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THE LOYALTY MARKETING EVOLUTION IN GROCERY RETAIL: AN OVERVIEW ON THE ITALIAN LANDSCAPE, THE CASE OF MAGAZZINI GABRIELLI S.P.A

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ABSTRACT ITALIANO

Sin dal suo avvento il loyalty marketing ha svolto un ruolo determinante nell' acquisizione di informazioni sul consumatore e nel conseguimento di profitti extra, ma l'attuale fase di maturità dei programmi di loyalty ne sta inficiando l'efficacia portando il cliente ad essere meno fedele. L'elaborato intende fornire una panoramica esaustiva sulle attuali tendenze del loyalty marketing nell'ambito della GDO del settore grocery, in cui il loyalty marketing è stato sviluppato, con lo scopo di comprendere se adottare un approccio di tipo relazionale sia ancora una valida opzione per le aziende del settore e quali possano essere gli sviluppi futuri.

Per raggiungere tale obiettivo, il presente lavoro unisce un'ampia trattazione della letteratura ad una valutazione critica dello stato attuale del loyalty marketing all'interno della GDO Italiana del settore grocery. Quest'ultima è effettuata tramite una prima analisi desk dei programmi fedeltà attualmente in corso per i maggiori operatori ed un seguente caso studio del loyalty marketing applicato ad una realtà aziendale, quella di Magazzini Gabrielli S.p.A

ABSTRACT

Since its introduction, loyalty marketing has played a crucial role in obtaining customer knowledge and in ensuring extra profits, but the current state of maturity of loyalty programs is endangering its effectiveness by favouring customer dis-loyal behaviour. The objective of this work is to provide an exhaustive overview on the current trend in loyalty marketing in one of the industries that first adopted it, that is grocery retail, to understand whether it can still be a valid option to adopt such relationship marketing approach and what are the possible future developments of its implementation in this industry.

To achieve such objective, the work combines a structured review of the recent literature on the topic with a critical assessment of the current loyalty marketing state of the art in the Italian grocery retail industry. The assessment tries to consider both an external and an internal point of view on the topic through, first, a general desk analysis over the top players' current loyalty programs and, then, a specific case study of loyalty marketing in Magazzini Gabrielli S.p.A.

INTRODUCTION

In a context of evolving markets with a growing competitive pressure and fast-changing consumers' needs and behaviour, firms have to be ready to face new challenges and adopt innovative solutions. Being able to know customers at a deeper level and offer them what they are actually searching for is, therefore, essential to achieve the level of flexibility required by the market and survive. This is possible only if the firm adopts a relationship marketing approach that focuses on the whole customer lifetime value rather than on the single transaction.

Enhancing customer loyalty by means of constantly meeting customer's needs and establishing an emotional bond is crucial for firms to nurture the relationship itself and make it last. Nowadays, however, customers are extremely demanding, both in terms of products and platforms; it is, thus, essential to offer them what they want, whenever and wherever they want it, offering a flawless interaction on different touchpoints and driving customer loyalty across all of them.

As far as the grocery retail industry is concerned, it was probably the first industry to understand the value of establishing a relationship marketing approach and to develop loyalty marketing programs, but seems to lag behind in this field now, especially in Italy. In this industry, indeed, loyalty programs have reached a stage

of maturity, characterized by little differentiation and low propensity to innovate, with firms still using the valuable customer data they collect for macro-marketing purposes only. A question may arise: Is loyalty marketing still a valuable approach for grocery retailers and, if it is so, is there room for loyalty programs to start a new growth stage or are they destined to decline?

To answer it, the present work will try to offer an exhaustive overview of the topic proceeding from the macro-area of relationship marketing and deepening the analysis chapter by chapter until reaching the specific case of the loyalty marketing approach adopted by a firm of the Italian grocery industry.

The work starts in the *first chapter* with an outline of relationship marketing, describing the circumstances that led to its development and its main characteristics, stressing the value of a relationship for the parties involved and how a firm-customer relationship evolves.

The *second chapter* introduces the concept of loyalty marketing, addressing the different stages of customer loyalty that can be identified and the effects triggered by the introduction of a loyalty program. The chapter will also go over the evolution of the loyalty marketing approach to understand what firms aim at when adopting it and its latest possible implementations.

With *chapter 3* the focus of the analysis shifts to the grocery retail industry, presenting its main characteristics and the common elements introduced by its firms in loyalty marketing. To better understand what the future of loyalty programs in the industry is, some examples of innovative solutions will be brought forward, explaining how latest technologies can introduce substantial changes.

The analysis is restricted to the Italian market in the *fourth chapter*, where a first description of the industry will be provided to highlight how it differs from the global framework; then, the results of a desk analysis will disclose an external point of view on the state of the art of loyalty programs in the Italian grocery retail.

To understand what the future trends of the industry are and to check whether what stated by literature matches with the practice of firm's reality, *chapter 5* will conclude the work with the case study on Magazzini Gabrielli S.p.A.

CHAPTER 1: RELATIONSHIP MARKETING

The rise of studies in relationship marketing is linked to the evidence that traditional marketing cannot fully encompass what happens in the market, since there is always something more than the mere transaction between buyer and seller, that is a social interaction among the parties involved in the trade which evolves over time. (Costabile; 2001) The necessary dynamic approach could be achieved through the study of market relationships, *i.e.* a series of interactive episodes between two (or more) subjects, where the term interactive implies that it is not a one-side driven exchange, but there is always a reaction to the action of the other party and it exists only if the parties recognize it and behave accordingly. (Buttle; 2012)

Not all market exchanges are relationships, though. These latter differ from a series of discrete transactions because they are characterised by the development of trust and commitment in the parties involved, which are essential to foster co-operation and investments in relationship maintenance. However, developing such elements is time-consuming and costly, consequently, as the number of relationships increases, the firm incurs in significative costs to manage a relationship marketing approach and, despite the many advantages such approach brings with it, not all the companies are capable of or are interested in fostering relationships with other market subjects, especially in the B2C context where the amount of subjects interacting with the firm may grow substantially.

This chapter tries to come up with a comprehensive overview on relationship marketing and to understand its relevance in the current economic framework. For this purpose, it is important to highlight the circumstances that led marketing research to study the effect of relationship, the value relationships represent for the subjects involved, and how a firm-customer relationship evolves.

1.1. THE ORIGINS OF RELATIONSHIP MARKETING

Relationship marketing is a rather recent concept in marketing studies, being conceptualized only at the beginning of the '80s, shifting from the traditional concept of marketing that focused on transactions, to the exploitation of customer-firm interactions. (Akroush; 2010)

At first, relationship marketing emerged within the B2B environment, where the number of both customers and suppliers is limited and the volumes of each transaction is far more sizeable than in the B2C context. When considering the industrial sector, winning over new customers may be costly and time-consuming, while the loss of a major customer could have a significant negative effect on the firm; therefore, having a loyal customer base reduces significantly the business-related risks. (Doole, Lowe and Kenyon; 2017) Furthermore, as scholars started to investigate the advantages of a relationship marketing approach, some real-life examples were demonstrating how maintaining and enhancing a good relationship

with suppliers or establishing lasting partnerships with them, could offer companies a significant competitive advantage.

At the same time, the widespread growth of service industry required the adoption of a different approach to marketing that was no more product centric. (Akroush; 2010) The new approach should better fit with the intangible nature of services and the required closer involvement of customers. As opposed to manufacturers of tangible goods, indeed, a service provider cannot evaluate its offer in objective terms but has to rely on the subjective perceptions of the customers. On top of that, in the service industry the customer plays a central role, actively taking part in the production of the service itself. (Grönroos; 1994) Since transactional marketing had been developed in a context of mass production and standardization, service management needed a new paradigm to account for the heterogeneity of the service caused by the direct relationship with customers.

1.1.1. Back to direct marketing

Despite the late consideration in marketing studies, relationship orientation goes far behind the emergence of marketing itself as a discipline. It can easily be dated back to the pre-industrial era, when trade often occurred within small communities, where products were sold by farmers and craftsmen directly to final consumers.

Nonetheless, even the small percentage of transactions that occurred between traders required ongoing trade relationship and mutual trust. A clear evidence of what has been stated relies on the birth of brands; a feature introduced by labelling the product with the family name of the producer with the aim of identifying the product, associating it with its producer, and giving the buyer a quality warranty for future purchases. Relationships established in this way were bonding not only for individuals, but for entire families and clans. Till the industrial revolution production was mainly based on customer request and demand, hence, establishing a good relationship with suppliers was crucial to meet customers' expectations and specifications, while entrusting the commitment of the customer to buy the product once finished was essential.

The advent of the industrial revolution in the 19th century brought some radical changes in transactions. The great migration of workers from farmers and small villages to industrial areas and the evident advantages of economies of scale gave rise to the phenomena of mass consumption and mass production. Whilst it led to significant decrease in prices, it required also a professional figure "*willing to bear the risks and costs of inventory ownership and* storage". (Sheth & Parvatiyar; 1995) Specialized intermediaries were introduced in the relationship to deal with the storage and the distribution of products, making it difficult for both customers and companies to identify all the parties of the transaction and, thus, causing a clear

separation among producer and final consumer. Moreover, being the middlemen not directly involved in the production process and dealing often with products of companies in competition with each other, the agent was usually emotionally detached, concerned with the single transaction. The middlemen became the central figure of transactional marketing, the one that had to create the demand for the product through promotion and increase its sales.

In a general context of short-term orientation, some businesses and scholars started thinking about innovative practices in marketing to beat competitors and acquire greater market share; different approaches were developed, but all envisaged a closer relationship with customers. At the very beginning, the value of customer repurchase was recognized as relevant and the first studies on consumer behaviour and brand loyalty appeared, while firms started to adopt targeting as a mean to identify different subsets of customers and focus on the ones that could be interested in more than a single, occasional transaction. Moreover, companies enlarged the range of distribution channels and started some partnership agreement, with the aim of regaining control over product distribution and hampering competition. Only the overcoming of the figure of the middlemen has allowed transactional marketing to be side-lined in favour of a more relationship-oriented approach. With the introduction of some advancements in communication technology, indeed, it became possible even for companies down the supply chain to get in contact with

customers, to store information related to each single transaction with customers in dedicated database, and to involve customers in the decision-making process of the firm. The return to forms of direct contact among the parties involved in the transaction pushed academic researchers to study the implications of relationship building for companies in terms of both emotional bonding and economic value. Hence, the return to forms of direct marketing triggered the definitive shift from transactional to relationship marketing. (Sheth & Parvatiyar; 1995)

1.1.2. Reshaping the marketing mix

As marketing evolved from a transactional-based to a relationship-based approach, the traditional marketing tools that had been identified in the 4Ps as the basis of transactional marketing were no more complete enough to describe the key components of an exhaustive marketing strategy.

Adjusting the existing framework through the inclusion of other elements and arriving to 7Ps was one of the most widespread proposals in the academic context for service marketing but it was extended to relationship marketing[1] as a whole too. While the 4Ps of product, price, promotion and place had been almost unanimously accepted since their formulation by McCarthy (1964), there was no consensus in

[1] The 7Ps framework proposed for the first time by Booms and Bitner referred specifically to the service marking. However, it can be easily enlarged and adopted to relationship marketing as a whole, because, as previously stated, what differentiates the service industry from the transactional approach is mainly inherent in the relationship with customers.

defining the additional 3Ps. Among the variables suggested by Booms and Bitner (1981), *People* or *Participants*[2] was the one that almost every scholar and marketer recognised as crucial; instead, *Process* and *Physical evidence* arose some criticisms. (Akroush; 2010) Those additional variables are quite complex to manage for a firm because they include some external elements that the firm cannot control, not entirely at least.

The *People* variable is a clear example of this; in that it refers both to company-specific personnel and to customers. Given the simultaneity of production and consumption, in the service industry, personnel becomes a part of the service itself and it is taken into consideration by customers when evaluating the quality of the firm's offer. Nonetheless, the sales personnel of a firm plays a key role in almost every business; it is, indeed, one of the first elements that can get in direct contact with the customer and, thus, enable the establishment of a relationship. (Rafiq & Ahmed; 1995). Managing the *people* variable, however, implies considering also the pattern of interaction among customers, since the relevance of other consumer's perceptions and feedbacks has increased enormously after the introduction of

[2] Not being able to retrieve the original article written by Booms and Bitner, we relied on subsequent literature (Akroush; 2010) (Palmer; 1994) (Doole, Lowe & Kenyon; 2017), that, however, showed some discrepancies in terminology. Despite the different terms used, the concept they represent is the same.

advancements in communication technology and, particularly, the advent of the world wide web. (Palmer,1994)

The other variables of *Process* and *Physical evidence* are directly related to the service industry and outline, respectively, the sequence of activities the customer has to go through to get the service and the environment in which the customer gets the product. This latter should provide customers with tangible evidences to overcome the intangible aspects of the service and reduce the risk in the purchase decision. (Rafiq & Ahmed; 1995); (Palmer, 1994) Despite being developed specifically for the service marketing, those two variables share a fundamental element of relationship marketing, that is the high involvement of customers.

Notwithstanding the comprehensiveness of the 7Ps framework and the fundamental inclusion of a customer-centric view, it arose some criticism[3] and alternative propositions have been suggested for the refinement of the traditional marketing mix.

Lauterborn (1990) proposed a change of the 4Ps in 4Cs when talking about relationship marketing, that better summed up the different perspective of marketers, overcoming the product-oriented approach and focusing on customer

[3] It is considered quite complex; in particular, the additional variables are difficult to control given the inclusion of elements that are not firm-specific (i.e. customers in primis). In addition, some scholars believe that the new elements can be incorporated in the traditional 4Ps framework.

needs and wants, costs, convenience, and communication. (Goi; 2009) According to this alternative model, the product is no longer thought in terms of what the firm can produce and offer but rather on the basis of what the target *Customer* needs and searches for. The change in the adopted terminology is functional to a change of mindset, the *Cost* variable, for example, has a broader meaning than the corresponding traditional *Price*, including not only the cost of the product per se, but also the indirect costs a customer has to face to get it. Substituting the word *Promotion* with *Communication*, then, the researcher introduces an element of dialogue between firm and customer that is just what fosters a relationship. Ultimately, the "*Convenience to buy"* concept takes into account the innovation in communication and the new trends in purchasing models that should drive marketers to reach the customer where this latter is, not the other way around. (Briganti; 2016)

Another interesting approach, but rather generic, is the one suggested by Hakansson and Waluszewski (2005), who rearranged the traditional components of the marketing mix to encompass the issues of relationship marketing in terms of customer-oriented approach, interaction with customers, value creation, and satisfaction.

Despite the different approaches suggested by literature, all recognize the need to take relationship marketing into account when developing and implementing a

marketing strategy because of its relevance for companies in terms of higher customer retention and positive word-of-mouth. (Akroush; 2010)

1.2. RELATIONSHIP VALUE

The concept of value is continuously evolving in line with changes in marketing thinking, from being objectively determined by the producer in terms of costs and revenues of the single transaction (the so-called value distribution), to include the worth derived by customers with use, and eventually, within the context of relationship marketing, arriving to the concept of value co-creation, where the customer plays an active role. Though value can still be measured in financial terms, it has partially lost its objectivity, differing from subject to subject; as a consequence, it is necessary to consider different points of view when addressing the concept of value to get a comprehensive understanding of it. (Dorai & Varshney; 2012)

This contributes to explain the difficulty marketers have in assessing and conveying the value of relationship. Relationship marketing literature provides several interesting suggestions on the topic that will be set out and briefly analysed in the following paragraphs in an effort to depict the worth of establishing a relationship for all the parties involved in it. Startingly, it will be addressed the economic value

relationships have for firms in terms of higher profits achievable; that is probably the most evident and objectively measurable relationship value. Then, the focus will move to consider relationship value as the aggregate worth of all exchanges that occur between the parties, resulting in highly valuable intangible assets for firms and desired intangible attributes for customers. To conclude with an understanding of the enhanced worth gained by the parties involved when a one-to-one relationship enters a broader relationship network.

1.2.1. The effect of customer retention on profits

The introduction of relationship marketing approach was accompanied by the evidence of the profitability of retaining customers and being able to know them better. When establishing an enduring relationship, indeed, the customer is willing to invest time and trust in the firm, developing in this way progressive switching costs, a barrier that discourages the customer to turn to competitors. As it will be outlined more in detail afterwards, to enhance this mechanism, the firm should implement an effective one-to-one marketing that allows it to listen to its customers and manage customer-related data. (Blythe & Cedrola; 2013)

Empirical evidence demonstrates that the short-term costs a firm incurs in to create and maintain relationships with customers are more than offset by the long-term profit increase a high customer retention rate brings with it. (Dikolli, Kinney & Sedatole; 2007) Retaining customers by means of fostering a relationship with

them, in fact, implies a reduction in both operative costs related to the single transaction and marketing costs aimed at attracting potential customers to substitute the lost ones. In this regard, several scholars' empirical studies agree in claiming that, for a company, it is up to six times more expensive to attract new customers than to retain existing ones. (Van Kenhove et al; 2003) On the profit side, developing a relationship with customers, allows the firm to identify and meet customers' needs and provides it with the possibility to offer more products through cross-selling and up-selling mechanisms. The higher level of customer knowledge reduces the uncertainty of making a sale, as well. These two phenomena are confirmed by actual data on share of wallet: The longer a customer-firm relationship lasts, the higher is the ratio between that firm's product purchased by the customer over his/her total expenditure in the same product category. (Buttle; 2012) Other researches on relationship profitability demonstrate that close relationships are able to cause slightly decrease in price sensitiveness of customers, so that firms have the possibility to charge premium prices in exchange of the benefits related to the relationship itself. To conclude with, over a long-lasting relationship some customers[4] may identify themselves so much with the firm's products or brand that they become ambassadors of the firm, start spreading positive word of mouth, and

[4] As it will be outlined afterwards, when discussing the concept of customer journey, not all the customers a firm establishes a relationship with will undergo all the phases and end up being an ambassador or advocator of the firm; on the contrary, the majority will stop before. (Buttle; 2012)

attract new potential customers without incurring in additional marketing costs for the firm. (Blythe & Cedrola; 2013)

1.2.2. The shift towards intangible aspects

Apart from the tangible value that is generated from the establishment of an ongoing relationship with customers, a relationship with any external subject has a value *per se* that, however, cannot be easily measured. The acknowledgement of such extra value has been possible only after a re-thinking of the concept of value that moves from focusing on what can be easily assessed looking at the financial records or the specific characteristics of a product, to include even intangible aspects. Despite the subjectivity inherent in estimating their worth, the relevance of such intangibles in assessing the value of a firm or product is growing. (Costabile; 2001) Thus, it is interesting to analyse how one of those intangible aspects, namely relationships, contributes to the value creation, first, from a firm perspective and, then, from the one of consumers.

1.2.2.1. The firm perspective

Along with the marketing approach, in the late '90s also the concept of company value experienced a substantial change, embracing a resource-based view. If in the past the value of a firm was evaluated in terms of the tangible assets' capacity to generate cash flow, now the value that a firm can potentially retrieve from the use

of all its resources is considered. The importance of intangible assets as determinant of a company value grows as a consequence of both the relevance of some intangible assets (e.g. licensee, brands, and know-how) in obtaining a competitive advantage and the possibility to develop those assets internally, with the resources the company already has. The book value of a firm can no longer be used as a reliable proxy of the real firm's value because, as opposed to tangible assets, intangible assets and resources do not depreciate with usage over time, quite the opposite, they are capable of becoming self-sustaining.

The relationships that a firm establishes with suppliers and customers can be considered a crucial resource and, as such, it contributes to the determination of the real firm's value and its competitive advantage. Generally speaking, the value of a firm's resource relies on its uniqueness and sustainability over time. Such characteristics can be evaluated in terms of the level of specificity, the time that occurred and the process that led to acquire it, the obstacles competitors have to face to develop the same resource, and its idiosyncratic[5] nature. For the firm, relationships are resources that are generated through the interaction of the firm itself with different type of stakeholders, from customers to suppliers; the closer the

[5] A resource is considered highly valuable if it cannot be substituted with other resources and if it is strictly connected with the environment in which it has been developed.

relationship between a firm and one of its stakeholders, the greater the value the relationship has for the firm.

What is even more interesting to highlight about relationships is that they are the basis for the development of intangible assets but, at the same time, the value of an intangible is appreciable and viable only if it increases the relationship network of the firm, the so-called *social capital*. The value of such social capital is quite difficult to estimate in an objective way, but it is evident that, in a context of increasing market competition and rapid demand evolution, it constitutes one of the main sources of competitive advantage. The cooperation with suppliers and even competitors or the interaction with the final customer are the means for a company to deal with an increasingly complex business environment, ensuring the firm the ability to follow the evolution of demand, learning from its customers, and to achieve a certain degree of flexibility through the cooperation with suppliers. Relationships with competitors are valuable as well; in some industries, the high-tech ones for example, a close interaction is required to share the increasing costs of an ever-faster growing technology. (Costabile; 2001)

1.2.2.2. The consumers perspective

Marketers agree on assessing that the value a firm recognizes to one of its products differs significantly from the one the customer associates to the same product. From a customer point of view, value results from the examination of a series of different

components of the offer. Nonetheless, it can be approximated as a subjective trade-off between the benefits the customer receives, and the sacrifices needed to obtain the product, in light of the specific needs of the moment. (Costabile; 1996) Literature suggests the existence of a *Customer Perceived Value* (CPV), defining it as the difference between the previously mentioned trade-off related to an offer and the one of the alternatives. The customer chooses among the alternatives, the one that gives him/her the highest CPV.

When analysing the benefits that an offer provides, value is given not only to the satisfaction of the basic needs, but all economic, functional and psychological benefits the customer can derive from that product are considered. (Kotler & Kelller; 2009) Over time customer needs have undergone an evolution and currently, at least in western countries, consumers are provided with a huge variety of options to satisfy their needs. Hence, they require functional benefits to be granted in a product and search for something more, and, as for firms, also for customers the source of value is no more confined to the price-quality ratio or performance of a product, but growing attention is given to intangible components, too. (Costabile; 2001)

Relationship is one of those intangible elements that customers have started to appreciate in a firm's offer because of the benefits connected with it. First of all, relationships are able to provide the social bonding and emotional attachment

customers are increasingly searching for. Contact intensity, special treatment and mutual disclosure are some of the relational attributes that customers consider along with product inner quality, specific attributes, connected services and other extrinsic factors when assessing their CPV. Actually, relational attributes acquire increasing weight in CPV as the relationship develops over time because the attention of the customer shifts from evaluating separate offering under mere exchanges to evaluating relationship as a whole. On top of that, one of the most valuable results of an ongoing relationship is cooperation among the parties; thanks to the greater interactivity and connectivity achievable, indeed, customers have the opportunity to become co-producers and customize firm's offer according to their personal requirements. (Dorai & Varshney; 2012)

Moreover, part of the value of a relationship is represented by its capacity of providing customers with lower costs since it favours customers' decision making and reduces the task of information processing and the perceived risk associated with future choice. It is also important to stress that customers are likely to engage in a relationship only with firms they can trust because of reliability, integrity, and competence they have experienced or that they can share their values with. (Dikolli, Kinney & Sedatole; 2007)

1.2.3. From 1-1 relationship to network of relationships

Initially, relationship marketing was referred to as a courtship between a company and its supplier, during which, at first, the two parties show only their strengths; then, they start knowing each other better and adapting their expectations and needs, until they reach a level of intimacy that allows them to exchange sensitive data. Such analogy, provided by Levitt (1986), clearly expresses the value a relationship has for the parties involved in terms of information exchange and growth perspectives. (Blythe & Cedrola; 2013) Nevertheless, it cannot be taken as an exhaustive example of relationship value because it is limited to describe the mechanism of a one-to-one relationship, while the whole potential value of a relationship is unlocked only through the development of a relationship network. To make an example of that, if the firm's suppliers are involved in the customer-firm relationship, the firm can achieve the flexibility required by consumers in order to be actively involved in the production process and customize products according to their needs. All firm's partners can ideally be included in the relationship network.

The value of a relationship network is enhanced by cooperative behaviours and activities in various business areas, predominantly R&D but not solely. More specifically, it has been demonstrated that the most valuable relationships networks are the ones in which the parties involved share complementary resources that they

have idiosyncratically developed. (Hunt & Arnett; 2006) In light of what has been previously mentioned about the increasing value associated with firm-specific resources, when establishing a relationship network, firms expose themselves to major risks of losing both the relational assets and the customer base. Higher level of trust and commitment are, thus, required to transform a one-to-one relationship into a relationships network.

1.3. THE EVOLUTION OF A RELATIONSHIP WITH CUSTOMERS

Having outlined how studies on relationship marketing have emerged and the value of a relationship under different points of view, now the focus will shift to analyse how the relationship with a single customer evolves. Analysing the approach a customer has with the relationship is, therefore, critical for firms in order to nurture it and make it last.

A brief introduction of the customer behaviour in his/her journey to the purchase is needed to understand how satisfaction can be raised, how it can influence future purchases, and the importance it has in relationship fostering and loyalty building. A model of relationship lifecycle is then provided to study how firm-customer interaction changes over time following the relationship evolution. Moreover, recalling that relationship marketing cannot be applied to all customers, but such

approach is profitable only when benefits exceeds costs for all the parties involved, an in-depth analysis on the customer life-time value is made. Last but not the least, the tool a firm can adopt to manage effectively relationships with customers will be briefly introduced.

1.3.1. Customer behaviour

It is important for a firm to understand how a consumer comes from the perception of the need to the purchase decision in order to control the variables that influence the choice and to interact with the customer even before the purchase takes place. Customer behaviour studies have not been developed for relationship marketing only but apply to transactional marketing as well. The most wide-spread model is the one proposed by Kotler that suggests 5 phases the customer incurs in; even though the model describes the phases in a chronological order, the customer does not always follow the same path.

Broadly speaking, the purchase decision starts with the perception of a need, that may derive either from an internal stimulus or an external one. The customer starts being more receptive to information regarding a product category, or even starts actively searching for more details, asking other people, surfing the internet or going in store. The customer does not know all the firms producing the product he/she needs, hence, he/she will search only among the ones known, will consider only a subpart of them and will choose among the remaining ones.

Evaluating the alternatives, the customer will take into consideration the need that developed the purchase decision, the additional benefits the product can offer, and the product attributes he/she values the most. The customer will then evaluate the personal opinions towards the brands.

The evaluations described lead the customer with an idea of what he/she will purchase, but, before arriving to the real purchase decision, some element may obstacle it and let the customer change his/her mind. One main obstacle is represented by behaviours of other people, the strength of which depends on the severity of their behaviour, usually it has a stronger impact if it is negative, and the dependence of the customer from another people opinion. Also, some unexpected situational factors may occur that forces the customer to modify, postpone, or even delete the purchase decision.

Once the purchase is concluded, the process does not end; the customer indeed experiences the product and draws some conclusions, testing the correctness of his/her decision. This last phase has a significant relevance for future purchase decisions. (Kotler & Keller; 2009)

1.3.1.1. Customer satisfaction

Numerous studies on customer satisfaction agree on identifying it as a crucial element in relationship establishment, forerunner of trust and loyalty. Satisfaction

or dissatisfaction derives from the post-purchase comparison a customer makes among his/her expectations and product performance. The weight the customer gives to one of the two elements depends on some external factors, among which the level of involvement of the customer, the role of emotional and affective components on the purchase and evaluating processes, and the product. (Buttle; 2012) More specifically, the basic attributes connected with the product that a customer pretends to be granted have little impact on positive satisfaction; conversely, they have a huge impact on customer dissatisfaction if the firm fails to provide them. The reverse applies with latent attributes that the customer does not expect to find in the product: when the customer discovers them, they have a remarkable positive effect on satisfaction. (Johnson & Gustafsson; 2003)

Generally speaking, a satisfactory experience with a product induces the customer to repurchase it in the future. Subsequent satisfactory experiences develop in the customer the perception of quality and reliability, therefore nourishing customer trust in the exchange partner and increasing the possibility for the customer to become loyal to the firm. (Costabile; 2001) It should be stressed, anyhow, that customer satisfaction is positively correlated with customer loyalty and customer profitability in a non-linear relationship in the long run. Actually, the customer has to acquire a certain stock of satisfaction before it can have an effect on loyalty; but once such subjective level of satisfaction is reached, customer loyalty and

profitability increase more than proportionally with satisfaction. (Johnson & Gustafsson; 2003)

Customer dissatisfaction, by contrast, is one of the greatest obstacles to relationship; it is broadly recognised, indeed, that only a small part of dissatisfied customers communicates their status to the exchange partner; the others are likely to interrupt the relationship[6] and disseminate negative word of mouth among both existing and potential customers. (Raimondi; 1994)

1.3.2. Relationship life cycle

So far relationship has been described as something a firm can develop with the customer and that gains value over time, but the evolution of the firm-customer relationship has yet to be described. Literature does not present, once again, a unique valid model since several authors propose their own that usually differs from the others in the number of stages and the specific characteristics of each stage. Nonetheless, most of these models can be led back to a general one that consists of three macro-categories: an initial moment where the parties get in contact with each other, an intermediate phase during which the relationship has to be maintained and

[6] According to empirical researches on the topic, only 4% to 35% of dissatisfied customers complaint with the firm and 40% to 91% of them change seller for future purchases.

strengthened, and a final stage where the relationship either gets institutionalized or ends. (Costabile, 2001)

Among the models of relationship development, the one of Dwyer, Schurr and Oh (1987) was developed at the dawn of relationship marketing studies but is still widespread and extensively referred to. According to their model, graphically summarized in figure 1.1, relationships evolve through awareness, exploration, expansion, commitment, and dissolution; each phase representing a different way in which the parties interact with one another.

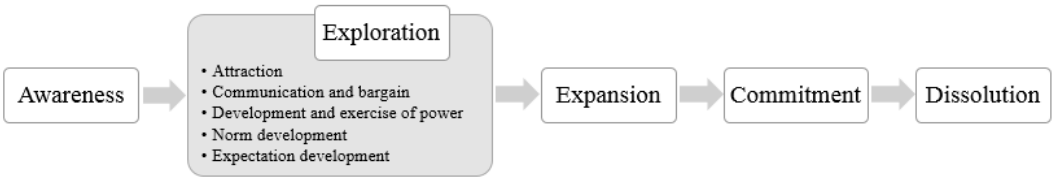

Figure 1.1 The relationship development process. Personal graphical representation of the theory developed by Dwyer, Schurr and Oh (1987).

Within the awareness phase there is no interaction between the parties because each action is unilateral; the parties simply recognise that the other subject is a feasible exchange partner.

As the parties incur in bilateral interaction, the exploration stage begins. The length of the phase may vary considerably because the parties have to evaluate obligations and benefits of the exchange and, to come up with an evaluation over the possible

exchange, they may also resort to trial purchases. Five subprocesses can be identified within the exploration:

- Attraction. At first, buyer and seller achieve a degree of attraction that resembles how much the rewards derived from association exceed the monetary and social costs.
- Communication and bargain. Then, in order to know each other better, the subjects that want to develop a relationship start revealing specific information about themselves and try to reshape the distribution of obligations and benefits among the parties of the relationship. Explicit bargain, however, takes place predominantly within customer transaction that involve durable goods or services, while for common goods some forms of tacit bargaining can be identified, postponing the purchase, for example.
- Development and exercise of power. Balancing the power among the subjects involved is crucial for the development of a relationship since it suggests the level of dependence of one party from the other for valuable resources. The only level of power balance that lets the parties to participate voluntarily and achieve common goals is the one perceived as just and correct.
- Expectation development. When the exchange takes place, some norms of expected behaviour arise implicitly among the parties that accept them spontaneously. In the context of the exploration phase also expectations start

to be developed as a consequence of the direct experience obtained from trial purchases. Compatibility, integrity and performance of the other part are judged, and the degree of trustworthiness[7] is derived.

As the level of satisfaction with the performance of the other increases, the interdependence and the level of outcomes provided by the exchange grow too; the subprocesses of the exploration phase keep on being reiterated, building an expansion path for the relationship.

The relationship evolves until it reaches the highest peak, that is the commitment stage, where significant economic, emotional and communicational resources are exchanged; the strength of the bond encourages the parties to continue the relationship; and the consistency of the parties' performance ensures the active maintenance of the relationship. Once the commitment stage is reached, loyalty is usually achieved.

The stage of dissolution does not necessarily follow the previous ones in a chronological order, since it can occur throughout the relationship development. In contrast with all the other stages that assume a bilateral effort, the dissolution is usually initiated unilaterally when one subject is dissatisfied or perceives the costs

[7] The importance of the element of trust in the development and maintenance of a relationship has been previously mentioned. A subject, indeed, trusts the other only if the first one believes the latter is reliable and will fulfil the relationship obligations; moreover, if it holds, trust allows the parties involved to take even high risks.

of the relationship outweighing benefits. The withdrawal from a relationship is not as easy as it may be conceived, it implies a source of stress for the parties involved, that have to negotiate their disengagement and will never regain the pre-relationship status. (Dwyer; Schurr & Oh; 1987)

1.3.3. The Customer life-time value

It is broadly recognised that approximately the 20% of a firm's customers generates the 80% of its profits; the customers belonging to such 20% are defined profitable customers because they bring a profit that is sensibly higher than the transaction costs the firm has to sustain to interact with the customer over all the customer lifecycle. It is, thus, crucial for a firm to be able to sort its customers analysing their profitability and it is what a relationship marketing approach suggests, focusing on the whole lifetime value of a customer rather than on a single transaction. (Blythe & Cedrola; 2013)

The Customer Lifetime Value (CLV) is the present value of the future profits a company can expect from the customer behaviour net of the costs the firm expects to incur in to attract and serve its customers. (Kotler & Keller; 2009) As opposed to the RFM method that has been used to prioritize customers based on recency, frequency, and monetary value of the purchase, the CLV has been proven to be more suitable for an accurate revenue and profits forecast. It includes the present value of the customer's expected gross contribution and the cost of contracting the

customer through each channel. The expected gross contribution can be computed for each individual customer analysing his/her purchasing pattern made up of active and inactive periods as:

$$P(active) – (T/N)^n$$

Where P(active) represents the probability of that customer being active in the period taken into consideration; n is the number of purchases in the observation period; T is the timeframe between when the customer was acquired and the very last purchase; and N is the timeframe between the customer acquisition and the period for which P(active) is computed.

A research carried out by Reinartz & Kumar in 2003 demonstrates how managers can enhance CLV by working on some exchange variables, according to their impact on profitable lifetime duration, shown in figure 1.3. So that "*a firm can proactively design cross-selling programs, implement appropriate product return*

policies, and execute loyalty and rewards programs, by understanding the effects of these exchange level variables on CLV". (Kumar, Ramani & Bohling; 2004)

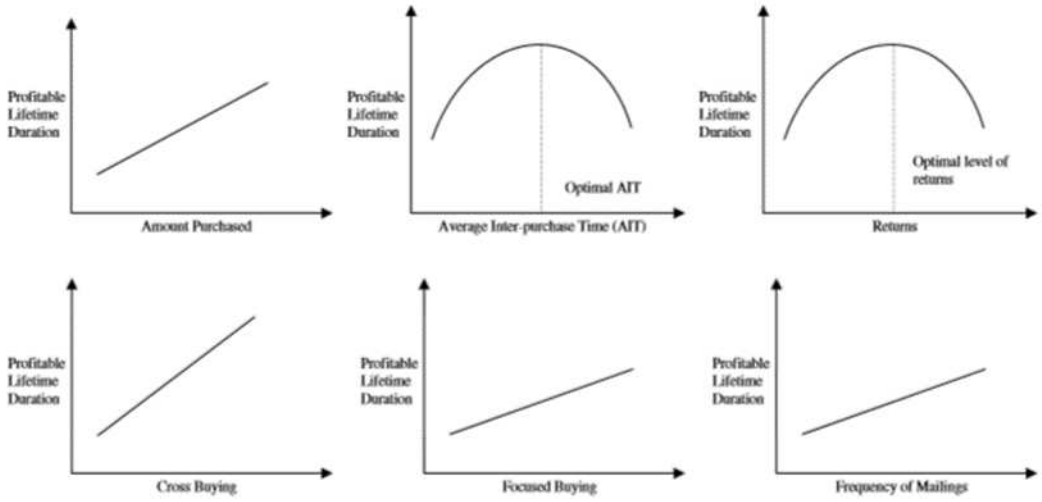

Figure 1.2 Impact of some exchange variables on Profitable Lifetime Duration of customers. Retrieved from Kumar; Ramani & Bohling (2004).

Furthermore, it should be recalled that along the CLV, the customer undergoes an evolution and the profitability of the customer for the firm increases with the time the customer has spent purchasing from the same firm. From the potentials, that are the target a firm wants to reach, the firm may identify the ones that can become first time customers, meaning that they will effectively purchase at least once. Some of them will be repeat customers or even special customers that are so profitable for the firm that the firm reserves them a special treatment. Once the firm has reached a base of special customers, the next step is to transform them into members, offering them a program with some benefits. The highest value is provided to the

firm by advocates that recommend the firm also to other customers or even partners. (Kotler & Keller; 2009)

1.3.4. Managing the relationship: CRM

In order to maintain solid relationships with customers, firms have abandoned the mass marketing in favour of precision marketing, dealing with each individual customer. (Kotler & Keller; 2009) This has introduced a significant level of complexity in marketing management since every customer may vary significantly in terms of needs, profitability and transaction from others. The Customer Relationship Management (CRM) was conceived to deal with such complexity. (Hunt & Arnett; 2006)

The CRM is the combination of procedures, tools and databases that the firm creates with the aim of managing the data relative to each single customer, studying the interaction of customers with the firm's touch points[8] and, eventually, trying to understand who those customers are, what are their needs and how to satisfy them by means of tailored treatments. (Kotler & Keller; 2009)

Through CRM systems, in line with the CLV, firms can segment the pool of customers identifying the ones the firm should invest in to maximize their overall

[8] A touch point can be defined as any circumstance in which the customers establishes a contact with the brand or product or in an indirect way through communications means.

profitability and the ones that do not deserve particular attention because they cost more than what they contribute. Furthermore, once customers have been segmented, the firm has the possibility to differentiate marketing offers, services, communications and media across customers according to the prediction of customer response. (Hunt & Arnett; 2006) Therefore, the implementation of a CRM system allows firms to adopt macro-marketing solutions to address single segments of customers or even micro-marketing actions targeting each single customer. (Ziliani; 2008)

In order to be effective, a good CRM system should be able to listen to its customers, analysing their feedbacks, and then implement the necessary solutions to meet their needs; it can be realized placing the customer at the heart of the business, as one of the core values of the firm. (Blythe & Cedrola, 2013)

CHAPTER 2: LOYALTY MARKETING

The studies on relationship marketing and its effectiveness, lead to the development of a sub-branch of analysis, that is the loyalty marketing. As Roberto Stanco cleverly states in a forward to Ziliani's "Loyalty Marketing", this branch does not merely focus on the best marketing tools a company may use in order to make its customers "loyal"; instead, it can be better explained as a mean to understand and measure the level of trust to the brand a customer shows. More precisely, "*loyalty marketing can be regarded as a management process that aims to identify, maintain and increase the share of wallet of top customers as well as the lifetime value, through the management of a relationship approach*". (Cedrola & Memmo; 2010) Many researchers and businessmen see customer loyalty programmes as the means to engender customer loyalty, but this is not always the case; there are examples of firms that have a significant pool of loyal customers even without having implemented any loyalty programs and cases in which the implementation of loyalty programs has resulted only in short-term buying, with no tangible effect on the long-term relationship with the customer.[9] (Srivastava & Rai; 2018) To have a better understanding of the importance of loyalty marketing and the effectiveness

[9] Some may argue it is a direct consequence of an incorrect designing or implementation of the program, but we don't have the proper instruments to judge it.

of its main tool, it is necessary to analyse what customer loyalty is and how it evolves within the bounds of firm-customer relationship.

Even though the effectiveness of loyalty programs in customer retention and attractiveness has still to be empirically proven, it is evident that loyalty program is the tool that allows the implementation of a loyalty marketing approach, providing useful information on customers' needs and behaviours to firms, and rewards and benefits to loyal customers. (Cedrola & Memmo; 2010) Consequently, this paper is going to provide a general overview on the role played by loyalty programs, trying to explain why there is so much confusion on the evaluation of its effectiveness. Despite the contrasting on-field performances that have been registered and may be justified by the existence of countless external variables, the mechanisms triggered by loyalty programs on customer's psychology are quite clear. Hence, those mechanisms will be briefly presented, along with an insight on how they differ across cultures and related implications for the adoption of similar customer loyalty approaches in different countries.

Notwithstanding the differences in loyalty program customization among firms, a general trend can be identified in program configuration following the evolution of the loyalty marketing concept, its objectives and the socio-economic environment. The present work recalls the history of loyalty marketing, from the very first programs being implemented as simple purchase rewarding tools, to the collection

of priceless customer data, to end with the most recent configuration of valuable experience providers.

As marketing studies are now focusing on providing customers with a seamless experience across both physical and virtual touchpoints, the role of loyalty program in building an omnichannel strategy should be underlined. The effects of multichannel integration on customer loyalty and the stake such programs may have in "sewing" firm's channels with consistent communication conclude the chapter.

2.1. CUSTOMER LOYALTY

As previously mentioned, several empirical studies demonstrate that developing and sustaining a relationship with existent customer or, better, with loyal customers, following his/her lifecycle, is far more profitable than trying to collect new customers in the majority of industries.

A customer can be defined "loyal" if he/she repeatedly refers to the same company to purchase products or services (Cambridge dictionary) because there exists in the customer itself a significant stock of trust in that company. (Castaldo & Mauri; 2002). Customer loyalty is usually identified and measured by means of repurchases and revisits, but goes far beyond them, including the attitude and behaviour of a customer, who, from being a simple consumer, may become an advocator of the brand.

The basis is customer satisfaction: The positive judgement a customer gives to a company after an interaction with it if his/her expectations over the product and the consumption experience are met. Nonetheless, satisfaction is not enough to build customer loyalty. Previous studies on the same subject suggest that 65% to 85% of satisfied customers are likely to switch company/brand for their following purchase. Customer loyalty emerges when satisfaction is followed by an emotional attachment, so that both the rational and the cognitive sphere of the customer are involved in the repurchase decision.

What customer loyalty brings to the company, can be summarized in three words: Preference, patronage and premium; meaning that, respectively, customers decide to choose a company/brand over the possible alternatives, they develop a sense of affiliation and belonging, and show lower price sensitivity towards the products of that company/brand. (Srivastava & Rai; 2018)

Anyhow, the concept of customer loyalty is a broad one that involves different aspects that may emerge as the relationship between customer and company evolves. Hence, managing customer loyalty means analysing the impact relationship-related trust has on consumers and how it varies under two main aspects:

- Considering the stock of loyal customers in the customer base of a given company under a cross-sectional perspective

- Considering a single customer that builds and acquires more and more trust in the company over time, under a dynamic perspective. (Castaldo & Mauri; 2002)

2.1.1. A cross-sectional perspective

First, it is fundamental to recall that the primary driver of loyalty is the ability of the brand/company to meet the needs of the target costumer[10]. Without this condition holding, there is no room for the consumer to entrust the company and choose that company to repeat the purchase (Stanco; 2008) because, only once the customer is satisfied, he/she starts to develop a favourable attitude towards the brand/company. However, the challenge with loyalty management is that customers may differ significantly from each other; as a consequence, they can reach the same level of satisfaction[11] when the company meets different expectations. (Li-Wei; 2011) In order to make a decision, indeed, each customer processes the information and data collected through previous experiences, word of mouth, or reviews in the context of his/her own social background, education, emotional status, knowledge, and expertise. (Srivastava & Rai; 2018)

[10] In the specific case of the retail sector, the primary drives of loyalty can be identified as: store location, variety of products specific to the store format, a pricing that is coherent with the brand proposition, expertise of employees, good service level, and constant availability of products on shelves. (Stanco; 2008)

[11] Satisfaction can be considered as a *"function of cognitive comparison of expectations prior to consumption with the actual experience"* that is reached when expectations of the customer are exceeded by company's performance. (Li-Wei; 2011)

Expectations and perceptions are the main factors that lead the customer (trustor) to be prone to show his/her vulnerability to the company (trustee) and to accept some degree of risk, in order for trust to emerge. Trust is then self-sustained in a recursive process in which, the more expectations are met by the company, the more perceptions are strengthened, so that the trustor will need less amount of data to choose where to purchase and will be more likely to choose the trustee itself. In other words, "*once a given brand is denoted as being <reliable>; this piece of information would be meaningless, unless the consumer has the intention to verify it at any purchase and consumption chance."* (Castaldo & Mauri; 2002)

The so established trust results in a costumer that is more responsive to the communication of the given company and less to the one of its competitors, providing relationship value, and increasing its competitiveness. However, it is important to understand that trust per se does not necessary imply that the customer will be loyal; as denoted in table 2.1, in fact, trust can take different forms and the customer repurchasing rate should be accounted for, as well.

Table 2.1 A classification of the possible forms of loyalty. Retrieved from Castaldi. and Mauri (2002); pp. 11

		in-store repurchase rate	
		Moderate	**High**
trust in the brand/firm	**Full**	latent loyalty	**customer loyalty**
	Partial	disloyalty	opportunistic or tolerant loyalty

Within the boundaries of opportunistic loyalty, the repurchase is purely based on the capabilities the customer attaches to the company and the willingness to get back the pay-off the company has previously ensured thanks to the relationship. Conversely, the tolerant loyalty justifies the repurchase made by the consumer when the latter one believes that the company is willing to foster the benefits of the relationship that are common to the parties involved.

Latent loyalty differentiates from all the other forms of loyalty in the frequency of the exchanges because of the existence of some type of barriers that, despite the high degree of trust in the firm, prevent the customer from repeating the purchase.

Both full trust in the brand/company and high in-store repurchase rate are needed to conclude that the consumer has developed a true loyalty, the one that combines behavioural loyalty to high effective commitment. Customer loyalty is the only form of loyalty we can rely on in assessing the strength of the relationship. (Castaldi & Mauri, 2002)

2.1.2. Dynamic loyalty

Once having outlined the static framework of a company dealing with several customers at once, hence different loyalty stages, the analysis should move on focusing on how the level of trust and commitment of a single customer changes over time. This dynamic approach resembles the relationship life cycle; therefore, keeping in mind what stated before about this issue, we will now go more in depth,

putting forward how the evolution of the relationship between customer and company affects customer loyalty over time.

Customer loyalty needs to be nurtured. Repeating the purchase at the same company, a consumer enriches the information collected so far for his/her decision-making process, develops expectations over the product that are every time more specific, and, if those expectations are met, increases significantly the stock of trust the consumer has in that company. Obviously, it may also occur that the company cannot meet one or some of the increasing expectations of the consumer, regressing in the "loyalty path". Empirical studies, however, suggest that consumers with higher expectations react to a negative dis-confirmation[12] with a better judgement than low expectations consumers, and that consumers, in general, are likely to alter their performance evaluation to match it back to their prior expectations. (Oliver 1997) This implies that the more customer loyalty is enhanced, lower is the negative effect of poor product performance.

Deepening the analysis of the loyalty evolution over time, we can recall one of the first studies on loyalty in marketing. Oliver (1999) suggests that customer loyalty is made up of four phases. The first one is the so-called *cognitive loyalty*, driven

[12] A dis-confirmation occurs when expectations do not coincide with the product performance; it can be either negative, meaning that performance is lower than expected, or positive when performance exceeds expectations. On the other hand, the customer is said to be confirmed if the product performs exactly as expected.

solely by brand/company-related information; it has positive implications for loyalty growth unless it is a routine purchase where satisfaction is usually not processed. After having met customer's satisfaction several times, the company can rely on the greater consumer commitment of *affective loyalty*, characterised by a connection at emotional level. In the next phase the customer starts demonstrating his/her positive affect towards the company/brand, preferring it over the alternatives. Nonetheless, even though *conative loyalty* leads the customer with a deep desire to repurchase, it may not end up with a corresponding action. Only *action loyalty*, converts the intentions of the loyal customer in action, thanks to a stronger desire to overcome any possible obstacle that may arise. (Oliver; 1999) Experiencing this last step again and again, consumers may end up developing a form of inertia that makes them indifferent to some extent to small variations in company performance and leads them to repeat their usual purchasing behaviour rather than searching for alternatives. (Li-Wei; 2011)

2.1.3. The influence of the social dimension

The customer loyalty framework that has been presented so far does not take into consideration the social influences that may enhance it.

When the degree of social influence in the decision-making process is low, the loyal consumer may range from a mere product superiority that rationally brings him/her to repurchase, to self-isolation. The state of self-isolation can occur only in

customers that have already reached the action loyalty stage: "*He or she is immune from competitive overtures, cannot be swayed from determined repurchasing, defends the brand fiercely, and probably promotes the brand to others with some fervour.*" (Oliver 1999) Under self-isolation the customer adores the brand/company-related products, starts developing unfailing commitment, a sense of natural fit, and emotional outcomes that can be compared to the ones of love, making the customer even willing to undergo some costs in order to gain from the benefits of the loyalty relationship.

In the case of existence of a community, a customer may be willing to be loyal to a company or brand with the unique aim of becoming part of a broader social context with people that share the same values and behaviours. Therefore, companies have the possibility to foster customer loyalty through the creation of a social bond, providing customers with social participation in a club or family.

Fully bonded loyalty emerges as the customer combines the status of action loyalty with the effects of social integration. The community suggests either in a passive way or proactively to the customer to remain loyal, making it extremely difficult, if not impossible, for the alternatives to communicate with the customer. Under this condition, the customer starts considering the product as part of his/her own lifestyle and loyalty can be disrupted solely by big company failures, such as

significant deterioration of product performance or service quality, or missing innovation in high-tech fast-growing industries. (Oliver, 1999)

2.2. LOYALTY PROGRAMS EFFECTIVENESS

Generally speaking, the effectiveness of a tool can be evaluated looking at the results achieved with its implementation and with reference to the firm's objective. This latter differs widely from firm to firm, but some of the most common loyalty program objectives are increasing customer loyalty level, communicating firm's values, boosting firm's turnover, and obtaining a higher customer base. (Ziliani; 2008) Considering those aims, empirical data on effectiveness of loyalty programs show contradictory results that, however, can be explained by an incorrect usage of the tool: increasing customer retention and driving customer loyalty are some potential outcomes , they cannot be ultimate objectives of the program. (Cedrola & Memmo; 2010) In fact, the biggest failures in loyalty programs implementation have been registered in firms that adopted such programs as a me-too approach and with no valid value proposition, with the aim of pushing customers to purchase more; it resulted in significant implementation and operative costs and only little increases in revenues, caused by customers that are simply interested in taking advantage of the benefits offered by the program. Results of empirical research demonstrate, indeed, that the participation to a loyalty program does not change

significantly customers' purchasing behaviour, meaning that it is not able to transform sporadic customers into loyal customers.

The role of a loyalty program is different, it leads positive results if the firm has already established enduring relationships with its customers. "*The implementation of a loyalty program with a proper reward plan is crucially important in retaining loyal customers and reinforcing emotional bonds with the retailer"*. Hence, the primary role of a loyalty program is to nourish customers' relationship and loyalty through benefits; the customer indeed, is likely to respond to the rewards offered by the program with higher affective loyalty. This implies that loyalty programs can enhance customer satisfaction, reduce the eventual consumer dissatisfaction in case a problem arises, and increase the switching costs that the evolution of the firm-customer relationship has originated first. (Garcia Gômez et al.; 2006) Furthermore, the true value of a loyalty program is to collect valuable customers' data on purchasing behaviour, store distance and price sensitivity that are not obtainable through simple communication. These data represent for the firm a source of customer knowledge that, if wisely used, can lead to an increase of purchase frequency and average shopping basket of target customers in the long run.

When customer loyalty programs were first introduced, they were considered as an element of competitive advantage especially in industries characterised by frequent purchases and low inter-company differences. But as pioneers of loyalty program

registered positive results in terms of best customers lifetime value growth, the implementation of such programs became common practice among marketers and has been extended to embrace almost all industries. Nowadays, loyalty marketing shows the characteristics of a mature market; elements of differentiation and success in the loyalty marketing approach currently lie in the adoption of latest technologies available and in its strategic development, in line with the unique value proposition of the firm. (Capizzi & Ferguson; 2005)

Nonetheless, when developing a loyalty program, firms should better be aware of the effects it may have on customers' behaviour to manage it effectively because similar loyalty programs mechanisms may lead to substantially different results on customers with diverse social backgrounds. For this reason, after having recalled the main cultural dimensions that differentiate customers across countries, the way loyalty mechanisms apply to specific contingency factors will be set out.

2.2.1. Hofstede's cultural dimensions

Notwithstanding the fact that each single customer differs from another; he/she has some general traits in common with people that have grown in the same socio-cultural context and in similar economic conditions. It is, therefore, possible to gain an overview of customer's possible reaction to a marketing campaign, knowing the general traits that characterize people belonging to the same macro category, that can be approximated, at first, with people living in the same country. Companies

working at international level, multinational companies foremost, usually refer to Hofstede's cultural dimensions (1980) when analysing the general traits of customers in a country. The model was originally developed comparing interviews made to IBM workers of several branches in more than fifty countries all around the world but has been validated also by third-party's researchers and enriched with updated empirical evidences since then. The dimensions that best represent the different approaches with which people react to similar circumstances on a day-to-day basis are six, namely: *power distance*, *uncertainty avoidance*, *individualism versus collectivism*, *masculinity versus femininity*, *long term versus short term orientation*, and the most recently introduced *indulgence versus restraint*.

Power distance represents the level of equality within the society, and in particular how fair less powerful members judge power distribution among all the members. So that, a large degree of power distance represents societies in which rigid hierarchical system is accepted and emphasized; people are not likely to ask for justifications or strive for equal treatment.

Uncertainty avoidance indicates how individuals usually behave in the presence of something they do not know or cannot control; some cultures are more prone to accept uncertainty as an element of human life, others try to shave it off whenever possible through the adoption of rigid rules and do not accept radical innovation.

Further distinction is made among societies, based on the focus of their structure; some traditionally emphasize more the single individual, its rights and needs, while others have a broader view and place collective welfare above the personal one. There are countries in which the figure of the individual is central and other in which people are identified by the groups they belong to.

The *masculinity versus femininity* dimension does not deal with the different roles of men and women in the society or the gender equality, but rather the propensity an individual has to react in a more rational or emotional way. Competition, achievements and rewards are typical traits of a masculine culture, while a feminine one is keen on cooperation, modesty and helping the weak.

An additional element that differentiates cultures is the orientation towards the present or the future. Some countries, the ones with a Confucian heritage in particular, are usually *long-term oriented*, there thrift and perseverance are encouraged and there is a deep sense of shame. On the contrary, *short-term oriented* cultures tend to respect traditions, valuing personal steadiness and stability the most; they have a consumeristic approach.

To conclude with the dimension introduced in 2010, retrieved from literature on pursuit of happiness; an indulgent country is open to personal gratification and satisfaction of human desires, does not strictly regulate it at social level. The opposite holds for restraining cultures. (Hofstede; 2011)

2.2.2. Inertia-based mechanism

Repeating the same past behaviour in spite of searching for alternatives is easier; therefore, the effectiveness of a loyalty program may be enhanced favouring inertia-based behaviours by means of reinforcing customers' habits, creating cognitive barriers, or increasing switching costs.

On the one hand, short-term oriented customers with high level of uncertainty avoidance are not likely to strive from their previous consumption pattern and tend to behave accordingly to their habit; rewards and benefits offered by a loyalty program should therefore aim at supporting customer's performed behaviour. On the other hand, a different program should be conceived for uncertainty acceptant customers offering them complementary or alternative products, introducing new situational cues for them to face.

Furthermore, within the inertia effect, the implementation of a loyalty program introduces some barriers to leave the firm that hold across cultures. First of all, it creates a cognitive lock-in for customers that have spent time in learning the rules of the program, making it more challenging to participate to a competitor's loyalty program, this type of barrier is notably effective for early-to-market programs. In addition to that, switching costs can be increased providing customers with cancellation penalties or threatening loss of loyalty rewards and benefits. (Beck, Chapman & Palmatier; 2015)

2.2.3. Comparison-based mechanism

People make comparisons; they compare products in their purchase decision, but they compare themselves to others too. Assessment of social status is sought after the most by high power distance cultures, where a loyalty program based on customer classification and rewards levels is extremely appreciated. Loyalty programs, in fact, can enhance prestige value of the relationship established with the customer through achievement rewarding or selective access to benefits.

While best customers are gratified by belonging to a special status, customers excluded from the higher benefits start an upward comparison and feel envy. If they believe that rewarded customers earned those benefits, they will be encouraged to improve their customer status. Nonetheless, marketers have to be aware that the reverse occurs in egalitarian societies in which cooperation and modesty are core values. (Beck, Chapman & Palmatier; 2015)

2.2.4. Identity-based mechanism

People tend to reflect their personal and social identities in every aspect of life, including their purchasing decisions. In particular, *"customers pursue relationships with companies as a means to express their individual characteristics and social affiliations"* (Beck, Chapman & Palmatier; 2015). The value proposition of a firm is, therefore, the pillar to build a customer-relationship and the value proposition

that emerges from the loyalty program is, consequently, essential to reinforce the firm-customer bond.

Loyalty programs that strengthen club membership, positively affect in-group association in firm's customers, but may also emphasize out-group dissociations in consumers that do not identify themselves with those values. The identity-based mechanism is common trait in human nature, but it has greater relevance in collectivist cultures than individualistic ones. For consumers with high degree of collectivism, indeed, group membership goes far behind being a mere status symbol, becoming an integral part of what they are. (Beck, Chapman & Palmatier; 2015)

2.3. THE EVOLUTION OF LOYALTY PROGRAMS

The loyalty marketing approach has undergone a rapid evolution through the years, following the changes in communication technology and in the power the final consumer has on firms. Initially, marketing was conceived as a monologue conducted by firms where customers were the recipients of the message; loyalty programs were thought up as gifts the firm chose to give to top spenders. As the figure of the customer grew in importance for marketers, it became evident that the firm could not lead a one-side communication anymore; a firm-customer dialogue

was needed. Therefore, also within loyalty programs, listening to the customer became fundamental: firms started to follow customers in their purchasing behaviour, exploring their needs, and letting them choose how to be rewarded for their loyalty. Despite the relevance of relationship building in loyalty marketing, the ultimate step in this field from transactional marketing to pure relationship marketing has been only recently achieved with customers' empowerment. From that standpoint, firms recognize the role played by the customer as content creator in influencing other consumers; as a consequence, the loyal customer is no more rewarded for purchases only, but for his/her reactions and word of mouth as well.

2.3.1. Loyalty 1.0: Rewarding customers

The earliest forms of loyalty program practices appeared decades before the theoretical marketing approach, at the end of the 19th century, with the introduction of collection of points both in USA and Europe. The diffusion of collection of points is characterized by a cyclical development that recurs over the years; after its introduction it starts being soon broadly adopted but ends up being abandoned because of significant variations in the economic or socio-political environment.

The very first collection of boxtops dates back to 1851, when the Babbitt Company started introducing coupons in its products, giving the right to its customers to redeem a colourful lithography with a certain number of coupons. Twenty years later, the first rewards catalogue was introduced, and, after forty years from the

boxtops birth, a department store designed trading stamps, that allowed customers reaching a given amount of dollars spent to get free products. With loyalty programs growing in importance, firms were no more able to follow its management, and customer loyalty intermediaries appeared in the market. Those were third party firms that dealt with the promotion of collection of points, provided department stores and shops with trading stamps and collecting booklets, managing redemption centres, too. The growth of the phenomenon was hindered by the two world wars and the great economic crisis of the 20th century, but regained success with the following economic boom of the '60s.

Soon trading stamps and boxtops became common practice among retailers to attract and retain customers, making it necessary to develop new forms of loyalty programs in order to differentiate the firm's offer. The shape of loyalty programs slowly grew in complexity and moved from the simple collection of purchase certificates to embrace self-liquidating offers where the customer is asked to pay an extra to obtain the reward; systems that reward the purchase of specific products, the purchase in specific periods or the exceeding of a pre-defined threshold; or the implementation of prize competitions. Along with the implementation of continuity promotions, introduced to sustain sales during slack period but aimed at leading long-term outcomes, loyalty programs were able to let customers know and

experience the product, incentivising them to keep on purchasing that product even once the promotion period was over. (Ziliani; 2008)

2.3.2. Loyalty 2.0: Acquiring data

The fluctuations registered in loyalty programs diffusion and customer participation arose some criticism; the costs firms incurred in were often too high and pushed them to increase the prices of products, with evident drawbacks for final consumers that had to sustain higher expenses in exchange of very low or even unsatisfactory benefits. A rethinking of the loyalty program was needed.

Starting from the '80s, the concept of loyalty marketing has undergone a substantial change, giving greater emphasis to the establishment of an emotional bond with customers, communicating with them on a regular basis and offering a set of benefits that could be valuable for them. Therefore, a good loyalty program had to combine innovation in communication technologies with customer segmentation on the basis of biographical and behavioural data analysis, with the aim of targeting each segment with the most appropriate reward.

The first example of a modern loyalty program was implemented within the airline industry, where the number of customers was steadily growing, but airline companies had almost no direct contact with them and limited customer knowledge. In 1981, American Airlines launched its *AAdvantage*®, a loyalty program that was

designed as a tool to encourage customers to share their data, in exchange of some benefits. The information collection was referred to all customers, so that the company could segment them and, thereafter, offer a differentiated benefit to each customers' segment, with the ultimate aim of nurturing best customers' loyalty. (Ziliani; 2008)

The ease of implementation and the revenue prospects offered by such loyalty program were so evident that it became almost immediately a me-too proposition, adopted by firms even with no accurate planning. It resulted in a competition among airline companies on promotions and benefits that caused growing costs.

Nonetheless, the data gathered in this way allowed firms to evolve their customer approach and develop innovative program features, introducing, for example, status tiers based on frequency and/or spending and providing both recognition to best customers and motivation for other members to level-up at the same time.

The technological advancements of the '90s allowed the introduction of loyalty cards and virtual points collection, that, combined with the establishment of vertical or horizontal partnerships, boosted considerably customers' information gathering and led to unprecedented levels of market penetration for loyalty programs. On the one hand, big supermarket chains in USA and UK, in collaboration with packaged goods companies, required shoppers to sign up and to use their card in exchange of significant lower prices. On the other hand, coalitions between food retailers and

gas stations appeared in Canada and Europe, emphasizing the relevance and advantages of relationship networks creation and data sharing among industries, and offering customers a wide range of benefits to choose among.

At the outset of those innovative solutions, however, firms were establishing loyalty programs with the sole objective of acquiring customers' data, whereas little had been made to use collected information effectively. (Schneider; 2015) The vast majority of companies that had implemented a loyalty program were filling their CRM Data warehouses but were not fully exploiting the potential of an analytical CRM through data analysis. To date, the same issue still holds; only few big firms are currently turning "*data into insightful reporting via business intelligence and artificial intelligence tools*" (Harms; 2018) such as query, reporting, Online Analytical Processing (OLAP), or Data Mining. It is the analysis of data, though, that makes it possible for firms to develop targeted, relevant solutions to strengthen the engagement of each single customer with lower operational costs, providing both increased benefits for more valuable customers and higher revenues for firms.

2.3.3. Loyalty 3.0: From program to experience

In an era characterized by saturated markets, what catches the attention of customers is no more the product *per se* but the experience they can derive from it or from the interaction with the firm. Therefore, the value associated with a product has changed, shifting from the account of its inner value in use to the whole

consumption experience, in a subjective evaluation of value that differs from customer to customer.

It is, thus, important to understand what the term “Experience” stands for; it indicates something the customer desires because it is different from what happens in everyday life; it directly involves the consumer, and, despite being an activity that contributes to shape the identity of the person, it builds a common feeling among the people that have enjoyed it, too. To sum up, an experience has a deeper effect on customer than the product itself in that it is able to satisfy the sensing, feeling, thinking, acting, and relating needs of a customer. Moreover, since people are by nature keen on talking with friends and family about their life, they are likely to share with them an event that has broken their routine, giving the opportunity for them to interact with others and share with them who they are. On top of that, involving personal feelings and memories, the experience sticks in the mind of the consumer. (Franchi; 2018)

A pioneer in combining experiential marketing with a loyalty marketing approach was Virgin America airlines that in 2007 adopted its cutting-edge loyalty programme *Elevate*®. First of all, it changed substantially the loyalty programme structure of airline companies starting to use the same system adopted to manage fares also for loyalty earnings and rewards, making the dynamic pricing of awarded seats more transparent for customers and also profitable for the firm. But foremost,

it was one of the first programs designed to encompass the overall brand proposition, providing customers with meaningful interactive experiences. Program membership, indeed, gave the possibility to get additional services like saving a personal playlist and to play games competing onboard with other Virgin America passengers, even if flying in different planes. (Schneider; 2015)

Since the adoption of this program, firms have been rethinking their approach towards loyalty and the rewards they offered to loyal customers; the relevance of gaming in this field emerged. As far as rewards are concerned, monetary incentives and discounts are still worthy for consumers, but experiences are growing in importance, as figure 2.1 clearly shows.

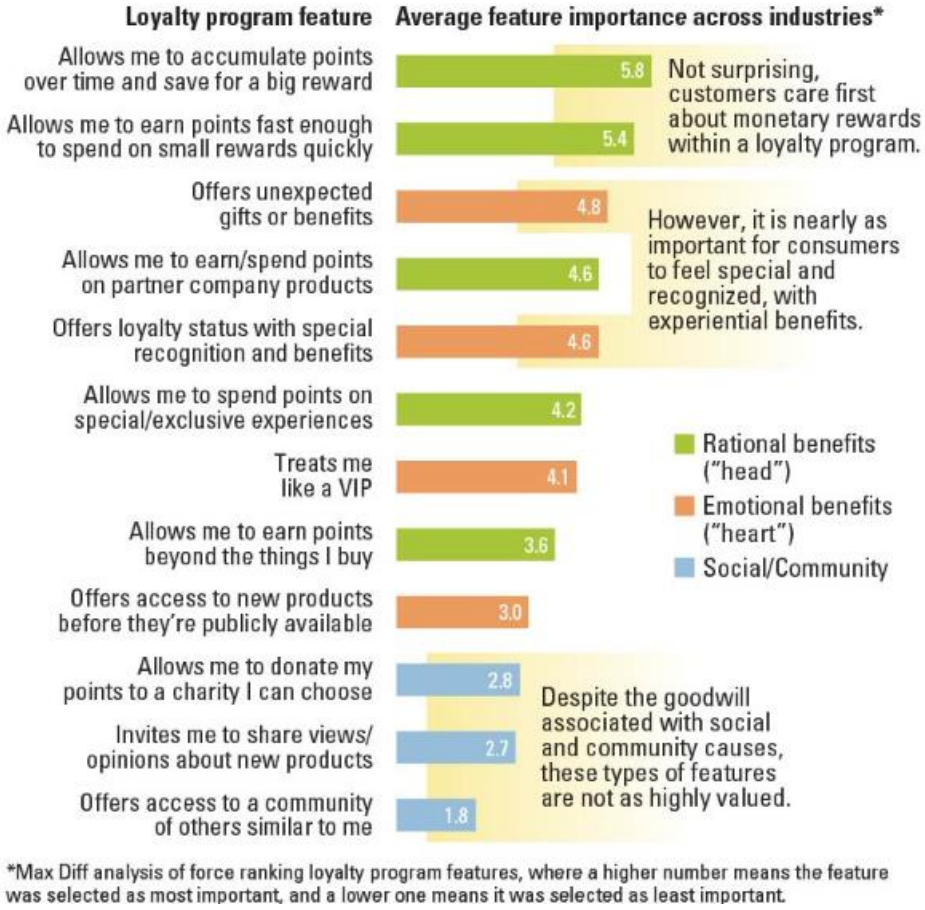

Figure 2.1 What customers value the most in loyalty programs. Retrieved from Huang, Rothschild and Wilkie (2018)

The ultimate step towards a fully experiential loyalty approach is for firms to reward customers because they react and talk about the firm, rather than providing them with gifts only as a direct consequence of a transaction that has occurred. In the context of Loyalty 3.0, sharing content on social media, filling in a survey or using a mobile app are rewarded actions because they require a level of commitment that consumers just looking for the best pricing are not willing to reach. Accordingly, the rewards should go beyond monetary incentives, reaching the experiential needs

of consumers, such as saving time, making things easier, and adding knowledge and exclusive access. In this way, loyalty programs are not competing on price, rather on value, and enable firms to detect their advocates, that are the customers having developed the highest form of emotional bond with the firm.

2.4. OMNICHANNEL LOYALTY

The fast-growing evolution of communication technology has changed within few years both the communication tools a firm can rely on in communicating with its customers and the number of touchpoints between the two parties.

The advent of the digital revolution in the first decade of the new millennium has had an unprecedent impact on human daily life; differently than the previous economic revolutions, it had a huge penetration speed, with the Internet reaching its critical mass in only four years, for example. It affected the production and the diffusion of data, changing the searching and purchasing habits of consumers; it transformed markets into conversations offering, in particular, new ways for firms to relate with their customers. Blogs, virtual communities and social networks have originally been developed to connect single users but their widespread adoption and the attention they caught in terms of time spent using them, has made them attractive for firms too. The creation of online brand communities, the collaboration

with brand influencers, and the creation of business accounts within social media became fundamental for firms to enter into dialogue with the individual customer. (Ziliani; 2008)

Loyalty marketing could not prescind from using the latest communication tools available to interact with the customer, on the contrary, it should serve as a bridge to convey the same message to the customer on all the different platforms available, an element that can drive the firm to achieve an omnichannel presence.

2.4.1. Whatever I want, wherever and whenever I want it

The figure of the consumer has changed as well with the digital revolution; currently consumers are always connected online and are able to get information they need looking at the company's web site, contacting the customer service, browsing the Internet, participating in focus groups, or reading reviews written by others. On top of that, customers have a huge variety of products to choose from and less time to spend in their purchases; they search for the best quality, the best price, and the best service altogether, but their attention span has dramatically decreased. (Ziliani, Ieva, & Borsi; 2018) Being constantly bombarded by marketing advertising, consumers have to select what to remember and what piece of information to discard. Usually, this process occurs at subconscious level but lately, within the social network reality, consumers are actually able to select which kind of communication they want to receive and who to listen to. It is, thus, crucial for

firms to be right where the customer is when he/she is searching for further details or for a direct interaction; managing several touchpoints to ensure that the firm holds the control of the communication and that this latter is not interrupted or altered by third parties.

The availability of different firm's touchpoints, covering both the offline and the online reality, is not enough; the customer has to enable the firm to enter his/her devices and become part of his/her own network in order for the interaction to hold and the relationship to be sustained. Given that customers are currently dictating the terms of the connection, "*communications and engagements must be on demand, engaging and entertaining, and personalized to match their* [of the customers] *communication capabilities, while enabling them to network with the people most important to them.*" (Hlavinka; 2011)

In conclusion, the knowledge of the customer and the provision of integrated touchpoints are the basic elements for a firm to obtain a competitive advantage in the current market framework, because they enable firms to provide customers what they want, whenever and wherever they want to get it.

2.4.2. The effect of channel integration on customer loyalty

The development of different firm's touchpoints does not mean anything if the value communicated to the customer is not consistent; multichannel integration is

essential to build an omnichannel presence. Building a seamless experience across channels requires the investment of significant resources, mostly for brick-and-mortar retailers that have to rethink their strategy and the firm structure to embed an IT division. European retailers, for example, have long thought about the management of the physical and the virtual touchpoints, running them separately, at first, as if they were referred to different customers. Only recently it has become evident that channel integration can be a viable way to deal with non-linear customer journeys and enhance the shopping experience as a whole.

Furthermore, some empirical studies have tried to measure the advantages of implementing an omnichannel approach, investigating how customers respond to it and, more specifically, its effect on loyalty. The first outcome considers the provision of integrated touchpoints as a service offered by the firm, an additional element of value. The possibility to buy a product online and collect it in store or to scan the bar code of a product to get benefits through the app are some examples of services a firm can provide to connect the physical and the virtual realities and increase the level of customer satisfaction. In the second place, customers have been found to be less likely to search for alternatives if they have the possibility to move seamlessly across channels during their purchase process. Combining the two effects, it is clear that multichannel integration exerts a positive influence on loyalty, sustaining it.

One of the biggest concerns that has been preventing brick-and-mortar retailers to adopt a channels integration approach was represented by the possibility of a conflict arising among channels, with customers developing loyalty to the online touchpoint and disregarding the offline one. On the contrary, the existence of touchpoints integration prompts customers to move seamlessly across them and merges the loyalty behaviour customers develop for each of them in the long run. Moreover, data-driven conclusions demonstrate that having an omnichannel approach is particularly effective in developing online loyalty because the physical contact provided by the offline channel is able to lower the barriers of trust a customer may build when approaching a pure online retailer.

Once again, the abovementioned positive effects of omnichannel on satisfaction and loyalty can be enhanced identifying which aspects of the touchpoints are more relevant for the customer, *id est* gathering customer-related information and using it to highlight what the customer appreciates the most. (Frasquet & Miquel; 2017)

2.4.3. Loyalty programs as a driver of an omnichannel experience

Given the importance of providing customers with a consistent experience across all the channels, the loyalty program of a firm should be structured to encompass all of them as well. Actually, the new frontier of loyalty programs expects it to follow the customer in his/her journey across the firm's touchpoints, obtaining a more comprehensive picture of customer's habits and behaviour, and offering an

omnichannel reward that can optimize the micro-moments of customer's life. In essence, the loyalty program constitutes in all respects the main element driving the firm omnichannel strategy.

Implementing a loyalty program, the firm can enter a vicious cycle thereby the more specific data it can collect, the more personalized experiences it can offer, reaching ever higher levels of customer knowledge and satisfaction. The best benchmark for a loyalty program is the one that allows the firm to gather data through surveys or connection with social network accounts; rewards customers also for non-transactional actions, such as comments or shares on online platform; designs the touchpoint interface of each customer in order to show content related to previous interactions with him/her; and offers additional services accessible on specific touchpoints to ease the customer journey, improving the overall consumption experience. (Ziliani, Ieva, & Borsi; 2018)

In other words, omnichannel loyalty is best achieved when it is conceived as a core value of the whole enterprise, having every division of the firm focused on customer care, without neglecting the financial results, of course.

CHAPTER 3: LOYALTY IN THE GROCERY RETAIL

After having described in the previous chapter how customer loyalty usually develops and the general trends in loyalty marketing, it is clear that the topic opens a wide discussion and a more specific analysis on how this concept applies in a given industry is probably needed.

The retail industry has long been interested by loyalty marketing thanks to the direct contact it has with the final customer; recalling the evolution of loyalty programs, indeed, retailers of consumer goods have been the very first firms to adopt such approach, followed by airline companies and firms in the tourism field.

The competitive structure of the industry affects both satisfaction and inertia of customer, having a collateral effect on customer loyalty too. (Li-Wei; 2011) It is therefore necessary to briefly analyse the main features and structure of the grocery retail industry to understand what the main differences or specifications needed with respect to the general framework so far outlined are.

Then, the major loyalty marketing tools adopted by the companies belonging to the grocery retail industry will be presented, in the chronological order of their adoption, describing their mechanisms and their impact on the firm-customer relationship.

Given the importance of creating an omnichannel experience also within loyalty marketing, the chapter will end presenting some of the latest technologies available for the development of a loyalty strategy bridging the online and offline environment.

3.1. OVERVIEW OF THE LARGE-SCALE GROCERY RETAIL

The large-scale distribution formula has recently emerged within a context of deep socio-economic and cultural changes that have led to a more diversified demand for consumption, oriented to the purchase of service-goods; it offers wider product lines, supplementary services availability, and a streamlining of the whole purchase experience. Among the top 250 retailers at global level, more than a half are retailers of fast-moving consumer goods, operating in the grocery industry, an historically low-margin sector that, however, generates two-thirds of top 250 retailers revenue (US$ 2.87 trillion), with the best retailers experiencing a revenue growth ranging between 2.1% and 5%.

At global level, the industry is experiencing a consolidation of the biggest retailer's market share; with multinational companies experiencing high levels of saturation in developed countries, determined by slow economic growth, while facing an evolving competitive environment in emerging economies thanks to the steady

demographic growth and increasing return on investment rates of those countries. Nevertheless, current global trends in consumption are going to change the industry worldwide, greater emphasis being placed on experiences, personal brand promotion, and on-demand shopping needs. Retailers will have to face increasing market segmentation and will probably develop new models to serve customer needs thanks to the adoption of innovative technologies. (Deloitte; 2017)

In order to get a broader view of grocery retail, a better understanding of the main characteristics shaping firms of the industry is probably needed; it could be also relevant to go over the industry evolution over time, from its very beginning, traceable back to the birth of modern supermarket, highlighting the main steps that markedly affected its features, to conclude with current trends.

Afterwards, the overview will focus on the analysis of the industry competitive framework, following the Porter's 5 forces model that is usually adopted to assess the attractiveness of a given industry but, in this case, will be applied to underline the existing power-balances between all the subjects involved in the industry.

A further deepening in the competitive framework of the industry as a whole and, more specifically, in the power balance between grocery retailers and consumer packaged goods producers is then made. A focus is dedicated to private labels, namely the attribute differentiating the most companies in grocery retailing and

representing probably the only physical element that can drive customers toward one specific store rather than others.

3.1.1. The evolution of grocery retail from the first "supermarket" to e-commerce platforms development.

The figure of retailers for consumer goods is relatively recent; with Piggly Wiggly, the first grocery store to be considered a modern supermarket, opening a century ago in Memphis, in the US. For the first time in 1916 shoppers could choose and take goods on their own, without passing their shopping list to a clerk, with products arranged in the store according to customers' shopping behaviour. The capability to offer products at lower prices prompted the spread of the modern supermarket formula in the US after the Great Depression of 1929, proving to be successful during World War II, and entering Europe in the '50s. (Ross; 2016)

Initially, grocery retailers represented mere intermediaries, playing the role of bringing the products of big manufacturers right next to where the customer was at the manufacturer conditions, that is the manufacturer established the pricing, advertising, promotion and held the brand. The power balance in the grocery industry soon underwent substantial modifications as a direct consequence of ever-changing consumption patterns, with the figure of the retailer gaining higher relevance. The possibility to establish close relationship with customers and know them, indeed, enabled retailers to get direct market feedback and to grow more and

more power over manufacturers; retailers started to have an increasing stake over producers in the communication towards consumers and in offering discounted prices. (Evans; 1999)

The competitive structure of grocery retailing has gone through major changes in the post-World War II period, when, in Germany, Aldi proposed an innovative solution for the industry, giving rise to the hard-discount. Originally, it was thought as a shop offering a wide range of products, generally of low quality and price; within few years, however, the hard-discount evolved, developing the ability to offer very low prices no more affecting the quality of the product but streamlining costs and investments. The strengths of the discount can be summarized in:

- Exploitation of large-scale economies, offering a smaller variety of fast-moving consumer products, usually unbranded, in partnership with few international suppliers.
- Reduction of packaging and personnel-related costs
- Targeted investments to increase productivity, accurate planning of shop and warehouse location, and optimization of the supply chain.

The hard discount formula spread soon across Europe and the US, successfully meeting the customers' needs in a period of both high price levels and consumption crisis. The proliferation of hard discount openings was outstanding, but not all of them were capable of meeting the characteristics of the formula and, consequently,

many had problems with product range management, ensuring competitive prices, or organizational preparation. Nonetheless, the successful ones caused a significant change in the grocery distribution market, leading to the introduction of low-price products in the product line of every retailer and the adoption of aggressive promotional policies; causing a general decrease in prices and margins. Since a price policy based on continuous promotions is not affordable for every retailer, some of them needed to undergo an internal restructuring in order to survive in a competitive environment heavily focused on pricing. (Basile & Garosci, 1995)

Despite some changes in formats, the grocery retail industry has experienced a steady growth until reaching a plateau in the latest years, caused by a geographical saturation of stores, with some chains still opening new stores in spite of others closing them. However, with digital natives at the beginning of their working careers and starting to form households, a new trend in grocery retail will probably shape the years to come, with the use of e-commerce also for grocery. While the use of typical e-commerce features such as home delivery, in-store pickup, and virtual supermarkets will probably increase in the near future, shoppers will definitely not abandon brick-and-mortar stores because they are not willing give up on the powerful sensory experiences and the pleasant human interaction a physical store offers. Consumers will probably no longer shop entirely online or offline, rather they will take a blended approach by choosing the channel that best fits the

need of the hour; hence, savvy retailers should start to work with the latest technologies available to provide consumers a tailored shopping experience. (The Nielsen Company; 2015)

3.1.2. Industry analysis

In order to get a general overview on the main features shaping the large-scale distribution industry competitiveness, the Porter's 5 forces model is worth being recalled since it provides the structure for a comprehensive analysis of all the players involved in any industry, from the potential entrants to the potential substitutes, from the suppliers to the customers, without overlooking the rivalry among existing competitors, as figure 3.1 briefly recalls.

Figure 3.1 Poter's Five forces model for industry competitiveness. Retrieved from https://www.business-to-you.com/porters-five-forces/

Analysing the characteristics of the grocery retail industry, it appears a mature market where the existing competitors are large-scale, dominant players operating at national or international level, splitting almost evenly the market share among them; competition is mostly based on four elements: store dimensions, store location, operation management, and company image. While store location and dimension may vary considerably across points of sale within the same retailer, an efficient store management in terms of stock management, pricing policy, depth and width of product range, and customer service, along with investments on the communication of a coherent image are firm-specific characteristics that significantly contribute to the differentiation of a retailer from its competitors, being the main sources of competitive advantage. (CESCOM, 1986)

Besides displaying the characteristics of a mature market, with small growth rates and few big competitors, the industry is not attractive for potential entrants because it requires its operators to implement economies of scale to be competitive, which implies that high capital requirements are needed. On top of that, the existence of strict regulations on food processing and food handling, the level of territorial spread that already existing firms have reached, and the nearly null costs that customers have to face when switching among competitors represent further barriers to entrance. Combining all the above-mentioned elements, it is straightforward to assume that the threat of new entrants is very weak.

Being the industry under analysis the evolution of the intermediation role played by dealers in getting manufacturers' products to the final customers, potential substitutes are limited to producers developing their own sales channel or companies operating on different platforms than the traditional "brick and mortar". While the first is probably not going to have a significant weight in the large-scale grocery industry because it would presumably be confined to a local dimension, with limited product range, the second should be conceived as the future development of the industry, a growth opportunity that companies should not miss. Actually, as it will be explained more in detail further on, it is the change in customer behaviour that is fostering the development of an omnichannel shopping experience in the grocery industry that shall comprise the digital world too[13]. In particular, the higher emphasis consumers give to the time spent is nurturing their demand for e-commerce platforms where it is possible to buy food products and get them directly delivered at home.

Notwithstanding what has been stated above, in an industry characterised by few potential substitutes and high barriers to entrance, like the grocery retail industry, the vertical competition along the supply chain assumes greater relevance than the

[13] The biggest threat in this sense will be represented by owners of e-commerce platforms that are already able to deliver a wide range of products directly at home. Current trends show, however, a cooperation pattern among digital platform owners and traditional grocery retailers, the recent acquisition of Whole Foods by Amazon and the partnership between Google and Walmart are some examples of that.

horizontal one and the power balances among grocery retailers, their suppliers, and their buyers have to be clearly depicted.

Since the buyer is the final consumer, the former holds a modest bargaining power on the whole grocery industry. Indeed, the large number of customers scattered all around the territory where the grocery retailer operates, and the relatively small size of each purchase makes it possible for the single buyer's choice to have almost no relevant impact on the company performance. Moreover, given that the product sold is a commodity product, the customer usually skips the information gathering phase and is more likely to be subject to impulse purchases, leaving to grocery companies a stake in influencing customer's decision process. However, being distributors of consumer-packaged goods, retailers are required by consumers to provide products of renowned brands[14], resulting in very little differentiated offers in terms of product range; consequently, buyers can easily switch among competitive retailers to get what they are searching for without sustaining significant costs. Furthermore, the high sensitiveness of consumers to prices contributes to increase the level of bargaining power buyers hold over retailers; the phenomenon is further emphasized in recession phases of the economic cycle.

[14] Actually, only few discounts that base their strategy on offering solely low-price products do not offer branded products at all, the other competitors do not diversify product range much, but through private label and small local manufacturers' products.

The bargaining power of suppliers is, instead, more complex to analyse because the relationship between manufacturers and distributors is based on both competition and cooperation. If, on the one hand, retailers are required by consumers to display the products of the biggest consumer packaged products, on the other hand, smaller producers that have not developed a powerful image have to pay the distributor a fee to have their products displayed on the shelf. Similarly, the small or medium size producer is more likely to partially lose control over some marketing features since the retailer plays a significant role in the promotion and pricing of the product. In addition to that, the proximity to the final consumer gives retailers an informative advantage over producers, knowing what consumers are searching for and what they appreciate the most, they can gather useful market information for producers. In particular, after the digitalization of payment systems with the introduction of Electronic Point of Sale (EPOS) retailers acquired the capability to gather detailed information on purchase patterns, so that retailers can possibly dictate manufactures which products to produce and at what price to sell them, gaining a great market advantage over producers. (Evans; 1999)

3.1.3. Retailers versus manufacturing firms: The role of Private labels

One of the first elements that have shaken the most the retail industry for grocery products is the development of private labels, a term that refers to all the products sold under a brand owned by the retailer. The introduction of products whose

qualitative level is guaranteed by the retailer itself, has namely upset the power balance among the industry competitive forces. As the territorial presence of competing retailers increased, the localization advantage a retailer could gain over its rivals on a certain geographical area slowly vanished and retailers with similar cost structures, offering similar services, and displaying the same branded products could only compete on prices. A competition based solely on prices, however, was not sustainable in the long run as retailers could not afford to erode their margins with the aim of selling at the lowest price. The development of private labels has been an optimal solution: not only it gave retailers the possibility to search for profitability conditions in the supply chain, asserting their bargaining power and further strengthening the competitive/cooperative relationship with suppliers but it represented also a new element of differentiation among existing rivals. (Pellegrini & Zanderighi; 2013)

More specifically, the introduction of private labels had a twofold effect on the vertical structure of the industry, representing an element of direct competition for some producers that started to see their market share being eroded, with a negative effect on sales and profits; while it has been a valuable resource for others that entered in close partnership with their buyers. As far as the first effect is concerned, the private label may encompass a wide range of products, directly competing with the ones produced by food manufacture firms on price, quality, and, ultimately,

shelf placement. The most widely recognized form of private label is certainly the "store brand", that is products with the same brand of the retailer's stores, or "own label", a unique label identifying the products exclusively sold by the retailer; both are usually up to 30% cheaper than branded products of market leaders but have a similar quality. Nonetheless, retailers do not compete with leader producers only, in fact private labels include "premium prices", too, used to identify the cheapest products a consumer can find in the store, with no proper brand development but the use of simple sales names, clearly competing with producers products on prices. (Riboldazzi; 2007) As a consequence, manufacturing firms in the grocery industry are almost forced to choose among some alternatives: either they cooperate with grocery retailers or they increase their investments in communication, product development, and trade marketing with the aim of creating their own strong brand; or else, they can search for synergies and partnership with other firms in the same industry to take advantage of the large-scale economy features; eventually, they can try to position their products in a low-end, in between the leader branded products and the lowest price ones. (Basile & Garosci, 1995) Partnering with retailers has some benefits for producers, among which the possibility to increase their production capacity and their capability to amortize fixed costs through the exploitation of firm unused capacity; the possibility to maintain their market share;

the optimization of the relationships with their direct buyers[15]; greater in-store presence of their products; and higher efficiency of product transportation.

Retailers, conversely, are generally not willing to sustain the development costs of a product, nor the whole production process, many of them prefer to devote their competences and investments to the company's core business. Consequently, retailers need to establish a cooperation with food manufacturers to produce private labels and, to do so, they usually refer to the so-called "copacker", a manufacturing company that is willing to both develop its own brand and cooperate with retailers. Along with the afore-mentioned differentiation advantage and the reduction of a potentially harmful competition based on price, the use of private labels brings several other benefits for grocery retailers. *In primis*, it increases significantly the profitability of retailers that can get higher margins from those products than from the sale of products with industrial brands; then, it is likely to consolidate the whole retailer's image if the experience with the private label product is positive and consistent with the retailer positioning; and, since customers love variety, providing them with different solutions to their different needs can enhance their satisfaction level. On top of that, retailers can use the customer-specific knowledge they have to develop products that are more respondent to consumers' consumption patterns and, more relevant for the purpose of this work, to increase customer loyalty as a

[15] Retailers are the direct buyers of food producers

whole. To that end, offering private labels products, retailers can develop a "dual loyalty" affecting the consumer's relationship with both brand and store because, on the one hand, the store image and quality of the service is translated to private label products; on the other hand, if customers are satisfied by the private label product and want to buy it back, they have to go to one of the respective retailers' stores to get it. (Riboldazzi; 2007)

3.2. LOYALTY MARKETING APPROACH IN THE INDUSTRY

The large-scale distribution has always been dealing with a mass-consumption market characterized by a large number of customers, low unitary value of each transaction, and rather high purchase frequency, that seem being distant from the relationship marketing logic. Originally, consumer packaged goods manufacturers have introduced some relationship marketing features to get rid of the distribution channels, to have a chance to know their final customers, and to gather information on market trends. Until the first years of the 21st century, goods' packages represented the instrument through which manufactures could establish a contact with final consumers, but soon the potential of retailers in this field started to be investigated.

The paradigm shift in marketing from a product-centric approach to a customer-centric one has soon involved grocery retail companies, too, leading to significant investments in loyalty program development within few years. Consequent positive economic results deriving from the implementation of loyalty programs were evident: As retailers adopted loyalty schemes, they were able to attract more spending, to have access to a wealth of data related to consumers' behaviour, and, consequently, to match special offers with target customers.

Besides what has been previously outlined on customer loyalty, it is important to investigate now the specific features affecting customer commitment and trust and what impacts on customer loyalty in the specific case of the grocery retail industry. A historical approach to loyalty programs evolution within this specific market environment is then provided, moving from the very first forms of loyalty program adopted by grocery retailers to the currently widespread solutions.

3.2.1. Loyalty schemes

As for every other aspect of loyalty marketing, the way a loyal customer behave may differ according to the business environment he/she is interacting with. As previously mentioned, in the grocery industry some drivers of customer satisfaction and loyalty can be identified, price and quality being the principal attributes a consumer looks for when deciding what retailer to choose for shopping, as clearly depicted in figure. 3.2. Convenience and special promotions are other significant

factors that lead consumers choose one retailer out of many others, partially explaining why, within loyalty marketing, much attention is commonly put in offering discounts or custom promotions. Some store-specific characteristics such as product assortment, cleanliness, and staff are also taken into consideration in the decision-making process during the path to purchase, with assortment being mostly relevant for European consumers. (The Nielsen Company; 2015).

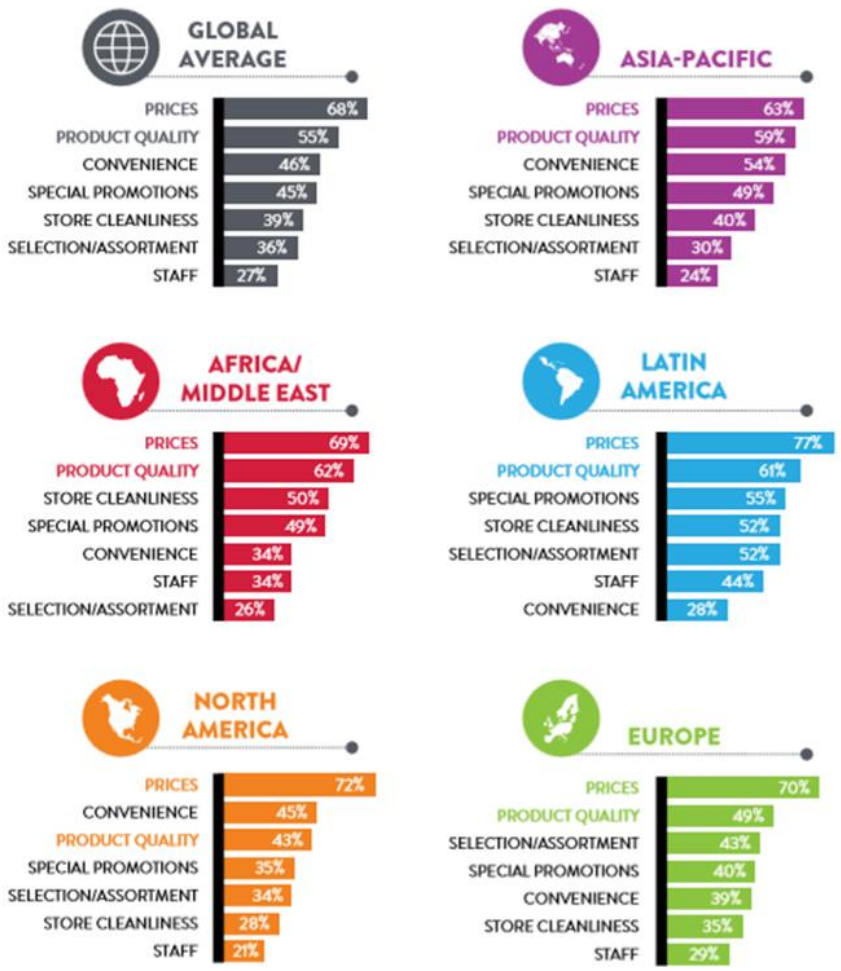

Figure 3.2 Attributes consumers look for when choosing a retailer. Retrieved from The Nielsen Company (2015)

Originally, loyalty to a store was also determined by its location, with customers evaluating also the effort put to get to the store and often preferring not to walk by a store to get to another one inconveniently located. Nowadays, the exponential proliferation of store openings has led to a geographical saturation, making available to customers many very close stores of different retailers, and many other easily reachable stores; so that consumers have plenty of options to choose from, all with almost equivalent proximity. (Chahal; 2017.02.20)

In such a highly competitive framework, characterized by very little offer differentiation, the consideration of the attitude towards potential alternatives is critical in identifying true loyalty. In this regard, a 1994 study conducted by Dick and Basu is worthwhile being mentioned: As shown in figure 3.3, both repeated interaction with a retailer and what can be defined as "relative attitude"[16] should be considered in assessing the level of customer loyalty. More in detail, if the customer often chooses one retailer over the others but shows similar attitudes towards the alternatives as well, it is not possible to conclude that the customer has developed a form of loyalty to the retailer. In this case, indeed, the customer behaviour can be explained by a weak preference of the given retailer combined with a stronger dissatisfaction for its alternatives. When other factors such as the geographical proximity of the store or the economic convenience gain relevance, repeated

[16] Relative attitude is the result of positive attitude towards the retailer taken into consideration and the attitudes towards its competitors.

transaction in a store may increase considerably, without affecting the customer's attitude, though; it comes down to what is considered "spurious loyalty". On the contrary, "latent loyalty" is defined by a strongly positive attitude towards the retailer taken into account, which some external elements hamper, resulting in few repeated transactions. Only when the customer has both a strong preference for the retailer over the alternatives and a high level of reiterated interactions with it, we can talk about true loyalty.

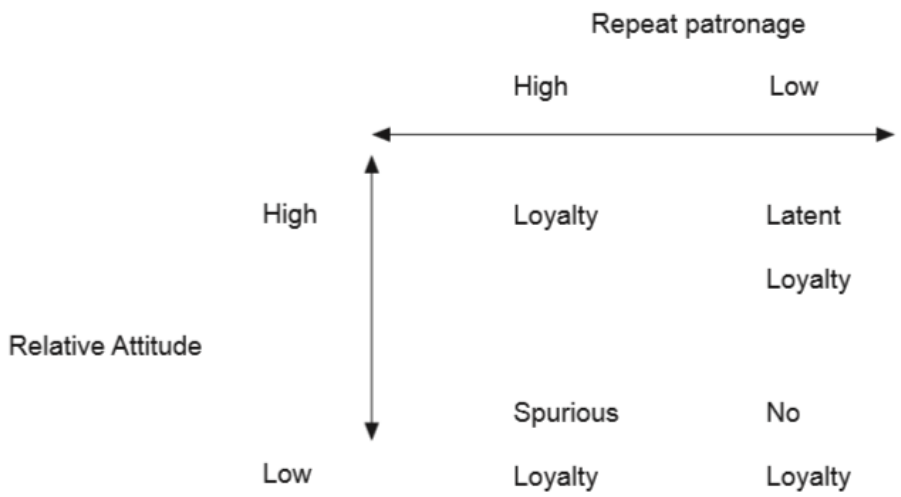

Figure 3.3 The attitude of a loyal customer in the retail industry as depicted in the work of Dick and Basu (1994). Retrieved from Evans (1999)

A retailer in the grocery industry can take action in this framework; it can acquire data on customers with the primary aim of understanding how to improve their positive attitude or how to stimulate customers to choose its stores for their purchases. By means of a loyalty scheme, for instance, it is possible for a firm to offer experiences that are differentiated from the ones of its competitors and to go

beyond the levels of attractiveness traditional sales promotion discounts can reach, inverting their long-term effects[17].

Generally speaking, the loyalty schemes adopted by grocery retailers can be traced back to one out of three program types: the "points and prizes"; the "plateau, perks and prizes"; or the "simple membership". The first one recalls the very first attempt to prompt repurchases, the old Green Shield Stamp scheme, requiring customers to collect points in order to claim the corresponding reward. As the name suggests, with the "plateau, perks and prizes" scheme customers are rewarded upon reaching a given amount of spending and special treatment is provided for customers moving from one target level to the next one. The last one requires an up-front commitment of the customer that, trusting the firm, is willing to pay a membership fee to obtain discounts and exclusive offers. (Evans; 1999)

3.2.2. Boosting repurchase trough collection building

The first forms of loyalty programs, as stated in the previous chapter, had the main objective of incentivising customers to improve the frequency or the economic value of their visits. With this aim firms have introduced promotional bonuses that can be collected to obtain a reward when a given target is reached; it appeals, hence,

[17] Empirical data reveal that constant discounting has only a short-term benefit due to a temporary increase in sales; while it has disrupting effects in the long-term. Keeping on offering coupons and discounts accustoms customers to get low prices, hence, it endangers loyalty, reduces firm's profitability in the long run and does not make it possible to use pricing as a strategical leverage.

to the customer's behaviour only. The concept of loyalty marketing has evolved since the introduction of this basic tool, following the shift from a transactional to a relationship marketing approach, from a product-centric vision to the increasing relevance of experiences. Nonetheless, collection building is currently still used, *in primis* by large-scale grocery distributors, within more complex and sophisticated loyalty programs that merge it with innovative tools.

Offering one point for every x amount of money spent in each bill is the most widespread formula of building collection, which offers the retailer the possibility to design a thorough program simply setting its regulations. First of all, the length of the collecting promotion should be established as the time needed to nurture customer's loyalty. For example, a very short term is usually set in stores highly affected by seasonality trends, while offering a wider period or even the possibility to transfer unused bonuses to following promotions allows customers that have been patiently collecting points to redeem significant rewards. Usually, the value of the "x" is correlated with the average amount per purchase registered in the store; however, it may also vary in relation with the message it wants to convey to each customer segment. A minimum threshold can be set to preclude small spenders to get bonuses or to encourage customers to focus their purchases in fewer but major shopping expeditions; while increasing bonuses may favour big spenders to obtain consistent rewards. Ultimately, firms should wisely establish redemption targets,

providing a number of targets that is consistent with the customer segmentation, with the minimum and maximum targets being slightly above the spending range of, respectively, the lower and the upper segment.

The basic tool so far outlined can be further enriched through the introduction of some elements like:

- Providing a rewards catalogue through which the firm can offer its customers a greater amount of rewards that are grouped in thematic areas; because of its structure, the catalogue involves all the family in the selection of the specific reward the family as a whole would like to get.
- Requiring a monetary contribution in place of some points; it makes the promotion dynamic and more attractive[18], but it may also cause rewards getting higher customer attention than retailer's products and brand.
- Offering additional bonuses linked with the purchase of specific products, usually products with the private label of sponsoring partners.
- The piece-a-week, where customers are invited to collect rewards instead of collecting purchase-related bonuses. With this latter tool firms usually set minimum bill value to obtain the weekly reward and encourage customers to purchase regularly; obviously a customer care service should

[18] If customers have the possibility to pay a given amount to make up for the lack of bonuses, they are able to get high value useful rewards, they couldn't have obtained otherwise.

be provided to deal with customers that have lost the chance to get one or few items of the collection. (Castaldo & Mauri; 2002)

3.2.3. Loyalty cards

As firms in the grocery industry enlarged their business, achieving considerable dimensions, loyalty programs grew in complexity and loyalty cards started to be introduced. At promotional level, cards are a mean to convey sales promotions, actually, they embody a huge potential by establishing a direct point of contact between firm and customer and providing the firm with the flexibility it needs to introduce innovative features in its loyalty program. As a matter of fact, the collection and constant update of data, allowed by the dissemination of loyalty cards, builds a wealth of knowledge that represents a unique and original resource, the source of competitive advantage for the firm and of nourishment for customer's trust. Therefore, the management of a program based on loyalty cards requires the establishment of dedicated resources, it should be an integral component of the customer relationship management and keen on customer care.

The first cards that appeared on the market were an extension of the stamps' mechanism, allowing customers to collect points, registering them, along with the list of purchased items, on the magnetic strip of the card. The adoption of loyalty cards spread rapidly within the grocery industry, so that some of them started to provide additional functions as payment and credit services.

The introduction of loyalty cards has experienced a solid success within few years, the number of cardholders has grown exponentially, covering more than ¾ of the firm turnover and with a minimal percentage of inactive cards. It went from involving a homogeneous elitist group of consumers already having a relationship with the retailer, to a mature stage involving a broader range of consumers that can be segmented. Thanks to this latter phase in loyalty cards evolution, firms could both attract new customers and improve the opportunities of use of the card to increase the share of wallet of loyal customers (Castaldo & Mauri; 2002)

Technological innovation has allowed since the '90s the introduction of smart cards, loyalty cards provided with a chip on which cardholder information can be stored but, paradoxically, its implementation in the grocery industry has been very weak so far. Yet in 1990 shoppers in the US were able to log on with their smart card when entering a store and obtain targeted offers; within few years also a UK supermarket group started analysing "*customers' shopping baskets at the checkout and generate on-the-spot offers tailored to them*", while another one was using data retrieved from smart card to segment its customers and delivering to each segment a different communication. (Evans; 1999) In the 21st century, however, the use of the smart card is still at an introduction stage in most countries, and too few grocery retailers have recognized the relevance of this tool and have implemented it in their loyalty program. (Capizzi & Ferguson; 2005)

Despite the positive results obtained using loyalty cards, this marketing tool does not ensure firms that all the cardholders they have registered are loyal customers. Recent trends in mature markets of western grocery retailers, in fact, demonstrate that the vast majority of consumers take part to several loyalty programs, even holding cards that belong to competitive firms. "*The technology of loyalty cards allows retailers to transform cold data on consumer behaviour into warm relationships and eventually into a genuine customer loyalty founded on mutual understanding and trust*", but something is still missing: card loyalty. Some issues connected with loyalty card management, most evidently in the grocery industry, have been preventing it to flourish. Among them, the manifest similarity of the overall programs across firms and the inability of retailers to clearly communicate a competitive position, both consequences of me-too loyalty marketing approaches, but foremost, the lack of resources to process the huge amount of data collected with cards. Retailers should consequently grow more sophisticated in shaping loyalty programs and start using cards to develop and communicate micro-marketing promotions to the customer, thereby demonstrating to card holders the inner value of card usage. In this way, customers will probably be more incentivized

in its regular utilization, recognizing that the cost[19] they have to sustain to get a valuable benefit is worthwhile. (Mauri; 2003)

In general, a reappraisal of loyalty cards is needed; offering customized features, partnering with other business operators, and adopting a loyalty program based on more experiential rewards rather than functional benefits are some possible viable solutions to be implemented by grocery retailers. (Cedrola & Memmo; 2010)

3.2.4. Coalitions

One of the first forms of partnership in loyalty marketing to emerge for the grocery industry is the coalition; initially managed by third-party marketing company, coalition loyalty programs constitute a valuable element of differentiation from competitors and meet the consumers demand for higher reward flexibility. The value of a partnership in loyalty marketing has long been discussed since it benefits its participants but brings with it some drawbacks, too. As any other partnership, coalition drives clear economic advantages; as a matter of fact, it allows each firm involved to share with the others R&D investments, program launching costs, and other operative costs, leaving a higher spending capacity for loyalty rewards; consequently, it enables firms to offer to consumers rewards of greater value.

[19] Almost all the cards issued by retailers in the grocery industry are characterized by a free subscription but obtaining program benefits requires the commitment of the cardholder to use the card at every purchase and to follow the retailer suggestions to buy specific products.

Moreover, within coalition programs, consumers get the possibility to reach higher redemption targets since those are based on the sum of their purchases made for a vast variety of goods, from food products to fuel, or even for services, from banking to telecommunications. Thanks to the coalition structure, indeed, the brand of a single grocery retailer gets included in a broader network of firms that comprehensively meets consumer needs, beyond the foodstuff, allowing the loyal customers of a partner to refer to the other firms of the coalition and get to know them better. In this way, member engagement in the program is enhanced and firms have the opportunity to acquire a larger base of profitable customers by establishing durable relationships with them.

Given that in the coalition all the partners are identified under the same loyalty program, the choice of the firms involved is crucial, their reputation, indeed, affects meaningfully the perception the customer has relatively to the brand of each partner. Being such loyalty program initially managed by third party intermediaries, the individual retailer had no discretion in the decision of the firms that could enter the coalition, therefore retailers risked being involved in a loyalty program that included also brands with a different image, retailers with a distant vision, or firms with different targets. (Ziliani 2008) In addition to that, when external marketing companies run the coalition loyalty program, they generally do not gather all the purchase records but data on the amount of money spent only, thus not enabling

firms to deepen their customer specific knowledge or to share such data with partners. To cope with the above-mentioned risks and limitations, new forms of coalitions have appeared, with powerful consumer brands managing the whole program and deciding upon coalition membership.

The coalition ends up becoming a self-sustained ecosystem made up of some earning partners where the customer goes to for everyday spending and experience providers partners offering rewards that motivate the customer to collect points. This innovative form of coalition that gets rid of mediators has been a remarkable solution for grocery retailers that often represented the central brand of the coalition, capturing much of the value of the program, owning all the high-quality data collected, and being able to give to their frequent customers personalized offers, consequently widening the base of loyal customers. Less powerful partners, instead, couldn't get the same results, remaining with almost the same rate of loyal customers they already had before and no additional information on their consumption behaviour; to cope with this power imbalance within the coalition, some decentralized brands coalitions have recently emerged.

Thanks to greater cohesion among all the partners, the latest loyalty coalition model is able to create a more integrated loyalty journey for the customer, leading all the partners to get greater share of wallet, to increase their loyal customer base, and to access to valuable shared data. At the same time loyalty program development,

follow-up, and modernisation require a greater amount of time given the horizontal structure of this latter coalition model that treats all partners as peers and, thus, requires the consent of each of them in the decision-making process. (Ehredt; 2018)

Whatever the coalition model is referred to, it should be recalled that, within coalition loyalty programs, grocery retailers usually become predominantly "earn points", that is stores where consumers go to reach a program target through daily spending, while the so-called "burn points" are generally associated with firms that offer more expensive services and products, purchased once in a while, like travel agencies or airline companies. Therefore, providers of common goods like grocery retailers and fuel stations should always be included in a coalition loyalty program to achieve critical mass in equity accumulation for both partnering companies and loyal customers.

It is worth mentioning that there is worldwide discrepancy in the adoption of coalition loyalty programs; some countries have long been experiencing the coalition formula in loyalty marketing obtaining great outcomes, while in other countries coalitions registered failures or have not been implemented yet. In the US, for example, the development of such loyalty programs has encountered substantial obstacles scholars have traced back to the little interest shown by national grocers in participating and to the strong propensity to protect brand reputation from any possible risk. (Capizzi & Ferguson; 2005) The fact that coalitions cannot be treated

in the same way in different countries but need to be adapted to the specific socio-economic environment of each country is further reflected by empirical evidence; the clearest example of that being the recent Italian failure of the Nectar® program[20] that, instead, has proven successful in UK, where it involves more than 50% of Britain costumers and still drives profits for the national grocery retailer Tesco. (Pacifico; 2015)

3.3. LATEST TECHOLOGIES FOR AN OMNICHANNEL LOYALTY

Building an omnichannel loyalty program requires the retailer to be present both in the offline and online environment right where the loyal customer is, establishing more than one touchpoint where a meaningful dialogue among the parties can be held. To achieve a relevant omnichannel presence, though, being online with the retailer website to provide general information related to retailer's vision, store location, or loyalty program regulation is not enough; retailers have to adopt some other solutions that truly connect the two realities.

[20] The failure of the first coalition loyalty program that has been introduced in Italy has be ascribed to the absence of a partner from the grocery retailer industry after Auchan left the coalition in February 2015. Actually, future research on the topic should better search for the grounds of failure in the reasons that prompted the group to leave the coalition in the first place. It could be also relevant to figure out whether the failure of the coalition loyalty program has a role in the following severe economic difficulties of the group that led to its recent acquisition by Conad.

The click-and-collect service is undoubtedly one of the most spread features being implemented by apparel and electronics retailers to sew the offline and the online world, but it should be considered by grocery retailers, as well. According to a research survey conducted on a sample of consumers, indeed, more than ¼ of consumers finds desirable the possibility to buy groceries online for in-store pickup, with the percentage reaching almost 50% of Millennial consumers. However, this is only one step towards a fully integrated omnichannel strategy, that should "*include interactions at every point along the path to purchase*", both out and in store, favouring higher customer engagement and innovative shopping experience. (Driggs; 2016.04.13)

Some of the latest technological trends can be implemented in the development of loyalty marketing strategies to achieve such results, representing both a useful way to gather data for retailers and sources of added value for consumers. As at 2015, only a small percentage of shoppers had the possibility to use some in-store digital innovations, but the willingness to use them reached the vast majority of consumers, slightly more in some countries of Asia and Latin America, then in developed countries of North America and Europe, though. (The Nielsen Company; 2015)

Figure 3.4 Percentage of consumers already using digital tools in store or willing to use them by geographic area. Retrieved from The Nielsen Company (2015)

The present work will focus on and analyse more in depth only two of the latest technological tools that are currently emerging in the grocery retail industry and

may significantly impact loyalty marketing, bridging the digital within the in-store reality, namely, mobile applications and RFId.

A glimpse on the foreseeable future of the industry in providing customers with meaningful omnichannel experiences thanks to the use of new technologies is then offered, holding Amazon up as an example of how, also in the grocery retail, machine learning algorithms can be implemented to analyse customer behaviour and provide omnichannel experiences.

3.3.1. Mobile applications

When considering an omnichannel approach, it is critical to keep in mind the role of mobile phone as one of the major touchpoints for establishing a direct connection with the single customer. After being introduced in the '80s, the mobile phone underwent substantial changes that, in the first place, transformed it into a primary need in developing and developed countries, and revolutionized its role in communication trough exponential technological innovations. Currently, smartphones allow people to be always connected, wherever they are; phones are not only used to communicate with other people but also to get informed on what is going on, to know more about a product, compare its price on different retailers and, eventually, shop online. As far as the digital channel is concerned, the relevance of mobile devices as touchpoints for retailers and consumers has been steadily increasing over the last years, since, as shown in figures 3.5 and 3.6, and

despite the enduring trend of multi-platform access to online content, people tend to spend on average more than double digital minutes on mobile platforms than on computers, with the smartphone being the dominant platform.

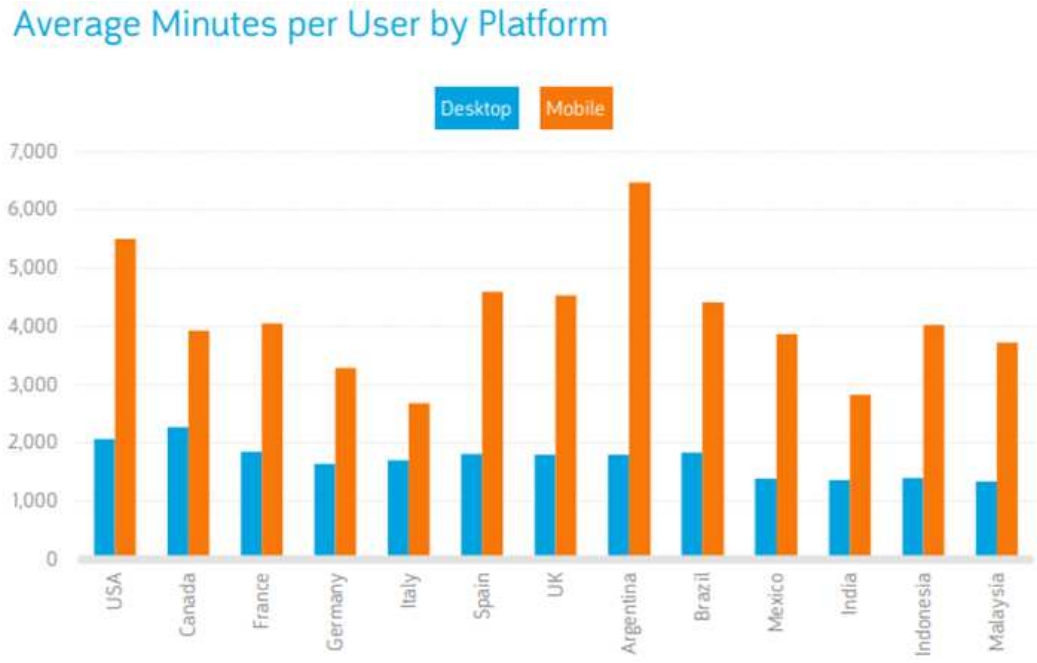

Figure 3.5 Average digital minutes per user by platform for some sample countries. Retrieved from ComScore (2018).

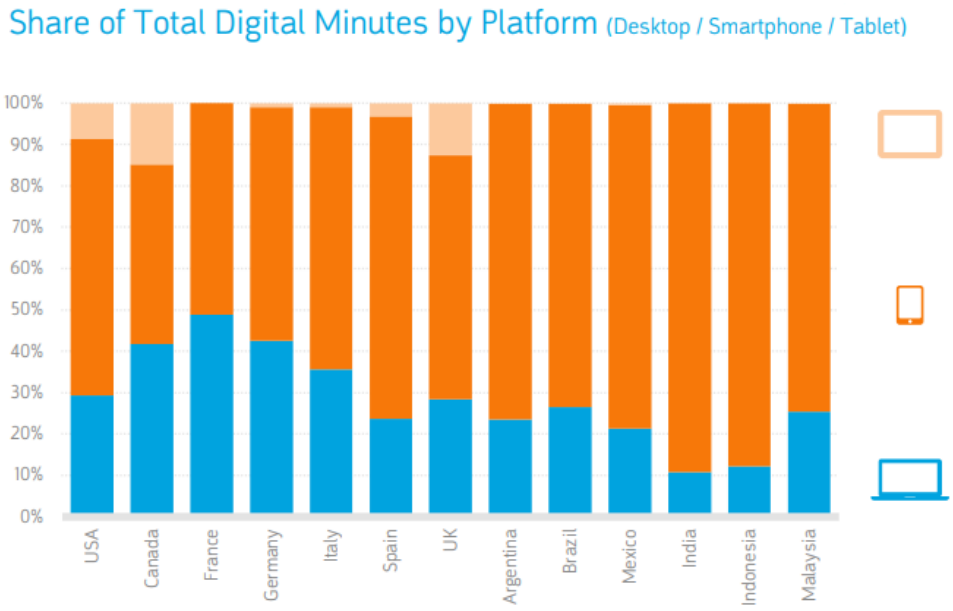

Figure 3.6 Share of total digital minutes by platform; with mobile in orange, lighter for tablet and darker for smartphone, and blue for computer. Retrieved from ComScore (2018).

Given the frequency of use of mobile devices, it is crucial for retailers to appear on customers' personal devices but providing mobile-optimized versions of official websites[21], sending customized SMS and e-mails may not be enough to nurture a close relationship, nor customer's loyalty. Actually, according to the data collected by ComScore for its international report on the state of digital, shown in figure 3.7, the time spent on mobile devices is mainly devoted to the use of applications, consequently, retailers should better invest in their development.

[21] It may seem obvious, but it is wise to recall that the way a content is seen on desktop and on mobile devices is not the same; many websites are still not easily accessible by smartphone and, when this occurs, 61% of the visitors will leave the web page and go to a competitor's one, referring to Google statistics. (Ingram; 2016)

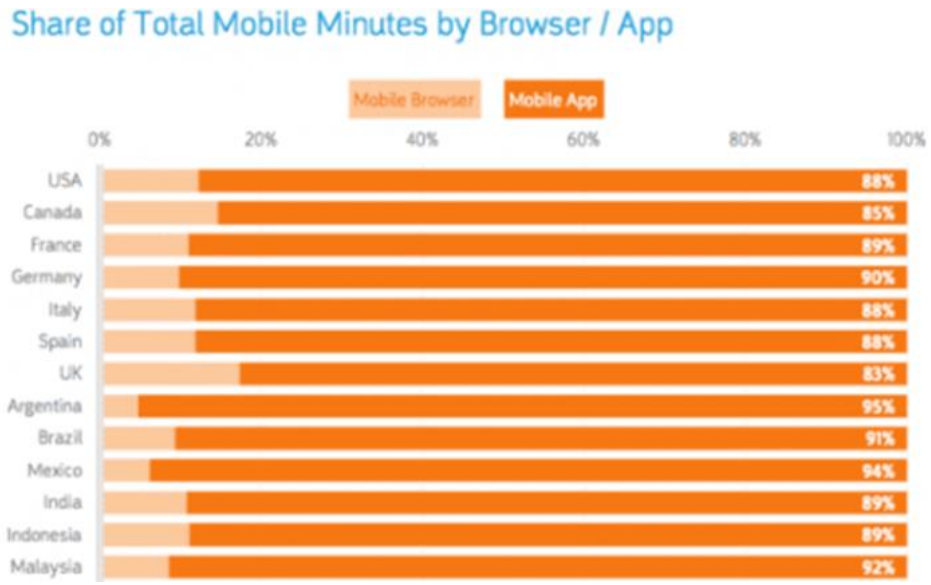

Figure 3.7 Distribution of digital minutes spent on mobile platforms by use. Retrieved from ComScore (2018).

The mobile application represents a useful tool for retailers, too, in that it may allow these latter to capture additional data that a simple loyalty card cannot detect; for example, it may register what store a customer is shopping in, possible trends in dietary needs, types of products of major interest and whether the customer ends up buying them or not. Those data are extremely useful in forecasting market trends in general and in matching specific customer needs with customized offers and communications, giving retailers the possibility to provide a hyper-personalized shopping experience.

The use of mobile applications to integrate or even revolutionize loyalty programs requires retailers to offer on the mobile platform additional services that may help customers make their shopping experience faster and more suitable to their needs.

The very first elements of attractiveness for grocery retailers' mobile applications are undoubtedly the possibility to save money through exclusive offers available with the use of the application, targeted promotions tied to the loyalty program, or the availability of digital coupons. Among the most appreciated features a loyalty program can offer to customers on mobile devices there is building shopping lists by scanning physical products at home and selecting them from the record of previously purchased products or from the ingredient list of the recipes they want to recreate. Providing shoppers with creative recipes, cooking advices or other original added content is likewise a pleasant reward for loyal customers; a reward that can be delivered even on a daily basis, strengthening the relationship with the retailer regardless of the purchase occurrence. (Mastroberte; 2014) A further service that can be offered on the mobile device to create a seamless shopping experience and nurture customer's loyalty at the same time is mobile payment; on the one hand, it encourages customers to use the mobile application while they are in store to speed up the checkout process, on the other hand, it allows retailers to implement a tier system and offer rewards of higher value to whom uses the application the most. On top of that, geo-localisation features can be employed in the development of mobile applications to meet the increasing demand for real-time personalized offers and target people in store or nearby one of the retailers' shops with relevant communications. (Hogg; 2017)

Furthermore, the implementation of mobile application has the potential to let the customer interact online while being physically in store but, recalling that an omnichannel strategy requires consistency of channels, retailers should be able to communicate the same values across all their touchpoints. A good example of this is provided by Wal-Mart that, trying to communicate its image of cheapest retailer, offers a "lowest price guarantee" through its mobile application *Savings Catcher*® which, any time a product is more expensive in a Wal-Mart store than in any other nearby store, enables its users to get the difference in price of the product added to an eGift card. (Dunkovič & Petkovič; 2015) Even though empirical data show that currently grocery mobile applications are broadly used, few customers run them in store, when actually shopping. Providing customers with interactive content on product traceability through QR code scanning, helping customers locate products in store, and giving them heads-up on on-going deals are some interesting features a retailer could implement on its mobile application to boost its use in store and create a fully flawless experience.

Nevertheless, development and maintenance of a mobile application require some recurring costs and specific resources a retailer may decide not to spend on activities that differ from its core business. In such a case, retailers should rather evaluate the participation in third-party applications that, despite providing a non-exclusive communication touchpoint with the customer because of the inclusion of other

competitors, still allows consumers to engage with branded content, to get informed on what the retailer offers, and to discover new products on a trusted platform. It is certainly difficult to implement a loyalty program on third-party applications, though, since the retailer does not have full control of the communication and the customer is constantly exposed to alternative choices that might impinge on the loyalty building process. (Ingram; 2016)

3.3.2. Radio Frequency Identification tag

The Radio Frequency Identification (RFId hereinafter) tag has already changed supply chain management; its implementation fosters improved productivity by constantly providing to the whole industry updated data, allowing firms to control the movements of products and their progress in processing. The expanding use of this technology in tracking grocery products suggests that there are plenty other possible applications of the tool, loyalty marketing is one of them.

More specifically, radio frequency technology could be applied within a supermarket, placing readers on shelves, carts, and checkout cashiers with the aim of enabling an easily traceable communication of data towards the final consumer and offering a flawless shopping experience. A RFId tag can also be embedded in loyalty cards, combining producer-related information with customer-specific data

and making them available anytime trough CRM system to develop highly personalized offers and communications. (Capizzi & Ferguson; 2005)

The technology is already available, but it has not been implemented yet, probably due to the considerable investments required to implement it at item-level and to make it interact with devices placed on shelves, carts, or even smartphones. (Roussos; 2006)

Figure 3.8 Item-level RFId chip. Retrieved from Metro Group (2003)

A real-life permanent test lab has been developed by Metro Group in collaboration with some digital providers partners like Intel Corp. and Microsoft on the use of RFId tags in a supermarket "*to learn the benefits, impact and potential of RFId technology for grocery retailer*". (Yoshida; 2003.05.05) The test consisted in the opening of a real store in Rheinberg, Germany, equipped with RFId transponders on some sample products; shelf readers that allow workers to check remotely the product stock level and expiration date, and to change the price tag through Personal Digital Assistant, *id est* handheld with RFId reading technology; RFId self-checkout systems; and RFId gates that trace the number of carts in the store to manage queues. The customer is further assisted in his/her shopping journey with information kiosks equipped with displays and RFId readers, providing additional product information and with a Personal Shopping Assistant that merges the loyalty card feature and the RFId technology. Through the Personal Shopping Assistant

customers that let a small electronic display put in the cart read their loyalty card, obtain personalized services such as information on product location, information on special offers geared to personal customer needs, a check of their loyalty status, the possibility to have their shopping list displayed on the device, and faster checkouts. (see figures 3.9 and 3.10)

Figure 3.9 On the left: Some services a grocery retailer can provide by merging the RFId technology with loyalty card features

Figure 3.10 On the right: Example of special offers suggested to the customer based on his/her in-store location and personal needs. Retrieved from Metro Group (2003)

Thanks to the ability of RFId readers to automatically register merchandise inside the smart shopping cart and transmit the shopping bill total to the checkout terminal over the wireless network. there is no need to place products on the conveyor belt, they can be left in the cart, thus, reducing significantly waiting times for customers.

Furthermore, to cope with the increasing concerns of the Data Protection Authority regarding customers' privacy, Metro Group and Philips developed a RFId de-activator for people that do not want their products to be traced outside the point of sale. (Metro Group; 2003) If not disabled, however, there is no risk of being traced

back home given that the tag receives frequencies at a maximum distance of 1.5 meters; on the contrary, if the consumer has a smart fridge, the RFId tag on the product can be useful in order for the fridge to understand what products are inside and what is missing, communicating it to the associated device.

The real-life experiment has been reproduced once again in 2008 but terminated in 2013, at the end of the contract with Metro Group; since then no other grocery retailer has applied the RFId technology, probably due to the prohibitive cost[22] of it and the strict legal framework concerning privacy protection. Nonetheless, a survey conducted in cooperation with the Boston Consulting Group revealed excellent outcomes for the Metro experiment, leading to higher store visitors, 20% more satisfied customers than before and, consequently, higher percentage of regular customers. (Metro Group; 2003) Furthermore, the study highlights that the average receipt of customers using the Personal Shopping Assistant in connection with their loyalty card is significantly above the average, € 30.80 versus the average value of € 18, corroborating once more the importance of building close relationship with customers and nurture their loyalty. (Kioskmarketplace; 2003.11.30)

[22] Yet in 2003, Ged Wolfram, project manager of the Metro Future Store, stated that the large-scale implementation of the test would have needed several years more; the biggest obstacle being represented by the cost of RFId chips, ranging from 0.30$ to 0.60$ back then. In order for Metro itself to find it profitable to deploy such technology, the price should drop to 0.02$. (Blau; 2004)

3.3.3. *Just walk Out Technology®* by AmazonGo

A similar technology in terms of opportunity to closely monitor the customer in his/her shopping journey within the store and use this piece of information to improve the retailer loyalty program, strengthening the relationship with the customer, has recently been introduced by Amazon in its Amazon GO stores. Even though the company has spent some years working on RFId technology, it claims its patented *Just Walk Out Technology®* technology not to implement RFId; without disclosing how the technology really works, Amazon only declared that it is currently using computer vision, infrared sensors, weight sensors, and machine-learning systems.

With the first store opening in Seattle in 2018, the retailer has entered the grocery industry by offering customers not only convenience and a time-saving solution, but also a seamless omnichannel shopping experience enabled by the firm's loyalty program Amazon Prime. To enter the store Amazon requires customers to download the free *Amazon Go®* mobile application and scan the QR code that appears on their smartphones; once inside, the technology detects when products are taken from or returned to the shelves and, through an elevated number of cameras and deep learning algorithms based on customer past behaviour, Amazon can identify who has taken each product that is missing from the shelf. A virtual cart on the application keeps track of the products handled and as the customer

leaves the store, he/she will receive a receipt and his/her Amazon account will be charged accordingly. (Medetti; 2018.01.22)

After having acquired the supermarket chain Wholefoods, Amazon is aggressively entering the grocery retail industry with an innovative solution that, thanks to the implementation of the latest technologies available, allows the firm to target each single customer with exclusive offers thoroughly designed on personal in-shop and online behaviour. If, on the one hand, the data-gathering processes operated by Amazon are positively transforming customer's shopping experience, on the other hand, increasing concerns are arising on privacy protection policies and big data handling. (Harwell & Bhattarai; 2018)

CHAPTER 4: THE LOYALTY LANDSCAPE IN GROCERY RETAIL: THE ITALIAN STATE OF THE ART

After having outlined the theoretical framework on loyalty marketing suggested by literature and its applications on the grocery retail industry at global level, this chapter will provide an insight on the approach towards loyalty marketing of retailers operating in the Italian territory.

At first, a brief excursus on the Italian grocery retail competitive framework is made, with a brief description of its evolution over time and an overview of its current structure; then, as a result of a desk analysis personally performed on retailers' official websites and mobile applications, the general framework of loyalty marketing practices currently in place is portrayed, providing a critical description of their implementation and including suggestions on possible future developments. In conclusion, some interesting practical cases will be reported, highlighting the pros of these solutions, but also the negative aspects that should be addressed by the firms.

4.1. THE ITALIAN GROCERY RETAIL MARKET

As far as the Italian framework is concerned, what has been previously stated about the recent emergence of such industry at global level, the forces shaping its inner competitiveness, and recent global trends in grocery retail are applicable. Italy, as many other developed countries, is a mature market for grocery retailing where a critical level of geographical coverage has been reached, with few large-scale retailers competing for market shares and little room for new entrants to arise. Nonetheless, the peculiarity of the Italian bureaucracy has determined some delays in the evolution of the industry with respect to other western countries and the development of a unique format, the one of the "*Distribuzione Organizzata*" that, even with the introduction of other European formats like the French hypermarket and the German discount, is still the distinguishing feature of the Italian market.

The following paragraphs will go over the main steps in the Italian grocery retailing evolution from the introduction of the first modern supermarket, based on the American model, to its gradual development on the territory with the rise of different formats, until the negative results caused by the 2008 economic crisis and the recent trends towards recovery in common goods consumption. Lastly, an introduction on the general trends in the Italian loyalty marketing in grocery retail environment is reported, by referring to what loyalty practices firms are searching for or planning to adopt for the next years.

4.1.1. The birth of the modern supermarket

The large-scale grocery retail was introduced in Italy with a bit of a delay with respect to the US and the other western European countries because of the socio-economic difficulties our Country had to face after the end of World War II. A general increase in household incomes and, consequently, in consumptions, the effects of urbanization that determined a decline of self-sufficiency, and the increased productivity, reduced costs and higher product variety, allowed by the introduction of technological improvements, prepared the ground for the development of modern mass-distribution formula also in Italy. The first example of supermarket appeared in Italy in 1956, when the National Association of Food Chains staged a demonstrative store in Rome, called "Supermarkets-USA". At the end of the exhibition period a group of Italian entrepreneurs founded "Supermercato S.p.A." and opened the first "American store" in Rome but the great expectations of success had to come up soon against the lack of know-how of the management and organizational inefficiencies.

During the same years, Nelson Rockefeller with his International Basic Economy Corporation was trying to open in Milan a supermarket based on the American model but with the necessary adaptations to the Italian environment. Launched in

1957, the "Supermarket"[23] was faced with the complex Italian bureaucracy and the contrasts of local merchants but experienced the positive attitude of consumers that, fascinated by the novelties introduced, crowded the store for days. The possibility to find good quality products at prices 15-25% lower than traditional stores and a promotional communication focused on underlining the hygiene and care in the selection of grocery products led to a tremendous success of the supermarket. (Scarpellini; 2006)

4.1.2. The evolution of large-scale grocery retail in Italy

Slowly new "Supermarket" stores opened in Milan and Florence and the attractiveness of the business pushed other retailers to open their supermarkets, starting an exponential growth of the industry with the number of modern supermarkets reaching 369 units in 1969 and 1321 units in 1989. Despite the rapid growth, at the beginning of the '90s the Italian modern supermarket still lagged behind with respect to its European equivalent. The market share covered by large-scale retailers in the grocery industry was close to 40%; it was characterized by a limited average store size, consequently offering a smaller range of products; and a wider availability of consumer-packaged goods relatively to private label products. Anyhow, what differentiated the Italian modern supermarket from the others was

[23] The "Supermarkets italiani S.p.A. was then acquired by the Caprotti family that changed the name of its stores in "Esselunga", recalling the commercial slogan: "*Supermarket. Il supermercato con la esse lunga*" adopted in the first years.

undoubtedly its service-orientation that led retailers to focus on the quality rather than on the competitiveness of prices, made possible by the very little incidence that discounts had on the national market. As the distribution formula of the discount entered the Italian grocery industry, as a matter of fact, the growing interest in modern supermarkets slowed down and, in a context of the market approaching its saturation level, many supermarkets underwent a reconversion and were re-opened as discounts. Figure 4.1 depicts the rapid spread of discounts in Italy at the expense of the growth of modern supermarkets, while the superstore formula was experiencing a slow and steady expansion. (Colla; 1995)

Figure 4.1 The boom of discount openings in Italy. Based on Nielsen data. Retrieved from Colla (1995)

Another peculiarity of the Italian market is the role of cooperatives in the grocery retail industry that had already been operating since the '60s but gained significant

market share after the 90's through acquisitions and mergers. The initial development of cooperatives was positively affected by the fact that in Italy, more than in other European countries, small traditional distributors entered in a severe conflict with large modern retailers obtaining the support of public regulators. As a consequence, strict normative limitations were imposed to the geographical expansion of modern supermarkets, favouring businesses with greater territorial roots. The combination of a resulting elevated fragmentation of the market all over the national territory, the increasing interest demonstrated by local administrators towards the ability of large-scale retail to absorb workers, and a progressive deregulation implemented at European level boosted the growth of the so-called "*Distribuzione organizzata*" (DO), with cooperatives in the first place. The DO, or organized distribution, is made up of local entrepreneurs gathering their small stores under a unique label, obtaining the advantages of both large-scale efficiency[24] and direct relationship with the local territory. (Arcidiacono; 2018)

The industry grew fairly stable during the first years of the 21st century, until it was hit by the economic crisis of 2008; the crisis caused a remarkable contraction in average monthly spending for grocery in Italian households that was perpetrated for

[24] Large-scale efficiency of the DO is usually achieved thanks to central purchasing bodies, called "*centrali d'acquisto*" that manage the relationships with suppliers on behalf of all the small distributors of the group, gaining higher bargaining power over producers, therefore, being able to buy products at lower prices. From 2009, a restructuring of central purchasing bodies has brought to a different arrangement, with almost every central purchasing body having as frontrunner a large-scale retailer. (Viaviano et al.; 2012)

years, starting to grow back only recently. The decline in demand has negatively affected the economic results of firms operating in the industry, that registered negative free cash flow and decreasing return on investments but has only slightly impacted on the overall growth rate that remained fairly stable, with a reduction in total number of stores, except for discounts. (DGM Consulting; 2015) Only in 2015 the trend has been reversed thanks to augmented expenditure in food and beverage, leading to increasing investments, continuous openings of discounts, but also new superstores and supermarkets popping out. (DGM Consulting; 2016)

4.1.3. Current state of the industry and possible future developments

The Italian grocery industry continues to show positive signs of recovery; thanks to growing household consumption, that came back to pre-crisis levels only in 2017, indeed, the industry reached € 83 billion of aggregate turnover registering a 4.4% increase over the previous year. Nonetheless, the growth slowdown in margins and average return on investments is typical evidence of a saturating market that will probably lead to the consolidation of best-performing retailers' market shares, at the expense of less efficient ones. At aggregate level, discounts have experienced a 9.6% average annual increase in sales for the 2013-2017 period, the greatest increase in the industry, followed by the 5.6% of the DO; while superstore is the format that suffers the most.

The Italian grocery retail framework is dominated by 19 groups, covering more than 96% of the whole Italian food retail, 10 of which belong to the DO, the leading format in terms of market share that includes the two big cooperatives of Conad and Coop and is undergoing a consolidation of its position with a 5.6% average increase in revenues, slightly growing margins and more than 9% return on investments. As previously mentioned, however, the 4 discounts included in the 19 groups are experiencing the biggest growth rate in revenues; MD ranks first in the Italian grocery retail industry for sales growth in the 2013-2017 period and second in 2017 ROI value, following Eurospin. The figure 4.1.3 offers a glimpse of the industry trend by reporting the cumulative revenues of the biggest groups operating in the Italian territory relatively to the 2013-2017 period; those data, only partially influenced by the store distribution on the territory, clearly highlight the difficulties to survive of some large-scale retailers owning superstores. (MBRES; 2018)

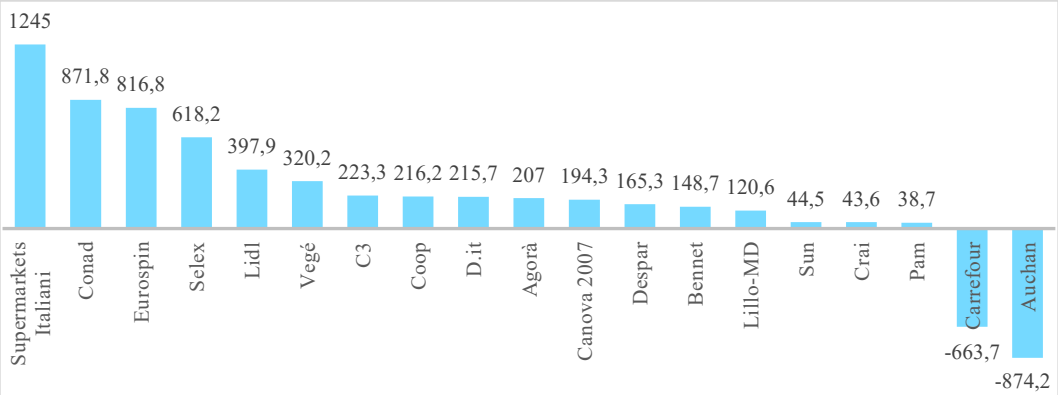

Figure 4.2 Cumulative revenue of the top Italian grocery retailers for the 2013-2017 period. Retrieved from MBRES (2018)

The negative results obtained by Auchan over the five-year period seem to herald the acquisition of the great majority of its stores by Conad, announced on May 2019 and completed on 31st July that will inevitably affect the Italian competitive environment, making Conad the biggest group operating on the territory. In such a mature market other unprofitable or small-size retailer will probably be involved in mergers or acquisitions with best-performing groups.

The future of grocery industry, however, will not concern exclusively the structural composition of the companies involved but will be focused on contents provided, meeting customers' increasing needs for environmental and social responsibility; the Italian origin, traceability and transparency of products; and the use of latest technologies available. E-commerce, for example, is currently covering the 1.6% of Italian large-scale retail's trading value, after having increased by 27.7% in the first quarter of 2019, enlarging the competitive environment of the industry to online platforms and food delivery as well. (Mancini; 2019)

4.1.4. The loyalty marketing approach in Italian grocery retail

The evolution of the loyalty experience in the Italian grocery industry seems to be experiencing an impasse, implementing the same promotional activities and loyalty program mechanisms it has been using for more than 10 years, while the customer has evolved and is asking for something more. (Votino; 2016) A recent study

conducted by Osservatorio Fedeltà[25] reports that Italian grocery retailers spend on average more than 40% of their marketing budget for loyalty marketing activities, further divided in 27% of "mass loyalty marketing" activities and 16% of customized loyalty activities, based on customers' individual data.

Nonetheless, the approach of many Italian companies towards new loyalty solutions is not so much pronounced as it should be; as figure 4.3 indicates, the first priority for them is still to implement an efficient CRM system, that is probably the basis for the development of any loyalty marketing activity. Customer Journey mapping and mobile marketing are among the latest instruments for loyalty programs that interest the most Italian companies. The figure suggests also that companies are keen on introducing technological innovations for customer data gathering or direct communication purposes, while they should better start to invest on a data processing software. Too few Italian retailers recognize the potential applications in loyalty marketing of some innovative technologies such as text analytics and content automation; similarly, there is probably a high level of distrust in the use of other communication tools for lead nurturing like sales automation, chatbox, or the adoption of the Net Promoter Score. Furthermore, the implementation of machine learning algorithms in the firm could be adapted to loyalty marketing purposes to

[25] It is a project developed by the University of Parma to investigate the development and trends of loyalty marketing in Italy, through researches on national and international case histories.

carry out customization activities and follow the customer in his/her discovery experience before, during and after the purchase.

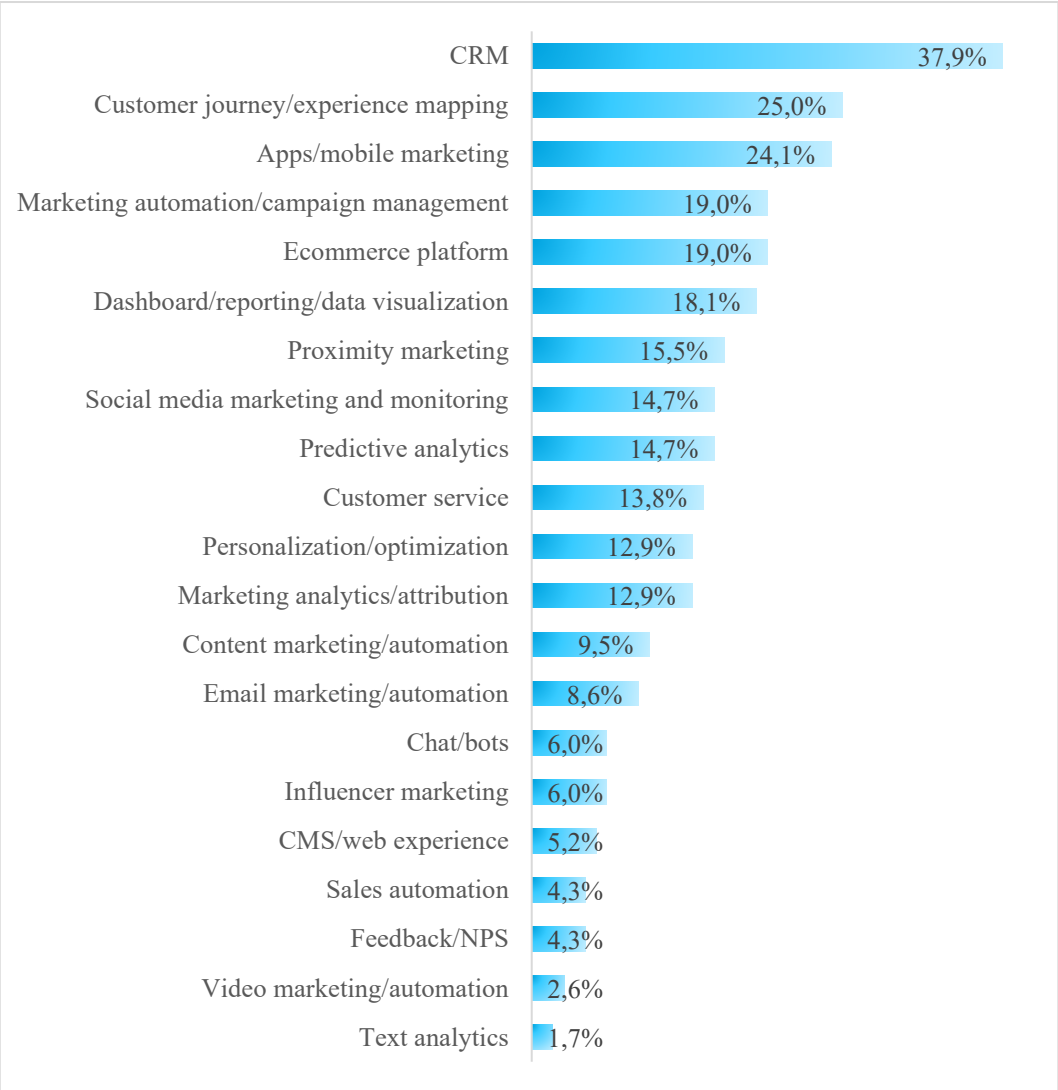

Figure 4.3 Italian firms' interest in the new technologies available for loyalty marketing. The values represent the percentage of firms that declare to be interested in the implementation of the tool. Retrieved by Osservatorio Fedeltà (2019)

Almost all the firms involved in the study of Osservatorio Fedeltà, 28.7% of which belongs to the grocery retail industry, are aware of their need to improve their loyalty marketing approach and are planning to implement significant innovation in their loyalty strategy starting from 2019. Anyhow, according to the research, grocery retailers will be focused on obtaining better customer insights from their new loyalty programs rather than providing higher customization level and customer recognition through channels.

With regard to the creation of an omnichannel loyalty strategy, conversely, it is considered of primary importance by grocery retailers, both with the aim of driving the customer to the store and to offer a 360° shopping journey by driving him/her from to the store to the web, in specific touchpoints. (Osservatorio Fedeltà; 2019)

4.2. CURRENT LOYALTY MARKETING PRACTICES: A DESK ANALYSIS

To get a deeper insight on the Italian state of the art of loyalty marketing in grocery retail, a desk analysis has been personally carried out over the best performers of the industry.

After having described the methodology adopted to conduce the desk analysis and the possible limitations in the analysis deriving from it, the general results are

displayed to provide an overview on the Italian state of the art, indicating the most widespread practices among the firms considered in the analysis and highlighting some interesting innovative solutions. Then, some practices, the same that have been mentioned for their relevance in literature in the previous chapters, are discussed more in detail, making a critical assessment of what emerges about their implementation by the major Italian grocery retailers.

4.2.1. Methodology

The best performers to focus on for the desk analysis have been identified as the firms belonging to the previously mentioned 19 top grocery retailer groups but, given the complex structure of such groups, the analysis is limited to the retail companies that have reached a significant penetration on the Italian territory; some of them are not disseminated across all the Italian regions but have gained a significant geographical coverage at regional level with their stores. Despite not being considered among the top 19 groups, it is worth including in the analysis also Penny Market, a branch of the German discounts group Rewe that is emerging in the Italian context with more than 375 stores.

In synthesis, the analysis considers 29 grocery retailers[26] operating in the Italian territory and is focused on the evaluation of loyalty marketing practices that emerge

[26] Namely Esselunga, Conad, Eurospin, Famila, A&O, C+C, Sì con te, Lidl, Gran Risparmio, Decò, Sidis, Dimeglio, Vivo Supermercati, Primium Price, Rossetto Trade, Unicoop Tirreno, Coop

from their official websites in terms of features implemented to gather customer information, to nurture and sustain the firm-customer relationship and to communicate the firm's value to the customer.

4.2.2. General results

The desk analysis has confirmed a high degree of homogeneity in loyalty program configuration across grocery retailers, with little innovations that, in combination with low product differentiation level, that is typical of the industry, may affect the effectiveness of such programs in nurturing customer loyalty and in enhancing store attractiveness. The figure 4.4 shown underneath lists the percentage of firms adopting each practice; it is evident that firms prefer to implement loyalty solutions that have direct visible benefits for their customers like loyalty cards and the provision of interesting insights through the retailer magazine or blog, rather than long-term practices that require a detailed elaboration of data such as providing personalized offers.

Centroitalia, Coop Alleanza 3.0, Sigma and Coal, Gruppo Pim, Iper, Despar Nordest, Bennet, Md, Magazzini Gabrielli, Crai, Pam, Carrefour, Penny Market.

Figure 4.4 Loyalty practices currently in place as a percentage of firms adopting each of them. Retrieved from a personal elaboration of data resulting from the desk analysis.

Establishing a direct communication with the customer is considered so much relevant for retailers that almost half of them asks customers to subscribe to their newsletter to receive communications by e-mail or sms, while others have created a dedicated user area in their website where customers can manage personal information, check on the points collected, receive promotions and offers. The implementation of the newsletter subscription does not preclude the possibility to develop a user area in the website but, as a matter of fact, the majority of retailers implement either one practice or the other, only 22% of them adopts both.

A good percentage of retailers has yet developed a mobile application, a useful tool in loyalty marketing that enables companies to get in direct contact with their customers and a communication platform that can be accessed whenever the

customer wants, through which the firm can maintain full control over the communication content. Given the relevance of this tool in the development of a loyalty marketing strategy and its broad adoption by retailers, a further analysis of the mobile applications themselves is required and it will be disclosed below.

Recalling what stated in the previous chapter, one of the first approaches to be implemented with the aim of nurturing customer loyalty in the grocery retail industry has been rewarding customers for their purchases; developing catalogues of rewards from which the customer can choose, implementing minicollections or prize competitions are the actual most common tools that firms adopt. A catalogue is commonly associated with a yearly collection of points that is hardly manageable without a system recording all the purchases of each customer, hence, it is strictly connected to the existence of a loyalty card. Conversely, minicollections and prize competitions usually cover a shorter timeframe and require customers respectively to show the stamps they have collected or to register their receipts; they can be easily managed even without implementing a customer database. Even though the use of those practices alone does not allow firms to collect precious information on their customer's habits, 3 retailers out of the 29 considered still use them as a mere store attraction strategy, to boost retailer's sales. Other 12 firms have decided to resort to at least one of this two elements in combination with the use of a loyalty card that can potentially keep track of the kind of rewards each customer is

interested in obtaining from the retailer. On the whole, slightly more than 40% of the retailers that have been analysed builds minicollections offering for the most kitchenware, while slightly more than ¼ of firms implements prize competitions giving away vehicles, hi-tech products and spending vouchers. Furthermore, some retailers wisely build their prize competitions in such a way to sew the online and offline channels by requiring customers to register their personal data online, offering greater chances to win by using the mobile application, or subject the participation to the competition to the interaction with the retailer's official account via social networks.

Not so many retailers have decided to build a 360° loyalty experience for their customers by offering them additional services that diverge from the firm core business like the possibility to secure insurance coverage, the possibility to get a credit card issued by the retailer, offering travel agency services, or enabling the payment via smartphone.

Similarly, only 28% of retailers rewards its customers not only for their purchases but also for their online activity with the aim of encouraging them to use the retailer's online touchpoints. The practice is currently limited to an exchange of updated customer data or mobile app usage for additional collectible points; only Despar Nordest has moved a little forward in this field by providing a "digital

collection" that, without recurring to a loyalty card, requires its customers to use its mobile application to participate to collections and receive bonuses.

However, the loyalty marketing practice that is used the least is undoubtedly incentivising customers to self-segment by offering to each segment specific benefits and services, starting from the simplest form adopted by Bennet and Unicoop which favours high-spending customers by implementing a more than proportional points collection system[27]. Esselunga and Iper, instead, have adopted a different approach by providing customers with more than one fidelity card and letting the customer free to choose from, according to his/her specific needs.

4.2.3. Loyalty cards

The use of loyalty cards is, at the moment, the first practice implemented by grocery retailers, being shared by 79% of the companies taken into consideration for the analysis. (see figure 4.4) It seems, therefore, that firms have understood the importance of this basic element in establishing a relationship marketing strategy, knowing the customer and developing promotions according, at least, to the macro-level trends.

The vast majority of firms implementing a loyalty card-based strategy promotes it online in its official communication channels; as reported in figure 4.5, 87% of

[27] The quantity of points earned increases more than proportionally with money spent for each purchase or within a given timeframe.

those firms devote a section of their company website to explain how to obtain it, the advantages for loyalty cards owner in terms of additional services and exclusive promotions, and other useful links related to redeemable rewards like discount bonuses or catalogue prizes.

The establishment of a website centred around the retailer loyalty card is not very frequent, it is an element of the loyalty program for 4 firms out of the 23 adopting loyalty cards; actually Magazzini Gabrielli is the only firm to have sharply split the general information on the firm itself from all the services and promotions provided to its customers. Other firms like Esselunga and Carrefour have decided to create a website of its own to manage the services related to the cards issued in partnership with other external companies, respectively the credit card Mastercard Circuit issued in collaboration with Deutsche Bank and the Payback coalition program card. Ultimately, the D.it retailers Sigma and Coal have decided to open a website to provide detailed information on the rewards belonging to the yearly catalogue and give the possibility to card owners to select the prizes they are interested in obtaining and, eventually, redeem them.

Another interesting feature developed by retailers within their official website is the possibility that customers have to enter a user area by registering online with their card number or their e-mail address. This practice, adopted by more than a half of the loyalty card issuers, represents a chance for firms to ask once again for customer

personal information, either updating the one previously given when subscribing for the card or some additional data; customers can easily manage privacy consensus, know their point balance and promotions reserved to card owners.

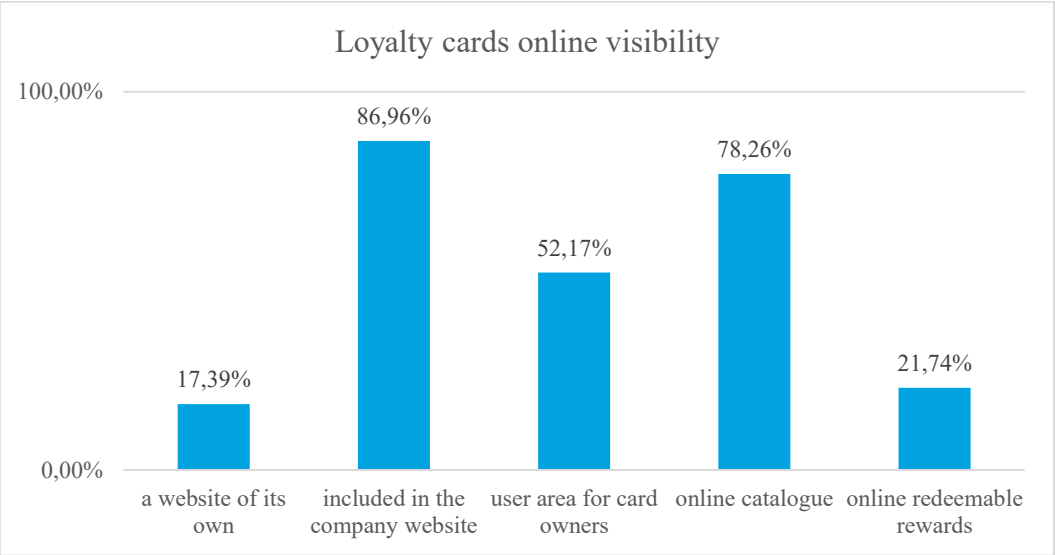

Figure 4.5 Loyalty cards online visibility. The bars indicate the percentage of firms implementing each solution to highlight the existence and advantages deriving from subscribing a loyalty card; only retailers providing their customers with loyalty cards are considered.

Despite the high degree of market penetration reached by loyalty cards, it should be kept in mind also that it is costly to effectively manage a loyalty marketing strategy based on data retrieved from the use of this element; this cost factor could explain why the group of firms not using the loyalty card feature is represented almost exclusively by discounts. Some consumers have addressed the official social media pages of Lidl and Eurospin showing their interest in subscribing loyalty cards in exchange for additional product promotions or loyalty rewards, receiving the same

reply: The firms are not going to provide such instrument; the reason why is that they prefer not to incur in additional costs in order to keep on providing customers with the best prices. MD, instead, created its club card in 2010 to manage a yearly point collection but apparently[28] the company has discarded it afterwards, making Penny Market the only discount with active loyalty cards at present.

4.2.4. Catalogues

As far as the catalogue is concerned, it is relevant to investigate also how different retailers decide to reward their customers, that is what type of rewards is offered and what is required to redeem one of them; the analysis evidences a standard approach of retailers under both aspects.

The structure of the catalogue is almost the same across firms, with a consistent section of it being dedicated to kitchen ware and small household appliances, followed by products for personal care, free time and latest technological devices; afterwards, games for children and pet care accessories are offered, right before a selection of experiences that range from holiday packages to entrance tickets for entertainment activities; the catalogue usually ends with the possibility to use the points collected for solidarity causes.

[28] Reference to the MD club card can be found in the promotional campaigns for the 2011-point , collection and the 2013 "Obiettivo Cento 2013" Collection, there is no other trace of MD adopting loyalty card as a support for other loyalty marketing practices, nor is it mentioned in any MD official channels.

Very few catalogues differentiate themselves from all the others, starting from Conad that offers customizable products, until reaching Bennet that has developed a highly interactive and descriptive catalogue, letting experts leaving feedbacks and serving advices in the manner of a magazine; Unicoop Tirreno is the only retailer that stands out among all the others providing a fully experiential catalogue.

On top of the very little differentiation of rewards offered with the catalogue, there is a high level of homogeneity of the redemption requirements too. As clearly depicted in figure 4.6, indeed, the vast majority of firms has decided to make rewards redeemable both through the use of a given amount of collected points and at a smaller amount of points with an additional cash contribution. This option, initially introduced to make rewards accessible to a larger number of customers, not to discourage little spenders from participating to the point collection, has raised some critical issues. First of all, it may have a negative impact on loyal customers in that they may perceive a loss in the exclusive aspect of the rewards, since also less loyal customers can obtain the same reward by paying an additional contribution; on the other hand, the cash contribution sometimes seems to be very close the perceived actual value of the product, leading customers to associate an almost null value to the minimum points required and, consequently, negatively affecting their participation to the collection. (Ziliani; 2008) This can explain why a retailer may decide to opt for a catalogue with prizes that are redeemable solely

with collected points; however, a better solution is probably the one adopted by some retailers like Esselunga and Bennet that prefer to show the retail price of their rewards to highlight both the economic value of the product itself and the value of participating to the collection, even though the redemption with only points is less convenient in terms of economic per point value than the combination of points and cash contribution.[29]

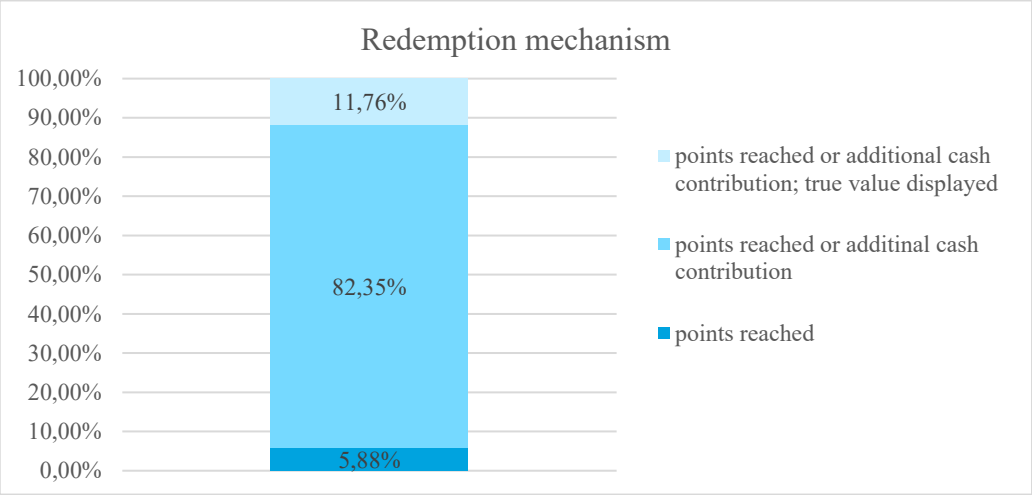

Figure 4.6 Redemption mechanisms adopted by firms offering a catalogue. Retrieved from a personal elaboration of data.

4.2.5. Micro-marketing actions

Even though all the retailers offering loyalty cards to their customers have collected enough data to implement micro-marketing strategies, a too small percentage of firms are actually trying to realize it, possibly due to the inherent requirement of a

[29] Calculated respectively as retail price over points required and the difference between retail price and cash contribution over minimum points required on some sample products of both catalogues.

solid customer relationship management system, capable of processing data at a deeper level, developing customer-specific profiles. From an external point of view, like the one of a desk analysis, it is difficult to obtain a reliable assessment of the degree of depth of data processing adopted by retailers. Consequently, the analysis has been focused on the detection of visible elements of micro-marketing practices implemented to develop targeted marketing actions on specific customers targets such as the provision of customized offers.

As reported in figure 4.3 under the label "personalized offers", the percentage of retailers adopting this practice is very low; almost ¼ of the retailers taken into consideration is trying to move forward with the use of micro-level data to establish a deeper relationship with customers by addressing target customer segments with adequate promotions. On top of that, the analysis has not been able to detect whether the tool is properly working or not[30], it could only reveal that the above-mentioned 24.14% of firms promise personalized offers to customers as one of the benefits obtainable by entering the online user area. Nonetheless, it is should be underlined that Carrefour and Despar Nordest are wisely giving the opportunity to loyalty program members to change their privacy consensus respectively from the online user area and from the mobile application to allow the firm to trace the customer

[30] It would have required to experiment being a customer of each retailer probably for more than one year to assess whether the tool is actually working because the firm cannot be able to build personalized offers for customers that they do not know in terms of consumption habits. Entering the user area as a new customer there is no available "only for you" offer.

purchasing behaviour with the ultimate aim of developing customized offers that are in line with what the customer usually buys or searches for.

4.2.6. Mobile applications

The use of mobile application in developing a loyalty marketing strategy is fundamental nowadays; as extensively described in the previous chapter, the smartphone represents one crucial element in moving from a multichannel to an omnichannel approach. However, having developed a mobile application does not necessarily imply that the firm is doing well in offering a seamless experience to its customers and boost customer loyalty; on the contrary, a user-unfriendly interface or an application that does not add anything else to the shopping experience could have a negative impact on the relationship with the customer.

It is therefore necessary to examine how firms have designed their mobile applications, starting from a description of the features offered by retailers with them, examining, then, the level of channel integration achieved by retailers making the same features available both on the official website and on the mobile app. The analysis has been restricted to the existing mobile applications of the 29 grocery retailers so far considered; hence, the number of mobile applications should have been 16 but 2 of them have been excluded because of a temporary inaccessibility[31].

[31] One of them, namely the Coal mobile application, has not been functioning anymore since the latest update in 2016, registering the negative feedbacks of mobile app users and probably a loss of

The basic elements that bring together all the mobile applications are definitely the store locator function and the possibility to browse the latest valid promotional flyers of a given store; the role played by those two features in bringing the customer closer to the store can easily explain their broad diffusion, clearly outlined in figure 4.7.

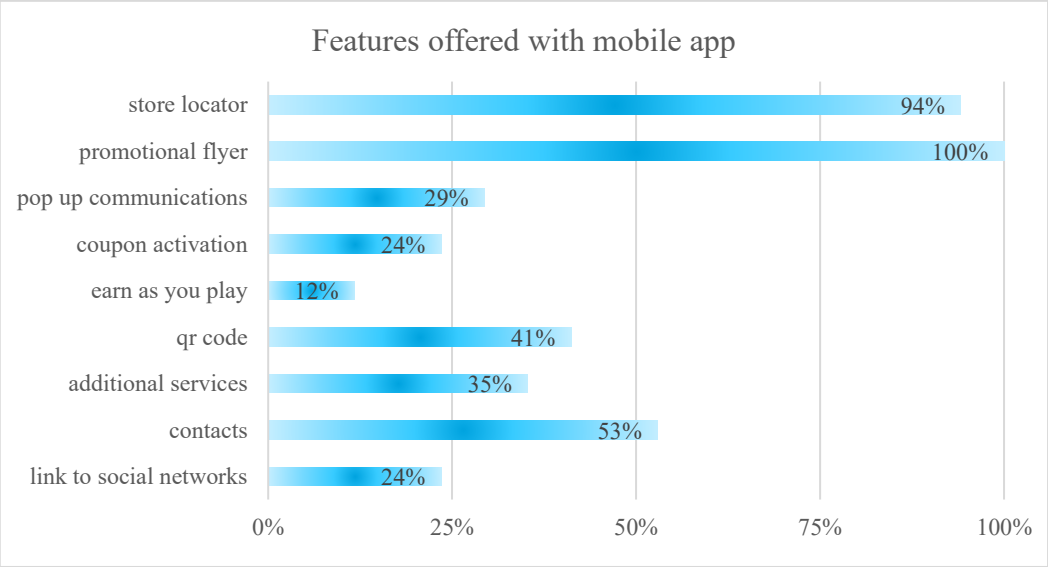

Figure 4.7 Main features offered by retailers within a mobile application. The values represent the percentage of retailers with mobile applications for each feature. Data are retrieved from a personal elaboration of the desk analysis results.

As far as the other mobile application features are concerned, there is a good level of differentiation among retailers that may be the beginning of a change in the competitive environment of the industry. The 29% of firms have decided to insert

professionalism of the retailer as a whole in their view. The other, developed by Magazzini Gabrielli, has been recently closed after having registered serious operational problems; the latest update, published on the 8th August 2019, lets the application display a message to users reassuring them that a new version will be published soon.

in the application home page some pop-up communications to keep their customers informed on the latest promotions available and on the open minicollections or prize competitions the customer may be interested in. Less than 1/5 of the retailers with mobile applications requires an active participation of users by providing them with a selection of coupons they can select on the app and show when at the cashier, to use according to their specific needs.

The increasing relevance of gaming applications in smartphone usage has suggested a new interesting mechanism to favour retailer attractiveness, that is letting customers play selected games to earn additional points or discount vouchers. So far, two retailers only have decided to reward their customers for activities that differ significantly from the traditional purchase or advocacy actions; it could be interesting to investigate the real effects of such alternative store attraction strategies on both revenues and customer loyalty.

Higher levels of product transparency, instead, are undoubtedly a nourishment to customer loyalty; many retailers seem to know it since 41% of mobile applications owners has developed a function that allows customers to scan QR codes on products to know more about their origins and processing they have undergone. QR codes are also applied on purchase receipts to help customers save time speeding up the registering procedures when they want to participate to prize competitions or offering a greater interaction with dedicated online websites.

Time is considered an element of primary importance for customers, consequently, some retailers are trying to offer them other additional services that can speed up the purchasing process, addressing customers' need for faster checkouts. Enabling customers to pay with their smartphone, to skip the queue at the checkout through product self-scanning via app, or even checking on the insurance policy coverage via smartphone are some example of this kind of services.

Going back to consider the number of touchpoints provided to customers, more than a half of all the mobile applications favour a direct dialogue between firm and consumer by communicating an e-mail address or telephone number they can refer to in case they have problems or complaints; alternatively the customer is asked to submit to the newsletter if he/she wants to obtain updates regarding the retailer. Furthermore, even though the vast majority of retailers have an official social media account, only 24% of mobile applications contain the link to a Facebook page, a different touchpoint, still managed by the firm, where the customer can interact with the firm itself but also with other consumers in relationship with it and share their feedbacks. Some retailers are trying to build an omnichannel experience involving the customers at 360° and driving them across channels flawlessly by developing prize competitions that require, for the participation, the interaction on social media.

In order to assess the level of channel integration of practices favouring customer loyalty in the Italian grocery retail industry, it is necessary to have a look at other

features that are offered by retailers on more than one platform, restricting the analysis to the online website and mobile application platforms. Figure 4.8 reports the percentage of retailers' mobile applications that include respectively the creation of a shopping list, the provision of recipes and useful advices retrieved from the retailer's blog or magazine, and an interface that enables customers to shop online. Those percentages are then compared with the ones representing the same retailers over all the retailers with a mobile application that have implemented the feature at least on their website. While all the features are included in less than a half of mobile applications, it is noticeable the fact that the percentage represents all the retailers with mobile app that have developed the shopping list creation feature on their website, the 73% of blog or magazine publishers and the 80% of retailers with an online shop. Even though the values represent a good level of channel integration, there are still some retailers that are losing a great opportunity to get higher visibility for the services they offer.

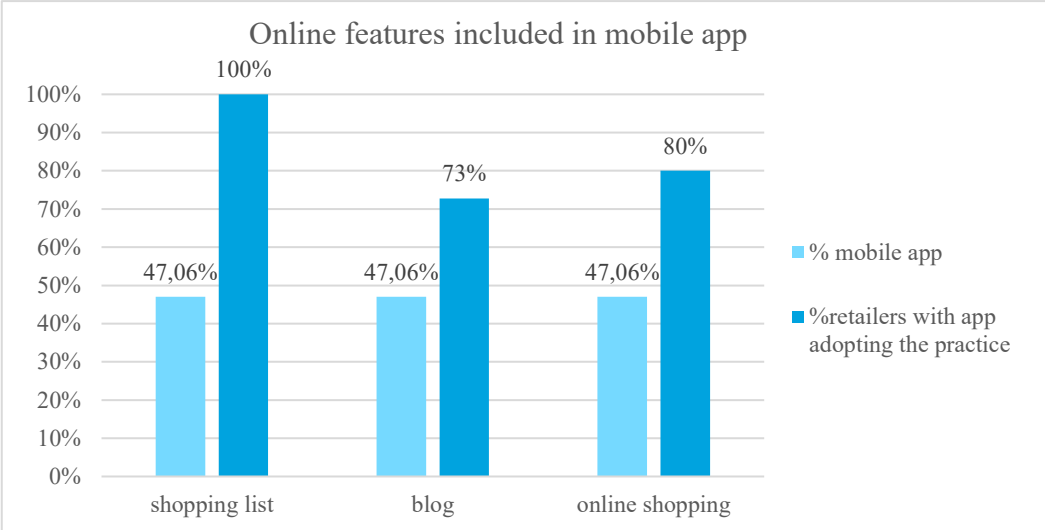

Figure 4.8 Additional features included in retailers' mobile application and the level of feature integration across the online and mobile channels. Data are retrieved from a personal elaboration of the desk analysis results.

On top of that, given the high penetration level of loyalty cards in the Italian grocery retail industry, an omnichannel loyalty strategy should encompass the translation of all the loyalty card related features across channels, from the card itself to the reward selection. As displayed in figure 4.9, the industry suffers a great lack in this sense with almost all the loyalty card issuers asking the mobile user to register its card number within the application and showing, then, the relative point balance but a too low percentage of firms providing a digital card and a digital catalogue that can be only partially explained by the existence of app developers with no physical loyalty card.

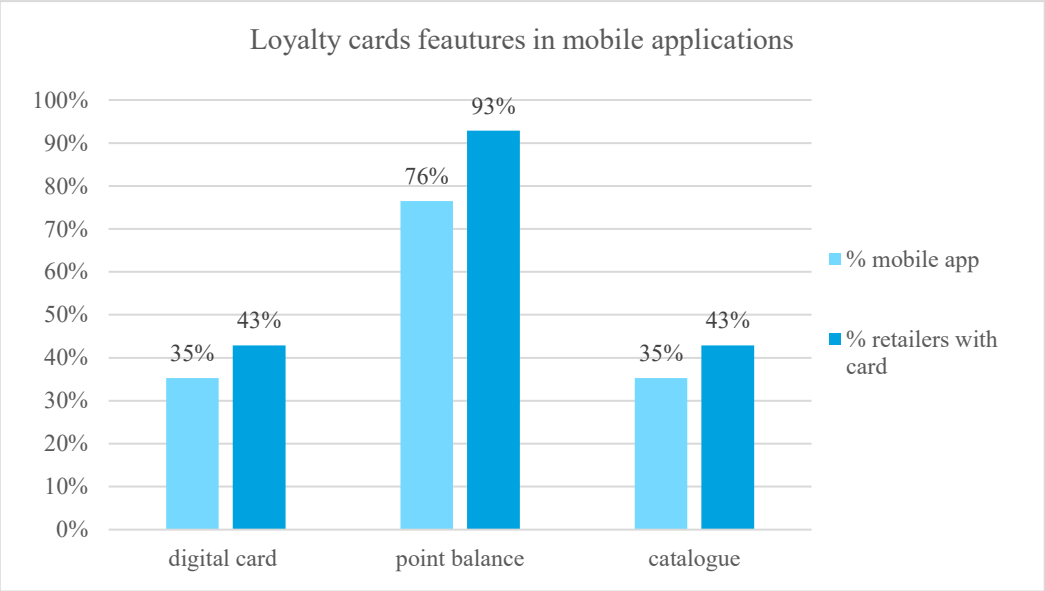

Figure 4.9 Loyalty cards related features included in mobile applications. Data are retrieved from a personal elaboration of the desk analysis results.

What is weird is that in such a highly digital era, where some successful mobile applications have been developed specifically to meet the consumers' need of holding several loyalty cards in a unique place, saving wallet space and time at the cashier, there are retailers that have their own application but still issue a paper-only loyalty card, missing the opportunity to stimulate the customer to use the app in store. Similarly, many retailers have uploaded a digital version of their catalogue on their website but have not included it on their mobile application and the selection of rewards still requires customers to bring a paper request to the store, with no *click and collect* possibility.

4.3. BEST PRACTICES

While proceeding with the desk analysis on the state of the art of loyalty marketing in the Italian grocery retail, it has emerged that some firms seem to have adopted a me-too approach, issuing loyalty cards and designing points collection catalogues and minicollections, or developing mobile applications following the footprints of market leaders with probably no deeply reasoned loyalty strategy to follow.

When presenting the general results of the analysis, some retailers have been mentioned for having implemented one of the previously considered practices in an innovative way; actually, with the desk analysis some others have emerged for the development of an interesting loyalty strategy as a whole. The following paragraphs will therefore present the best practices implemented by 3 firms that have been selected for their ground-breaking capability of building and nourishing customer loyalty, mentioning the negative aspects of their implementations, too, to suggest what could still be improved. The analysis is limited, once again, to what can be observed from an external point of view, since it has not been possible to get in contact with the loyalty marketing managers of the firms to ask them something more in detail about the loyalty marketing strategy they are following.

Of those firms Coop is the only Italian-born company, one of the first examples of DO of the territory, that has developed an alternative membership solution where customers are not considered mere consumers but, effectively, firm shareholders.

The other two retailers are Italian branches of European multinational companies; the first one, Lidl, is a discount that has developed some marketing activities with which it is able to connect its platforms involving customers for themselves and sharing with them the firm's founding values; the other, Despar Nordest[32], has been able to develop a whole loyalty marketing strategy based on its mobile application.

4.3.1. Coop: True membership solution

Subscribing to a loyalty card should not mean only gaining access to a wider range of promotions, even though many retailers, eager to obtain valuable customer data, seem to convey this message. When actively subscribing to a loyalty program the customer should identify him/herself as belonging to a group of people that are satisfied with the services and products offered by the retailer and share the values of the firm. Asking the customer to pay for a membership fee or link the participation to the loyalty program to some constraints are some possible way for the firm to distinguish truly loyal customers from occasional ones; it is what the cooperatives of the Coop group actually do. The loyalty program developed by Coop at central level, however, is more complex than that; being Coop a consumer cooperative, indeed, its loyal customers are asked to actively take part in the firm

[32] Despar Italia is a consortium of 6 grocery retailers operating on the Italian territory, it coordinates the distributive systems of the associated firms, but those latter are free to decide on many other managerial aspects such as loyalty marketing. The loyalty marketing practice that will be analysed as an example of excellent loyalty strategy implementation is the *Despar Tribù* that has been developed by Aspiag service s.r.l, the firm managing all Despar Nordest stores.

decision-making process by becoming firm shareholders. Hence, when subscribing to the loyalty program, customers have to pay € 25 and register all their personal data to obtain a card that gives them access to a wide range of benefits similar to the ones commonly associated with a loyalty card but, as shareholders, they acquire some rights and duties too. By law, as determined with the law decree n.91/2014, shareholders in a consumer cooperative lose every right they have after one year of inactivity; consequently, having subjected loyal customers and shareholders to the same treatment, if they do not participate in the firm's activity by purchasing from Coop stores, taking part to shareholders assembly, or investing in the cooperative for a year, their card is disactivated.

An interesting activity that Coop suggests to its loyal customers to engage them directly and know what they think is asking them to periodically evaluate the quality of some private label products with the "*Approvato dai soci*" project. The project, started in 2000, has registered more than 500 000 participants and has reached an evaluation for more than 2 600 products, letting shareholders and their family members try some Coop products in store on dedicated dates and give a vote from 1 to 9 on the quality of the product. Subsequently, Coop collects all the evaluations and, if the average of votes for a product is greater than 6.5, then, the product is considered approved by the shareholders and gets the corresponding "Approvato

dai soci" label, otherwise, the product undergoes further exams and is modified or withdrawn from the market.

Even though the loyalty program general features, that is the benefits and services dedicated to loyal customers, are common to every cooperative of the group, each cooperative is free to decide on the specific loyalty practices to adopt, resulting in different catalogues, different point collection rules[33], and different magazines; with some retailers implementing minicollections or prize competitions while others do not. Such discrepancies are reflected also in the mobile applications, with every cooperative having developed its own version and the Group as a whole releasing mobile applications for specific services that are shared among the cooperatives like the application for online shopping EasyCoop and CoopOrigini that user can run to discover more about products. The availability of different mobile applicantions, each dedicated to one service, is probably easily manageable for the firm but is quite user-unfriendly since this latter would prefer to have all the services within a unique application. A good example of integrated platform is the mobile application developed by Coop Alleanza 3.0 that includes also the general services offered by the group as a whole; the other cooperatives should implement similar solutions.

[33] Unicoop is the only cooperative of the group among the ones analysed for the desk analysis to opt for customer segmentation offering an amount of points that is more than proportional to money spent with the purchase.

4.3.2. Lidl: Involving customers and sharing firm's values with them

Lidl has been previously mentioned, when discussing the general results of the analysis regarding loyalty cards, among the discounts that declare themselves not willing to spend much on loyalty marketing to keep prices down, so that they can meet the primary need of their customers. Why, then, is Lidl listed among the firms adopting the best practices in loyalty marketing? The reason is pretty straightforward, and is based on the elements constituting customer loyalty, that is addressing the customer's needs, satisfying them, directly involve the customer and listen to what he/she has to say, and last but not the least, share with the customer the firm's values.

Thanks to a thoughtful and well implemented digital strategy, Lidl is actively engaging its customers on social media; one of the brightest examples of it is the contest launched on Instagram for the creation of a new sandwich taste chosen by its followers. The customer engagement practices, that are generally adopted to develop brand awareness in potential customers, should, then, be followed by some call to actions that require a higher level of commitment; in this specific case, customers are invited to buy and try the sandwich posting on Instagram a creative serving suggestion to participate to a prize competition. It is with the prize competition that Lidl addresses the advocacy stage of its customers and combines the digital marketing practices with the ones aimed at nourishing customer loyalty

by giving away something that loyal customers can appreciate. As a matter of fact, offering as prizes private label food processors and discount vouchers, customers that have already experienced the level of quality and services offered by the retailer, and have been satisfied with it, are more likely to participate to the competition than others.

Another innovative feature implemented by the discount that definitely deserves a mention is *My Lidl Shop*®, an interactive game developed by Lidl that consists in managing a virtual Lidl store, by choosing the shelves arrangement, workers' tasks, and taking care of customers' needs. It represents an interesting opportunity for loyalty because, differently from other retailers' games, it has no "earn as you play" function but aims at merging the virtual environment with real life experiences, while sharing the firm's values with its customers. Given the central importance of customer satisfaction in the firm's vision and mission, the player is provided with a pretty standard customer segmentation, statistics on products sold, and customer satisfaction rates. Figure 4.10 shows some examples of virtual customers belonging to different segments, associated with different preferences in terms of store cleanliness, waiting time, store attractiveness, and product freshness; the player should be able to meet good levels of all of them, as it is suggested Lidl does in real life, to guarantee high satisfaction levels for all its customers.

Figure 4.10 Customer segmentation within "My Lidl Shop" application. Examples of different customer profiles associated with different preferences in terms of store cleanliness, waiting time, store attractiveness, and product freshness. The customer satisfaction rate is also reported. Retrieved from My Lidl Shop®.

One of the most evident elements of differentiation from the other retailers and discounts is, for Lidl, its bakery service that is recalled with the slogan "*sforniamo pane tutto il giorno*" both in store and online; such element could obviously not be excluded from the virtual store, where the player is also asked to manage the bakery within the store and replenish the bread shelves not to disappoint customers. Generally speaking, the game represents a good channel integration tool thanks to the drive-to-store feature *Detective-Lidl®* incorporated in the game; the feature offers the possibility to earn virtual coins when scanning some given products with the smartphone camera. (Figure 4.11) It has a twofold effect: on the one hand, it is a good product promotion chance to let the customer know some private label products available in store; on the other hand, it allows Lidl to achieve an omnichannel presence driving the customer from the virtual game to the real store.

Figure 4.11 Detective-Lidl®. Example of products to be scanned with the Detective-Lidl feature within the My Lidl Shop® application. Retrieved from My Lidl Shop®.

The complexity of effectively developing and managing such gaming application should not be ignored; despite having designed it in a professional way, it is difficult for Lidl to manage it internally as other good gaming applications. The number of levels is currently limited to 5, consequently once the player has reached the 5th level, he/she will probably stop using the application.

The main flaw that can be observed in the Lidl loyalty approach is the lack of a system that allows the company to identify its customers and get to know them better by matching the data retrieved from social networks and game with in-store purchase. Implementing a good CRM database and issuing loyalty cards is probably the best way to obtain relevant information; nonetheless, it is not the only possible

one. Without incurring in the costs typically related to loyalty card management[34], Lidl Italia could take inspiration from Lidl Great Britain that has developed a whole community of *Lidlers* where, after having provided some basic personal data for the account registration, loyal customers can interact with each other on a dedicated chatroom, get useful hints from the blog, review products, and participate to competitions; moreover, a point system encourages customers to interact by rewarding them for each like, comment, review, and filled-in questionnaire. Establishing a community is a valuable tool for loyalty marketing because it promotes a sense of belonging to a group, meanwhile it allows the firm to have full control over the published content and hear directly from its customers.

4.3.3. *Despar Tribù*®: Achieving omnichannel loyalty through mobile

Despar Nordest should be recalled among the retailers that have implemented innovative and interesting loyalty marketing strategies for its *Despar Tribù*® loyalty program. As the name itself suggests, Despar aims at creating a community where its customers can consider themselves as being part of a wider group of people that have something in common, namely being loyal customers of Despar. Even though there is no direct communication line for the members of the "tribe" where they can share their personal opinion on products, the sense of belonging to a community is

[34] Among the costs associated with the management of a loyalty marketing strategy based on loyalty cards it should be considered the costs of cards issuing, the management of the database, the provision of periodical additional product discounts and eventual long-term collection rewards.

enhanced by the possibility to invite friends to join the tribe and to exchange with them collectible points.

The loyalty program is entirely built around the mobile application; there is no physical loyalty card but there is a personal code displayed by the application that the user has to show at the cashier to obtain collectible points; similarly, once reached a certain points threshold, the user can decide to activate and use discount vouchers from the application. Minicollections are managed via mobile application as well, with digital stamps collected automatically and prizes obtainable in store thanks to the click and collect function. An interesting tool available online, but still not included in the mobile application, allows the customer to become aware of what he/she can actually save by signing up to the loyalty program and adopting all the practices the firm has designed for its customers. Within the mobile application, instead, users can register what they have actually saved with their past purchases recorded in the application and the discounts used; figure 4.12 shows a comparison of the two different graphical interfaces.

Figure 4.12 Comparison of the Despar Nordest graphical interfaces. On the left, the interface of the websites shows how much you can earn by adopting the different practices as a function of what you spend; the value shown is based on statistical evidences. On the right, the mobile application interface shows how much you have saved with the last 10 purchases thanks to the active use of the mobile application features.

Nonetheless, the main innovation introduced by Despar Nordest relies on the gamification function developed in cooperation with external agencies; based on the "earn as you play" mechanisms, the games offer additional collectible points to users, providing, at the same time, a good platform integration tool. The "tris quiz" and the "guess the missing word" games are released on a weekly base and are available to all the tribe members, while the "wheel of fortune" game is accessible only with a minimum expenditure of € 10 and provides some hints to users that have spent a greater amount of money, establishing a direct link with the in-store activity. A further interactive quiz favours the collection of points by driving the user from the mobile application to the official Facebook page of Despar Nordest; more in detail, the firm periodically publishes on its Facebook page the text of the

quiz, providing some clues for the mysterious word. Often the word is linked to other activities of the firm, including what is published on the magazine (an example of it is provided in figure 4.13); hence, the participation to this mini game requires tribe members to be deeply involved in the Despar world.

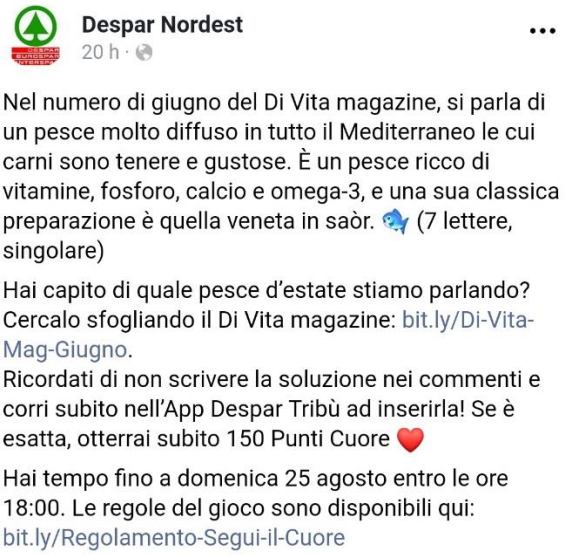

Figure 4.13 Example of Despar's Facebook mysterious word quiz. The hints provided to get to the solution refer to the latest number of the Despar magazine "Di Vita"that has been published, a link to the online version of the magazine is also provided. Retrieved from the official Facebook account of Despar Nordest.

The loyalty program developed by Despar Nordest is a great example of omnichannel integration other retailer should take into consideration; nonetheless, being based on the mobile application, it may exclude some loyal customers that are not familiar with this technology, leaving a segment of customers with no access to the loyalty program. At the same time, though, the provision of tutorials describing how to use every feature included in the mobile application could be an

effective stimulus for some of those customers to get to know mobile applications and start to use them.

CHAPTER 5: CASE STUDY: THE EXPERIENCE OF MAGAZZINI GABRIELLI S.P.A.

As far as the desk analysis is concerned, it cannot deliver an exhaustive framework of the loyalty marketing strategies implemented by Italian grocery retailers because it is limited to an external point of view, without any clue of the actual role loyalty marketing plays within a firm. A deeper knowledge could be obtained by addressing directly the marketing specialists dealing with partnering loyalty services providers or the loyalty managers of the retailers, with the aim of understanding how loyalty marketing is perceived within a grocery retail business environment and what is behind the implementation of the loyalty marketing practices that have been previously described in chapter 4.

Unfortunately, investigating such aspects for all the 29 retailers considered in the desk analysis has not been possible because it would have required the collaboration and provision of sensitive business data for all of them. Consequently, for the purpose of this work, it has been decided to restrict the on-field analysis to only one retailer out of the 29 previously considered, serving as a case study on the role played by loyalty marketing within a firm of the Italian grocery retail industry.

The following paragraphs will provide a brief description of the methodology used for the elaboration of the case study with an insight on the criteria adopted for the selection of the firm taken into consideration. Then, an overview is provided for the firm as a premise to better understand the company as a whole and its position on the Italian market. In conclusion, an in-depth discussion is made on the approach towards loyalty marketing of the firm, integrating what can be assessed from an external point of view, relatively to the practices implemented, with what has emerged from the on-the-field study.

5.1. METHODOLOGY

As mentioned above, the study is focused only on one of the 29 previously analysed retailers operating on the Italian territory; Magazzini Gabrielli S.p.A. has been evaluated as a good applicant for the study because it represents an example of a successful Italian firm that combines the characteristics and values of a family-business with the economic performances of a well-structured company, as it will be explained more in detail under the "company background" section. Furthermore, it is one of the few examples of grocery retailers born in the Marche region that have reached a significant socio-economic relevance and geographical coverage over the territory becoming one of the leaders of grocery retail in central Italy. Another significant element that has been taken into consideration for the choice of

the firm to examine has been the recent implementation of some innovations in loyalty marketing. As a matter of fact, on April 2019 Magazzini Gabrielli has released a new version of the online platform, constituting a unique website for all its store brands and identifying it with the same name of the firm's loyalty card, in an attempt to provide its customers with an omnichannel experience.

The study has been carried out through an interview to the loyalty marketing specialist and responsible for loyalty programs at Magazzini Gabrielli S.p.A. It has been opted for an unstructured and qualitative type of interview to let the interlocutor free of deepening his answers, providing examples, and highlighting the aspects that are mostly relevant for the firm from an internal point of view. Such interview, made of open-ended questions, is aimed at better understanding the role played by loyalty marketing within a firm of the Italian grocery retail and how a loyalty marketing strategy is developed and, then, implemented by means of a loyalty program.

A written track of the questions (Appendix A) has been sent to the interviewee in advance with a short description of the purpose of the present work and the aim of the study, to let him prepare adequately to the interview and gather all the necessary data required to offer exhaustive answers. In an interview of one hour and a half, the marketing specialist has replied to 8 questions that range from the general approach towards loyalty in the industry, to the specific objectives set and the

results obtained by Magazzini Gabrielli with its loyalty program, to conclude with an hint on the future development of the program itself and the loyalty marketing in the grocery retail as a whole.

Before starting to describe the loyalty marketing approach adopted by the firm and discuss the results of the interview, it is necessary to introduce some background information on the firm to offer a comprehensive overview on the case study.

5.2. COMPANY BACKGROUND

The origins of Magazzini Gabrielli S.p.A. date back to 1892 when Michele Gabrielli found the firm named after him; in 1953 his niece Celsira and her husband Pietro opened the first large-scale emporium in Roma Square, in Ascoli Piceno. The commercial expansion of the firm in the territory of the Marche region started in 1959 with the opening of several other stores; while the decision of making grocery retail the core business of the firm was reached only in the '70s, followed by a further expansion in neighbouring regions. The Gabrielli family is the owner of the group and still represents a crucial figure in the business, with the 4th generation entering the business leadership in 2015; nonetheless, since 2009 the board of directors has included some external managerial figures that support the family members in the management of the company.

Nowadays, Magazzini Gabrielli operates in 5 regions with 217 stores and 3 different retail brands: “Oasi” identifies the hypermarket formula focused on delivering high product variety, good quality of products, and affordable prices; the label “Tigre” is reserved to local shops that should support the customer in the daily purchasing experience; while “Tigre Amico” identifies predominantly the franchising stores. Figure 5.1 shows the geographical distribution of the 3 store brands over the 5 regions, highlighting the same trend that has been registered at Italian level with the prevalence of proximity stores over hypermarkets.

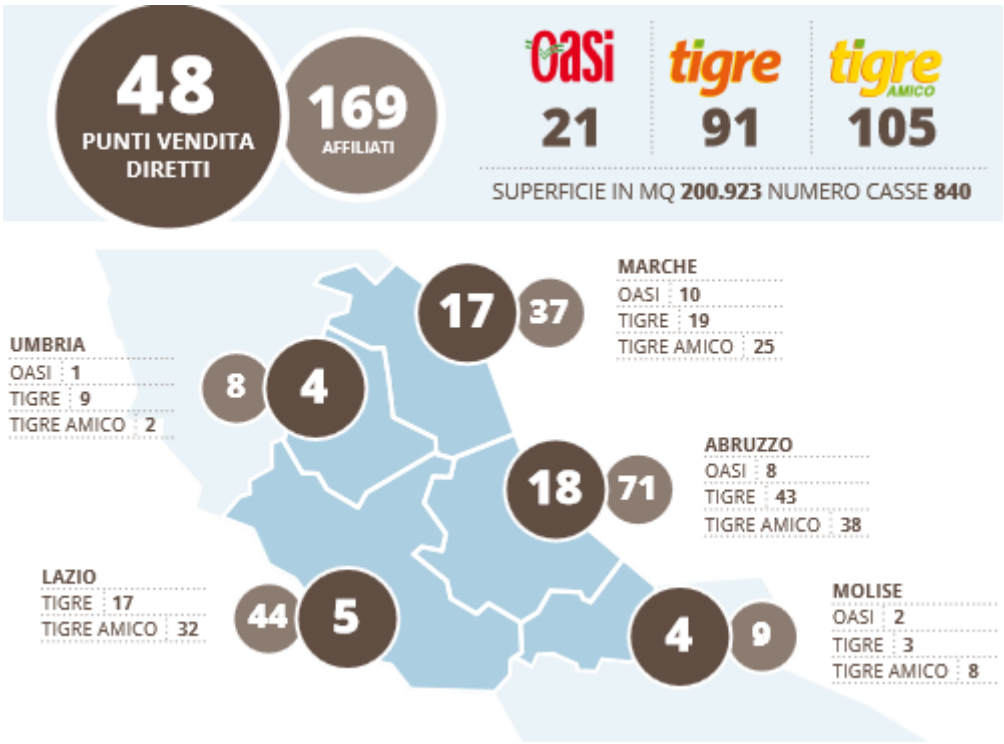

Figure 5.1 Geographical distribution of the Magazzini Gabrielli stores per region. In dark grey the number of directly managed points of sale, while in light grey the number of franchising stores. Retrieved from Gruppo Gabrielli (2019).

Despite the existence of significative differences between the 3 store formats, addressing different customer segments and needs, the firm has a unique vision, namely, to be the closest retailer group to the needs and dreams of people.[35] The mission of the firm as a whole is to satisfy everyday customers' needs by offering a unique customer experience with differentiated and targeted solutions, delivering high levels of expertise, product freshness, and quality.

Magazzini Gabrielli is one of the founders of the Supermercati Uniti Nazionali (SUN) consortium that manages the development and commercialization of the Consilia private label products; the consortium collects 4 other realities that operate mainly at local level with the supermarket and hypermarket formula. To gain higher bargaining power towards national suppliers of consumer-packaged goods, the consortium has joint the ESD Italia purchasing group that includes also Acqua & Sapone group, Agorà, Aspiag Service, and Selex group. (Gruppo Gabrielli; 2019)

Recalling figure 4.2 , the SUN consortium has registered € 44.5 million cumulative revenues in the 2013-2017 period, one of the least values registered among all the top 19 Italian grocery retailers; as far as other financial performance indicators are concerned, the consortium is slightly under the average, but still achieving good results. As reported in table 5.1, SUN revenues have grown at an average annual

[35] The Italian version of the vision contains a pun that cannot be replicated with English words, the original version is, indeed, "Essere il gruppo distributivo più vicino ai bi-sogni delle persone".

rate of 4.7% in the 2013-2017, slowing down to an annual increase of 3.9% in 2017; the profitability of investments made is also good, but under the industry average, similarly, the efficiency of the management in using company assets to create profits is positive but markedly under the average. (MBRES; 2018)

Table 5.1 Main indicators of financial performance. A comparison between the values registered by the SUN consortium as a whole and Magazzini Gabrielli, and the minimum, maximum, and average values of the top 19 players of the industry.

	% mean annual revenue variation (2013-2017)	% revenue variation (2016-2017)	Roi 2017	Roe 2017
Max	15.6	14.2	23	30.2
Min	-3.3	-3.1	-2.1	-7.1
Mean	4.82	5.03	9.32	10.79
Sun	4.7	3.9	7.6	5.6
Magazzini Gabrielli	**-**	**4.5**	**15.52**	**12.54**

However, comparing the average results of the consortium and the ones of Magazzini Gabrielli, the firm stands out among the other partners with far better results, registering a 4.5% increase in revenue in 2017, a 15.52% Return on Investments and a 12.54% Return on Equity. (Gruppo Gabrielli; 2018) The company continues to register positive results in 2018, with a 2.8% increase in sales over 2017 and stable EBITDA and operating income; while the industry as a whole suffers a 0.5% drop in economic growth; on the contrary, ROI, ROE, and Return

on Sales values are slowly decreasing over the years. The decrease of the ROI and ROS indicators is partially due to a significative increase of 4.4% in investments and the consequent higher value of amortisations reducing the EBIT, that is at the denominator of the two ratios; such investments will provide increasing benefits in the future. Similarly, the decrease in ROE is justified by an increase in Equity levels, a signal of the decision of the management to support corporate investments through its own venture capital, rather than through the use of liabilities. (Gruppo Gabrielli; 2019)

When analysing the performance of Magazzini Gabrielli and of the consortium it belongs to, a mention should be reserved to the private label *Consilia*®; as it has been explained in chapter 3, indeed, the introduction of private labels has changed the balances in producers-retailers relationships and represents one of the few differentiation elements in industry competitiveness. The label *Consilia*® is used in four different product lines to address the needs of different customer segments; it has experienced a rapid growth in the last few years; moreover, in 2018 the consortium has registered a double digit growth in sales of Consilia-labeled products, reaching an increase of 11.4%, while the corresponding national average for private label products is at 2.8%. (GDOnews; 2019) The success of the private label managed at consortium level is complemented by the recent development of a different label by Magazzini Gabrielli itself that aims at valuing local products

with a premium line. This latter label, named "*Fatti buoni*®", has been introduced in 2018 and is the outcome of a collaboration of the firm with some local producers, mostly family businesses, that pay attention to the quality of products and to the compliance with traditional recipes and hand-crafted proceedings. (Gruppo Gabrielli; 2019)

5.3. THE LOYALTY APPROACH OF MAGAZZINI GABRIELLI

Since 2009 Magazzini Gabrielli has introduced the Unika card, a free loyalty card that enables the customers of Tigre and Oasi stores to participate to yearly point collection programs and get dedicated promotional offers. The number of active cards has been growing year after year thanks to the continuous geographical expansion of the group, the consolidation of relationships with "old" loyal customers and the acquisition of new ones, registering a growing participation to the loyalty program developed by the firm. Such programs, however, should not be considered as mere customers rewarding activities because, if well implemented, they can boost customer engagement and, ultimately, bring extra profits to the firm. Hence, what is even more relevant to underline the effectiveness of the initiative is that to the increase in the number of active cards, it corresponds an increase in the percentage of revenues deriving from purchases made with cards, that, as displayed in table 5.2, has undergone a steady growth from 78% in 2015 to 83% in 2018.

Table 5.2 The increase in loyalty cards adoption registered by Magazzini Gabrielli. The table shows the increase over the year in the number of active cards and in the percentage of revenue generated by customers using the card. Retrieved from a personal elaboration of balance sheets data.

	2018	**2017**	**2016**	**2015**
active cards	691486	687000	652093	618146
% total revenue from loyalty cards	83%	82%	80%	78%

The effectiveness of Magazzini Gabrielli in establishing long-lasting relationships with its customers is confirmed by the levels of customer satisfaction it registers; every semester, indeed, the firm engages directly with its customers submitting some market surveys, the results of which are reported in figures 5.2 and 5.3. The retailer focuses on three macro-areas of customer satisfaction, namely, courtesy and professionalism of employee in store, quality of grocery products, and quality and cleanliness of stores. With the survey the customers are asked to assess their level of satisfaction with the three elements in an evaluation ranging from 1 to 10; the firm recognizes "satisfied customers" the ones assigning a score that is equal to or higher than 8. Even though the results are impressively good, the firm monitors meticulously such indicators in order to respond proactively to even small trend variations with specific investments.

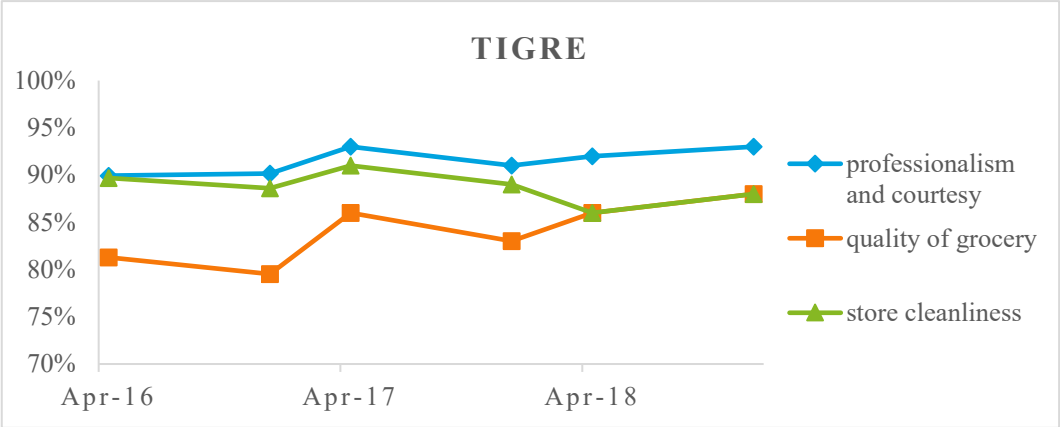

Figure 5.2 Customer satisfaction of Tigre stores customers. Retrieved from a personal elaboration of data on customer satisfaction reported in the firm 2018 and 2017 balance sheets.

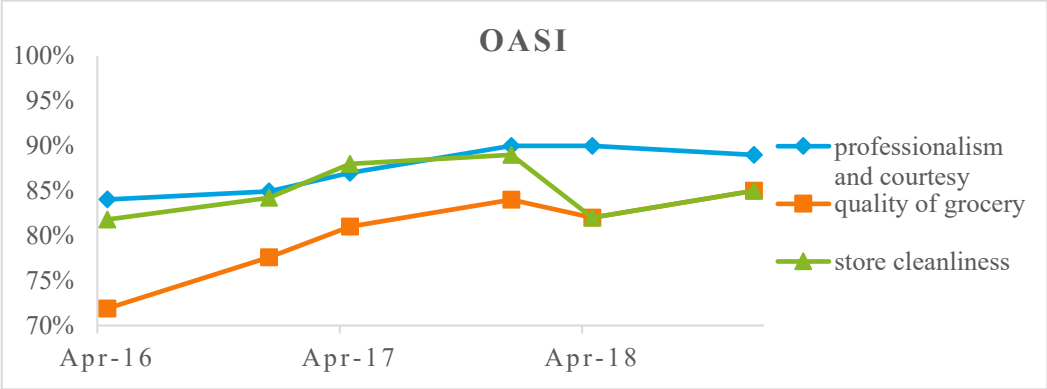

Figure 5.3 Customer satisfaction of Oasi stores customers. Retrieved from a personal elaboration of data on customer satisfaction reported in the firm 2018 and 2017 balance sheets.

A further indicator the firm extrapolates from personal interviews to customers is the Net Promoter Score, an indicator that refers to the advocacy stage of customers, or, rather told, their propensity to suggest the retailer to others. The result is impressive considering that the percentage refers to the number of promoters less the number of detractors and, as showed in figure 5.4, it is almost stable at more than 50% over the years. (Gruppo Gabrielli; 2019)

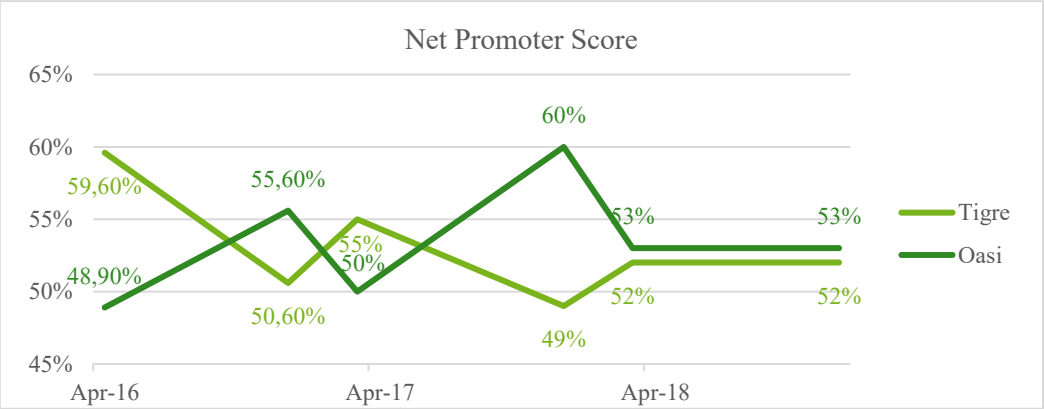

Figure 5.4 Net Promoter Score of Tigre and Oasi stores. Retrieved from a personal elaboration of data on customer satisfaction reported in the firm 2018 and 2017 balance sheets.

The use of Net Promoter Score is not the only innovation introduced by Magazzini Gabrielli in loyalty marketing; the firm, following the latest trends in grocery retail, is trying to rethink the role of loyalty marketing, identifying it as an instrument to develop targeted marketing measures. As a matter of fact, it is high time for retailers to start benefitting from the huge amount of customer related data so far collected by adopting a micro-marketing approach to loyalty, with the development of one-to-one promotions rather than relying exclusively on mass-marketing collections.

To make it possible, it is crucial for retailers to consider the customer having a central role in the firm and to let the loyalty marketing division cooperate and interact on a daily basis with other business units, that is exactly what Magazzini Gabrielli does. Within Magazzini Gabrielli, in fact, loyalty marketing is included in the Marketing Division and is constantly in collaboration with the rest of the marketing team; it works together with the sales division with the aim of improving

the sales performance and gather useful information, and with the purchasing division to evaluate eventual collaborations with suppliers to develop products that respond to the needs of customers, or to implement valuable prize competitions and collections, or even to share sales data with partnering suppliers.

The micro-marketing approach requires the loyalty division to work constantly on data; within Magazzini Gabrielli, for example, sales data are processed on a weekly basis to investigate, among many other elements, customer behaviour. Customers are, then, segmented in light of their loyalty stage and lifestyle but also of their price sensitivity and responsiveness to promotions and other marketing activities, to better target individual customers with customized offers. A first segmentation is actually carried out by customers themselves by entering some customers communities that are provided with dedicated offers; the communities currently available are five and distinguish people over 65 years, university students, family with babies, large families, and unemployed people or workers suffering economic difficulties. A further self-segmentation tool has been recently introduced within the new website by letting the customer choose among several area of interests the ones that match the most their interests so that they can receive offers on products they usually buy or would like to buy. (see figure 5.5)

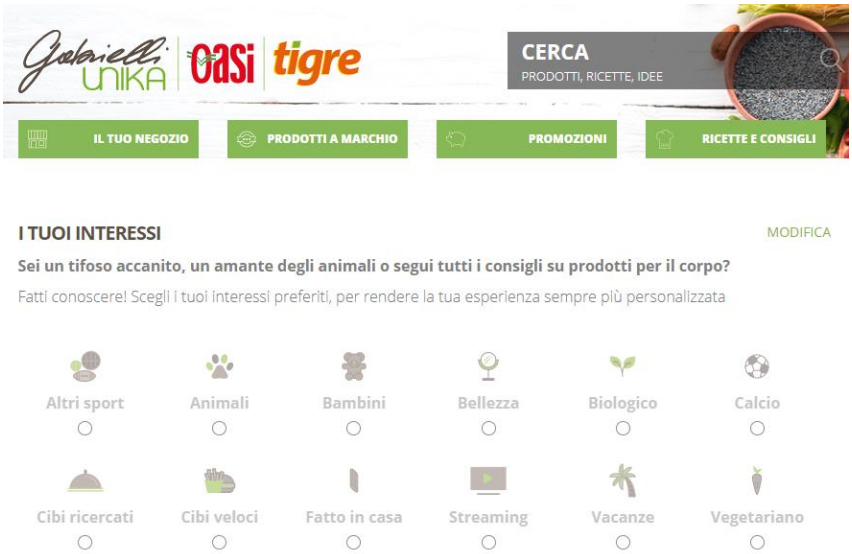

Figure 5.5 Section of the online user area available at gabrielliunika.it. Here the customer can change his/her personal data and choose the product categories that interest him/her the most in order to receive targeted offers on those products.

As far as the firm website is concerned, it is part of a broader digital transformation process that has started in 2017 with the aim of creating a firm digital asset and of improving the customer purchasing experience; the process involves the four focus areas of clients and marketing, internal processes, workers and training, and point of sale. (Gruppo Gabrielli; 2018) The renewed website, released in 2019, has been developed as a new digital touchpoint for customers, offering them further purchasing and engagement opportunities; it brings together the previously separated websites of Oasi and Tigre stores emphasizing their belonging to the same

community of customers identified with the ownership of a Unika card.[36] The website is built around the figure of the customer, providing a store location tool, insights on private label products, updated available promotions, and blog contents on recipes and useful tips; *gabrielliunika.it* offers also the possibility to create and share shopping lists and a link to the online shop. This latter is not much emphasized because the online shopping and click and collect features have not been properly implemented yet, in fact, they are currently available only for 7 stores located in 3 different cities. On the contrary, a well implemented feature of the website is the user area, which customers can enter by registering a personal account connected to their Unika card number. Within the user area customers can check their point balance, update their personal data and interests, manage privacy consensus, get in contact with the firm to report something, and, more importantly, get access to personalized offers. The development of micro-marketing practices like the provision of personalized offers has been made possible in Magazzini Gabrielli by the adoption of marketing automation systems that gather and process any customer-related data.

The effort and resources put in the launch of the new website have involved the entire firm so much that it has been decided to temporary close the mobile

[36] Differently than any other retailer analysed in the previous chapter, Magazzini Gabrielli has decided to maintain two separate websites, one aimed at providing information on the group to its stakeholders, the other completely dedicated to customers, named after the firm loyalty card.

application not to disappoint its users with an incomplete service. After all, the availability of such an instrument leads in itself some service expectations in customers that, if not met, may cause customer dissatisfaction and a consequent possible loss of some loyal customers. Magazzini Gabrielli aims at launching as soon as possible a new mobile application that can meet users' expectations and represent a valid platform to build an omnichannel shopping experience.

To summarise, Magazzini Gabrielli is preparing the path for future developments in loyalty marketing, adopting the latest technologies available to study consumer behaviour and establish one-to-one relationships with customers. The firm is also aware that the future of loyalty marketing in grocery retail implies an always stronger bond with the digital and social media realities as a mean to engage with customers and convey promotional activities and is actively working on it.

CONCLUSIONS

The higher value of maintaining an enduring relationship with customers rather than focusing on the single transaction is broadly recognized by literature which also identifies loyalty programs as the tool to manage and support such relationships. Empirical research suggests also that the effectiveness of those programs relies on their implementation through a valid value proposition and their ability to follow the evolution in consumers' needs and to change accordingly; the main weakness in the loyalty approach of grocery retailers could therefore be precisely the me-too approach with which firms implement it and their general lack of innovation.

The Italian market is a clear example of that, with the top retailers having adopted the same loyalty programs for years, with very little differentiation in the rewards offered to the customer, and a limited use of available technologies to manage the firm-customer relationship. The maturity stage of the industry, characterized by an almost stable distribution of market shares across the top players and limited growth potential, is probably holding back investments on loyalty programs. It seems that retailers have long preferred to stick with old, tried and tested loyalty mechanisms rather than taking the risk of introducing new elements; after all, retailers are aware of their backwardness in this field: they have to update their CRM systems even before being able to adopt any other technological tool. A consistent investment in

loyalty marketing is required to introduce some new elements of competitiveness and shake the whole industry balance.

As confirmed by the case study on Magazzini Gabrielli, retailers are slowly taking action to that end because they still consider the development of a loyalty program as an essential tool to obtain extra profits and gather valuable customer's behaviour insights. Loyalty marketing is not only a valid option for firms to rely on, but it is a customer-driven philosophy that embraces and connects all the divisions of a firm; it could be further enhanced by using the investments so far made in big data collection for the development of micro-marketing actions. As a matter of fact, to keep pace with the increasing fickleness of consumers' needs and behaviours, firms will be required to understand what each customer is searching for and provide personalized offers by establishing a one-to-one communication that should be able to reach the customer both in the physical and digital reality. The future of loyalty marketing in the grocery retail industry is, therefore, represented by an omnichannel micro-marketing approach.

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LIST OF FIGURES AND TABLES

APPENDIX A

Interview track submitted to the marketing specialist and responsible for loyalty programs of Magazzini Gabrielli S.p.A.

- Quale ruolo svolge il loyalty marketing nell'ambito del settore grocery e in particolare rispetto a Magazzini Gabrielli?
  What role does loyalty marketing play within the grocery industry and, in particular, within Magazzini Gabrielli?

- Nella struttura aziendale dove si inserisce il loyalty marketing? Esiste una divisione dedicata? Se sì come avviene la comunicazione con le altre divisioni aziendali?
  Where does loyalty marketing fit in the company structure? Is there a division dedicated to it? If yes, how does it interact with other company divisions?

- Come vengono elaborati i dati raccolti? Come vengono poi impiegati? Viene effettuata una segmentazione dei consumatori sulla base dei dati raccolti per poter sviluppare offerte personalizzate?
  Once collected, how are data processed? How do you use such data? Do you use them to segment customers and develop personalized offers?

- Nell'ambito del nuovo progetto di digitalizzazione del programma fedeltà, quali sono gli obiettivi che l'azienda vuole raggiungere con gabrielliunika.it?

As far as the digitalization process of the loyalty program is concerned, what are the objectives the firm aims at with gabrielliunika.it?

- Come verranno utilizzate le informazioni più dettagliate raccolte nell'ambito del programma ad es. quelle raccolte tramite "Oggi è il tuo giorno, dimmi la tua!". Verranno usate a livello aggregato o per azioni di micro-marketing?
  How will more detailed customer data be used, e.g. the ones gathered with the project "Oggi è il tuo giorno, dimmi la tua!"? Will they be used for mass marketing purposes or to develop micro-marketing actions?

- Quali sono le ragioni che hanno portato alla momentanea disattivazione dell'applicazione mobile? State lavorando a delle migliorie da apportare?
  What are the reasons that led the firm to temporarily disable the mobile application? Are you working on some possible improvements?

- Quali vantaggi porta l'introduzione di un programma fedeltà? Nel caso specifico di Magazzini Gabrielli avete riscontrato risultati positivi in termini di profitti, valore medio di scontrino o altro in seguito all'introduzione del programma fedeltà?
  What are the advantages brought by the introduction of a loyalty program? In the specific case of Magazzini Gabrielli, have you noticed any positive results in terms of higher profits, higher average receipt value, or anything else after having introduced the loyalty program?

- Come vede il futuro del loyalty in questo settore?
  How do you imagine the future of loyalty marketing in this industry?