WHITE PAPER

Join the 40% growth club with AI-powered, personalised loyalty

Find out how the retail industry’s loyalty leaders are supercharging their profitability

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Executive summary

Pushed for time? Here's what you need to know.

- Today, there's a demonstrable +43% profit opportunity for retailers that invest in loyalty and personalisation.
- That growth is driven primarily by improvements in customer-centricity, as shown by the Retailer Preference Index — one of dunnhumby's international research programmes.
- In those studies, we frequently see that the better and more personalised a customer's shopping experience is, the more they spend with a retailer.
- However, the very nature of loyalty is changing. Advances in AI are powering rapid, and ever more sophisticated personalisation capabilities.
- To unlock the high end of that 43% profit opportunity, businesses need to keep pace with those developments.

How can your own organisation get ahead of the curve when it comes to AI-powered loyalty and personalisation?

Let's find out.

Standing at the edge of a new frontier

Retailers everywhere are facing margin compression. To defend against that many have focused on winning greater market share through loyalty (or membership) programmes. Margin protection is a volume game — in part, at least — and engaging members with enticing offers gives retailers a good chance of attracting more customers to the fold.

Naturally, there are varying levels of sophistication here. Some retailers are simply further along than others when it comes to the maturity of their loyalty and personalisation programmes. And nowhere is this more apparent than when it comes to the application of data.

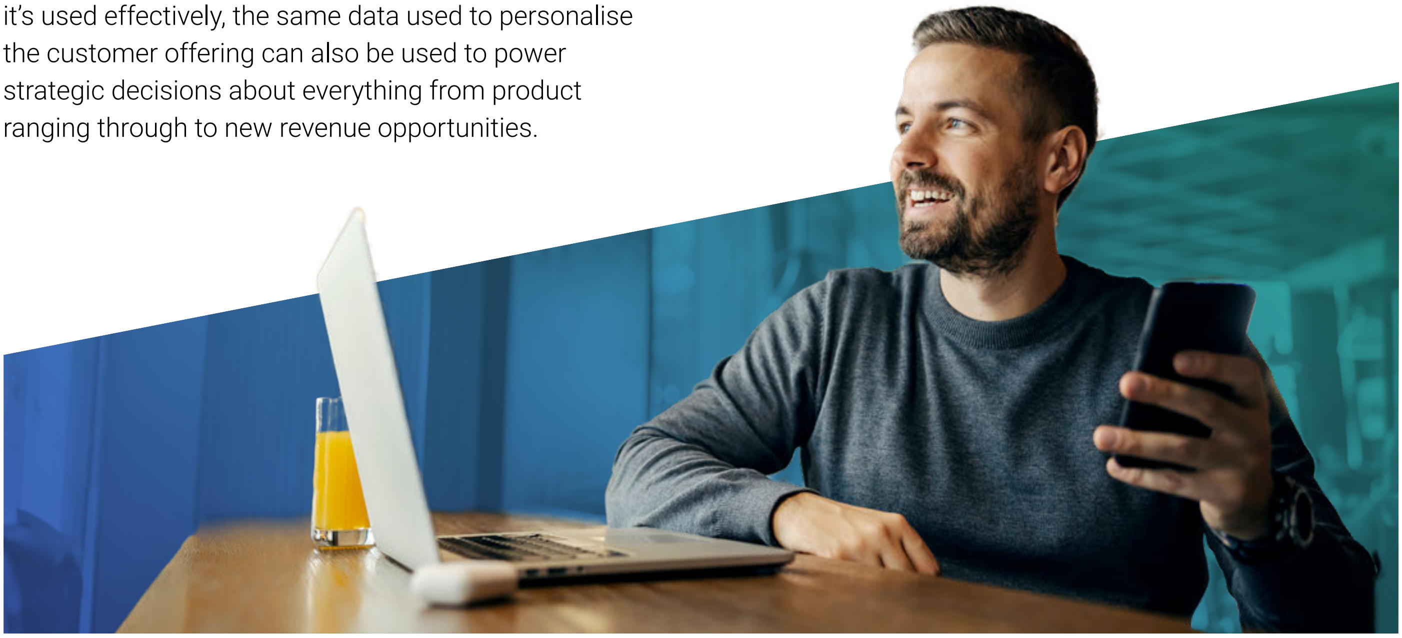
At the advanced end of the loyalty spectrum, for instance, data-driven personalisation is becoming a universal constant. Here, retailers are using the data generated by their membership programmes to power truly intelligent customer interactions — from personalised product recommendations through to tailored nudges and offers. In turn, they typically enjoy a stronger relationship with customers and see greater loyalty to boot.

This approach doesn't only offer benefits from a customer engagement perspective, however. The commercial incentives are equally powerful, with data-driven personalisation tending to have a similarly positive impact on sales. Moreover, when it's used effectively, the same data used to personalise the customer offering can also be used to power strategic decisions about everything from product ranging through to new revenue opportunities.

Data, and data-driven personalisation, has taken loyalty within the retail industry a very long way in a short space of time. Now, however, we're standing at the edge of a new frontier. One in which advancements in data science and artificial intelligence are making new kinds of personalisation possible. One in which the focus is no longer just on relevance — but on real time, automated, contextually aware, and always-on omnichannel customer engagement.

The opportunities here are significant. Our own analysis shows that retailers' profits can soar by as much as 43%[1] when fully embracing these advances — even from a standing start. In this report, we'll look at the economics of loyalty today, and what retailers need to do to set themselves up for a hyper-personalised future.

[1] *dunnhumby analysis of retailer P&L accounts, 2024*



Personalisation-powered loyalty drives growth: lessons from the US

The more retailers invest in personalisation-powered loyalty, the more they grow. A bold claim? Perhaps — but it's also one that's founded in hard evidence.

dunnhumby's Retailer Preference Index (RPI) is a major international research programme that has been running since 2018. At a general level, the RPI focuses on the complex dynamics of shopper preference and why customers choose to shop where they do. In our 2023 RPI for North America, though, we saw something else too: compelling evidence that personalisation and loyalty are now directly tied to a retailer's growth.

There are two factors at play here: word of mouth and share of wallet. And each has a specific impact on growth potential.

From a satisfaction perspective, the impact is mainly felt through onward recommendations. Simply, the more engaged a customer is by a retailer's membership programme, the more likely they are to recommend that brand to their friends and family. As can be seen in Figure 1, our 2023 Index tracked a direct relationship between customers' satisfaction with a retailer's loyalty programme and their willingness to recommend that store.

Stronger Loyalty and Personalisation correlates to customers' willingness to recommend your store

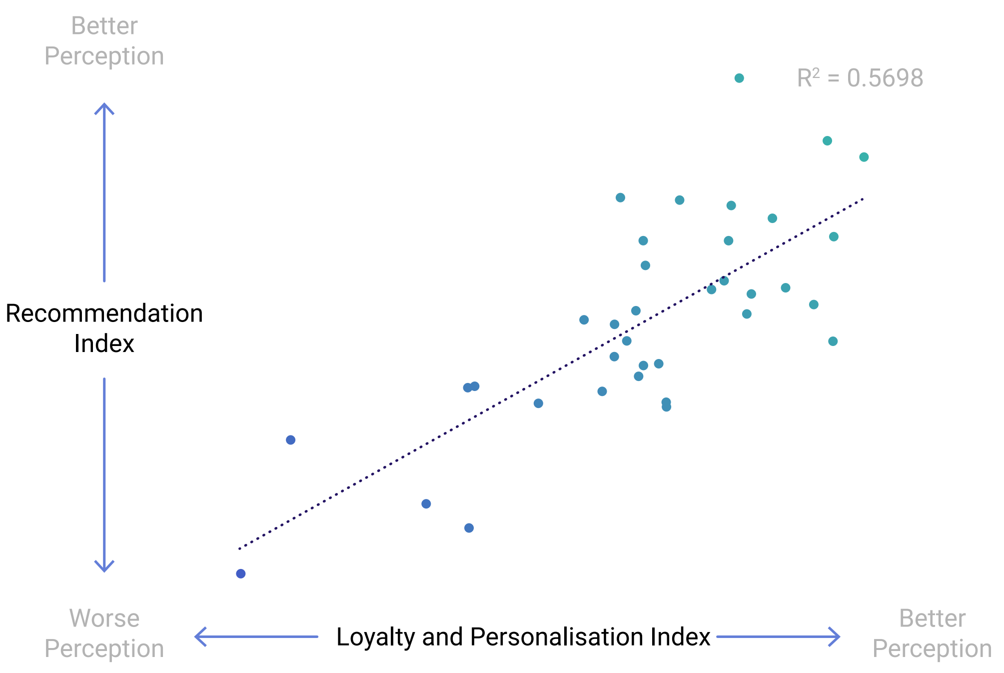


Figure 1: Retailers that score higher for their loyalty and personalisation capabilities are rewarded for it. Shoppers are much more likely to recommend them to friends and family.

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So, investing in personalised loyalty makes it significantly more likely that they will win new customers and increase their market share — but that's not all. Because the more satisfied a customer is with a retailer's loyalty and personalisation capabilities, the more they tend to spend with that brand too.

The chart in Figure 2 follows a similar trajectory to the first. Here, though, the focus is on share of wallet. Immediately, it's clear that retailers that excel at loyalty and personalisation tend to capture more of each customer's grocery budget too. In fact, supporting data gathered for this RPI suggests that share of wallet is 4x greater amongst retailers in the top 'loyalty and personalisation' quartile than those in the bottom.

Stronger Loyalty and Personalisation correlates to winning a greater share of customers' wallets

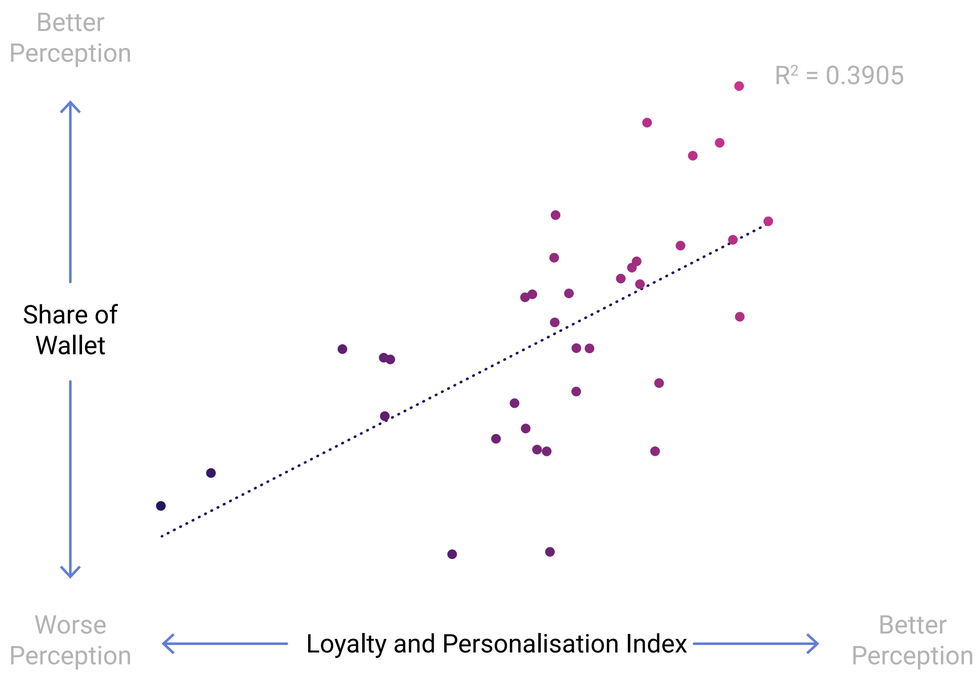

Figure 2: Excellence in loyalty and personalisation has an impact on commercial performance, too. Share of customer wallet is markedly higher amongst the market leaders.

While this data focuses on the US market, we see these trends playing out across our network of global retailer partners too. When personalised loyalty is at the heart of a retailer's strategy — and more importantly, prioritised for investment — the customer experience is enhanced. In turn, retailers find it easier to acquire new customers, keep their existing ones, and draw spend away from the competition.

Personalised loyalty is an undisputed driver of growth. Next, we'll look at what that means from an economic perspective.

The growth economics of personalised loyalty: grocery as a case study

Large omnichannel grocery retailers exhibit strikingly similar economics. The Cost of Goods Sold (COGS) typically sits between 70% and 80%, with EBITDA[2] margins in the region of 3%-5%. While these commercial dynamics might be relatively uniform, the maturity (or immaturity) of a retailer's loyalty proposition can actually have a significant impact on their fortunes.

Take what we refer to as loyalty 'Starters', for instance, retailers that demonstrate very basic loyalty capabilities. Not only are they heavily reliant on human-intensive processes, they also tend to operate undifferentiated 'earn-and-burn' programmes, where customers simply cash in their points for rewards. Starters often trail the market from a commercial perspective, with EBITDA in particular running lower than their peers.

At the next point on the maturity curve are 'Intermediate' retailers. Conscious of the fact that loyalty is a competitive differentiator, these organisations have invested in modern data science techniques and automated many of their loyalty mechanics. As a result, their loyalty offering tends to be significantly more sophisticated that those in the Starter category.

That sophistication has an onward impact on their finances. Intermediate retailers, for instance, see an average 1.2% contribution in direct sales through member generated revenue[3]. What's more, they also attract an additional 4.5% (average) revenue contribution by harnessing the power of member data in three areas:

i. Supplier funded member pricing and promotions.
ii. Insights and media monetisation.
iii. AI-powered assortment that uses customer relevancy as its base.

This combination — of a more sophisticated loyalty programme and operational decision making based on member data — tends to push Intermediate retailers' EBITDA margins towards the upper end of the industry range. Moreover, revenues tend to be around 4%-6% higher depending on how (and how effectively) member data is being used.[4]

At dunnhumby, we have been helping major retailers around the world realise these benefits for decades, through advanced loyalty programmes and data science. Now, however, we are working with many of them on what we believe is the next frontier in loyalty and personalisation.

The foundations of this new frontier are based on two things: major advances in personalisation science and automation capabilities. Retailers that harness that joint potential will come to dominate the market by delivering hyper-relevant experiences at every touchpoint. They will tap into the power of always-on, context-aware AI that's capable of connecting individual customers with relevant engagements in real-time.

What does that mean in practice? The ability to engage customers based not on a generalised understanding of their needs, but in a nuanced and reactive way that wraps around the patterns of their life. For instance:

- Personalised offers or recipe suggestions sent via mobile notification on the morning of their weekly shop.
- Real-time website customisation that responds to a customer's preferences as they shop.
- A personalised loyalty scheme that offers specific redemption opportunities based on an individual member's interests.

[2] *Earnings before interest, taxes, depreciation, and amortization*
[3] *dunnhumby analysis of retailer P&L accounts, 2024*
[4] *dunnhumby analysis of retailer P&L accounts, 2024*

In this sense, the very nature of loyalty is expanding beyond the membership programme itself. Loyalty is becoming the strategy. It is becoming a way for retailers to harness personalisation and engage members with the most relevant elements of their brand offering — all tailored to the context of the individual interaction.

Again, there are commercial incentives at play. By making shopping experiences more personalised, retailers can also help to make them easier, quicker, and more intuitive for customers. In turn, that typically leads to larger basket sizes, greater loyalty, and spend being moved away from the competition.

It's here that we need to turn our attention to a third group of retailers: those whose loyalty offering can best be defined as 'Superior'. Fully embracing advanced personalisation science and sophisticated automation capabilities, these retailers are rewarded with significant improvements in their commercial performance.

For Superior retailers, revenues are higher by 5%, and EBITDA higher by 9% when compared with those in the 'Intermediate' bracket. And, against 'Starter' retailers, the differences are even more pronounced. A Superior retailer's revenues are typically 10% higher than a Starter's — with the gap in profit margins exceeding 43%.[5] These comparisons are visualised in Figures 3 and 4.

Revenues higher by 10% for Superior Retailers vs Starter Retailers

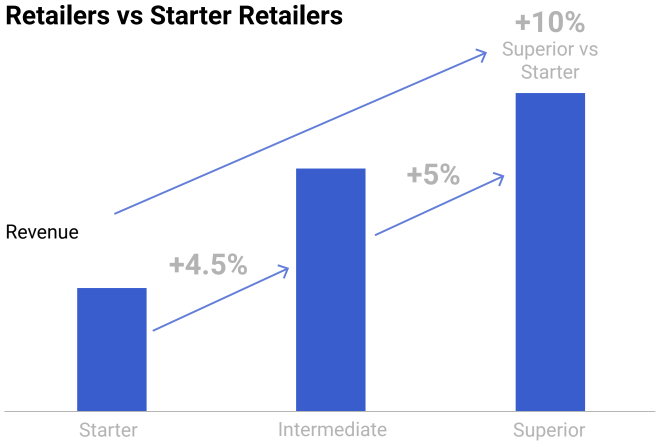

Figure 3: Retailers investing in loyalty can benefit from +10% higher revenues. Superior retailers — those who fully embrace advanced personalisation science and automation are seeing the biggest benefits.

Profits higher by 43% for Superior Retailers vs Starter Retailers

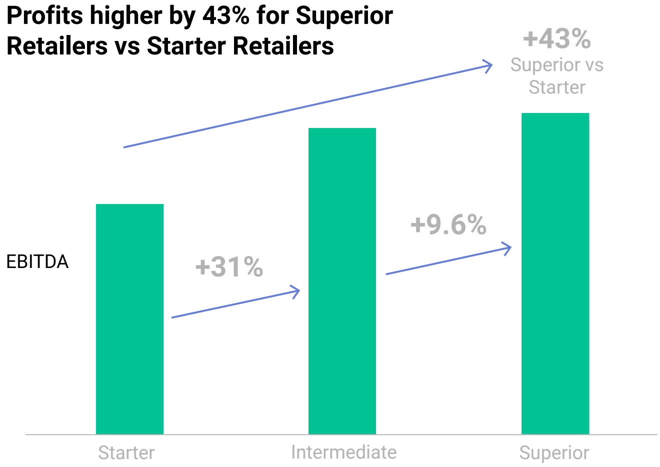

Figure 4: Superior retailers benefit from significantly higher profits, too. On average, Superior retailers have a profit margin that is 43% higher than Starter organisations.

While the benefits of personalised loyalty are clear to see, the majority of retailers today remain tied to traditional approaches and techniques. The new frontier is on the horizon, but few have begun to explore it.

The good news is that this no longer needs to be the case. The capabilities now exist that can help retailers leapfrog the competition — and put next generation customer engagement at the heart of their strategy.

[4] *dunnhumby analysis of retailer P&L accounts, 2024*
[5] *dunnhumby analysis of retailer P&L accounts, 2024*

Making it real: how to deliver on loyalty's new frontier

The greater the sophistication, the greater the complexity. Delivering personalisation-powered loyalty is a challenging endeavour, one that's fraught with multiple points of potential failure. Among the issues that retailers will need to consider are:

- Integration of multiple data sources, supporting analytics and personalisation across all customer touchpoints.
- The creation of insight-led strategies that can unlock potential from the right tools and technologies.
- The application of AI, to target and optimise communications to customers.
- Aligning the organisation around the customer experience.

In short, this is a complex transformational enterprise—one that cuts across traditional organisational siloes.[6,7] It's hardly surprising then, that according to one study by Adobe, only 16% of retailers have achieved the 'best-in-class' target of personalising >75% of customer journeys.[8] The opportunities may be growing bigger, but so too are the barriers to entry.

This is where the power of partnership becomes clear. Retailers might have been able to create a base level of CRM capability with self-built, in-house solutions, but development costs are spiralling — particularly when it comes to next generation personalisation solutions. Partnership gives retailers the chance to tap into the potential of next-generation personalisation science and AI, without burdening themselves with the associated infrastructure costs.

Naturally, choosing the right partner is critical. Not only must that organisation understand the retail industry, it also needs to have the skills required to bridge customer, business, and technology needs while also being a master in the art of personalised loyalty AI and automation. While some organisations profess to have these credentials, very few can back it up with the industry-specific knowledge needed to truly excel in this space.

[6] *https://www.bain.com/how-we-help/the-art-and-data-science-behind-effective-customer-personalization/*
[7] *https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/the-value-of-getting-personalization-right-or-wrong-is-multiplying*
[8] *https://business.adobe.com/blog/basics/retail-personalization*

Even when they have that partnership in place, the focus for retailers should be on taking manageable, pragmatic steps. Delivering value fast will help to build the organisational confidence required to continue on the hyper-personalisation journey. In practice, that could mean starting out with more tactical applications, such as:

1. Leveraging one-to-one, hyper-personalised communications and offers

Start by turning needs into visits—and driving spend to your store. Single out those customers who have the greatest chance of visiting within the next week, and the products they're most likely to buy. Send them an email and app notification with relevant product offers a couple of days beforehand, giving them a good reason to visit you over the competition.

2. Boosting footfall into store with location based, time bound personalised offers

Here, the objective could be to drive lapsed customers into store — or convince existing customers to make one extra visit that week.

3. Personalising the online browsing experience through real time relevancy

This could mean changing the products featured in a carousel in response to browsing behaviour. That tactic can then be augmented with linked product recommendations based on visual search or relevancy scores. Each can be presented at a different stage of the customer journey, such as checkout or specific product pages.

As simple as these use cases may seem, they are practical demonstrations of the power of real-time, context aware, predictive AI and automation. They speak to the importance of understanding the relevancy of different offers on different products for different customers, while also driving urgency and channel specificity. Most importantly, they are easy to measure — which provides much needed proof that you are heading in the right direction.

The path to unlocking >40% growth is clear. Retailers that invest in personalisation-powered loyalty now will reap the rewards. Not only will they carve out a clear point of differentiation against the competition, they will earn the long term loyalty of their customers too. And that, more than anything else, is worth making the journey for.

Visit dunnhumby.com/contact for more information on how to start your loyalty and personalisation journey.

Results in this study are based on a combination of sources. These include:

- **dunnhumby's 2023 RPI for North America (August 2023, 8,993 US grocery shoppers across 36 retailers).**
- **Proprietary analysis of the Profit & Loss accounts for a number of retail partners around the world.**

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