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GOING BEYOND DISCOUNTS
LOYALTY TRENDS IN ITALIAN RETAIL

The Italian grocery retail sector is facing increasingly complex management challenges in the face of supply chain pressures and the need to maintain competitive prices without sacrificing margins. The analysis of Loyalty Programs (LPs), supported by international benchmarks, makes it possible to identify virtuous paradigms for strengthening customer loyalty, using advanced technologies and incorporating sustainability into loyalty strategies. Proper measurement of KPIs and long-term loyalty management also emerge as critical success factors to ensure ongoing customer engagement and to align loyalty programs with business objectives.

RETAIL//LOYALTY MANAGEMENT//LOYALTY PROGRAM//ARTIFICIAL INTELLIGENCE//SUSTAINABILITY

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In an economic scenario characterized by high levels of volatility and complexity, the consolidation of customer relationships is the only viable strategy for retailers to meet new challenges in business and operational processes and to fortify their role as a point of reference for consumers. In this context, the brand becomes a tool for minimizing uncertainty, especially in the grocery sector, where the frequency of interactions with customers enables retailers to develop valuable relationships. To reduce the risk of losing customers, building trust becomes essential. One way to do this is with loyalty programs (LPs), which have always been a key component of the retail mix in the grocery sector.

LPs today must reflect a new concept of loyalty arising from the interplay of several macroeconomic phenomena affecting the entire supply chain: political instability that impacts the price and supply of raw materials and energy; demographic trends that favor the emergence of new market segments; climate change that challenges established B2C and B2B practices; unequal distribution of wealth that progressively polarizes markets; and inflation, albeit at a slightly lower rate, and interest rate trends that continue to erode household purchasing power.

These macro dynamics are also intertwined with changes at the consumer level, such as a greater propensity to save and a constant search for the best value for money, a renewed desire for socializing and sharing, a growing attention to health and wellness, an enhanced sensitivity to sustainability, higher expectations for personalization, and greater appreciation for co-creation. These characteristics outline the profile of a modern – more attentive, informed and aware – consumer, which are inevitably reflected in the distribution behavior of retailers and the purchasing decisions of the end market.

PRIVATE LABELS, DISCOUNTS AND LOYALTY

In recent months, inflation has taken a turn for the better. In the grocery sector, this has largely been driven by private labels (PLs), which are clearly pursuing the mission of making grocery products more affordable for Italian households. This clear choice has allowed PLs to gain market share, reaching 22.3% in 2023 within hypermarkets, supermarkets and self-serve stores, and 31.5% at the total/omnichannel level (NielsenIQ, 2023). The evolution of retailer branding shows strong consistency with assortment polarization: by mid-2024, more than 50% of grocery sales were attributable to extreme price points. In parallel, discounters were experiencing a period of notable progress, establishing themselves as the fastest-growing format from 1998 to 2023, winning 23% market share (NielsenIQ, 2023) thanks to a focus on value that balances experience and convenience. The success of discounters is highly consistent with the end market's focus on promotions, confirming the central role of such initiatives in retailers' strategies.

In this context of intensifying pressure on value, the retail sector (food retail in particular) is at the forefront of absorbing and managing the complexity of the supply chain to satisfy an ever-more demanding customer base. Consumers expect retailers to act as buffers to mitigate the impact of economic stress. In fact, according to a recent survey by Capgemini (2023), 78% of consumers say they feel more loyal to companies that offer support during difficult economic circumstances such as periods of high inflation. This finding confirms that retailers are perceived by consumers not just as suppliers, but as true partners capable of lending a hand during the most critical times. In addition, companies that can effectively tackle these difficulties without passing the full cost on to consumers tend to gain a competitive advantage.

In this scenario, loyalty programs are emerging as strategic levers for improving customer relationships, offering not only economic advantages, but also experiential and value-added benefits. Personalized offers and technological innovation are critical tools that allow retailers to reinforce the relationship of trust with their customers, partially absorbing external shocks without compromising perceived value. This priority is reflected in the projected expansion of the loyalty management market, which is estimated to expand at a compound annual growth rate (CAGR) of 17.3% over the next five years (from $11.4 billion in 2024 to $25.4 billion in 2029), reflecting companies' shaper focus on more personalized loyalty strategies based on advanced technologies that can deliver tailored experiences to shore up customer relationships.

The origin of this focus is clear: loyalty program members generate between 12% and 18% more revenue than non-members (Accenture, 2016). However, in 2016, only 19% of retailers used return on investment (ROI) as a metric to evaluate the success of loyalty programs. Given these premises, we saw a need to delve deeper into the topic in SDA Bocconi's Channel & Retail Lab, with the aim of exploring the current and future role of loyalty in the strategies of the main players in the Italian large-scale retail sector. Through 19 in-depth interviews with top managers in this sector, transcribed and processed using the Cognitive Maps technique, we were able to extrapolate their views on macro-environmental trends, loyalty management (also in a digital key), performance measurement, and the link between loyalty and sustainability. We integrated the resulting insights with international experience to identify critical success factors and causes of failure in managing loyalty strategies.

HOW LOYALTY MAKES A DIFFERENCE

Opinion leaders highlighted how international crises, particularly geopolitical ones, have put severe pressure on the supply chain, exacerbated by post-pandemic fallout and inflation. The latter, through its direct impact on companies' operating costs and pricing strategies, has squeezed retailers' margins and changed consumer behavior. In fact, now people are constantly hunting for cheaper alternatives. As a result, retailers must balance the need to offer competitive prices with the need to protect their margins to stay in business. In this scenario, the risk of churn is looming larger than ever. Loyalty programs, with their mission to boost loyalty by rewarding purchasing behavior, have taken on a critical role in differentiating brands and preventing churn, as the following international examples illustrate:

- **Tesco Clubcard (UK), Walmart Rewards (US)**, and **Carrefour MyCLUB (Middle East and Africa)**: During inflationary price rises, these retailers used their loyalty programs to offer members exclusive discounts and cash back on essentials, enabling them to save money on their shopping carts. This strategy enhanced loyalty and sales among program members looking to optimize their grocery budgets.
- **Lufthansa Miles & More (Global)**: During the pandemic, Lufthansa added new offers and benefits for Miles & More members, lowering barriers to entry and providing greater travel flexibility. This demonstrated attention to customer needs and helped maintain loyalty.
- **Starbucks Rewards (primarily US)**: Considered a leader in loyalty management, Starbucks Rewards introduced exclusive promotions for members during the pandemic, offering double points and customized discounts to incentivize loyalty even at a time of reduced non-essential spending. The company also streamlined order and pickup options using phygital tools, improving customer experience.

These cases demonstrate how loyalty programs can be used not only to maintain the customer base in times of crisis, but also to solidify the bond with customers and add value from a differentiation perspective.

DIGITIZATION AND LOYALTY MANAGEMENT

One of the factors that has the greatest impact on the effectiveness of loyalty programs, especially in the medium to long term, is digital. According to Channel & Retail Lab research, digital tools not only upgrade operational efficiency, but also allow for fine-tuned personalization and customer engagement. This is made possible by big data, which entails vast amounts of information about consumer behavior and preferences. These fine-grained data provide valuable insights that help retailers make more informed decisions and create tailored offers that meet (and sometimes anticipate) consumers' specific needs. This personalized approach not only boosts customer loyalty but also creates a deeper emotional connection with the brand, making the shopping experience more meaningful to the consumer.

Our study also highlighted the importance of adopting advanced technologies such as artificial intelligence (AI), which helps automate various processes within loyalty programs, improving their effectiveness and efficiency. Thanks to AI, retailers can identify patterns and trends in consumer behavior that are difficult to detect manually, and automatically segment customers to offer targeted promotions. In addition, AI-based chatbots and virtual assistants can improve customer experience by providing real-time, personalized support, augmenting satisfaction and operational efficiency.

However, with these new technologies, there is no shortage of challenges. Managing big data requires advanced technical skills, and companies often need to invest in training or hire staff specializing in data science and machine learning. Data protection is also a growing concern as consumers become more aware of how their personal information is being used. Therefore, to maintain consumer trust, retailers need to ensure privacy and implement effective security measures while complying with current regulations such as GDPR.

Finally, our research found that some retailers are struggling to accelerate the digitization process. Companies that fail to invest in digital infrastructure and skills risk losing ground to more innovative competitors. Digitization is an ongoing process that requires constant investment, not only in technology but also in staff training and business process reviews. The ability to fully exploit the potential of digitization and big data is a key competitive advantage for retailers looking to consolidate customer loyalty and improve their loyalty strategies. Internationally, there are particularly successful examples of the integration of digital dimensions and loyalty management that demonstrate the relevance of this combination. All of the following cases use data and AI not only to offer targeted and personalized promotions, but also to deliver emotionally engaging customer experiences:

- **Starbucks Rewards (primarily in the US)** has taken an innovative approach, combining gamification and personalization. The program rewards customers through a star accumulation system, offering rewards based on members' individual tastes. Starbucks' mobile app collects data on shopping behaviors and uses AI to suggest products based on customers' previous orders. In addition, members can earn stars not only through purchases, but also by interacting with the brand through games and exclusive content in the app.
- **Sephora Beauty Insider (US and Canada)** is an example of advanced personalization. The program leverages big data and AI to offer tailored product suggestions and offer personalized discounts. Gamification also allows customers to earn points that can be redeemed for exclusive rewards and VIB (Very Important Beauty Insider) benefits, such as early access to new collections. Sephora also collects feedback to continuously improve the loyalty offering, while AI optimizes inventory management, reducing waste and improving customer satisfaction.
- **Amazon Prime (Global)** has transformed the shopping experience through an annual subscription model and established itself as the benchmark for loyalty programs worldwide. Members have access to an ecosystem of exclusive benefits, including fast and free shipping, as well as premium services such as Prime Video, Prime Music, and Twitch Prime. Using big data, Amazon personalizes product recommendations and optimizes logistics to ensure efficient deliveries, strengthening the emotional connection with customers. Continuous innovation, including new and exclusive content, helps keep customer loyalty high.
- **Walmart+ (US)** is Walmart's answer to Amazon Prime, a membership program designed to deliver value to loyal customers. The retailer uses detailed customer data to offer personalized experiences such as free delivery, discounts on gas, and early access to promotions. The digital platform allows members to easily manage their membership and receive personalized offers based on shopping behavior.

In summary, through big data, AI, and gamification, loyalty management is transforming customer loyalty by increasing the personalization of benefits and experiences to strengthen the emotional bond between the store and the customer.

MEASURING LOYALTY PROGRAM EFFECTIVENESS

Companies use a variety of KPIs to monitor the effectiveness of loyalty programs, with metrics ranging from customer value and purchase frequency to retention and customer satisfaction. These metrics provide insight into how customers interact with the program and what their level of loyalty is. For example, customer value measures how much a customer spends on average in a given period, while purchase frequency indicates how often they return to the store to shop. These data are useful for identifying the most valuable customers and developing targeted strategies to retain them, with an emphasis on the behavioral dimension of loyalty.

Retention is another pertinent KPI that measures a company's ability to maintain its customer base over time, a goal that is often more economically sustainable than acquiring new customers. Penetration, on the other hand, shows the degree to which the loyalty program has disseminated, highlighting how successful it is in engaging the target market. Finally, adding a cognitive dimension to the behavioral one, customer satisfaction, measured through feedback and surveys, provides a snapshot of how customers perceive the value of the program and their propensity to remain loyal.

Getting the most out of these KPIs requires integrating them into overall business strategies and aligning loyalty programs with the company's strategic goals. Data quality and interpretation are key challenges to overcome, as is the need to evolve KPIs to keep pace with changing market dynamics. By analyzing the loyalty programs of major international retailers (including some of those mentioned above), it is possible to isolate the most frequently used indicators to evaluate their effectiveness:

- **Customer Lifetime Value (CLV)**: The average value generated by a customer during the period of program membership, factoring in not only purchases but also the use of related services; CLV helps to clarify the contribution of each customer over time.
- **Purchase**
  - **Purchase Frequency**: The number of repeat purchases made by program members using the loyalty card or LP benefits, correlated with loyalty and participation levels.
  - **Average Basket Size or Average Order Value (AOV)**: Average size of purchases made by program members compared to non-members, useful for assessing whether loyalty promotions are incentivizing increased spending.
  - **Average Spend per Member**: Average annual spend per member, often used to segment customers.
- **Membership**
  - **Penetration**: Percentage of active LP members out of the total customer base.
  - **Membership Growth Rate**: Reflects the success of acquisition campaigns.
  - **Retention Rate**: Percentage of customers who remain active LP members after a specified period of time, indicating the effectiveness of the program in retaining customers.
  - **Churn Rate**: Number of members who drop out of the program or fail to redeem points over an extended period of time, relative to the total number of members.
  - **Engagement Rate**: Members' active participation in events, promotions, and gamification activities, such as redeeming points and using rewards.
  - **Redemption Rate**: Percentage of loyalty points redeemed (or services used) relative to points earned (potentially usable), indicating how attractive the program is to customers.
- **Satisfaction and Word of Mouth**
  - **Customer Satisfaction Score (CSAT)**: Feedback collected through member satisfaction surveys and supplemented with purchase data to adjust offers.
  - **Net Promoter Score (NPS)**: The likelihood that a customer will recommend the brand to other people, one of the most popular metrics,

in part because of its correlation to revenue growth.

Each retailer selects and combines some of the above indicators according to their relevance in order to identify clusters characterized by internal homogeneity and external rejection. The most widely accepted model is RFM (Recency-Frequency-Monetary Value), but it completely neglects the attitudinal aspect which aims to detect the cognitive dimension of loyalty. In fact, today the measurement frontier is moving towards the integration of behaviors and attitudes for a more comprehensive market clustering that serves to nurture loyalty paths.

THE ROLE OF SUSTAINABILITY

Some informants highlighted how their sustainability and CSR initiatives are designed to achieve environmental and social goals, measured through tools such as social budgets. These practices have a positive impact on brand perception and customer loyalty, as consumers increasingly value brands that demonstrate environmental and social responsibility. As a result, many companies have integrated sustainability and CSR into their strategies to strengthen customer relationships by offering eco-friendly products or adopting environmental policies such as cutting down on the use of plastics.

Sustainability initiatives not only enhance brand image but also build loyalty as customers identify with shared values. By promoting LPs linked to sustainable causes, such as rewarding people for purchasing green products or participating in recycling initiatives, companies can solidify the emotional bond with their customers. In addition, digital platforms can serve to educate customers about sustainable practices, raising awareness and nurturing positive brand perception. However, some companies lack strategic integration between sustainability initiatives and loyalty programs, limiting the positive impact these initiatives can have on loyalty. To maximize the benefits, it is essential to strategically link these practices to loyalty programs, creating synergies that shore up customer engagement and promote a shared vision of social and environmental responsibility.

Internationally, there are inspiring examples of how companies are integrating sustainability into their loyalty programs:

- **H&M** has incorporated sustainability into its **H&M Member (Global)** program through **H&M Conscious Points**, rewarding customers not only for their purchases but also for their eco-friendly efforts. For example, members can earn points by bringing used clothing into stores for recycling. This approach incentivizes sustainable behavior and strengthens the relationship between H&M and environmentally conscious customers, aligning the brand with customer value expectations. In addition, members receive personalized offers based on their shopping behaviors and interest in sustainability.
- **Sephora** has launched sustainability initiatives in the **Sephora Beauty Insider** program **(U.S. and Canada)**, offering extra points and rewards for purchasing sustainable or certified eco-friendly products. The retailer also encourages customers to select products with reduced or recycled packaging and launched the **Clean at Sephora** line, supported by the **Planet Aware at Sephora** initiative. These measures substantiate its commitment to offering effective products formulated without certain ingredients (such as parabens, sulfates, phthalates and mineral oils), creating a true “free from” cosmetics line.
- **IKEA Family (Global),** the Swedish multinational’s loyalty program encourages customers to make sustainable choices by promoting eco-friendly initiatives, rewarding people who buy eco-friendly products or recycle old furniture, for example. Members can also benefit from discounts on environmentally friendly items and take part in special events related to sustainability.

- UK retailer **Marks & Spencer** has integrated sustainability into its **Sparks (UK)** loyalty program, rewarding customers who participate in recycling initiatives and buy sustainable products, and incentivizing support for local charities at the same time. M&S offers discounts and rewards to people who participate in its environmental and social campaigns, promoting responsible practices such as minimizing packaging and buying eco-friendly items.
- **Lush** has worked sustainability into its loyalty program through its **Bring it Back (Global)** initiative, which rewards customers with discounts for returning empty product containers for recycling. This practice not only reduces waste but also strengthens the company's bond with customers who support green policies.

In essence, sustainability can be interpreted as a brand's commitment to a better future. In fact, of all a company's strategic assets, customer loyalty is the most future centric. For this reason, the integration of sustainability and loyalty is a force with enormous potential for the economic and competitive value of any retailer.

CONCLUSIONS

Retailers today face increasingly complex management challenges amid supply chain pressures and the need to maintain competitive prices without compromising margins. At the same time, changing consumer expectations, which are more sharply focused on sustainability and personalization, require companies to constantly adapt their business strategies. Sustainable practices must be integrated into loyalty programs to respond to new market sensitivities. But to be truly effective, this move must follow a strategic approach that maximizes benefits. In addition, while digitization and advanced technologies such as big data and artificial intelligence offer new opportunities for personalization and automation, targeted investments in technical expertise and data security are also required to realize the full potential of these tools. Finally, proper KPI measurement and long-term loyalty management are critical to ensuring ongoing customer engagement and aligning loyalty programs with business objectives.

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