Recommender Systems in Food Retail: Modeling Repeat Purchase Decisions on Transaction Data of a Stationary Food Retailer

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Abstract: In the course of growing online retailing, recommendation systems have become established that derive recommendations from customers’ purchase histories. Recommending suitable food products can represent a lucrative added value for food retailers, but at the same time challenges them to make good predictions for repeated food purchases. Repeat purchase recommendations have been little explored in the literature. These predict when a product will be purchased again by a customer. This is especially important for food recommendations, since it is not the frequency of the same item in the shopping basket that is relevant for determining repeat purchase intervals, but rather their difference over time. In this paper, in addition to critically reflecting classical recommendation systems on the underlying repeat purchase context, two models for online product recommendations are derived from the literature, validated and discussed for the food context using real transaction data of a German stationary food retailer.

1 INTRODUCTION

In times of digital transformation, enormous importance is attached to data. This manifests itself not least in current trend topics in literature such as Big Data and Data Science (Loebbecke and Picot, 2015). Food retailers have also long since discovered such opportunities for themselves: A well-known example is the insight into the connection between the purchase of beer and diapers on the weekend. The information obtained about consumer behavior has been used to optimize advertising and pricing mechanisms (Fu et al., 2000). However, this requires a broad database (Chen et al., 2012), which has led to asymmetric business models such as “Payback”, which collect user data through discounts or loyalty programs and make it available to cooperation partners in anonymized form (Hofman-Kohlmeyer, 2016; Stevens et al., 2017).

But food retailing is not only experiencing change from a digital perspective: consumers’ lifestyles are also currently transforming strongly. Health, ecological, ethical, social and culinary issues are gaining importance. Nutrition and eating habits should no longer merely satisfy hunger, but be an expression of the consumer’s individual personality. A growing health consciousness among consumers is also having an impact on the demand for fresh and healthy foods. In the course of this, the regionality and origin of products in terms of quality, environmental awareness and ethical aspects are coming into the focus of buyers in order to eat healthy and climate-conscious (Hutapea and Malanowski, 2019; Lawo et al., 2019; Stevens et al., 2017). This leads to growing demands on food and an increasing need for product variety in food retail (Hutapea and Malanowski, 2019). Especially in online retail, which is predestined for the collection of user data (Jakobi et al., 2020), transaction, behavioral, and rating data is used to ensure a personalized experience for customers by providing them with relevant content through recommendation systems (Talas et al., 2017). In online food retailing, Amazon Prime Pantry, for example, also relies on the use of recommendation systems to design customer-centric marketing activities (Dokras, 2017).

However, recommendation systems are not yet omnipresent in food and online retail. While click pattern and user preference analyses are still relatively easy to integrate (Poggi et al., 2013; Xu et al., 2011), the more complex modeling of customers’ repeat purchase behavior is particularly important in the food sector. This is due to the fact that purchase decisions there are often habitualized and therefore the question is not what to buy but when to buy it (Kaas and Dieterich, 1979; Ehrenberg, 2000). While estab-
lished studies and models in the context of marketing research mostly deal with the consideration of specific products or brands (Fader et al., 2005; Morrison and Schmittlein, 1988), there are, however, first approaches that discuss recommendation systems for repeat purchase behavior using online tracked data (Bhagat et al., 2018; Dey et al., 2016).

This paper critically derives the problems of existing recommender systems for food retail, and builds on them to validate current models for repeat purchase recommendations for this domain. However, in contrast to prior research, our work examines real-world transaction data from stationary supermarket terminals of a large German food retailer, as purchases in food retail mainly take place offline (Pitts et al., 2018). This represents a major difference to online tracked data, which can usually be collected in a more structured and traceable form (Jakobi et al., 2020). The paper concludes with a critical discussion of the results and identification of possible improvements to make the models more suitable for both online and offline food retailing.

2 RECOMMENDER SYSTEMS

2.1 General

Recommender systems are designed to support users in their (future) decisions based on their previous usage history and that of other users. In principle, they can be differentiated into non-individual, collaborative, content-based, knowledge-based, demographic and hybrid filters (Aggarwal, 2016; Bobadilla et al., 2013). While non-individual recommendations are the same for all users and thus lack personalization of the respective products (e.g., the most clicked products) Bobadilla et al. (2013), collaborative filtering (CF) examines the preferences of different users based on their consumption and usage patterns to identify similar individuals or items (e.g., movies on Netflix). Recommendations are made either based on the similarity of two items in terms of their user ratings ("item-based") or on their ratings of similar users ("user-based") (Sarwar et al., 2001; Zhang et al., 2017; Linden et al., 2003). In contrast to collaborative approaches, content-based filters generate their recommendations based on the characteristics and content of the items already consumed. For example, items similar to a user’s previous ones (e.g., articles about science and technology) are recommended (Van Meteren and Van Someren, 2000; Bobadilla et al., 2013; Miranda et al., 1999). Knowledge-based filters are based on satisfying customer needs through specifically defined product features. Here, explicit rules are used to generate recommendations (e.g., specifications such as size, min. and max. price, or zip code when buying a house) (Aggarwal, 2016). Demographic filtering makes recommendations based on a socio-demographic profile (e.g., age, gender, nationality) of a user (Thorat et al., 2015). Hybrid approaches represent a combination of different filters. These are often used to circumvent problems of individual methods as well as to increase the accuracy and efficiency of the filtering (Aggarwal, 2016; Thorat et al., 2015).

In recent years and mainly driven by online retailing, collaborative and content-based recommendation methods have become established (Breese et al., 2013; Linden et al., 2003). However, these systems have fundamental problems that are problematic for recommending food products for repeated purchase.

2.2 Issues for Food Retail

2.2.1 Data Distribution

A fundamental problem of recommender systems is the cold start problem, which leads to inaccurate preference capture for new users or products due to a sparsely populated customer-product matrix (Thorat et al., 2015). This is particularly problematic in food retailing given that the “long tail” of items (e.g., niche items) has only sporadic ratings and therefore will be difficult to predict (Clement et al., 2019). This is especially affecting the collaborative approaches, as they are based on historical customer preferences. Since user-based collaborative filtering is built on comparing item scores from different users, many neighborhood scores are needed for a specific item (Brusilovsky, 2007). Content-based methods are not affected as much, since they determine similarities based on item descriptions and thus recommend products for which there are no reviews yet (Thorat et al., 2015). Due to dimension reduction, the matrix factorization (MF) approach can lead to better results (Do et al., 2010; kumar Bokde et al., 2015). In the context of probabilistic model-based methods, such as the Bayes classifier, missing values are ignored in probability estimation (Isinkaye et al., 2015). However, in content-based systems, the so-called portfolio problem occurs, which ensures that only items are recommended due to overspecialization, which are very similar to already recommended products (Tintarev and Masthoff, 2006).

For the transaction data in food retail, this means that a recommendation system would need to have many purchases of the same product in order to form a
neighborhood of similar customers. This is especially relevant regarding the cold start problem, so that new customers can be quickly assigned to a suitable customer group to be able to make appropriate recommendations. However, when it comes to sparse purchasing data with only a few comparable purchases, this leads to problems in generating neighborhoods and the model does not work accurately.

2.2.2 Scalability

Another problem arises from the resource intensity of the algorithms for computing the optimal neighborhood. The demand for time and memory increases linearly with the number of users and scores (Zhang et al., 2017; Brusilovsky, 2007). For a food retailer with a broad product and customer base that wants to make recommendations in a split second, such an algorithm would create time and cost pressures. This can be countered by means of subsampling and model-based methods. With subsampling, only a subset of users is selected at a time, which is intended to relieve the storage capacity. However, the computation of the neighborhood remains fixed (Lee et al., 2012). In the context of model-based clustering methods, users are grouped into clusters based on common properties. The active user is now compared to a group of users rather than individuals, so that the closest neighborhood can be quickly identified. However, problems with missing data also arise here when the distance functions lead to non-intuitive and unstable clusters (Lam and Riedl, 2004; Johnson, 1967; Linden et al., 2003). Bayesian classification also provides an advantage here, as it is a probabilistic model that represents the historical data and therefore can perform classifications without having to retrieve the entire customer-product matrix (Aggarwal, 2016). Furthermore, MF approaches also provide acceleration of recommendations by reducing dimensionality (Sarwar et al., 2002).

As many transactions are needed to calculate neighborhoods, this leads to a high computational effort and accordingly raises resource issues. Memory-based methods therefore seem rather unsuitable for this type of recommendation, which is why probabilistic (Bayesian) models in particular can offer added value here.

2.2.3 Inherent Meaning

Collaborative filtering is based on the assumption that users have common preferences. The more homogeneous the preferences of different user groups, the more functional the model will be. Furthermore, collaborative filtering is particularly suitable for subjective characteristics (e.g., musical taste) that influence a selection decision. If, on the other hand, there are predominantly objective quality criteria (such as price changes), which do not have to be weighed against each other, other models should be used. Accordingly, a homogeneity of the items is also desirable. Thus, they are similar with regard to their objective criteria and differentiate only by subjective characteristics (e.g., music albums usually have a similar price, a similar length and similar sale channels) (Brusilovsky, 2007; Linden et al., 2003; Zhang et al., 2017).

In the case of purchasing data, this homogeneity is usually not given, since it is precisely the objective characteristics that cause behavioral changes in customers and are therefore often addressed by marketing (e.g., weekly offers). Due to the resulting trade-off between subjective and objective criteria, collaborative filters can be seen as problematic for the generation of recommendations in food retailing.

2.2.4 Data Persistence

The temporal validity and relevance of the data should also be assessed. From the requirements of data distribution, the problem arises that items that are only relevant for a short period of time (e.g., daily news) are rather less suitable for collaborative filtering, since in principle few ratings can be expected. Historical ratings are also less helpful when users’ tastes change quickly (e.g., preferences for clothing items that have since gone out of style) (Zhang et al., 2017; Linden et al., 2003; Lee et al., 2012; Brusilovsky, 2007).

In the food sector, the temporal validity of the data could play a subordinate role, since the tastes of the customers are mostly habitualized or develop there (Kaas and Dieterich, 1979).

2.2.5 Synonymy

Many recommender systems have problems when similar and closely related products have different names (e.g., clothes and dresses). Collaborative filters are often not able to find a match between such items and therefore do not calculate their similarity. This problem is solved, for example, by the automatic term expansion (Liphoto et al., 2016; Alani et al., 2000), as well as the singular value decomposition (SVD) in the context of MF (esp. Latent Semantic Indexing) (Sarwar et al., 2001).

Again, food transaction data cause a problem, because there are often many very similar names for an almost identical product. For example, different names for the same mineral water (“Still”, “Sparkling”) could lead to model inaccuracies. Here,
extended methods of term expansion or machine learning methods for word embeddings, i.e. the reconstruction of linguistic contexts based on words, should be used (Gong, 2010; Lawo et al., 2020).

3 INTEGRATION OF THE TIME FACTOR

Most recommendation systems are based on static principles, as they only take into account information about whether a user buys a product or not. However, the time factor is also already integrated in some recommendation systems. In principle, two types of time-based data are distinguished in the literature: The product introduction time and the time of purchase (implicit) or evaluation (explicit) (Park and Lee, 2006). Tang, Winoto, and Chan integrate temporal characteristics of items to reduce relevant candidate sets in the context of movie recommendations (production year), improving the accuracy of recommendations (Tang et al., 2003). Ding, Li, and Orlowska consider user rating time to optimize an item-based collaborative filtering system. Here, weights are calculated based on the rating times of different items (Ding et al., 2006). Lee, Park, and Park developed a time-based pseudo-rating matrix that takes into account product introduction time and purchase time under the assumption that a user’s current preferences are disproportionately influenced by more recent purchases and that more recent items exhibit higher user interest (Lee et al., 2008).

Lathia, Hailes, and Capra (2009) focus on the effect of weekly retraining within a CF algorithm as a time-dependent predictive model. As an adaptive temporal CF method, it adjusts the neighborhood size of a k-Nearest Neighbor approach based on performance measured up to the current time (Lathia et al., 2009). Koren sees an inevitable need to incorporate temporal changes into a recommender system. He defines an MF model that analyzes temporal change behavior over the entire data history and validity (Koren, 2009). Cho, Cho, and Kim consider customer purchase sequences over time to optimize recommendations quality. They use an extended customer-product matrix, which shows the purchase times in addition to the products. Furthermore, they cluster the transactions into homogeneous subclusters using the self-organizing map (SOM) technique. A change of the cluster membership by each individual transaction of a customer defines its purchase sequence. The time-dependent change in a customer’s cluster membership also enables prediction of a customer’s future purchases. A recommendation is generated by the system following the identification of the most similar purchase sequences compared to the current customer, generating a set of products that the active customer has is most likely to purchase based on the N most frequently purchased products in the cluster (Cho et al., 2005).

The “EigenTaste” algorithm of Nathanson et al. analyzes the time-related changes in customer preferences when selecting a product to recommend based on the last evaluation (Nathanson et al., 2007). Chu and Park describe a machine learning algorithm that can improve the recommendations of new products by continuously updating time-based features (e.g., popularity, freshness) in relevant content profiles personalized (Chu and Park, 2009). The time factor is also being integrated into initial Deep Learning approaches for recommender systems. Most companies, which do not have access to long usage histories, have so far had to resort to item-to-item recommender systems. Hidasi et al. use recurrent neural Networks (RNN) to address the problem of only short session-based datasets in a memory-based approach (Hidasi et al., 2015).

4 REPEAT PURCHASE RECOMMENDATIONS

The aspect of repeat purchases addressed in this paper is dealt with only sparsely in the literature on recommender systems. Repeat purchases describe any situation in which a customer buys more than one unit of a product (Bhagat et al., 2018). A key publication on the topic of repeat purchase decisions for brands is Ehrenberg’s Repeat Buying Theory. Ehrenberg describes that most aspects of brand buying behavior can be explained in terms of just two variables. These are the market penetration and the average purchase frequency of a product, whereby even these two variables correlate with each other. Furthermore, a product purchase decision essentially depends on the timing of the purchase of a specific product class as well as the brand choice. Accordingly, almost all influences can be adequately explained if purchase frequency processes are specified per brand (see Fig. 1) (Ehrenberg, 2000; Silver, 1989).

Ehrenberg’s theory looks at the purchase histories of individual users from consumer panels, i.e. the chronological sequence of purchases in all of a customer’s shopping baskets over a specific period of time and a specific point of sale, to study the purchase frequencies of a particular brand. It turned out that the
Figure 1: Purchase Events as Independent Stochastic Processes according to Ehrenberg (2000).

analysis should focus in particular on purchase occasions, i.e. the frequency of purchase of one or more items of a product at a specific time in a store, and not on quantity or price. Repeat purchases can therefore be described for a specific item by its market penetration and purchase frequency, where penetration represents the proportion of people who buy a particular product in the first place and purchase frequency represents the average number of these customers who buy at least one product in the period under consideration. The average purchase frequency here represents the basic measure of repeat purchases (Ehrenberg, 2000).

Ehrenberg distinguishes between three types of repeat purchases: 1) A customer may buy an item in more than one purchase in a given period. Different customers can be characterized by the number of their respective repeat purchases of the product. 2) A customer can buy an item in more than one period. 3) A customer can buy several units in the same purchase. For the problem definition of this paper, the first point in particular comes into consideration. The frequency distribution of (repeat) purchases and thus the number of consumers who have made 0 or 1 or, in the repeated case, 2, 3, 4, etc., purchases, can be described by the Negative Binomial Distribution (NBD) or the Logarithmic Series Distribution (LSD) (Bhagat et al., 2018; Geyer-Schulz et al., 2001). Most products in everyday life have a certain time interval between the purchase of one product and the next (e.g. weekly purchase of mineral water). However, certain branded products in particular are rarely bought again, even over a longer period of time. Many customers of a brand buy a product only once, some twice, etc. Due to a thus relatively small share of buyers of a branded product in the population, the highest frequency is observed among non-buyers (Ehrenberg, 2000). This results in a very skewed frequency distribution (Forbes et al., 2011), which can theoretically be described by a mathematical function. The underlying function to fit the above problem is the NBD, with the LSD being a simplifying approximation to the NBD (Ehrenberg, 2000).

Bhagat et al. (2018) further discuss different approaches for repeat purchase decisions. In contrast to the models above, they aim to generate individual recommendations for repeat purchases. In doing so, they shed light on the temporal dependencies between repeat purchases of products, as these depend on when a product was last purchased and how quickly the customer runs out of it (Bhagat et al., 2018).

Therefore, they assume that a customer who has bought a product frequently in the past will buy it again (Repeat Customer Probability Model, RCP). The recommendations are ranked in descending order according to the number of repeat purchases. However, the problem arises that frequently purchased items are not relevant for a certain recommendation period, but are still considered due to their high number of repeat purchases. Even the integration of a certain time decay, which models repeated purchases based on a specific half-life, would be problematic due to the assignment of the highest rank directly after a repeat purchase, as this would increase the rank in the recommendation list. It can be assumed that the attractiveness of a product for repeated purchase immediately following the purchase of this product is rather low. In order to include the temporal relevance of products, it is also discussed that the purchase of items represents a periodic phenomenon and is therefore subject to a certain time interval (Aggregate Time Distribution model, ATD). Other approaches based on this idea are the Poisson-Gamma model (PG) and the Modified Poisson-Gamma model (MPG), which perform better due to the personalization of purchase rates by a Bayesian Hierarchical Model (Bhagat et al., 2018; Chu and Park, 2009; De Oliveira, 2013; Gopalan et al., 2015).

5 METHODOLOGY

5.1 Data

The data set includes eleven features: CustomerId, ShoppingCartId, MarketId, Date, ShoppingCartValue, ItemId, ItemName, ItemQuantity, ItemPrice, CategoryId, and CategoryGroupId. Some products with negative item price and negative item quantity are included. They were mainly marked as NaN (Not a Number) and describe items such as deposits and empties, which are refunded to the customer. Negative item prices and quantities as well as NaNs are already removed from the data set before data preparation, as they would distort the data analysis due to their negative values. In addition, other items with the designation “deposit” or “delivery” existed,
which were also deleted.

The reduced and cleaned dataset includes 49,920,981 transaction records. The transactions took place between December 28, 2018, and April 29, 2019. Overall, while the data set has a wide range of analysis capabilities with approximately 50 million transactions and 200 thousand products, these already reveal likely weaknesses with respect to modeling repeat purchase decisions. For example, the average number of purchases per customer across all products is 5.1 with a standard deviation of 5.6. This indicates a high number of customers who also purchase fewer products in the complete period under consideration. The average number of products in a shopping cart also confirms this impression with only 1.27 items. The maximum number of items in a shopping cart is only 22 for 200 thousand different products. Accordingly, although there are many individual purchases of specific products, there are no frequent repeat purchases by a specific customer. The number of purchases per customer is in the range of one to two purchases in the considered period. The number of one-time repeat buyers (loc) per product is less than five in 50% of cases. The number of repeat buyers (moc) is even less than three. These key figures result in the Repeat Customer Probability – i.e. the probability of a product being purchased by a repeat buyer.

Since this is a time-dependent classification problem, the data is divided on the basis of a reference date. The test data thus represent (actual) future transactions of the customers, which are to be predicted by the model and used for validation within the framework of a confusion matrix with their specific key figures. Here, the due date was set at March 31, 2019, and the last month of the data set thus serves as test data. Accordingly, the training data set comprises 37,289,860 rows (74.7%), and the test data set in turn 12,631,121 rows (25.3%). In addition, it is assumed that a customer’s purchase will only occur in the test period if that customer purchased a product in both training and test data (Bhagat et al., 2018).

Due to sparsely purchases at customer level (data distribution), two models are to be evaluated for the present data. These are the ATD model and the MPG model. While the ATD model addresses this weakness by considering the aggregated repeat purchases per product, the MPG model analyzes the personalized purchase rates of a product using the Bayes approach as a probabilistic model-based method.

5.2 Modeling

The problem of repeat purchase recommendations is described as estimating the probability of a repeat purchase as a function of time since his last purchase of the item under consideration, given the customer’s previous purchase history. Accordingly, the associated purchase probability density $P_{A_i}$ is to be estimated for a future time interval $t_{k+1}$ assuming that a customer $C_i$ has purchased an item $A_i$ $k$ times in the past with time intervals $t_1, t_2, \ldots, t_k$. Thus:

$$P_{A_i}(t_{k+1} \ | \ t_1, t_2, \ldots, t_k)$$

(1)

It is supposed that the customer’s purchase times for different products are independent (Bhagat et al., 2018).

Furthermore, it is assumed that the above purchase probability density is composed of two components. $Q_{A_i}$ represents the probability of a repeat purchase of a customer who buys a product for $(k+1)^{th}$ times with $k$ previous purchases. $R_{A_i}$ defines the probability distribution of $t_{k+1}$, which depends on the repeated purchase of the item by the customer ($A_i = 1$).

$$P_{A_i}(t_{k+1} \ | \ t_1, \ldots, t_k) \approx R_{A_i}(t_{k+1} \ | \ t_1, t_2, \ldots, t_k) \cdot Q_{A_i}$$

(2)

Moreover, the time distribution $R_{A_i}(t_{k+1} \ | \ t_1, t_2, \ldots, t_k)$ is supposed to be asymptotic to $R_{A_i}(t \ | \ t_1, t_2, \ldots, t_k)$ (Bhagat et al., 2018; De Oliveira, 2013; Trinh et al., 2014).

$$R_{A_i}(t_{k+1} \ | \ t_1, t_2, \ldots, t_k) \approx R_{A_i}(t \ | \ t_1, t_2, \ldots, t_k)$$

where: $\int_{0}^{\infty} R_{A_i}(t)dt = 1; \int_{0}^{\infty} P_{A_i}(t)dt \leq 1$ (3)

The above mentioned RCP model serves as a basis for the following models in order to consider only products that are suitable for repeat purchase. It is defined by analyzing aggregate repeat purchase behavior as the ratio of the number of customers who have purchased a product $A_i$ more than once (moc) to the number of customers who have purchased a product $A_i$ at least once (loc). The derived repeat customer rate $RCP_{A_i}$ approximates $Q(A_i)$ and without considering the time intervals between purchases also $P_{A_i}$ according to the following formula (Bhagat et al., 2018; Fader and Hardie, 2009):

$$RCP_{A_i} = \frac{\text{moc}}{\text{loc}},$$

(4)

$$P_{A_i}(t_{k+1} = t \ | \ t_1, \ldots, t_k) \approx Q(A_i) \approx RCP_{A_i}$$

Only products with an $RCP_{A_i} > r_{\text{threshold}}$ are taken into account further.
5.2.1 Aggregate Time Distribution Model

If there are only a few repeat purchases at the customer level, but a large number of repeat purchases across all repeat purchasers of a product. This models the determination of the probability distribution of the time intervals \( t \) of repeat purchase of a specific product across all repeat purchase customers. For this purpose, Baghat et al. examined various distributions in the context of determining mean time intervals for each customer in a sample of repeat-purchased items, and the log normal distribution achieved the best fit (Heyde, 1963; Bhagat et al., 2018).

\[
R_{\lambda_i}(t) = \frac{1}{\sqrt{2\pi \sigma_i \gamma_i}} \exp \left( -\frac{(\ln t - \mu_i)^2}{2\sigma_i^2} \right), \quad t > 0 \quad (5)
\]

Accordingly, the ATD model estimates the parameters of the log-normal distribution for each suitable repeat purchase product by fitting them to the different repeat purchase time intervals \( t \) of all repeat customers. Here, \( Q(\lambda_i) \) represents a fixed constant \( q \) for all products \( A_i \) at a given time \( t \). Recommendations are made based on the descending order of probability density \( P_{\lambda_i}(t) \) at a given time \( t \) using \( P_{\lambda_i}(t_{k+1} \mid t_1, \ldots, t_k) \approx R_{\lambda_i}(t_{k+1} \mid t_1, \ldots, t_k) \cdot Q(\lambda_i) \) (Bhagat et al., 2018; Heyde, 1963).

5.2.2 Modified Poisson-Gamma Model

A Bayesian model is assumed whose evidence is Poisson distributed and the prior on \( \lambda \) is a gamma prior (PG model). It is subject, on the other hand, to the assumption that successive repeat purchases are uncorrelated and that repeat purchases follow a homogeneous Poisson process with repeat purchase rate \( \lambda \). On the other hand, \( \lambda \) across all customers follows a gamma distribution of the form \( \alpha \) with an inverse scale parameter \( \beta \). The parameters of the product-specific gamma distributions are estimated by fitting them to the maximum likelihood estimators of the purchase rates of repeat purchase customers. This is followed by a Bayesian estimate of a customer’s repeat purchase rate based on the combination of the prior distribution and the individual’s past purchase history (Bhagat et al., 2018; Trinh et al., 2014):

\[
\lambda_{\alpha_i, \beta_i} = \frac{k + \alpha_{A_i}}{t + \beta_{A_i}}, \quad t > 0 \quad (6)
\]

In addition to the shape and scale parameters \( \alpha_{A_i} \) and \( \beta_{A_i} \) of the gamma prior of product \( A_i \), \( k \) describes the number of purchases of the specific product \( A_i \) by customer \( C_j \). The elapsed time between the initial purchase of \( A_i \) by \( C_j \) and the current time, is expressed by \( t \). Regarding recommendations, \( R_{\lambda_i} \) is assumed to be Poisson distributed, with the inverse scale parameter estimated using \( \lambda_{\alpha_i, \beta_i} \) and the likelihood function estimated using the following equation \( R_{\lambda_i, C_j} \) (Gopalan et al., 2015; De Oliveira, 2013).

\[
R_{\lambda_i, C_j}(t) = \sum_{m=1}^{\infty} \frac{\lambda_{\alpha_i, \beta_i}^m \exp(\lambda_{\alpha_i, \beta_i} \cdot C_j)}{m!} \cdot t > 0 \quad (7)
\]

Here \( m \) represents the number of expected future purchases and \( Q_{\lambda_i} \) is considered as a fixed constant for all products \( A_i \). Recommendations are made by classifying all items previously purchased repeatedly by the customer based on their estimated probability density \( P_{\lambda_i} \) in descending order at a given time \( t \) using the equation 2 (Bhagat et al., 2018).

Unlike the classical Bayesian methods, the Bayes estimation of the a priori distribution here is done empirically using the underlying data, rather than defining it fixedly in advance without taking the data into account. Therefore, this method is also titled Empirical Bayesian Method. The PG model is thus a parametric Empirical Bayesian Model whose likelihood and a priori distribution take simple parametric forms. It approximates a Hierarchical Bayesian Model. The Bayes theorem allows the individual purchase decisions of a customer to be combined with the aggregate purchase behavior of a product, thereby personalizing this model. The PG model has already been used in the past, but not yet in the context of stand-alone repeat purchase recommendations (Bhagat et al., 2018; De Oliveira, 2013; Fader et al., 2005; Morrison and Schmittlein, 1988; Sicil, 1982).

If \( \lambda \) is the purchase rate to be estimated at \( Y \in \{0, 1, 2, \ldots\} \in \mathbb{N} \) purchases occurred in period \( N \), then \( E(Y) = N \lambda \) describes the expected number of purchases. Because \( \lambda \) follows a gamma distribution at the product level, a maximum likelihood estimator (MLE) of the gamma parameters \( \Gamma(\alpha, \beta) \) for each product of the respective repeat purchase customers is established as \( \hat{\lambda} = \frac{Y}{N} \). Because \( Y \) represents the number of purchases with the above expected value \( E(Y) = N \lambda \), the likelihood assumption is \( Y \mid \lambda \sim \Gamma(\alpha + Y, \beta + N) \). The Bayes estimator (a posteriori mean) can be expressed as (Bhagat et al., 2018; Consul and Jain, 1973; Sicil, 1982):

\[
\hat{\lambda}_{\text{posterior}} = \frac{\alpha + Y}{\beta + N} \quad (8)
\]

Due to the estimation of the posterior distribution of the purchase rate \( \lambda \) under the a priori assumption
of a gamma distribution, whose parameters are approximated via the MLE using the actual purchases for each product, this is a parametric empirical Bayes model, which is an approximation of a Bayesian Hierarchical Model. The difference is that scale and shape parameters ($\alpha, \beta$) of the gamma prior are estimated from the actual data rather than from additional hyperprior parameters (see Fig 2).

$$\alpha \sim \text{Gamma}(\hat{\alpha}_{\text{observed}})$$

$$\beta \sim \text{Gamma}(\hat{\beta}_{\text{observed}})$$

$$z_i \sim \text{Pois}(\lambda_i)$$

Figure 2: Empirical Bayesian Model.

However, the assumption of a homogeneous Poisson distribution is not valid for any type of product since the purchase events can theoretically represent a time-independent constant. Therefore, the PG model needs to be modified (MPG model). This is due to the fact that a Poisson process represents a limiting case of the sequence of Bernoulli processes in the boundary between a large sample and a small constant probability and is memoryless. However, this is not expected for purchase behavior for a number of products, since a customer’s need to repurchase an item after purchasing it is initially small but variable as time progresses (Bhagat et al., 2018; Ozekic and Soyer, 2003; De Oliveira, 2013).

The MPG model assumes that a customer’s purchases are correlated and repeat purchases follow a modified Poisson process, which uses a single parameter $\lambda$ as the repeat purchase rate. $\lambda$ depends on the last purchase of a product by the customer under consideration. Thus, it differs by the homogeneous Poisson process in the PG model. Furthermore, a gamma prior is assumed on $\lambda$. Thus, $\lambda$ follows a gamma distribution of the form $\alpha$ across all customers with an inverse scale parameter $\beta$ (De Oliveira, 2013).

In analogy to the PG model, the estimates of the parameters are made via a parametric empirical Bayes model that fits them to the MLEs of customers’ repeat purchase rates. The estimation is optimized per customer by estimating the mean time interval for repeated purchases of a specific item based on the first and last purchases. The model assigns the observed mean value to the associated highest repeat purchase rate. This is achieved by making modifications to the PG model: $t_{\text{buy}}$ denotes the elapsed time interval between the first and last purchase of product $A_i$ by cus-

$$\lambda_{A_i,C_j} = \frac{k + \alpha_{A_i}}{t_{\text{buy}} + 2 \cdot |t_{\text{mean}} - t| + \beta_{A_i}}$$

$\alpha_{A_i}$ and $\beta_{A_i}$ are shape and inverse scale parameters of the gamma prior of $A_i$. $k$ represents the number of purchases of $A_i$ by $C_j$. If $t \geq 2 \cdot t_{\text{mean}}$, $\lambda_{A_i,C_j}$ is determined via the separate formula of the MPG model. This ensures that $\lambda_{A_i,C_j}$ increases from $t = 0$ to $t = t_{\text{mean}}$ and then decreases until $t = 2 \cdot t_{\text{mean}}$. At this point, the MPG model is equivalent to the PG model. A Poisson distribution is further assumed for $R_{A_i}$, whose likelihood function is estimated using $R_{A_i,C_j}(t)$ of the PG model. Moreover, $Q(A_i)$ can be determined via $\text{RCP}_{A_i}$ using equation 4. Recommendations are generated by ranking all products in descending order based on their estimated probability density $P_{A_i}(t)$ at a given time $t$ using equation 2 (Bhagat et al., 2018; Consul and Jain, 1973; Gopal et al., 2015).

6 RESULTS

The average RCP is 6.7% with a standard deviation of 12.7%. The median is 3.0%, which means that 50% of the products have a higher and 50% a lower RCP. However, products with a repeat customer probability of 100% also occur and are excluded in the following. These are mostly products that have a very low but equally high loc and moc frequency. Figure 3 provides information about the distribution of repeat customer rates for all products. It can be seen that the most frequent values are concentrated in the range of a $\text{RCP} < 0.2$. Outliers are considered for all products with a $\text{RCP} > 0.13$.

Determining the threshold for products to be considered suitable for repeat purchase is therefore difficult. One study outlines that products are to be clas-
sified as suitable for repeat purchase if they have a $RCP > 0.27$ (McEachern, 2021). However, different thresholds are tested to show the impact of RCP filtering, as this is expected to have a large impact on the model results.

6.1 ATD Model

Since many customers in the data set make only a few repeat purchases, the ATD model draws on the aggregate and time-dependent repeat purchase behavior of all repeat purchasers of a product. Figure 4 shows that the aggregated mean repeat purchase periods of e.g. mineral water are approximately log-normally distributed. Therefore, $R_{Ai}$ is determined over the interval of the log-normal distribution.

![Figure 4: Distribution of time intervals (t) for repeated purchases of mineral water over all customers.](image)

Since the purchase rates at the individual level are often unrealistic due to sparse data, looking at the aggregated purchase rates of all repeat purchasers ensures considerable results (see Table 1). Increasing the RCP further improves these. It can be seen that an RCP of 25% provides the best results, a further increase would lead to a model degradation.

6.2 MPG Model

At the beginning, the individual purchase rates of the products are determined for each customer. An exemplary distribution of the purchase rates of mineral water can be seen in the following Fig 5a). It shows that the normalized a posteriori distribution of $\lambda$ achieves a good fit with respect to the data. The normalization is stronger the closer the last purchase $(t)$ is to the current date (cf. Fig. 5b).

A conversion of the Bayesian estimators $\hat{\lambda}_{posterior}$ to the actual observed purchase rates is still evident (see Fig. 5a, b). Even for long periods since the last purchase, the purchase rates are well reproduced. However, there is a general trend in that the closer the first purchase of a product is to the cutoff date, the more the purchase rates diverge. Figure 5b) reveals that the estimate is more in line with the true rate when the first purchase of a product was made recently and a customer is simultaneously is a first-time repeat buyer. Figure 5c) shows the distributions of the probabilities $P(Y = 1)$ of all repeat buyers.

Table 1 shows that the MPG model outperforms the ATD model. This is due to the fact that Bayesian model-based methods can perform well with sparse data (Isinkaye et al., 2015) and personalized purchase rates are considered here. Also for the MPG model, the best results are obtained with an RCP of 25%. Compared to the ATD model, the MPG model leads on average to an improvement in precision@k of 26.3%, recall@k of 21.1% and f1@k of 23.9%. These are particularly driven by the increases under a relatively small RCP of 7%.

7 DISCUSSION

7.1 Model Results

With regard to the problems of traditional recommender systems, the model-based methods considered can reduce many weaknesses. They are suitable for sparse data, which is achieved in the ATD model by aggregations of the mean repeat purchase intervals per product and complemented in the MPG model by Bayesian personalization of purchase rates. The high computational effort regarding memory-based methods is also improved here by using probabilistic models. The results show that the MPG model can outperform the ATD model. In particular, when a low RCP is applied, the potential of the MPG model becomes apparent (see Table 1).

Furthermore, in the food context, the model assumptions show better suitability than similar models discussed for repeat purchases in the marketing literature. These focus on repeat purchases of brands, where the assumption is that an increasing time difference between the current date and last purchase results in a decreasing probability for a repeated purchase (Miglautsch, 2000). Especially for food (e.g. staple foods), the assumption is contradictory. Here, customers are more likely to buy a product if this time difference increases. This is, in particular, true as brand loyalty is rather low, but products need to be purchased frequently.

Nevertheless, MPG model errors often occurred, when a customer was rarely a repeat buyer and usually just before the set cutoff date, so a small number of purchases were combined with a small time gap from the first purchase of the product. This is precisely the case if the customer does not appear again
in the test data set and not regularly as a repeat buyer of the product. This can be explained by the shifting behavior of consumers, who frequently change the point of purchase (e.g. supermarket and discount store) or adopt different consumption behaviors (e.g. going vegan) (Lawo et al., 2019; Stevens et al., 2017). Further research should therefore address the integration of changing preferences and shopping habits.

### 7.2 Influence of the RCP

Since there is no explicit information on RCP in food retailing in the literature, different thresholds were tested here. The results show that the RCP has a strong influence on the model quality. With increasing filtering of the products regarding their probability that a customer buys the product repeatedly, the model quality increases significantly. As a study suggests (McEachern, 2021), in this case an RCP of 25% provides the best results. However, this is related to a trade-off between model goodness and the product variety considered, which – especially with sparsely populated data – also filters products that normally follow a habitualized and regular purchase process.

If an RCP of 0.3 is reached, there is a decline of the model, because now mostly only products are considered, which combine low loc and moc values, resulting in a tendentially high RCP.

### 8 CONCLUSION

This paper has focused on validating a time-based recommender system for repeat purchase decisions in food retailing. For this purpose, an introduction to recommender systems was given at the beginning and classical problems for transaction data of food retail were derived. The consideration of state-of-the-art solutions for the integration of a temporal component into recommendations created a transition to current models in the marketing literature. Two specific models were identified that deal specifically with repeat purchase decisions. These were applied to a real data set of a stationary German food retailer and discussed with respect to the previously derived problems of recommender systems. It is shown that the Modified Poisson-Gamma model is well suited for the sparse data situation at hand, but that model inaccuracies occur due to different consumption and shopping habits. Therefore, future research should focus on the integration of these consumption patterns.

### REFERENCES


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