated with a formula:

$$\text{CHR (Churn Rate)} = \frac{\text{lost customers at the end of period}}{\text{total customers at the beginning of period}} \times 100$$

The lower the churn rate, the better, and different industries may have different acceptable churn rates, but typically a rate in the 5-7% range is considered good.

But what if companies could prevent customers from churning? All the data needed to run a predictive model and verify this is already in their loyalty program databases. To determine the likelihood of churn for each customer, three questions must first be answered:

1. **What does an active customer mean to a given company - depending on the industry, it could be someone who makes a purchase once a month or even once a year.**
2. **How far in advance does the company want to know if the customer will be active - for example, 3 months in advance?**
3. **How often should the prediction of customer behavior be updated?**

Based on the collected data of known purchase behavior and demographic information of all members, the model finds the most similar cases and assigns them a probability of churn. If the churn rate is high for a large number of customers, it is a signal that specific changes need to be made.

Using this sample model, a company can build a segment of customers at risk of churn. To nurture them, the company can encourage them to purchase, for example, through a limited-time promotion. However, it is worth considering whether it is worth fighting for every customer at all costs.

Again, the answer is in the data. If you already have a segment of customers at risk of churn based on churn, you can combine it with the segment of members with the highest customer lifetime value, or with customers who are in the highest tier. From a business perspective, they are the most valuable and it is worth investing more in them because their loss will be the most costly⁴.

In the context of churn prediction, AI can play a critical role because it has access to many past customer behavior patterns and can identify in advance which elements (e.g., app interactions, shopping behavior) lead to churn. This prediction works by training the AI on the past behavior of customers who later churned, enabling companies to identify and prevent such behavior earlier.

4 <https://recurly.com/research/churn-rate-benchmarks/>



CLV Prediction

Another important business metric that AI can predict is Customer Lifetime Value (CLV). This factor helps companies manage long-term business strategy by better understanding customer relationships. Understanding this factor is critical because a small percentage of the most engaged customers can generate the highest profits for the company. It's important to identify who these customers are and then understand how best to reach them, nurture them, and deliver what they need.

So how to predict how many transactions and what value each customer will make in a given future and calculate CLV? Predictive models come to the rescue, based on historical values and similarities in customer behavior. For the model to work, it must be fed with the following information:

1. **The period for which the prediction applies, such as the next 3 months.**
2. **The time period from which the value is calculated - the starting point can be when the customer joins the program, the first purchase, or a specific date.**
3. **Dates and values of transactions from the start date.**

Based on this information, the value of all transactions from the start date to the end date is summed up, as well as their frequency, and a forecast is made for a specified period in the future. That's how the CLV is determined. In addition to the numerical value assigned to each member, the model can also calculate the trend and mark the CLV as increasing, stable or decreasing for each customer.

With the prediction assigned to each customer, we can start using them. The well known and often quoted Pareto principle in the context of CLV tells us that 20% of customers bring up to 80% of profits.

CLV Prediction helps find these customers and tells you where to focus your efforts. To maximize profits, companies should strive to:

- **Maximize average order value (AOV),**
- **Increase average transaction recency,**
- **Increase customer retention.**

In addition, a 5% increase in customer retention can increase profits by 25% to 95%⁵. To maximize this value, it's necessary to identify those with the greatest potential and invest in those who are shifting from "stable" to "growing" habits, thereby increasing the company's revenue.

Product Recommendation & Next Transaction Prediction

Product recommendations are typically made based on actions such as "customers who bought XYZ also bought ABC" or "customers like you will also like XYZ".

How are these recommendations selected? The recommendation model searches the database for people who are similar to the given customer in terms of demographics and purchase history. It's a system of filtering existing data, supported by ML and other advanced algorithms, that suggests potentially interesting products based on previously collected data.

In this setup, the model looks for products that match the individual's data, but it's also worth considering other possible applications and paying attention to matching customers with the products the company offers. To do this, the algorithm looks for associations between products in the database and checks which products are purchased together.

For example, if a customer buys a belt, the algorithm knows that such a purchase is often associated with the purchase of pants. So to sell pants, it's necessary to find customers who bought belts and offer them pants.

A similar tool is Next Transaction Prediction, which is responsible for predicting the time of the next customer transaction and the contents of the next basket. To make appropriate recommendations, the system reviews past transaction histories.

Both Product Recommendation and Next Transaction Prediction are not just about a specific product a customer is interested in. Rather, they are about determining the customer's entire lifestyle and needs, and then creating sets that appeal to them. For example, a rain jacket purchased for hiking would generate different recommendation sets than a rain jacket purchased for biking to work in the fall.

Send Time Optimization

This factor is critical to increasing email open rates and effectiveness. However, determining the appropriate send time for each individual customer is challenging because each customer has a different lifestyle and communication needs.

By analyzing customer behavior, it's possible to tailor the timing of messages to determine when the customer is most likely to open and click on the link, resulting in a conversion. In addition, by knowing other customer behaviors, Send Time Optimization (STO) can be used to send emails with offers that the customer is likely to take advantage of soon, at the time when they are most likely to open the message and consider making a purchase.

Such actions not only help companies improve customer relationships, but also save money by achieving better campaign results without increasing costs.

Loyalty Fraud Prevention

Loyalty Fraud is a term used to describe the exploitation of technical loopholes in loyalty programs, often resulting in disproportionate benefits to the customer compared to the amount spent in the store.

The application of AI/ML solutions in this area involves detecting anomalies in large data sets and ensuring continuous monitoring of the system. Factors such as proactive and holistic monitoring for suspicious behavior by analyzing system logs, API facades, and surrounding metadata are observed, further enhancing the ability to detect anomalies.

5 <https://hbr.org/2014/10/the-value-of-keeping-the-right-customers>

8. Implementation Strategies for AI/ML in Loyalty Programs

Implementing AI and ML in loyalty programs is a complex process that requires careful planning and execution. What needs to be considered?

Collecting, Storing and Preparing Data for Analysis

The process of collecting and preparing data is a fundamental stage of the entire personalization process, as information about customer behavior is the basis for successful actions. To unlock the full potential of data analytics, it's important to develop high standards for data collection, processing, and preparation.

It's also important to remember that large customer data sets may contain a lot of confidential and sensitive data that must be stored in accordance with personal data regulations.

Specialist Support in the AI Training Process

AI models can replace humans in performing repetitive tasks and working with large data sets. But it's important to remember that they're not just ready to go. They still require proper training and programming to deliver the expected results, which will translate into long-term benefits for the organization.

Proper training requires experienced specialists who understand not only how AI works, but also the needs of the specific business.



Testing, learning, and adjusting

Like any change, implementing AI requires continuous testing, updating, and making necessary adjustments. It's important to have an expert overseeing the AI's operation, evaluating its performance, making adjustments as needed, and suggesting new areas of development tailored to the organization's business needs.

Leveraging the services of an experienced provider

Implementing AI in a loyalty program is a task that not only can require a lot of work, but also requires specialized expertise in algorithm training and infrastructure for data storage and analysis. That's why it pays to enlist the services of an experienced loyalty service provider to handle the entire process, ensuring that your company's resources are focused on development and customers.

Marketing has always been the sum of two components: a) the exchange of something (Y) for something else (Z) and b) creation and innovation. As positive marketing stewards for an innovation like AI, which will undoubtedly enable consumers and brands to make more relevant exchanges on an individualized basis, we must be prudent to walk before we run. Testing and learning environments with customer-oriented safeguards in mind first will allow us to not follow in the footsteps of negative experiences from what were originally positive innovations, such as telemarketing calls, website interstitials (pop-ups), short message service (SMS) advertisements and in-app advertisements.



- Aaron Dauphinee, Chief Marketing & Business Development Officer
at The Wise Marketer



9. AI hyper-personalization as a direction for the development of loyalty marketing

The future of loyalty marketing is closely tied to hyper-personalization based on artificial intelligence and machine learning algorithms. This technology will help to bring personalization to an even higher level, providing many benefits to companies in every aspect of their operations, from building relationships with customers through optimizing actions and reducing costs associated with marketing activities, to ultimately maximizing profits.

Discover how Comarch can help you!

Regardless of the industry you operate in, one thing is certain - building relationships with customers is absolutely critical to achieving business success. Find out how Comarch can help you develop your business and take your loyalty program to the next level using AI and machine learning.

Want to know what we can do for you? Contact us and our experts will present you with the perfect solution for your business!

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