



AI and the Retail Personalization Revolution

Our records indicate that this is the first time you're receiving my Weekly Brief, and as BCG's global chair, I wanted to personally welcome you. I started sending this note in mid-2020 with the hope that BCG's latest knowledge and my own reflections could help you make sense of our rapidly changing reality. If you have any feedback, I'd love to hear from you. - Rich

To BCG's network around the world,

The power of personalization has been known for years. In fact, one of my earliest projects at BCG involved illustrating the enormous potential for [Segment-of-One Marketing](#) to customize the relationships with individual consumers.

But as I look at how sophisticated personalization has become, and the role that artificial intelligence can play, the progress is staggering.

Take retail. We know that the global retail landscape is changing at breakneck speed, driven by an explosion in data, the shift to online accelerated by the pandemic, more and more digitally savvy consumers, inflationary pressures, and net-zero awareness, with 60% of consumers today willing to change buying habits or pay more for sustainable products. In addition to managing all that disruption, retailers also need to reimagine how they deliver value in an inflationary environment in which different customer segments have a dramatically different willingness to pay.

To win customers and stay competitive, retail businesses need to move away from the blunt instrument of mass promotions and shift spending to personalized offers. Today, personalized spending is only 5% of total value investments across retail, but we expect that to grow to 25%—even 50% in some categories. In fact, BCG's research

shows that a move to personalization at scale, powered by AI, would lead to [\\$70 billion in revenue growth](#) annually for early movers.

Getting It Right

Personalization is about delivering the right experience to the right person the right way—all at the right time. Key to success is the use of innovative technology platforms that enable retailers to automate parts of the process that had been fully manual in the past. This includes customer data platforms, content management systems, marketing automation software, channel delivery solutions, and a well-architected data and analytics environment.

We've learned through our work that 70% of the codebase needed for personalization is reusable across organizations and industries, cutting time to market dramatically. BCG's AI platform Fabriq.ai, for example, is a configurable codebase that launches rapid personalization pilots in weeks, not months. [Formation](#), a SaaS company we cofounded years ago with Starbucks, leverages AI and machine learning to fully automate personalized offers and gamified customer experiences for retailers and brands.

There have also been advances in what we call [AI creative-content generation](#), which involves algorithms linked to massive databases of words and phrases. The technology attempts to match the mix of words that will best resonate with the consumer at every interaction. Personalizing both the content and the message, drawing on millions of tagged words, has been shown to deliver an increase in conversion rates of more than 40%

Learning from Leaders

Starbucks, a well-known leader in personalization, has eliminated mass promotions completely and instead offers tailored gamified specials to rewards members—a shift that has resulted in 8% year-on-year growth in member spending and driven similar store sales growth for years.

But there are many other impressive examples. A large retail chain in North America launched a capability that allowed vendors to fund personalized offers, which helped the company gain incremental funding from suppliers during the pandemic. It generated \$100 million in net incremental value, and the number of customers interacting with personalized offers grew by 50%. Other food and big box retailers are on similar journeys.

Even fashion and retail companies, which have historically relied on sales events to clear inventory, are gaining big wins in personalization. By using off-the-shelf AI technology to enable targeted rewards, a \$1 billion brand generated \$25 million in incremental annual EBITDA. Personalization also enables human sales agents to have far greater impact with their customers.

* * *

The shift to personalization isn't new, but the current environment of disruption is forcing retailers to rethink how to win consumers. The use of AI in the retail industry will drive both productivity and growth opportunities never seen before—and empower companies to delight their customers in uncertain times.

Please see below for more on this topic.

Until next week,



Rich Lesser
Global Chair

Further Reading



AI Has Launched a \$200 Billion Revolution in Content Personalization

Companies looking to make a step change in customer and consumer engagement should investigate this powerful new technology now.

[READ MORE →](#)



The \$70 Billion Prize in Personalized Offers

There's gold at the end of the personalization rainbow. To get it, retailers need to focus on the customer experience, technology, and operating models.

[READ MORE →](#)



The Fast Track to Digital Marketing Maturity

Four accelerators enable more advanced companies to outperform.

[READ MORE →](#)