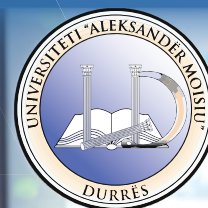




5th Albanian Marketing Management Conference  
**INTERNATIONAL SCIENTIFIC CONFERENCE  
ON INNOVATIVE MARKETING**

**ISCOIM 2025**

BOOK OF PROCEEDINGS



**11 & 12**  
**April, 2025**  
Durrës, Albania



  
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Publishing House: LUIS PRINT

ISBN : 9789928835192



Shtëpi Botuese, Studio Grafike, Shtypshkronjë  
Adresa: Lagjia nr.1, Rruga Taulantia pranë Universitetit “Aleksandër Moisiu”, Durrës  
Email: [luisiprint@gmail.com](mailto:luisiprint@gmail.com)  
[www.luisiprint.com](http://www.luisiprint.com)  
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## ***The Impact of Consumer Loyalty Programs on Business Revenue and Market Longevity: A Study of Hotels in Durrës, Vlora, and Saranda***

***Aishejla Myshketa, Msc.***

*Department of Marketing, Faculty of Business, University Aleksander Moisiu Durres,  
Albania*

[aishejlamyshketa@uamd.edu.al](mailto:aishejlamyshketa@uamd.edu.al)

### ***Abstract***

*Loyalty programs have become a key driver of business growth in the tourism industry by influencing consumer behavior and promoting customer loyalty. This study examines the impact of loyalty programs on the growth of hotels in Durrës, Vlorë, and Sarandë. Specifically, it explores how these programs affect retention behaviors, advocacy behaviors, and purchasing behaviors of customers, and how such effects contribute to increased business revenue and long-term sustainability. Using a quantitative research approach, this study analyzes the relationship between customer loyalty programs and business growth, focusing on the enhancement of firm value and competitive advantage. Data will be gathered through a structured survey questionnaire directed to hotel managers and owners of 3 and 4 stars hotels operating in Durres, Vlora, Saranda. The findings will provide valuable insights into how loyalty programs can be optimized to drive business success and strengthen customer relationships in the tourism sector.*

**Keywords:** *Loyalty programs, retention behaviors, advocacy behaviors, purchasing behaviors, tourism industry, Albania.*

### **1. Introduction**

In today's competitive tourism industry, customer loyalty has become a critical factor in the success and sustainability of businesses. One of the most effective strategies for fostering customer loyalty is the implementation of structured loyalty programs. These programs are designed to incentivize repeat bookings, enhance customer satisfaction, and strengthen the overall relationship between hotels and their guests.

Loyalty programs have evolved beyond simple point-based reward systems to include personalized experiences, exclusive member benefits, and tiered incentives that encourage increased engagement. By offering these value-driven programs, hotels can positively influence customer retention behaviors, advocacy behaviors, and purchasing decisions. As a result, businesses can achieve long-term sustainability, increase their competitive advantage, and enhance firm value in an ever-changing market landscape.

The objective of this study is to identify loyalty programs in the tourism sector and their impact on businesses within this industry. It aims to explore how loyalty programs influence the growth of a company and contribute to the creation of firm value. The sample to be studied



will include hotels and travel agencies located in the coastal cities of Albania: Durrës, Vlorë, and Sarandë.

Despite the growing implementation of loyalty programs in the hospitality sector, there is still a need for empirical research on their direct impact on business performance, particularly in emerging tourism markets like Albania. This study aims to address this gap by analyzing how loyalty programs influence customer behavior and contribute to business growth among 3- and 4-star hotels in Durrës, Vlorë, and Sarandë. By utilizing a quantitative research approach, this paper examines the effectiveness of loyalty programs in increasing customer spending, improving retention rates, and fostering brand advocacy.

The findings of this study will provide valuable insights for hotel managers and industry stakeholders on optimizing loyalty strategies to maximize revenue and market longevity. Additionally, the research will offer practical recommendations on how hotels can refine their customer engagement strategies to build stronger, more profitable relationships with their guests.

## **II. Literature review**

Customer loyalty is a fundamental aspect of business success in the hospitality sector, as it directly influences revenue generation and long-term sustainability (Kotler et al., 2017). Research has shown that loyal customers not only engage in repeat purchases but also act as brand advocates, recommending services to others and contributing to market growth (Bowen & Shoemaker, 2003). The implementation of customer loyalty programs has been identified as a strategic tool to enhance customer retention and increase profitability in hotels (Liu, 2007).

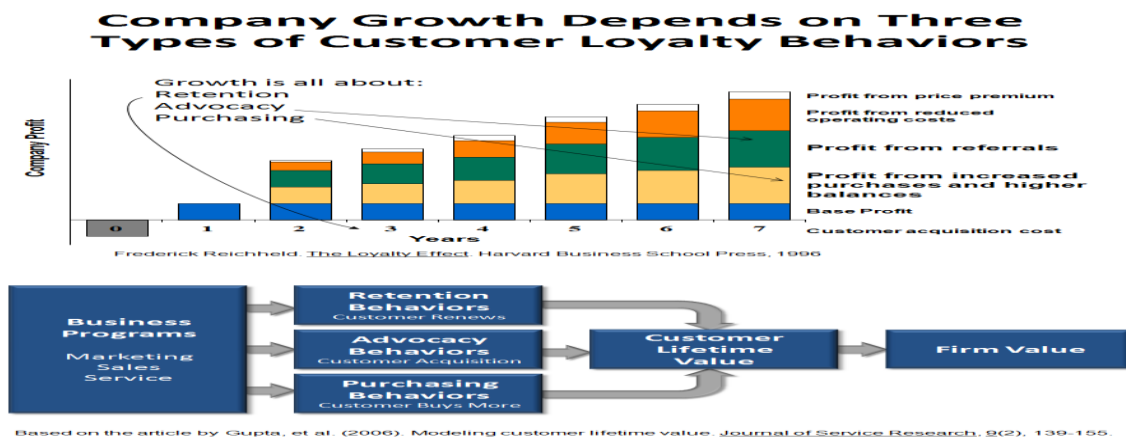
Loyalty programs have evolved from simple discount offerings to sophisticated, data-driven strategies aimed at fostering deeper relationships with customers. According to Yi and Jeon (2003), effective loyalty programs provide personalized rewards, exclusive experiences, and tiered benefits, which in turn enhance customer satisfaction and brand attachment. A study by Tanford (2016) found that hotels that implemented tier-based loyalty programs experienced a significant increase in repeat bookings and customer spending. Furthermore, research by Melnyk and van Herpen (2018) highlights that customers enrolled in loyalty programs tend to exhibit stronger emotional bonds with a brand, leading to higher levels of trust and advocacy behaviors.

Several studies have linked loyalty programs to improved financial performance in the hospitality industry. For instance, McCall and Voorhees (2010) found that loyalty programs positively affect hotel revenue by increasing customer spending and encouraging long-term relationships. Additionally, research by Xie and Chen (2014) demonstrates that hotels that invest in well-structured loyalty programs enjoy higher profit margins and greater market resilience. The ability to collect and analyze customer data through loyalty programs also enables businesses to tailor their marketing strategies, leading to more effective customer engagement and increased firm value (Rust & Chung, 2006).

One of the most significant benefits of loyalty programs is their impact on word-of-mouth (WOM) marketing. Customers who feel valued by a hotel's loyalty program are more likely to share their positive experiences with friends, family, and colleagues (Dick & Basu, 1994). According to Kumar et al. (2010), loyalty programs encourage customers to actively

promote a brand, thereby reducing customer acquisition costs and expanding market reach. This form of organic marketing is particularly valuable in the hospitality industry, where peer recommendations heavily influence consumer decision-making (Litvin et al., 2008).

### Three types of Customer Loyalty behaviours



The models above are models that incorporate consumer loyalty as a key element in business growth and firm value. The first chart was developed by Fred Reichheld (1996) and illustrates the components that drive company profits. Among the components contributing to a company's profits, three reflect customer loyalty: customer retention (measured over time), advocacy or the attraction of new customers (measured by referrals), and expansion of purchases (measured through increased buying activity). Similarly to Reichheld's model, Gupta's Customer Lifetime Value (CLV) model (2006) focuses on consumer loyalty as an intermediary between what a company does (e.g., business programs) and the value of the company. Again, consumer loyalty plays a central role in understanding how to increase firm value. Retaining existing customers, attracting new customers, and increasing consumption from existing customers are key drivers in enhancing company value.

### Customer Loyalty and Satisfaction Help Measure Business Performance



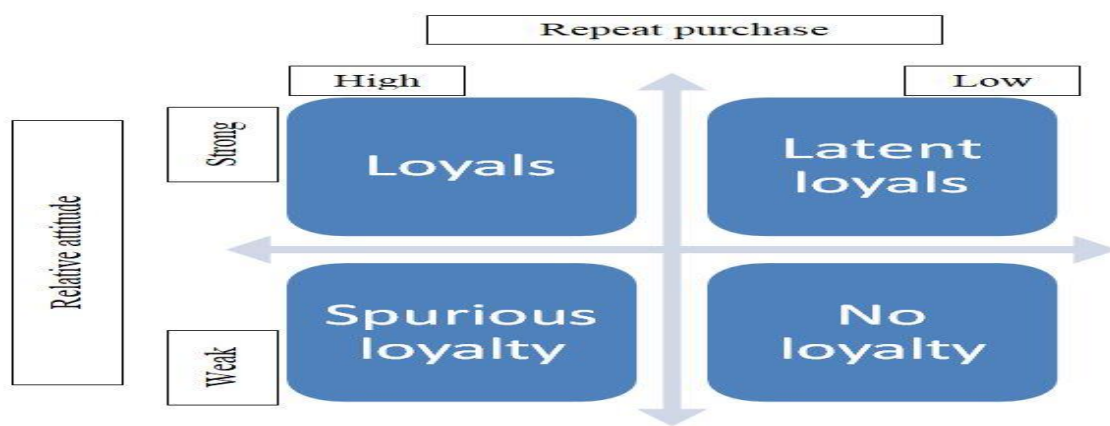
It is important to understand how customer satisfaction and loyalty are linked to business performance. Customer satisfaction, consumer loyalty, and long-term customer retention are directly related to a company's operational performance (Majumder & Abhinash, 2019). Customer satisfaction is a measure of how well a product or service performs relative to the customer's expectations. In other words, it is a metric of the customer's persistence with the service provider's or supplier's performance (Hill & Alexander, 2017). On the other hand,

customer loyalty reflects the customer's attitude and commitment toward a company's products or services (Hill & Alexander, 2017).

In addition to the above indicators, it's important to emphasize that business performance is defined as the efficient use of human resources and other assets to create and maintain unique value through high service quality (Hill & Alexander, 2017).

### Methods to Measure Customer Loyalty

Since attitudinal loyalty is measured based on beliefs, emotions, and the intention to purchase, businesses use the Dick and Basu model (Buttle, 2013). According to this model, there are four forms of loyalty related to the relative strength of attitude and repeat purchase behavior.



### Dick and Basu Model for Measuring Business Performance in Relation to Consumer Loyalty

A loyal customer is one who demonstrates high levels of repeat purchases and strong relative attitude. Spurious loyal customers show high levels of repeat purchases but weak relative attitude. Non-repetitive customer purchases can be explained by inertia, high switching costs, or indifference (Alhaddad, 2015). Latent loyalty exists when a strong relative attitude is not accompanied by repeat purchases. This indicates weaknesses in a company's distribution strategy — the product or service may not be available when and where the customer desires it (Buttle, 2013).

The literature suggests that well-structured loyalty programs play a crucial role in enhancing customer retention, increasing revenue, and promoting long-term business growth. However, further research is needed to understand the specific dynamics of loyalty programs in the Albanian hotel industry, particularly in the competitive tourism hubs of Durrës, Vlorë, and Sarandë. This study aims to fill this gap by analyzing the impact of loyalty programs on customer behavior, business performance, and market sustainability in the region.

### III. Methodology or Materials and Methods

This study adopts a quantitative research approach to analyze the impact of customer loyalty programs on business revenue and market longevity in 3- and 4-star hotels operating in

Durrës, Vlorë, and Sarandë. A descriptive research design is used to explore the relationship between loyalty programs, customer retention, advocacy behaviors, and business growth.

#### Population and Sampling

The target population consists of hotel managers and owners of 3- and 4-star hotels in the selected cities. These participants were chosen because they are directly involved in implementing and managing loyalty programs. A purposive sampling technique is used to select hotels that have existing loyalty programs, ensuring the relevance of responses to the study's objectives.

The study offers data collected over a specific time segment, making it a cross-sectional research. It analyzes and measures elements of feelings, behaviors, and perceptions of hotel guests who are primarily vacationing in the coastal areas of the Durrës, Vlorë, and Sarandë regions. It also examines the perspective of hotel managers and travel agencies in these areas regarding loyalty programs. The most suitable period for completing the questionnaire will be June and July 2024.

Hair et al. (2006) emphasized that the general rule is to use 5 observations for each measurement scale element to perform factor analysis. Therefore, since the questionnaire has 18 elements, the sample size should be greater than 90 people (Tabaku, 2015). The sample size also depends on the budget size and the level of confidence the marketer desires for the results. The total population studied consists of 128 hotel owners/managers (with a confidence level of 95% and a margin of error of 5%) (Balla, 2015).

Formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size (selection),

N = population size,

e = margin of error.

Population size: According to statistics obtained from (INSTAT, BOOKING.COM, etc.), the following has been identified:

Durrës: 31 hotels with 3 and 4 stars, 766 hotel rooms

Vlorë: 53 hotels with 3 and 4 stars, 939 hotel rooms

Sarandë: 44 hotels with 3 and 4 stars, 665 hotel rooms

Thus, a total of 128 hotels with 3 and 4 stars operate in the Durrës, Vlorë, and Sarandë regions.

It is assumed that each hotel has one manager or owner who can respond to the questionnaire.

Calculation:

$$n = \frac{128}{1 + 128(0.05)^2} = 96 \text{ participants}$$

#### Data Collection Method

Primary data will be collected through a structured survey questionnaire, which will be distributed to 96 hotel managers and owners via email, in-person visits, and online platforms.

The questionnaire will be designed using closed-ended and Likert-scale questions, pointed form 1 to 5, to measure key variables, including: customer retention, advocacy behaviour, purchasing behaviour and the business revenue impact. Firstly, The survey will be pre-tested with a small group of hotel managers to ensure clarity and reliability of the questions.

#### *Data analyses*

Quantitative data will be analyzed using SPSS (Statistical Package for the Social Sciences) and SAS to identify patterns and correlations. The following statistical techniques will be used:

1. Analysis of the Data from the Pilot Study - To evaluate the feasibility and reliability of the data collection process before conducting the main study (DeVellis, 2016).
2. Cronbach's Alpha Test - To assess the internal consistency or reliability of a scale or measurement instrument (Cronbach, 1951).
3. Descriptive Analysis - To summarize and describe the main features of a dataset, providing a clear understanding of the distribution, central tendency, and variability (Field, 2013).
4. Cross-tabulations - To examine the relationship between two categorical variables by displaying their joint distribution in a table (Agresti, 2018).
5. Correlation Analysis - To measure the strength and direction of the linear relationship between two continuous variables (Pearson, 1896).
6. Regression Analysis - To predict the value of a dependent variable based on the value(s) of one or more independent variables (Gujarati & Porter, 2009).
7. Factorial Analysis - To explore and identify underlying factors that explain patterns in a dataset by reducing dimensionality (Fabrigar et al., 1999).
8. Hypothesis Testing

Independent Samples T-Test / Levene's Test- To compare the means of two independent groups and assess if the variances between them are equal (Field, 2013).

Calculation of Effect Size (Cohen's d)- To measure the magnitude of the difference between two groups beyond statistical significance (Cohen, 1988).

All participants will be informed of the purpose of the study and their right to **confidentiality and anonymity**. Consent will be obtained before data collection, and responses will be used exclusively for academic research purposes. This methodology ensures a systematic approach to investigating how loyalty programs influence customer behavior and financial performance in the hospitality industry. By using a **quantitative survey-based method**, the study will generate empirical evidence to support strategic recommendations for hotel managers seeking to optimize their loyalty programs.

## **IV. Results and Discussions**

### **1. Analysis of the Data from the Pilot Study**

As mentioned above, a pilot study was conducted on the first questionnaire. Initially, Cronbach's alpha coefficient was used to assess the internal consistency and reliability of the questionnaires analyzed throughout this scientific study. A Cronbach's alpha value higher than 0.7 indicates that the variables are consistent and reliable in measuring what they are intended

to measure. In this case, the analysis of the first questionnaire yielded a Cronbach's alpha value of 0.963972 (raw alpha) and 0.963105 (standardized alpha), both of which are very high values indicating excellent reliability of the instrument used in the study. These results also indicate that the questionnaire can be confidently administered to the targeted group of consumers.

Descriptive statistics (mean, median, standard deviation, and frequency distributions) provide statistical information for each factor and present an overview of the evaluations and variables used in the analysis. This analysis is useful in understanding behaviors and potential relationships between the variables and consumer behavior. From the analysis conducted on the pilot study, it was observed that the mean of the variables ranges from 2.9 to 4. This represents the average rating participants gave to the impact of the variables and factors considered, on a scale from 1 to 5. The standard deviation is a measure of the spread of values around the mean. In this case, the standard deviation ranges from 0.7 to 1.1. These values indicate a moderate spread around the mean, meaning that participants expressed a relatively wide range of evaluations regarding the impact of the factors.

On the other hand, Spearman's correlation is a method used to measure the monotonic relationship between two variables—in this case, between different factors that influence consumer decision-making. The results include correlation coefficients between various factors, as well as p-values for each correlation, which indicate the statistical significance of the relationship. P-values are used to assess whether the correlation between two variables is statistically significant. In this case, all p-values are lower than a specific threshold of statistical significance (typically 0.05 or 0.01), indicating that the correlations are statistically significant. For example, the correlation between factors 1 and 2 is 0.79082, with a p-value less than 0.0001, which demonstrates that the correlation is statistically significant.

## 1. Cronbach's Alpha Test

Variable	Alpha i Pa-Përpunuar	Alpha i Standardizuar
Vlera e Cronbach Alpha	0.965191	0.966329

SOURCE: Author's calculations

The Unstandardized Alpha value of 0.965191 indicates excellent reliability. In general, a Cronbach's Alpha value above 0.9 is considered excellent and reflects a high level of cohesion among the questionnaire items, suggesting a reliable and stable instrument. The Standardized Alpha value is 0.966329, which is also very high and suggests excellent internal consistency among the measurement elements. The difference between the raw and standardized alpha values is minimal, indicating that the variation in the data scale is negligible, which further supports the instrument's consistent reliability.

	Business Revenue Growth (Independent Variable)	Customer Loyalty
		Maximization of profit
		Promotion of loyalty programs

<b>Loyalty Programs</b> ( <i>Dependent Variable</i> )		<b>Return of loyal customers</b>
		<b>Long-term customer retention</b>
		<b>Quality of service</b>
		<b>Increase in customer spending</b>
	<b>Business Value and Longevity in the Market</b> ( <i>Independent Variable</i> )	<b>Hotel image</b>
		<b>Hotel value</b>
		<b>Hotel longevity in the market</b>
		<b>Technological development</b>

## 2. Descriptive Analysis

Variable	Mean	Std Dev	Minimum	Maximum	Median	N
Loyalty programs	3.741936	1.290161	1	5	4	31
Consumer loyalty	3.096774	1.274228	1	5	4	31
Profit maximization	3.419355	1.38502	1	5	4	31
Promotion of loyalty programs	4	0.930949	2	5	4	31
Return of loyal customers	4.258065	0.964978	2	5	5	31
Long-term customer retention	4.225807	0.920495	2	5	4	31
Quality of service	3.322581	1.300951	1	5	4	31
Increase in customer spending	3.548387	1.178663	1	5	4	31
Hotel image	3.548387	1.150035	1	5	4	31
Hotel value	3.483871	1.15097	1	5	4	31
Hotel longevity in the market	3.354839	1.081616	1	5	4	31
Technological development	3.400922	1.257586	1.142857	5	3.714286	31

This section presents a descriptive analysis of the survey variables used to assess various aspects of customer loyalty in the hotel industry. The analysis includes central tendencies and dispersion measures such as the mean, median, standard deviation, minimum, and maximum values. These metrics help provide an overview of how participants evaluated different loyalty-related factors in the hospitality sector.

The variable *Loyalty Programs* represents the participants' evaluation of how loyalty programs are structured and how effectively they function in hotels. The mean score is 3.74, indicating that respondents generally find loyalty programs beneficial, though not highly effective. The standard deviation is 1.29, suggesting considerable variation in perceptions.

*Consumer Loyalty* measures the perceived loyalty level among hotel customers. With a mean of 3.10, the responses reflect uncertainty or moderate agreement regarding the loyalty of consumers. The relatively high standard deviation of 1.27 indicates a broad spread in opinions among the participants. Profit Maximization assesses the extent to which hotels prioritize profit maximization. The mean value of 3.42 shows that while profit maximization is considered, it may not be a top priority. The responses vary, as seen in the standard deviation of 1.39. The variable promotion of loyalty programs reflects the effectiveness of hotels in promoting and encouraging loyalty programs. A high mean of 4.00 and a low standard deviation of 0.93 suggest that hotels are actively and consistently promoting loyalty programs. The variable return of loyal customers measures the hotels' success in retaining and attracting loyal customers. With a mean of 4.26 and a standard deviation of 0.96, the data indicate a high level of performance in this area. The variable long-term customer retention is closely related to the previous one but emphasizes the duration of customer relationships. The mean score of 4.23 and standard deviation of 0.92 indicate consistent success among hotels in maintaining long-term customer loyalty. *Quality of Service* captures respondents' perceptions of the service quality provided by hotels. A mean of 3.32 suggests moderate satisfaction, and the standard deviation of 1.30 shows that perceptions vary widely. The variable increase in customer spending reflects hotel strategies aimed at increasing customer spending. With a mean of 3.55 and a standard deviation of 1.18, it suggests a moderate level of strategic implementation. The *Hotel Image* variable evaluates how customers perceive the hotel's reputation and branding. A mean score of 3.55 shows that hotels generally enjoy a good image, though variation exists (standard deviation = 1.15). Hotel Value measures the perceived value hotels offer relative to their pricing. The mean of 3.48 indicates a favorable assessment, with moderate variation (standard deviation = 1.15). The variable hotel longevity in the market assesses the perceived stability and market presence of hotels. The mean value of 3.35 suggests that many hotels are either new or have experienced instability. The standard deviation of 1.08 supports this variability. *Technological Development* measures the efforts made by hotels to innovate and incorporate technology. With a mean of 3.40 and a standard deviation of 1.26, the responses show a generally positive, yet varied, view on technological engagement.

Overall, the descriptive statistics suggest generally high average scores for variables related to customer loyalty and retention. However, areas such as service quality, technological development, and hotel longevity show opportunities for improvement. These insights can guide hotels in enhancing customer experience and loyalty strategies by focusing on weaker aspects while maintaining their strengths.

### **Cross-tabulations**

Identification of Groups:

- Businesses that use loyalty programs
- Businesses that do not use loyalty programs

Cross-tabulations (Crosstabs) are a statistical tool used to analyze the relationships between two or more categorical variables. They are highly useful for examining and interpreting the distribution of different variables and determining whether there is a significant relationship



between them (Gravetter, F. J., & Wallnau, L. B. (2017)). In this case, cross-tabulations have been used to analyze the relationship between the type of hotel managers and their use or non-use of customer loyalty programs. In this first part of the data analysis, crosstab tables have been employed to better understand and provide a clearer overview of the descriptive variables.

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>How is your hotel classified according to its size?</b>	1	49	55.1	55.1	55.1
	2	35	39.3	39.3	94.4
	3	5	5.6	5.6	100.0
	Total	89	100.0	100.0	

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Does your hotel use any loyalty program?</b>	1	45	50.6	50.6	50.6
	2	44	49.4	49.4	100.0
	Total	89	100.0	100.0	

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>If YES, how long has the hotel been using loyalty programs?</b>  <b>(time in years)</b>	0	46	51.7	51.7	51.7
	1	6	6.7	6.7	58.4
	2	6	6.7	6.7	65.2
	3	16	18.0	18.0	83.1
	4	5	5.6	5.6	88.8
	5	7	7.9	7.9	96.6
	6	1	1.1	1.1	97.8
	8	1	1.1	1.1	98.9
	10	1	1.1	1.1	100.0
	Total	89	100.0	100.0	

Frequency	Percent	Valid Percent	Cumulative Percent
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#### How many stars is your accommodation classified?

1	44	49.4	49.4	49.4
2	45	50.6	50.6	100.0
Total	89	100.0	100.0	

From the first table, it is observed that the majority of hotels (55.1%) are small, followed by medium-sized hotels (39.3%). Only a small portion (5.6%) are large. The results

indicate that the market structure of the surveyed hotels is dominated by small and medium-sized establishments, while large hotels represent a minimal share.

The second table presents a breakdown between hotels that use loyalty programs and those that do not. According to the data, 45 hotels (50.6%) use a loyalty program, while 44 hotels (49.4%) do not. This distribution is almost evenly split, with a slight majority of hotels implementing loyalty programs. Hotels that have operated in the market for over 15 years tend to use loyalty programs more, representing 23.6% of the sample. Around 48.3% of the hotels that do not use loyalty programs have never had any experience with them. On the other hand, 16.9% of hotels that do use such programs have 3 years of experience, making this the largest group. Hotels with longer experience, such as 5 years (7.9%) and 10 years (1.1%), are rarer. Overall, hotels with experience in using loyalty programs are mostly concentrated in the 3–5 year range.

Conversely, hotels that do not use loyalty programs and have a lower perception of them are primarily those that have been operating for 6–10 years, accounting for 20.2% of the sample. Most hotels that use loyalty programs have a high perception of their effectiveness, while those that do not use them tend to have low or moderate perceptions—indicating a moderate impact of such programs over time.

Additionally, the data reveals the percentage of hotels classified by star rating. According to the collected data, 49.4% of the accommodation structures are classified as 4-star hotels, while the remaining 50.6% are classified with another number of stars, resulting in a cumulative percentage of 100%.

The data from the final table show the distribution of hotel performance during the last year. In 41 cases (46.1%), respondents reported an increase in performance and profit. In contrast, 46 cases (51.7%) indicated consistent, unchanged profits, and only 2 cases (2.2%) reported a decline in profits.

### Correlation Analysis

Variable	N	Sample Correlation	Fisher's z	Bias Adjustment	Correlation Estimate	95% Confidence Limits	Rho0(H0)	PValue
Consumer Loyalty	102	0.74867	0.96992	0.00371	0.74703	0.646 - 0.822	0	<.0001
Profit Maximization	102	0.79294	1.07931	0.00393	0.79148	0.706 - 0.854	0	<.0001
Promotion of Loyalty Programs	102	0.70047	0.86822	0.00347	0.6987	0.584 - 0.786	0	<.0001
Retention of Loyal Customers	102	0.64771	0.77134	0.00321	0.64584	0.516 - 0.747	0	<.0001
Long-Term Customer Retention	102	0.65426	0.78271	0.00324	0.6524	0.524 - 0.752	0	<.0001
Service Quality	102	0.77834	1.04115	0.00385	0.77682	0.686 - 0.844	0	<.0001

Consumer Spending Growth	102	0.8186	1.15255	0.00405	0.81726	0.740 0.873	-	0	<.0001
Hotel Image	102	0.83598	1.20766	0.00414	0.83473	0.764 0.885	-	0	<.0001
Hotel Value	102	0.81044	1.12832	0.00401	0.80906	0.729 0.867	-	0	<.0001
Hotel Longevity in the Market	102	0.76433	1.00655	0.00378	0.76275	0.667 0.834	-	0	<.0001
Technology Development	102	0.90224	1.48414	0.00447	0.90141	0.857 0.932	-	0	<.0001

The correlation between these variables shows how the change in one variable affects another. High positive correlations suggest that when one factor increases, it directly and proportionally impacts the increase in another variable, such as the increase in consumer loyalty related to service quality, or the return of loyal customers related to customer retention. The variable "consumer loyalty" has a strong correlation of 0.74867 with another variable, indicating a strong positive relationship. The variable "profit maximization" has a correlation of 0.79294, which is also a strong positive relationship. The variable "promotion of loyalty programs" has a correlation of 0.70047, suggesting a strong but somewhat weaker relationship compared to the other factors.

Fisher's transformation has been used to transform the sample correlation values into a normal distribution, allowing for more accuracy in comparing correlations between different variables. This transformation is necessary because the distribution of correlations is not always normal, especially for large or small correlation values. For example, for consumer loyalty, the Fisher's z value is 0.96992, a transformed value that indicates the correlation is very strong and helps stabilize the data for statistical testing.

The confidence interval shows the bounds within which the true correlation value is expected to fall with 95% confidence. For instance, for consumer loyalty, this interval is [0.646479, 0.822078], meaning that, with 95% confidence, the true correlation lies within this range. This information is crucial for understanding the level of uncertainty in the relationship between two variables. When the interval is narrow, as in this case, it indicates that the correlation value is highly reliable.

In this case, all p-values are <0.0001, which means there is a very small probability of obtaining such a large or more extreme result if there were no relationship between the variables. This allows us to reject the null hypothesis and accept that there is a statistically significant relationship between the variables.

**Regression Analysis**

Criterion	Only Intercept	Intercept and Independent Variables
AIC	637.031	501.059
SC	707.905	600.808
-2 Log L	583.031	425.059

**Model Null Hypothesis Testing (BETA = 0)**

Test	Chi-Square	DF	Pr > ChiSq
Likelihood Ratio	157.9722	11	<.0001 (highly significant)
Score	80.0148	11	<.0001 (highly significant)
Wald	90.7845	11	<.0001 (highly significant)

**Test for the Assumption of Proportionality of Odds**

Chi-Square	DF	Pr > ChiSq
2067.193	286	<.0001 (highly significant)

This report on the ordinal logistic regression analysis contains several key sections that assist in interpreting the model's suitability and effectiveness. The convergence criterion, GCONV=1E-8, labeled as "satisfactory," indicates that the model fitting algorithm has successfully completed. The model has reached a stable solution, and there is no need to worry about a lack of convergence. If convergence had not been achieved, the model results would be unreliable, and further adjustments would have been required.

All statistics (AIC, BIC, -2 Log L) suggest that the model with covariates is better than the model without covariates. Including covariates helps improve the model's accuracy and reduces prediction errors.

Additionally, the Null Hypothesis Test (BETA = 0) tests whether the covariates included in the model have a significant effect on the dependent variable. Three main tests have been developed for this purpose, and all three tests yield very small values, meaning that the covariates have a significant effect on the model and cannot be ignored. The Likelihood Ratio Test is the most powerful of the three and suggests that the independent variables have a significant impact on the model.

Finally, it can be concluded that the model is convergent, meaning it is stable and reliable. The goodness-of-fit tests show that the model with covariates is significantly better than the model with only an intercept. The covariates have a significant effect on the model, according to the null hypothesis tests. The model has high predictive ability, being 87.1% accurate according to the index (**AUC = 0.871**). This index measures the model's predictive ability, which ranges from 0.5 (random) to 1 (perfect prediction).

## Factorial Analysis

Factor analysis helps reduce variables and identify latent constructs (factors) that explain the relationships between variables. In this case, factor analysis will be used to identify the key factors that influence the perception of 3- and 4-star businesses/hotels regarding the effectiveness of loyalty programs. This is achieved by grouping different variables (e.g., increase in revenue, perception of firm value, and longevity in the market) into distinct dimensions in order to proceed with a more in-depth analysis.

### 1. Correlation of Variables

The first step in a factor analysis involves examining the correlation among variables. High correlation between variables is a prerequisite for factor analysis. If the variables are not interrelated, factor analysis becomes meaningless, as common groupings cannot be formed. From the statistical analysis on the correlations between loyalty programs and their perceived impact on business performance:

The correlation coefficients ( $r$ ) are represented by values such as 0.74281, 0.81607, etc. Most of the correlation coefficients ( $r$ ) in the table are above 0.6, indicating strong interrelations between variables. This is a crucial condition for proceeding with factor analysis.

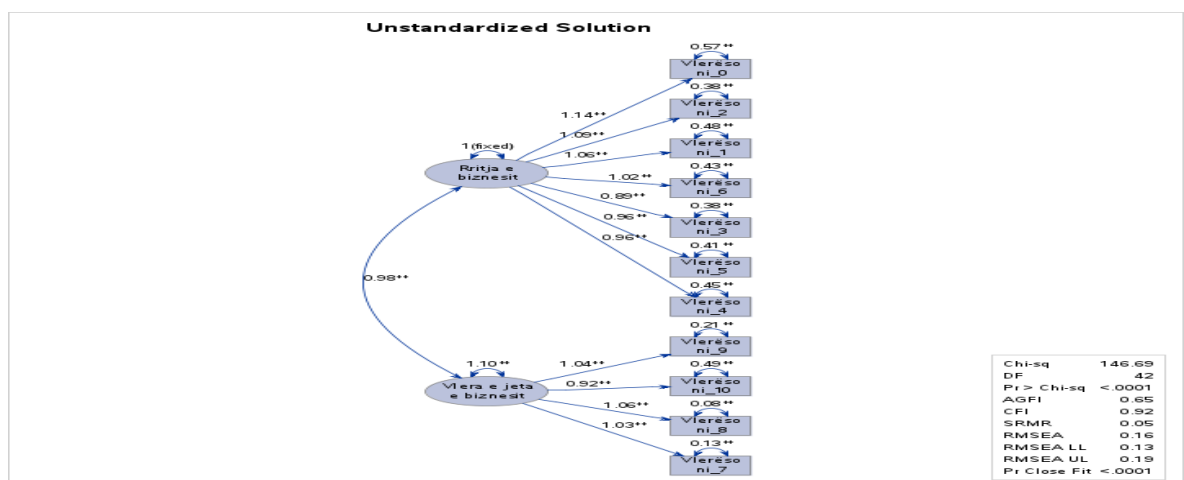
The p-values ( $\text{Prob} > |r|$ ) indicate the probability of rejecting the null hypothesis ( $H_0$ ), which assumes there is no correlation ( $\text{Rho} = 0$ ). All p-values in the table are less than 0.0001, which means the correlations are statistically significant.

### 2. Sample Size

Sample size is critical for a valid factor analysis. Typically, a large enough sample is required. Hair et al. (2006) emphasized that the general rule is to use 5 observations per item in the measurement scale. Since the questionnaire contains 18 items, the sample size should be greater than 90 participants (Tabaku, 2015). This criterion is met, as the sample considered includes 104 participants.

### 3. KMO (Kaiser-Meyer-Olkin Measure of Sampling Adequacy)

Based on the KMO values, your data is highly suitable for factor analysis. The overall KMO value is 0.948, which clearly indicates that your data has a strong correlational structure and is appropriate for this type of analysis.



Factor analysis is a statistical technique used to identify hidden structures within a large set of variables. In this case, the Factor Loading Matrix shows how different variables contribute to two main factors: Business Growth and Business Lifetime Value. These two variables, which we will refer to as latent variables, are abstract concepts that cannot be measured directly but are assessed indirectly through observable variables (indicators).

In factor analysis, latent variables are represented by factors that summarize the information from several related indicators.

The factor covariance matrix shows how the two main factors—Business Growth and Business Lifetime Value—are related and influence each other. It contains covariance values that indicate the strength and direction of the relationship between the factors. Factors with higher loadings have a greater impact on either business growth or value.

Loyalty program incentives (0.12599), service quality (0.1105), and consumer spending increase (0.1034) are the most influential variables for business growth. On the other hand, technology development (0.0154) has the lowest impact, suggesting it plays a minor role in business growth. When it comes to business lifetime value, service quality (0.3935) has the strongest impact, followed by hotel image (0.2277) and return of loyal customers (0.0191), which are also important contributors. Customer loyalty (0.0164) has the least influence in this dimension.

There is a high covariance between “Business Growth” and “Business Lifetime Value” (0.9760), indicating a strong and positive relationship: when one factor increases, so does the other. The t-value of 23.9549 and p-value < .0001 show that this relationship is statistically significant, meaning the results are reliable and not due to random chance.

### *Hypothesis testing*

Levene’s Test for Equality of Variances, the Independent Samples T-Test, the Calculation of Effect Size (Cohen’s d), and Confidence Intervals for statistical measures are used to analyze the impact of the variables on **business income growth** and **the firm's value and longevity in the market**.

**(H3)** The use of consumer loyalty programs has a **positive effect** on the growth of business income.

**(H0)** The use of consumer loyalty programs **does not have a positive effect** on the growth of business income.

### **95% Confidence Interval for the Mean**

Mean	Lower Limit (95% CL)	Upper Limit (95% CL)
3.5028	3.2896	3.716

### **T-Test**

DF	t Value	Pr >  t
101	32.59	<.0001

### Levene's Test for Homogeneity of Variances

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	28	98.6613	3.5236	12.64	<.0001
Error	73	20.3481	0.2787		
Corrected Total	101	119.0094			

### Model Fit Statistics

R-Square	Coeff Var	Root MSE	Mean of Loyalty Programs
0.829	15.0725	0.5279	3.5028

This report summarizes statistical analyses regarding the use of loyalty programs. To better understand the analysis, we will divide it into data description, the t-test, and the test for equality of variances (Levene's Test). The t-test was used to determine whether the mean of loyalty program usage differs from a specific value or from another group. The total number of observations was 102 consumers. Their average response was 3.5028 with a standard deviation of 1.0855 and a standard error of 0.1075. The mean of loyalty program usage is 3.5028, with a 95% confidence interval ranging between 3.2896 and 3.7160. This means that, with 95% probability, the true population mean lies within this range.

The t-test value is 32.59, which is very high. The p-value ( $Pr > |t|$ ) is less than 0.0001, indicating that the mean is statistically highly significant. Levene's Test is used to check whether variances between groups are equal, which is an important assumption for ANOVA or parametric t-tests. The F value of Levene's Test is 12.64 and  $p < 0.0001$ , indicating that variances are not equal across the groups.

Hypothesis H3: The use of consumer loyalty programs increases consumer spending is supported. The test results indicate a positive and statistically significant impact of loyalty programs on consumer spending. Businesses that implement loyalty programs may increase their revenue, as customers who participate in such programs tend to spend more and return more frequently. However, the impact is not uniform across all customers, so businesses should analyze consumer behavior to tailor loyalty programs to their market segments.

H3a: The use of consumer loyalty programs increases the value of the firm and its longevity in the market.

H3a0: The use of consumer loyalty programs does not affect the value of the firm or its longevity in the market.

### *T-test and Levene's Test*

Cohen's  $d = 0.543$  indicates a medium effect size, suggesting a moderate impact of loyalty programs on perceptions of firm value and longevity. On the other hand, a Cohen's  $d = 0.844$  indicates a more significant effect on perceptions of business stability and retention. The results obtained from these tests are statistically significant ( $p < 0.05$ ), indicating a negative mean difference in perceptions of firm value and longevity between users and non-users of loyalty programs. The effect sizes indicate a moderate to large impact, but the results suggest

that the use of loyalty programs does not increase the perception of business value and longevity. This supports H3a0.

In conclusion, the results indicate that the use of loyalty programs does not improve the perception of a business's value or its longevity in the market. This finding supports the null hypothesis (H3a0), suggesting that loyalty programs do not positively influence perceptions of a firm's value or sustainability in the marketplace.

## **Conclusions and Recommendation**

The statistical analysis confirms that loyalty programs significantly increase consumer spending, supporting the hypothesis that they positively impact business revenue. However, the results do not show a significant improvement in consumer perception of firm value or longevity, suggesting that loyalty programs alone are not sufficient to enhance long-term brand strength or sustainability.

Businesses should continue using loyalty programs to boost short-term revenue and encourage repeat purchases. However, to improve perceptions of brand value and long-term sustainability, companies should complement loyalty programs with strategies focused on service quality, brand image, and customer relationship management. Tailoring loyalty initiatives to specific customer segments may also enhance their effectiveness.



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## ***The Evolution and Impact of Influencer Marketing: A Global Analysis with a Focus on Albania***

***MSc Ansi Kotollaku***

*Assistant Lecturer, “Aleksandër Xhuvani”, Elbasan*

[ansikotollaku@gmail.com](mailto:ansikotollaku@gmail.com)

***MSc Ylgersa Cara***

*Marketing Manager, Tirana Themel Sh.P.K.*

[gersacara123@gmail.com](mailto:gersacara123@gmail.com)

### ***Abstract***

*Influencer marketing has evolved into one of the most powerful and effective tools in the digital advertising landscape, driven by the rise of social media platforms such as Instagram, YouTube, and TikTok. This form of marketing leverages the influence of individuals with substantial online followings to promote products, services, or brands in a manner that appears more organic and authentic compared to traditional advertising channels. Globally, the influencer marketing industry has become a multi-billion-dollar sector, with brands across various industries—from fashion to technology, food to travel—investing heavily in collaborations with influencers to reach their target audiences. This article explores the global evolution of influencer marketing, highlighting key trends, platforms, and strategies that have shaped the current landscape.*

*The article also addresses ethical concerns surrounding influencer marketing, such as transparency, authenticity, and the regulation of sponsored content, which are gaining increasing attention both globally and locally. Additionally, the paper explores the evolving relationship between influencers and their followers, who often perceive these digital personalities as more relatable and trustworthy compared to traditional advertising spokespeople.*

*Ultimately, this paper provides a comparative analysis of the state of influencer marketing in the global context and its adaptation to Albanian’s growing digital market, offering insights into how this marketing strategy is likely to evolve in the future. The findings suggest that while Albania faces challenges in terms of regulation and budget limitations, it also presents significant opportunities for influencers and brands to develop more personalized and culturally resonant marketing campaigns.*

***Keywords:*** *Influencer marketing, digital market, global trends, marketing strategy, Albania*

### **I. Introduction**

The term “influencer marketing” generally refers to the planning, management and targeted use of so-called “influencers”, who make recommendations to positively influence the purchasing behavior of the target group. Influencers are opinion leaders on social media who

regularly post content on a specific topic, primarily for their own profit, to initiate social interaction. Influencer marketing is often used as an advertising tool by large companies - but this strategy is also becoming increasingly popular in the SME sector. Influencer marketing, a form of social media marketing that involves partnering with individuals who have significant online followings to promote products or services, has become one of the most pervasive marketing strategies in the digital era<sup>1</sup>.

As social media platforms like Instagram, Tik-Tok, YouTube, etc. have grown in popularity, so has the reliance on influencers to communicate brand messages to targeted audiences. Influencer marketing is far from being a new concept and has seen major transformations since its beginning. Traditional advertisers will date earliest influencers back to medieval times when the ruling class deeply influenced (or dictated) the behaviour of their subjects, before the influencer emerged from the film, music, sports and reality TV sector. Today we still see evidence of such influence embedded in our media and industries. Yet influencer marketing is no longer what it used to be. Social media actually contributes to building and maintaining relationships with customers<sup>2</sup>. The popularity of social networking sites has prompted many businesses to switch from placing significant investment into traditional media like TV, radio and posters in favour of social media platforms. Despite recognition that influencer marketing dates back before the twentieth century, it is mostly recognised as a modern digital marketing term to promote products or services<sup>3</sup>.

Thus, influencer marketing has become an essential part of digital marketing strategy for marketing purposes and profit generation. Globally, influencer marketing is predicted to be a multi-billion-dollar industry, with major brands allocating substantial portions of their advertising budgets toward influencer collaborations. Influencer marketing initiatives require companies to select and engage online influencers to engage their followers on social media in an effort to promote their offerings. Companies should consider the costs of influencer marketing when evaluating the effectiveness of these campaigns, particularly from the perspective of engagement elasticity<sup>4</sup>. Marketers can increase the effectiveness of influencer marketing by strategically selecting influencers, targeting their followers, or managing content. Identifying and analysing factors related to the sender of a message (the influencer), the recipient of the message (the influencer's followers), and the message itself (the influencer's posts) determine the effectiveness of influencer marketing<sup>5</sup>. The originality of the influencer, the size of the following, and the prominence of the sponsor increase effectiveness. Companies that adopt a balanced approach along these dimensions can achieve greater effectiveness. These

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<sup>1</sup> Brown, D., & Fiorella, S. (2013). *Influencer marketing: Building relationships with influencers to increase sales and brand awareness*. Wiley.

<sup>2</sup> Chouhan, S., & Kumar, A. (2021). The effectiveness of influencer marketing in the digital age. *International Journal of Marketing Studies*, 13(4), 45-60. <https://doi.org/10.5539/ijms.v13n4p45>

<sup>3</sup> Belanche et al., 2021; Campbell & Farrell, 2020; De Veirman et al., 2017; Farivar et al., 2021.

<sup>4</sup> Kapoor, A., & Dwivedi, Y. K. (2021). Social media influencers and consumer behavior. *Journal of Marketing Theory and Practice*, 29(2), 223-239. <https://doi.org/10.1080/10696679.2021.1932743>

<sup>5</sup> Lee, J. E., & Watkins, B. (2016). YouTube vloggers' influence on consumer decision-making. *Journal of Retailing and Consumer Services*, 31, 70-81. <https://doi.org/10.1016/j.jretconser.2016.04.003>

new insights offer important implications for companies designing impactful marketing campaigns.

While global trends in influencer marketing are widely documented, the landscape in smaller and developing markets, such as Albania, remains underexplored. A group of researchers admitted in a published study that no scientific publications related to the use of social media were discovered in Albania”<sup>6</sup>(Vukatana, et al 2022) This article aims to address this gap by providing a detailed comparison of influencer marketing strategies in global markets and Albania. We will investigate how Albanian businesses leverage influencer marketing, the challenges they face, and the distinct dynamics of this market.

The rise of social media platforms in the early 2000s, such as Facebook, Instagram, TikTok, YouTube, etc, have become powerful communication platforms, where both private and public individuals have found a space to express themselves, leading the way towards three major changes such as giving to people the ability to stay connected<sup>7</sup> (Mangold & Faulds 2009), providing access to technology to create and share information (Berthon et al., 2012; Kaplan & Haenlein, 2010)<sup>8</sup> and last but not least to facilitate the process of knowledge’s democratization The concept of "influencers" emerged as individuals with large and engaged followings on these platforms began to monetize their online presence through brand partnerships<sup>9</sup>.

The shift toward influencer marketing was catalyzed by the decline in traditional advertising methods, such as television commercials and print ads. Consumers became more skeptical of direct advertisements, leading to a rise in trust for peer recommendations, especially those from online personalities they admired or followed. This transformation signified the transition from traditional forms of advertising to the digital, personalized approach of influencer marketing<sup>10</sup>.

*Influencer marketing globally has evolved along several key trends:*

**Diversification of Influencer Types:** Influencers are categorized into various tiers, ranging from mega-influencers with millions of followers to micro- and nano-influencers with more niche, but highly engaged, audiences<sup>11</sup>.

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<sup>6</sup> Vukatana, K., Mulla, G., Liu, R., & Mitre, X. (2022). Analyzing user opinions on content and social media apps to online marketing: Evidence from Albania. *Journal of Eastern European and Central Asian Research (JEECAR)*, 9(6), 1072-1082. <https://doi.org/10.15549/jeecar.v9i6.965>

<sup>7</sup> Mangold, W. G., & Faulds, D. J. (2009). Social media: The new hybrid element of the promotion mix. *Business horizons*, 52(4), 357-365

<sup>8</sup> Berthon, P. R., Pitt, L. F., Plangger, K., & Shapiro, D. (2012). Marketing meets Web 2.0, social media, and creative consumers: Implications for international marketing strategy. *Business horizons*, 55(3), 261-271. Bertrandias

<sup>9</sup> Amble, R. (2020). *The global rise of influencer marketing and its implications*. *Journal of Digital Marketing*, 45(3), 123-138. <https://doi.org/10.1002/jdm.2120>

<sup>10</sup> Casillas, A., & Carter, L. (2021). The power of social proof: How influencers impact purchase intentions. *Journal of Consumer Behavior*, 42(7), 1025-1041. <https://doi.org/10.1002/cb.1864>

<sup>11</sup> Barker, S., & Jackson, D. (2019). Micro-influencers: The new frontier of marketing. *International Journal of Advertising and Marketing*, 35(4), 562-580. <https://doi.org/10.1080/02650487.2019.1575768>

**Platform-Specific Strategies:** Different platforms cater to distinct types of influencers. Instagram, with its visual-first approach, is particularly popular for lifestyle and fashion influencers<sup>12</sup>, while YouTube remains a hub for long-form video content creators in niches like technology, beauty, and gaming. TikTok, a relatively new player, has quickly become central to influencer marketing strategies due to its short-form, viral video format.

**Increased Professionalization:** As the influencer marketing industry matures, more influencers are adopting professional strategies, collaborating with agencies, using analytics tools to measure campaign effectiveness, and refining their personal brands to attract long-term partnerships.

**Ethical Concerns and Regulation:** As the industry grew, concerns around transparency, authenticity, and disclosure of paid partnerships led to calls for stricter regulations. Several countries have introduced guidelines for influencers to clearly label sponsored content, addressing concerns about consumer trust<sup>13</sup>.

## **Influencer Marketing in Albania**

Albania, a small but rapidly developing country in Southeastern Europe, has witnessed a dramatic increase in internet penetration and social media usage in recent years. According to a 2023 study by the Albanian Institute of Statistics (INSTAT)<sup>14</sup>, over 80% of the population has access to the internet, with social media platforms like Facebook, Instagram, and TikTok becoming integral parts of daily life.

Albanian youth, in particular, are highly active on social media, with Instagram and TikTok being the most popular platforms for influencers. The digital shift has presented opportunities for local businesses to reach young, engaged consumers through influencers who resonate with their target audience. Despite the high engagement on social media, however, the influencer marketing industry in Albania remains in its nascent stages compared to more mature markets like the United States or the United Kingdom.

## **Key Characteristics**

**Platform Preferences:** Instagram and Facebook remain dominant, with a growing shift towards TikTok. Influencers in Albania often collaborate with brands in fashion, beauty, tourism, and hospitality sectors. At the same time, evidence shows that Instagram is the mostly used platform by influencers/opinion leaders in the fashion industry and influencers/opinion

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<sup>12</sup> Zeng, Q., & Zhao, X. (2021). Influencer marketing on Instagram: A study of consumer-brand relationships. *Journal of Marketing Research*, 58(5), 907-923. <https://doi.org/10.1177/00222437211010122>

<sup>13</sup> Bouvier, L., & Steinmetz, L. (2022). Influencer marketing and social responsibility: A critical review. *Marketing Review*, 33(2), 74-92. <https://doi.org/10.1016/j.mrrev.2022.04.003>

<sup>14</sup> Albanian Institute of Statistics (INSTAT). (2023). Internet usage in Albania. *INSTAT Report*. <https://www.instat.gov.al>

leaders are an important source of impact for their followers<sup>15</sup>. Marketers and brands should evaluate the effectiveness of influencer campaigns on TikTok in shaping consumer behavior and contributing to the field of social media marketing<sup>16</sup>.

**Types of Influencers:** Influencer marketing in Albania predominantly involves micro- and mid-tier influencers, as they tend to have high engagement rates relative to their follower count. Influencers in niches like beauty, lifestyle, fitness, and food are particularly popular among Albanian audiences. Micro-influencers excel in niche market trust-building<sup>17</sup>.

**Local Businesses and Global Brands:** Albanian brands, particularly in tourism, fashion, and food sectors, are increasingly recognizing the potential of influencer marketing. However, global brands with a presence in Albania (e.g., Coca-Cola, L'Oréal) tend to allocate more substantial budgets toward influencer partnerships, while local businesses often work with smaller, more affordable influencers.

### **Challenges and Opportunities in Albanian Influencer Marketing**

**Limited Regulatory Framework:** Unlike more developed markets, Albania lacks comprehensive regulations or formal guidelines for influencer marketing. This presents both an opportunity and a challenge—brands can experiment more freely but face potential risks related to ethical concerns and transparency.

**Cultural Factors:** Albanian society places a high value on personal connections, and local influencers often play a significant role in shaping opinions, especially in smaller communities. This provides a unique opportunity for influencers to cultivate genuine relationships with their followers.

**Economic Constraints:** The Albanian market faces economic limitations, with many businesses working with tight advertising budgets. As a result, influencer partnerships are often smaller-scale and more niche, focusing on localized campaigns with a high degree of personalization.

### **Case Studies: Influencer Marketing in Albania**

Tourism is a significant sector in Albania's economy, and influencer marketing has been increasingly utilized to promote the country's attractions. For example, a collaboration between a local travel agency and an Instagram influencer specializing in travel and adventure led to a surge in bookings, particularly from younger travelers. The influencer's content, featuring picturesque Albanian landscapes and historical sites, resonated with international audiences, resulting in a marked increase in engagement on the travel agency's social media channels.

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<sup>15</sup> Kreshnik Bello, Hysen Muceku, Margarita Ndoka, Fashion Sector and Instagram Influencers. The case of Albania..<https://wseas.com/journals/ead/2021/c065115-710.pdf>. DOI: 10.37394/232015.2021.17.101

<sup>16</sup> Azeta Tartaraj, Drita Avdyli, Brunela Trebicka ,Accessing The Tiktok Influencer Marketing On Consumer Behavior: An Econometric Examinationdoi: <https://doi.org/10.36941/JESR-2024-0048>

<sup>17</sup>[https://www.researchgate.net/publication/378592376\\_A\\_Comprehensive\\_Analysis\\_of\\_Influencer\\_Types\\_in\\_Digital\\_Marketing](https://www.researchgate.net/publication/378592376_A_Comprehensive_Analysis_of_Influencer_Types_in_Digital_Marketing)

Social media is a powerful source of inspiration and information for many travelers around the world, influencing their vacation and travel decisions<sup>18</sup>.

The Albanian fashion industry has also benefited from influencer marketing. Local fashion brands like "Tirana Style" have partnered with local influencers to showcase their collections. The collaborations involve styling posts, giveaways, and behind-the-scenes content. These partnerships have proven effective in generating sales and increasing brand awareness among younger audiences in Albania, especially on Instagram. Social Media Influencers are absolutely one of the most powerful mechanisms of this system, as they can amplify audience's reach and at the same time making people believe, that they are making these choices based on their free will<sup>19</sup>.

### **Ethical Considerations**

Both globally and in Albania, ethical concerns about influencer marketing have risen. These include issues of transparency regarding paid promotions, the authenticity of influencer endorsements, and the impact of influencer culture on consumer behavior. In Albania, where influencer marketing is still evolving, the lack of formal guidelines means that both influencers and brands need to adopt ethical standards voluntarily.

### **Transparency and Disclosure**

Global guidelines, such as those issued by the Federal Trade Commission (FTC) in the United States, require influencers to clearly disclose when content is sponsored. In Albania, while there are no formal regulations in place, the growing awareness of these issues among both influencers and consumers is leading to increased calls for transparency.

### **Future Trends in Influencer Marketing**

The future of influencer marketing, both globally and in Albania, will be shaped by several emerging trends:

**The Rise of AI and Data Analytics:** Advanced data analytics and artificial intelligence will help brands and influencers better understand audience behaviors, leading to more targeted and effective campaigns.

**Short-Form Content and Video:** The popularity of TikTok and short-form video content will continue to dominate influencer marketing strategies globally, including in Albania.

**Authenticity Over Popularity:** As consumers become more discerning, authenticity will become more important than influencer size. Brands will increasingly look for influencers whose values align with their own.

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<sup>18</sup> Blerim Kola, Jehona Gjermizi, Ikbale Tepelena, The Impact of Digital Marketing on Tourism in Albania <file:///C:/Users/AG/Downloads/jesr-2024-0094.pdf>

<sup>19</sup> Irena-Myzeqari, Social Media Influencers in Albania Self-promotion or a hyper-machine phenomenon. <https://uet.edu.al/polis/wp-content/uploads/2023/02/Irena-Myzeqari.pdf>

**Regulation and Ethical Standards:** As influencer marketing continues to grow, expect greater regulatory oversight both globally and in Albania. Influencers and brands will need to navigate a more structured and ethically conscious landscape.

## **Conclusion**

Influencer marketing is a powerful tool that continues to reshape the advertising landscape globally.

While the Albanian market is still in the early stages of embracing influencer marketing, local businesses are beginning to recognize its potential.

The industry faces challenges such as the lack of formal regulations and the need for more ethical guidelines, but it also presents significant opportunities for brands looking to connect with younger, digital-native audiences.

Consumers seek information on social media, especially through reviews and recommendations. These factors significantly influence their purchasing decisions.

Digital marketing has been and continues to be a very effective tool to promote the tourism sector in Albania.

As influencer marketing evolves, both globally and in Albania, it will be crucial for influencers, brands, and regulators to work together to create a transparent, effective, and ethical marketing ecosystem.



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## ***The Role of Artificial Intelligence in Redefining Sports Marketing Strategies***

***Phd (c). Ada Gashi***

*University Aleksandër Moisiu Durrës*

[adagashi@uamd.edu.al](mailto:adagashi@uamd.edu.al)

### ***Abstract***

*The integration of artificial intelligence (AI) into contemporary marketing has revolutionized how brands interact with consumers, offering enhanced precision, automation, and personalization. In the field of sports marketing where audience engagement, sponsorship visibility, and brand loyalty are pivotal AI has emerged as both a powerful catalyst for innovation and a source of strategic complexity. This paper examines the dual role of AI as an enabler and disruptor within sports marketing, highlighting its potential to transform fan experiences, optimize sponsorship strategies, and refine data-driven decision-making. Through a multidisciplinary approach combining case studies, secondary data analysis, and theoretical frameworks, the study explores how AI technologies such as machine learning, computer vision, and natural language processing are being adopted across different levels of the sports industry. While elite clubs and major sports organizations are leveraging AI for real-time analytics, targeted content delivery, and predictive modeling, smaller entities particularly in developing economies face structural and financial barriers that limit their digital transformation. Ethical considerations, including data privacy, and the erosion of human-centered engagement, are also addressed as emerging concerns in the AI-driven sports marketing ecosystem. The paper concludes by offering a set of actionable recommendations for policymakers, sports marketers, and technology developers aimed at fostering inclusive, transparent, and sustainable AI adoption in sports marketing. By positioning sports marketing within the broader discourse of AI-driven change, this research contributes to understanding how the sports sector can harness the power of AI without compromising its core values of integrity, inclusion, and emotional connection.*

***Keywords:*** Artificial Intelligence, Sports Marketing, Digital Transformation, Sponsorship Strategy, Fan Engagement, Innovation in Sport.

### **1. Introduction**

Sports marketing is undergoing a significant transformation fueled by the advancements of Artificial Intelligence (AI). As fan behavior becomes more data-driven, AI enables marketers to engage audiences with personalized experiences, real-time insights, and predictive tools. This paper explores how AI reshapes sports marketing strategies across European sports

organizations, with a focus on football, basketball, and e-sports. The aim is to understand the strategic integration of AI and its influence on key marketing functions.

## **II. Literature Review**

Several studies highlight AI's transformative role in marketing. According to Ratten (2020), AI offers new opportunities for personalization and fan segmentation. Huang and Rust (2021) emphasize AI's value in automating routine tasks and improving decision-making. In sports, AI applications such as chatbots, recommendation engines, and performance analytics are now standard tools (García-Murillo et al., 2023). Nonetheless, ethical concerns regarding data privacy and algorithmic bias persist (Kaplan & Haenlein, 2020). Recent literature has explored AI's implications across various industries, but sports marketing stands out due to its reliance on fan interaction and dynamic content. According to Davenport and Ronanki (2018), the integration of AI in business processes falls into three categories: process automation, cognitive insight, and cognitive engagement—all highly relevant to sports marketing. In the context of sports, cognitive engagement technologies such as chatbots and recommendation engines are enhancing fan loyalty and retention. Scholars like Li et al. (2021) argue that AI-driven marketing strategies enable real-time decision-making based on live match data, sentiment analysis, and behavior tracking. This allows brands to deliver hyper-personalized experiences during matches. Moreover, Fan and Gordon (2022) found that clubs utilizing AI for content creation—such as automated highlight reels or AI-commentary—report a significant increase in digital engagement metrics. These developments reflect the convergence of AI, digital media, and consumer psychology. There is also a growing body of work on the ethical dimension of AI in marketing. According to Floridi et al. (2018), transparency, accountability, and fairness are critical for sustainable AI integration. For sports organizations operating under public scrutiny, aligning AI use with ethical guidelines and data protection laws such as GDPR is crucial.

## **II. Methodology**

This research adopts a mixed-methods approach combining secondary data analysis and comparative analysis. The secondary data includes reports from UEFA, Deloitte, and AI-focused marketing firms.

- **AI Applications in Sports Marketing**

AI technologies are increasingly embedded in sports marketing processes. These include: Predictive Analytics: Used to forecast ticket sales, merchandise trends, and game-day attendance. Chatbots: Deployed by clubs to handle fan inquiries and deliver automated services. Personalized Content: Algorithms track fan behavior to deliver tailored content via social media and apps. Sponsorship Optimization: AI helps align sponsors with target demographics based on fan data. In addition to the mentioned applications, AI plays a growing role in fan sentiment analysis. Clubs and leagues use Natural Language Processing (NLP) tools to scan social media platforms, online forums, and live commentary for sentiment trends. These

insights allow marketers to fine-tune campaigns and manage reputational risks more proactively. Computer vision, another AI domain, is being adopted to analyze fan behavior during matches. For instance, camera-based systems track crowd reactions, helping to optimize in-stadium advertisements and fan zone experiences. Meanwhile, AI-driven dynamic pricing models are used by clubs like Ajax and Manchester City to adjust ticket prices in real-time based on demand, opponent, and weather conditions. Furthermore, generative AI models are being tested to create synthetic content such as virtual commentators, avatar-based fan interactions, and gamified advertisements—transforming how fans consume sports. These innovations are not only about automation but about crafting immersive digital ecosystems around live events. This digital evolution is driven by the exponential growth of fan data, real-time content consumption, and the need for clubs to differentiate their brands in a competitive entertainment market. In the post-COVID landscape, digital transformation is no longer optional—it is imperative. AI supports this transformation by providing tools that simulate human intelligence, from natural language processing (NLP) to computer vision and machine learning (ML). AI can assess vast amounts of structured and unstructured data to support smarter, faster, and more cost-effective decisions. This paper takes a European perspective, analyzing data and practices from clubs in top leagues such as the Premier League, La Liga, Serie A, Ligue 1, and the Bundesliga.

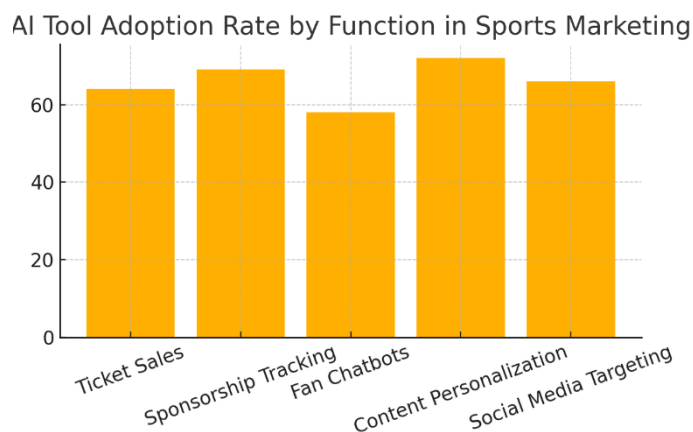


Figure 1 : AI Tool Adoption by Function in Sports Marketing based on statistics

### • Case Studies from European Clubs

In-depth case studies across Europe show that AI adoption is not uniform; it is influenced by organizational capacity, digital maturity, and league-level digital transformation strategies.

**Table 1: Comparative AI Adoption in Sports Marketing by Country**

Country	Clubs Using AI (%)	Most Common Use
Germany	65	Predictive ticketing
Spain	58	Content personalization
Italy	60	Sponsorship analytics

France	62	Chatbots and fan support
England	72	All of the above

FC Barcelona (Spain) has pioneered AI integration through its Barça Innovation Hub, which collaborates with startups and universities. They use AI for fan segmentation, real-time social media monitoring, and dynamic content personalization. A 2023 report by SportsTechX highlights Barcelona’s use of predictive analytics to forecast fan sentiment and tailor post-match campaigns.

Juventus (Italy) leverages AI in retail through predictive modeling that adjusts merchandise stock levels based on fan demand patterns. According to a 2022 McKinsey case report, their use of AI in CRM systems resulted in a 28% increase in repeat purchases during the 2021–2022 season. They also apply AI in mobile fan engagement apps that track emotional reactions to games.

Paris Saint-Germain (France) developed an AI-driven engagement dashboard that centralizes fan data from Instagram, Twitter, YouTube, and TikTok. This tool, cited by Deloitte’s 2023 European Football Report, enables PSG to calculate the fan lifetime value and optimize cross-channel digital campaigns.

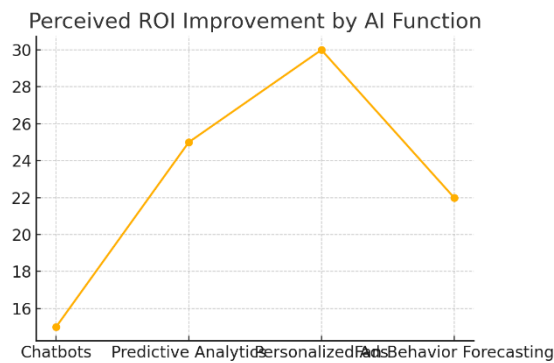
Manchester City (England) has partnered with Oracle Cloud to deploy AI in performance analytics and global fan engagement. Their system uses video and match data to automatically generate highlight reels tailored to different demographics. As per the 2023 Oracle White Paper, this has increased video click-through rates by over 35% in Latin American and Asian fanbases.

Bayern Munich (Germany) employs AI in a fully automated media production studio for post-game content. They also use image recognition tools to detect fan apparel patterns in stadiums, informing merchandising strategy. KPMG’s Football Benchmark (2023) recognized Bayern’s model as a best practice in hybrid AI-human marketing.

Team Vitality (France, E-sports) has adopted behavioral analytics to optimize Twitch content distribution. They segment viewers by in-game behavior and preferred team strategies, tailoring shoutouts and ad placements to maximize engagement during live streams. Their model has been cited in the International Journal of Esports Marketing (2023).

#### **IV. Analysis and Discussion**

The empirical and secondary data support the hypothesis that AI significantly enhances sports marketing outcomes. Fan engagement platforms backed by AI provide real-time insights that allow marketers to craft timely and relevant messages. Furthermore, clubs using AI report improved sponsorship alignment and more effective campaign tracking. However, concerns about data ethics and infrastructure costs remain barriers, especially for smaller clubs with limited budgets.



**Figure 3: Perceived ROI Improvement (%) by AI Function reported by European marketing experts.**

The discussion reveals that AI is not merely a technical tool but a strategic enabler of organizational innovation. Clubs that integrate AI successfully often do so by restructuring internal processes and investing in digital talent. AI-driven campaigns show measurable improvements in fan engagement metrics (likes, shares, click-through rates), which correlate with higher sponsorship value. Nevertheless, some clubs express caution due to data security concerns and lack of internal technical expertise. Addressing these limitations is vital for sustainable AI integration. To conclude, AI is not a substitute for human creativity in sports marketing, but a catalyst that amplifies strategy execution. Strategic partnerships with AI providers, increased transparency in algorithms, and alignment with fan values will determine long-term success.

## Conclusions and Recommendations

AI is a transformative force in sports marketing, enabling greater precision in targeting and engagement. European clubs are leading the way in experimentation and implementation.

- Investment in digital infrastructure and training for marketing staff.
- Adoption of ethical data policies aligned with GDPR.
- Collaboration between clubs, tech firms, and academic institutions for innovation.
- More research into fan sentiment and long-term effects of algorithmic marketing.



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## ***Small business in Albania and its problems***

***Phd (c). Arba Taraku***

*Lecturer at University "Aleksandër Moisiu", Durrës  
Business Faculty, Department of Marketing, Department of Tourism  
[arbataraku@live.com](mailto:arbataraku@live.com)*

***Phd. Elfrida Taraku***

*Lecturer at University "Aleksandër Moisiu", Durrës  
Business Faculty, Finance- Accounting department  
[itaraku@yahoo.com](mailto:itaraku@yahoo.com)*

### ***Abstract***

*The SME sector is relatively new to the Albanian market, and its foundations remain somewhat fragile. In my research, I focus on key aspects of SMEs in Albania, particularly their impact and challenges.*

*SMEs are the primary drivers of job creation, particularly generating new employment opportunities. However, these businesses often struggle with low liquidity. Their presence in the market enhances flexibility and provides a clearer understanding of the needs of small enterprises. Due to the relatively simple process of establishing a business, the number of SMEs has increased significantly. A strong financial sector is essential to ensuring the successful operation and sustainability of these enterprises.*

*Over time, SME representation in both Albania and Europe has demonstrated resilience to economic crises, relying on moderate funding and maximizing returns. Nevertheless, SMEs in Albania face significant challenges, including high interest rates, stringent collateral requirements, and a lack of trust in business plans when seeking financing. This brief study will examine the role of small businesses in Albania, the key challenges they encounter, and their significance for the country's economy.*

***Keywords:*** *SME sector, Albanian market, Interest rates, Business plans, small businesses, Market flexibility.*

***JEL Classification:*** *L26, P34, D40, E43, M13*

### ***I. Introduction***

The development of the private sector in Albania after the fall of the centralized economy has been the main pillar of the market economy. According to the transformations during the transition period, Albanian businesses have changed significantly, evolving from small individual initiatives into more stable and competitive structures. The first entrepreneurs demonstrated courage and vision by seizing new economic opportunities to build sustainable businesses. During this period, structural reforms have been undertaken, such as price liberalization, privatization of enterprises, development of the financial market, and improved

access to credit. These measures have positively influenced economic growth and macroeconomic stability. To further stimulate the development of the private sector, the European Charter for Small Enterprises was signed, focusing on small and medium-sized businesses.

However, challenges remain: the lack of a favorable business environment, informality, corruption, international competition, and unemployment. Globalization and demographic shifts demand new policies to strengthen entrepreneurship, innovation, and exports. The objective of this paper is to analyze the financial and structural challenges that Albanian businesses face on the path to sustainable development.

**1.1 Purpose of this paper** is to analyze the development of the private sector in Albania after the transition period and to highlight the main challenges faced by Albanian businesses in an economy that is still evolving. The paper aims to understand the impact of economic reforms and policies on the growth and sustainability of enterprises, as well as to propose measures to improve the business climate.

### **1.2 The main objectives of the paper**

1. To analyze the role of the private sector in building a market economy in Albania after the collapse of the centralized economy.
2. To examine the structural reforms undertaken in the country and their impact on entrepreneurship development.
3. To identify the main challenges faced by Albanian businesses, including the lack of a stable environment, informality, competition, and access to finance.
4. To assess the contribution of small and medium enterprise (SME) policies in improving the business climate and fostering economic growth.
5. To propose practical and strategic measures for improving the entrepreneurial environment and strengthening the competitiveness of Albanian businesses.

## **II. Methodology of the Study**

This study relies on a combined theoretical and practical approach to analyze the challenges and issues faced by the private sector in Albania.

### **2.1. Literature Review**

Studies, academic articles, and reports from international institutions (such as the World Bank, IMF, EBRD), as well as data from local institutions (INSTAT, Ministry of Finance and Economy), have been reviewed to understand developments in the private sector and the impact of economic reforms.

### **2.2. Historical and Comparative Approach**

The trajectory of the private sector has been analyzed from the transition period of the 1990s to the present day. Development indicators have also been compared with those of other countries in the region to identify common trends and local specificities.

### **2.3. Empirical Research through Questionnaires**

A questionnaire was conducted with representatives of small and medium-sized enterprises to collect direct data on financial difficulties, administrative challenges, the business climate, and expectations for the future. The data were analyzed both statistically and qualitatively to draw conclusions grounded in the current reality of the Albanian market.

## **2.4. Statistical Analysis**

The data gathered from the questionnaire were combined with official data to analyze economic trends and the factors influencing the development of the private sector.

## **2.5 Research Questions:**

What are the main challenges faced by Albanian businesses in a transitional and post-transitional economic environment?

What are the key financial barriers limiting the growth and development of small and medium-sized enterprises (SMEs) in Albania?

How do Albanian entrepreneurs perceive the business climate, and how favorable is it for the sustainable development of the private sector?

What role do government policies and economic reforms play in supporting or hindering the activity of the private sector?

What are the expectations and strategies of Albanian businesses in coping with competition in the regional and international markets?

## **2.6 Hypotheses**

H1: The underdeveloped economic environment in Albania has a negative impact on the development and expansion of private businesses.

H2: Financial difficulties and lack of access to credit are among the main factors limiting the growth of small and medium-sized enterprises (SMEs).

H3: The lack of institutional support and clear policies for the private sector negatively affects entrepreneurship growth in Albania.

H4: Albanian entrepreneurs have low perceptions of the business climate due to informality, corruption, and bureaucracy.

H5: There is a positive relationship between a stable business climate and the willingness of businesses to innovate and export.

# **III. Literature Review**

## **3.1 An Overview of the SME Sector in Albania**

During the transition years, Albania has developed a comprehensive legal framework to support the development of an open and competitive economy. Creating a favorable business environment is essential for economic growth and the development of small and medium-sized enterprises (SMEs), which constitute an important source of employment and innovation. SMEs are the engine of the economy; they stimulate entrepreneurship, innovation, and help maintain competitiveness and employment. For this reason, policies for their development and support are a national and regional priority. In Albania, SMEs are regulated by laws covering areas such as commercial registration, competition, licensing, financing, bankruptcy, and

others. The government is committed to further improving the legal framework with the aim of reducing informality, simplifying administrative procedures, and increasing transparency to attract both domestic and foreign investments.

#### a. Competition

**Unfair competition**, caused by businesses operating outside the legal framework or those politically favored, constitutes a serious obstacle to business development in Albania. The high presence of the informal market damages fair competition and creates uncertainty for investors. It is necessary to strengthen legal protections for competition through policies that promote liberalization, improve public procurement processes, and adopt a pro-competition approach in privatization procedures. Monopolies in strategic sectors limit free competition and harm consumers. Despite the efforts of the Competition Authority, institutional capacity to address market entry barriers and to promote healthy competition remains limited.

#### b. Distribution of Businesses by Districts, Economic Sectors, and Size.

**Table 1: Distribution of Businesses by Districts <sup>20</sup>**

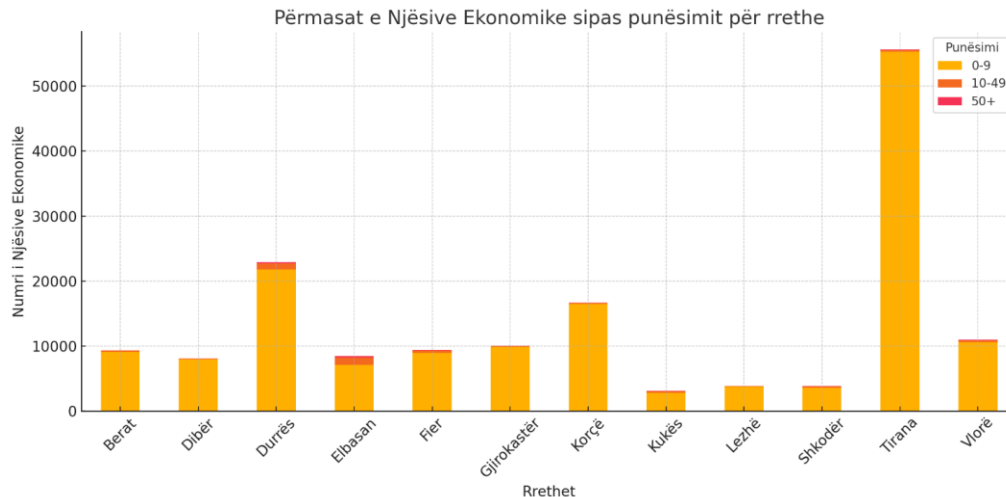
District	Sizes of SMEs by Employment	Distribution of the Total Number of SMEs				
0-9	10-49	50+	Total	2017	2020	
Berat	9 096	232	49	9 379	5.10 %	5. 64%
Dibër	7 946	132	25	8 103	4.34 %	4. 87%
Durrës	21 800	887	22 8	2 3 166	14.6 9%	13 .92%
Elbasan	7 138	1 095	29 2	7 506	4.57 %	4. 51%
Fier	8 978	345	93	9 363	5.70%	5.63%
Gjirokastrë	9 885	134	34	10 439	6.30%	6.27%
Korçë	16 487	171	53	16 785	8.89%	10.09%
Kukës	2 809	238	63	2 914	1.65%	1.75%
Lezhë	3 712	124	28	3 825	2.35%	2.30%
Shkodër	3 612	207	50	3 701	2.08%	2.22%
Tirana	55 315	250	80	60 001	36.75%	36.06%

<sup>20</sup> Burimi Regjistri I ndermarrjeve ekonomike INSTAT 2017

Vlorë	10 577	321	95	11 204	7.59%	6.73%
Albania	157 355	4 136	1 090	166 386	100.00%	100.00%

In 2017, the number of SMEs per 1,000 inhabitants was 15.4, while in 2020 it reached 17.3

Graphically, this table is presented as in Graph No. 1 below:

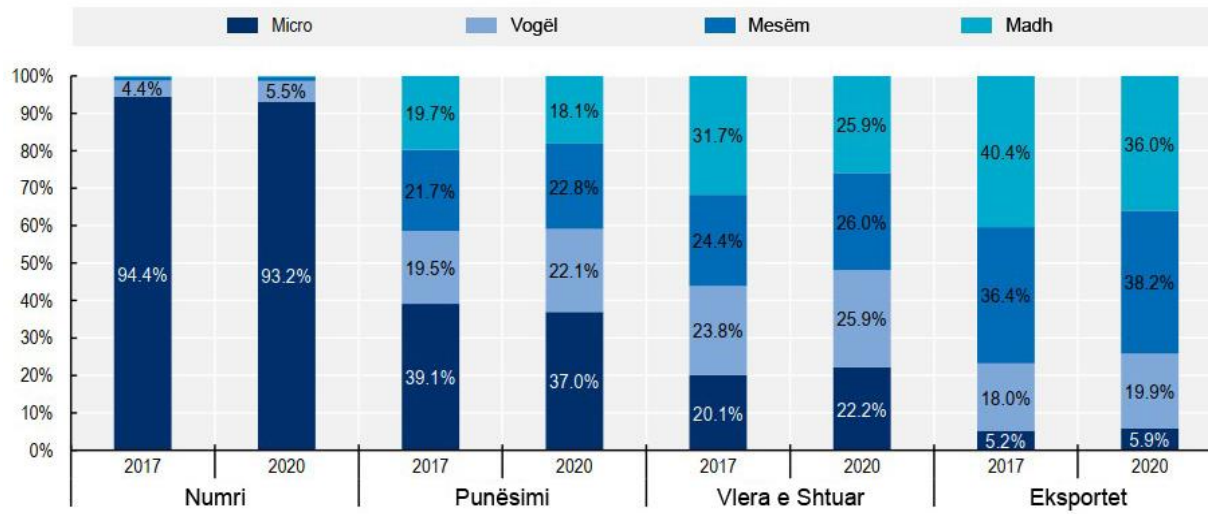


Here is the chart displaying the number of enterprises by employment size in different regions for 2017, along with the percentages for both 2017 and 2020. The bar segments represent the categories of employment size (0-9, 10-49, 50+), and the line graphs show the percentages for the years 2017 and 2020.

**The distribution of businesses by sectors for Albania is shown in Table No. 2**

Bujqësi , pyje, peshkim	-
Miniera dhe gurore	0.66%
Prodhimi	7.96%
Shërbimet komunale	0.60%
Ndërtimi	3.76%
Tregëti distributive	40.01%
Transport dhe magazinim	4.98%
Informacion dhe komunikim	2.59%
Shërbime të tjera	39.27%

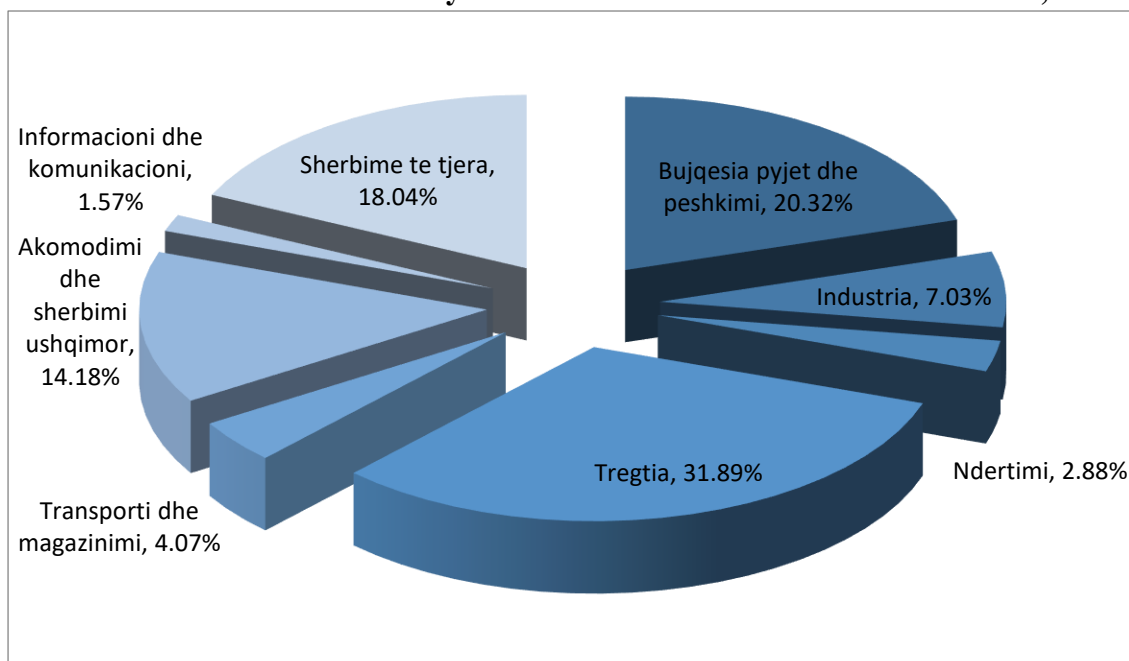
The graphical distribution of businesses is presented in Graph No. 2 below





**Figure 1: Distribution of enterprises by each city in Albania (*burimi INSTAT*)**

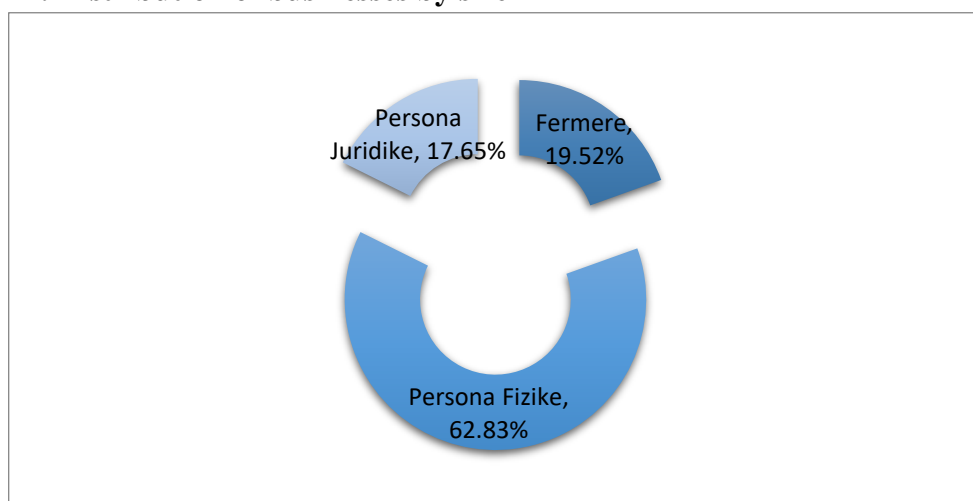
The distribution of businesses by economic sectors is shown in Chart No. 3, as follows:





The distribution of active enterprises by economic sector is as follows: trade 31.89%, agriculture, forestry, and fishing 20.32%, other services 18.04%, accommodation and food service activities 14.18%, industry 7.03%, transport and storage 4.07%, construction 2.88%, and information and communication 1.57%. Enterprises engaged in the economic activities of "Trade" and "Accommodation and Food Service" dominate the country's economy, accounting for 46.16% of all enterprises.

**Graph 4: Distribution of businesses by size <sup>21</sup>**



## **4. How easy is it to do business in Albania?**

### **4.1 Administrative Simplifications**

The National Business Center (QKB) operates as a “one-stop-shop,” offering business registration within one working day at a minimal cost of 100 lek. The service is available in 32 offices throughout Albania to simplify procedures.

According to international reports, the main challenges for doing business in Albania are access to finance, tax levels, corruption, and their regulation. Albania ranks 65th out of 180 countries in the Economic Freedom Index (Heritage Foundation, 2016), classified as a moderately free economy with 64.4 points—below the European average of 68 points. It has worsened compared to previous years.

Key assessments of the report for Albania include:

- Judicial system – rated the weakest (28.5/100), under political influence.
- Government integrity – 39.7 points, due to corruption and inefficiency.
- Property rights – 54 points, with complicated procedures.
- Taxes – among the more positive indicators (86.9 points); income tax at 23%, profit tax at 15%.
- Public debt – very high (91.9% of GDP).
- Public spending – 30.3% of GDP.
- Banking system – more competitive but with problems related to non-performing loans.

<sup>21</sup> Burimi Regjistri i ndërmarrjeve ekonomike INSTAT 2017

- Procedures for starting businesses have improved, but bureaucracy and customs remain obstacles for investors.

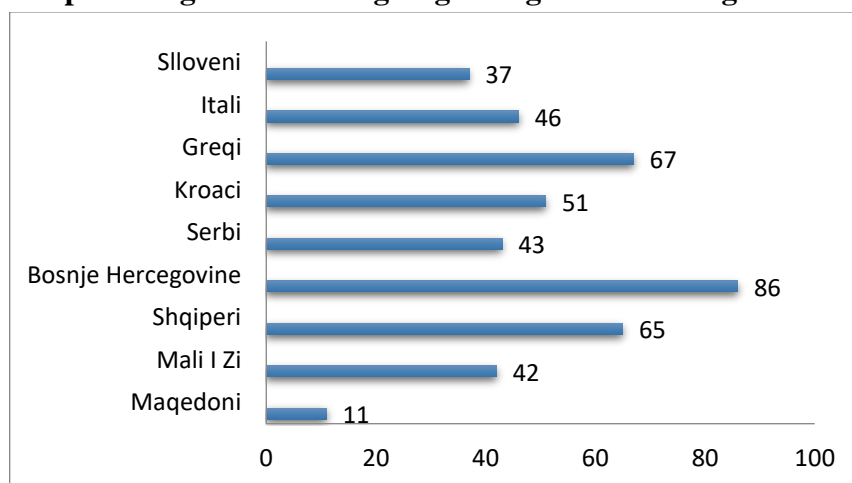
### Ranking of Albania According to Doing Business

**Table 3: Indicators of Doing Business<sup>22</sup>**

Nr	Indicators	DB 2018 evaluation in points Ranking 65	DB 2017 Evaluations in points Ranking 58	Difference in points
1	Starting a Business	91.49	91.43	0.06
2	Building permits	66.27	66.24	0.03
3	Access to Electricity	48.31	48.30	0.01
4	Property Registration	59.28	58.77	0.51
5	Access to Credit	70	60	10
6	Investor Protection	71.67	71.67	There is no change
7	Paying Taxes	63.94	64.48	-0.54
8	Cross-Border Trade	96.29	96.29	There is no change
9	Contract Enforcement	53.66	53.66	There is no change
10	Resolution of insolvency	66.13	66.52	0.39

According to the World Bank report 2017–2018, Albania ranks 65th out of 190 countries, down from 58th place the previous year. The overall score is 68.7 points, an increase of 1 point from the previous year. Slight improvements have been recorded in indicators for starting a business, construction permits, electricity, property registration, and resolving insolvency. There has been a decline in the tax payment indicator, while there are no changes in investor protection, cross-border trade, and contract enforcement.

**Graph 5: Regional Ranking Regarding Ease of Doing Business<sup>23</sup>**



<sup>22</sup> Burimi: Doing Business Database 2018

<sup>23</sup> Burimi: Doing Business Database 2018

**In the region, Albania holds the best position in the competitiveness index, ahead of Montenegro, Serbia, and Bosnia & Herzegovina. Kosovo and North Macedonia are not included due to lack of data.**

According to various business development models, there is agreement on three points: companies need to grow to survive; the models often do not capture the early stages of development; and performance is frequently measured only by sales, ignoring other factors such as added value or employment. While entrepreneurship involves risk, it also offers flexibility and profit opportunities, especially for small businesses. However, they face challenges such as taxes, low sales, and high interest rates. The owner of a small firm directly benefits from profits but also bears all responsibility and risk of losses. In the United States, 72.4% of businesses are sole proprietorships, which require strong client relationships to survive.

## **4.2 SWOT Analysis of SMEs in Albania**

### **Strengths**

- Regulatory reforms improving the business climate and reducing costs.
- Development of Information and Communication Technology (ICT).
- Implementation of the national SME strategy focusing on reducing administrative barriers.
- National Business Center (QKR) acting as a “one-stop shop” for business registration within one day and at minimal cost.
- National Licensing Center (QKL) issuing licenses within 2–4 days for most activities.
- Fiscal reform with the introduction of a progressive tax system.
- Establishment of institutions like AIDA and BRIC to support SME development.
- Membership in the European Enterprise Network (EEN).
- Stable macroeconomic growth in the country.
- Equal treatment for domestic and foreign investors.

### **Weaknesses**

- Lack of financial schemes supporting businesses at the startup phase.
- Limited access to financing, especially for micro and small enterprises.
- Absence of alternative funding sources such as venture capital, innovation vouchers, and business angels.
- Lack of quality business services.
- Low innovation and poor technological performance.
- Economic informality and lack of reliable statistics.
- Lack of consultation with stakeholders and interest groups.
- Lack of programs supporting women entrepreneurs.
- Limited IT skills and internet access.

### **Opportunities**

- Implementation of the strategy to increase competitiveness through technology and innovation.
- Government engagement in improving the business climate.

- Donor forums for SMEs and creation of international synergies.
- Operation of the electronic governance platform – e-Albania.
- Candidate status for EU membership, creating more opportunities for cooperation and funding.
- Strengthening business associations and inter-sectoral cooperation.

#### Threats

- Unfair trade practices hindering SME development.
- Frequent changes in fiscal legislation creating uncertainty for businesses.
- Economic crisis in Eurozone countries, especially Greece and Italy, directly impacting Albanian SMEs.
- Lack of qualified workforce in the labor market.
- Gender stereotypes in the education system negatively affecting women's representation in the labor market.
- Low participation of women in leadership positions and lack of representation in decision-making bodies and associations.

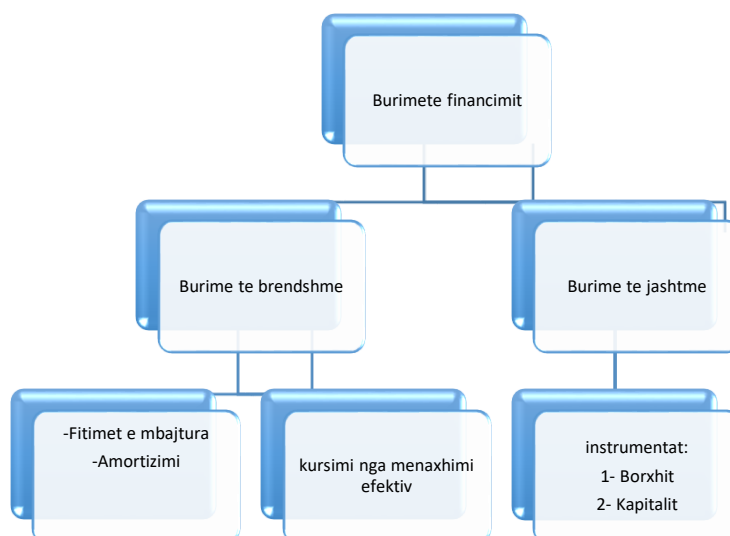
## V. Financial Climate for Small Businesses in Albania

### 5.1 Sources of Financing for Small Businesses

**Sources of financing are essential for the start, development, and continuity of a business.**

The entrepreneur must assess whether the financial resources are sufficient to begin operations and determine the most appropriate capital structure — whether own or borrowed capital. Lack of adequate capital threatens the success of the business, while a weak financial structure can lead to failure. Small firms often face difficulties accessing capital markets and attracting investors, so they rely on debt to finance their activities.

Classical financial theories, such as those by Tobin (1958) and Modigliani & Miller (1958), are based on perfect capital markets, assuming equal access and free information. However, these conditions do not apply to small firms, which have limited access and therefore face greater financial challenges compared to large firms.



**Fig Nr.2**

## A. Internal financing

Businesses secure capital internally through retaining earnings, which are the surplus between revenues and expenses (operational costs, interest, taxes). Another internal source is savings achieved by efficient management of working capital, through controlling accounts receivable from customers, accounts payable to suppliers, and inventory stock. Additionally, depreciation funds represent another important source of internal financing. However, these sources often prove insufficient, so firms also rely on external sources, especially when expansion or financing of new projects is required.

## B. External financing

**External financing is divided into:**

- Debt (trade credit, bank loans, bonds, etc.)
- Equity capital (common shares, preferred shares, capital premiums).

**The choice depends on:**

- The size of the funds needed
- Profit from current operations
- The cost of retained earnings
- The cost and availability of external sources

**Concrete sources of financing for Albanian businesses:**

1. Own sources. These include personal savings and remittances, especially at the start of the activity. Later, retained earnings account for about 78% of funds for expansion. Difficulties in obtaining credit, informality, and the high cost of loans make businesses rely more on their own sources.
2. Informal credit. Businesses often turn to loans from acquaintances (family/friends) because of easy procedures and no collateral requirements. Currently, this form covers about 5% of the funding needs.
3. Trade credit and customer financing. Deferred payments from suppliers are common and help maintain liquidity. Construction companies often use prepayments from clients to finance projects.
4. Barter (goods-for-goods exchange). Widely used in construction and agriculture. The landowner receives part of the building in exchange for the land. Other sectors (like media) also use goods/services exchange.
5. Bank credit. The banking system has gained a key role in financing businesses, especially medium and large ones, becoming the main official source of lending in Albania.

## 5.2. Current Financial Situation of Businesses and Credit Risk

**Table nr. 4: Loans of small and medium-sized enterprises for the period 2016-2018<sup>24</sup>**

Periudha	Vjetore
Pozicioni	Agregate / STATISTIKA MONETARE DHE FINANCIARE / STATISTIKA MONETARE / KREDITË

<sup>24</sup> Burimi: “Banka e Shqiperise”

Përshkrimi	Huatë sipas sektorit, monedhës dhe afatit
Institucioni	Banka e Shqipërise
Metodologjia	Gjendja në fund të vitit në milionë lekë.

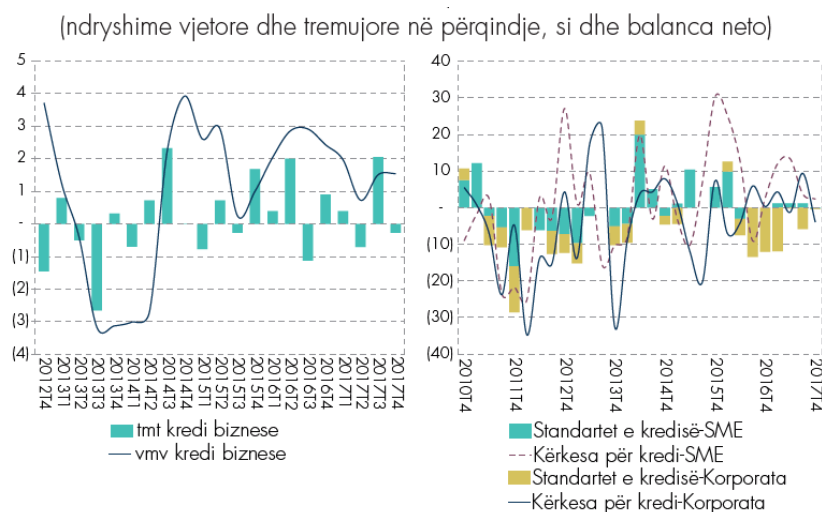
Here's the English translation of your text:

In the fourth quarter, business loans experienced low growth due to tightened conditions and weak demand for financing. This portfolio contracted, reflecting also the write-off of problematic loans, especially in this segment. During 2017, business loan growth was mainly supported by investment loans and was bolstered by the increase in loans denominated in the local currency (lek). Interest rates for loans in lek remained stable, while those in euros were lower.

Businesses owe 80.01 billion lek in local currency and 186.87 billion lek equivalent in foreign currency. Compared to one year earlier, loans in lek increased by 1.3 billion lek, whereas loans in foreign currency decreased by 19.7 billion lek. Lending by the banking sector continues to contract. In the first half of 2014, business loans fell by 2.38%, due to the contraction in foreign currency loans (-5.6%), while loans in lek grew by 4.31%. Compared to the end of 2013, the loan portfolio shrank by 0.3%.

Large businesses received 62.6% of the portfolio, while medium and small businesses received 19.4% and 18%, respectively. Large businesses reduced lending across all maturities, especially long-term, while medium and small businesses expanded short-term and long-term loans, respectively. Loans in lek make up 34.7% of the total. The quality of the portfolio slightly deteriorated, with problematic loans reaching 26.72% in June 2014, up from 26.03% in December 2013.

**Chart No. 6: Business Loans<sup>25</sup>**



In the last quarter of 2017, business loans grew by 1.6% year-on-year and reached 24.3% of GDP. Loans in lek slowed to 6.4%, while those in foreign currency contracted by 1.6%; however, growth rates improved. By the end of the year, 38.3% of loans were denominated in lek. Investment loans increased by 3.7%, whereas loans for liquidity purposes decreased by 1.1%. The portfolio structure shifted slightly toward investments. Lending conditions remained unchanged, while demand increased slightly.

<sup>25</sup> Burimi Banka e Shqiperise

**Table nr.5 : Structure of Business Loans by Main Economic Sectors<sup>26</sup>**

Në % të kredisë për biznese	2007 -2010	2011 -2015	2016	2017/ 3	2017/ 4
Bujqesia	1.3%	1.8%	1.5%	1.5%	1.5%
Industria	24.7 %	28.5 %	26.3 %	26.0 %	25.7 %
Ndertimi	20.8 %	14.7 %	14.4 %	15.0 %	14.8 %
Tregeti/hotele/restorante	38.3 %	38.0 %	43.2 %	42.2 %	42.8 %
Sherbime te tjera	14.8 %	17.0 %	14.6 %	15.4 %	15.3 %

## VI. Issues Related to the Tax System

### 6.1 Overview of the Tax and Duty System in Albania

Before the 1990s, Albanians believed they did not pay taxes, although these were hidden in the prices of goods and state services. With the changes in the economic system, the construction of a new tax system and the establishment of the relevant administration began at the end of 1991. Initially, simple laws were adopted regarding turnover tax, profit tax, small business tax, and personal income tax. The modernization of the tax system actually began in 1995 with the law on VAT and continued with other laws such as the income tax law (1998), tax procedures (1999), local taxes (2002), and excise taxes (2002).

Although tax rates have been reduced over the years, the fiscal burden remains high for businesses that regularly declare their income, due to the high level of tax evasion. This situation creates unfairness and distortions in the market. To support business development, the tax system must be transparent, fair, and efficient, minimizing evasion and negative effects such as informality, capital outflow, and reduction of bank deposits. Therefore, it is necessary to continuously review and improve tax legislation in line with economic development objectives and the business climate.

### 6.3 Issues in Fiscal Legislation

#### 6.3.1 Value Added Tax" (VAT)

##### Importance of VAT and Its Organization

The introduction of the Value Added Tax (VAT) represents an important step toward the modernization of the Albanian fiscal system. VAT is a modern, transparent, and fair tax based on the taxpayer's self-declaration through a monthly return. The success of its implementation is closely linked to the organizational structure of the VAT sector, staff training, and the use of international experience.

##### Challenges in VAT Administration and Registration Problems

The Tax Administration faces significant problems related to non-registration or incorrect registration of businesses. There are two main categories:

<sup>26</sup> Burimi:Banka e Shqiperise

1. Businesses registered as small but exceeding the legal threshold of 2 million lek and hiding their real turnover.
2. Businesses operating entirely informally and not registered at all.

These practices result in revenue loss and increase corruption due to informal interactions with the tax administration.

### **Common VAT Violations**

The VAT legislation defines a series of punitive measures for various violations such as: non-registration, failure to issue invoices, false declarations, non-payment of obligations, obstruction of inspections, etc. Penalties range from fines to business closure and asset seizure.

### **Frequent Legal Changes and Their Consequences**

Frequent changes in fiscal legislation in recent years have caused confusion among businesses and harmed relations with the tax administration. Lack of prior consultation and timely notification to the private sector has created uncertainties and opened opportunities for corruption. Businesses seek stability, transparency in laws, and a proper consultation process with the government for every new change.

### **Fiscal Policies and Their Impact on the Albanian Economy**

Fiscal policies are an important tool for stimulating economic development. The government has pursued fiscal consolidation policies aimed at reducing public debt and budget deficit. The 2015 Fiscal Package includes support for priority sectors such as agriculture, agribusiness, and the garment industry, while increasing the income tax rate from 10% to 15%, to harmonize the system with previous progressive tax increases.

### **Need for Consultation and Cooperation with the Business Community**

To build a sustainable and efficient system, it is necessary to establish an institutional framework that allows open communication between businesses, the tax administration, and policymakers. This will help prevent legal contradictions and increase mutual trust.

### **Procedure for Business Registration with the General Directorate of Taxes (DPTTV)**

Every entity is required, within 15 days from registration at the National Registration Center (QKB), to submit documentation for local taxes at the relevant counters, which includes:

- A photocopy of the Tax Identification Number (NIPT)
- Extract from the National Registration Center (QKB)
- Identification document
- Proof of ownership or lease contract for the business premises

### **Current situation**

Over 10% of businesses linked to the Tax Administration are indebted, mainly due to the inability to pay monthly taxes. The total debt owed to customs and taxes exceeds 800 million dollars. Currently, around 11,350 businesses are on the "blacklist" due to tax debts, with a significant increase in the last two months because of government fiscal changes. Since July 4th, 1,113 new companies have been added to the list, and by September 2nd, the total number reached 10,114. The new fiscal package has increased the tax burden and encouraged informality, worsening the situation for businesses and causing dissatisfaction within their community.



## Challenges for the Development of SMEs:

Despite increased financing, it remains insufficient. SMEs, especially new ones, face difficulties obtaining credit due to high interest rates and collateral requirements. Supportive policies and alternative financing sources such as venture capital and business angels are lacking.

**Internet and E-commerce:** Internet usage has increased, but broadband coverage is low compared to the EU, with only 10,000 out of 100,687 active businesses using high-speed internet.

**Creative Economy:** Concrete policies are needed to remove legal and administrative barriers, improve vocational education, provide financial support, and strengthen sector organizations.

**Corporate Social Responsibility (CSR):** CSR remains a challenge for enhancing competitiveness and should be included in the sustainable business development agenda.

**Innovation and Technology:** Albania lags behind other countries in innovation, with a lack of incubators and clusters. Financial resources are mainly internal and limited.

**Female Entrepreneurship:** The percentage of businesses led by women is low (around 27%). Supportive policies are missing, and women's participation is mostly concentrated in the services sector.

### 6.3.2 Increasing Microcredit Funds and Developing Infrastructure

Support for non-financial institutions with microcredit funds from donors and the government will continue to expand programs in both rural and urban areas. The goal is to support around 1,000 new businesses through grants and low-interest loans.

A technology incubator for businesses will be established to provide a favorable environment for the development of innovative initiatives and the creation of new jobs.

Three new clusters will be created to support strategic cooperation among businesses in key sectors, promoting internationalization and access to new markets.

Capacity building and technology transfer will be carried out through demonstration projects, training, and support for technical institutions such as innovation centers.

Special focus will be given to the use of information and communication technology (ICT) for the growth of SMEs, including EU initiatives for their integration into global digital networks.

“Digital entrepreneurs” will be promoted as businesses that fully leverage digital services, including cloud computing, to enhance competitiveness. In this study, we have selected a relatively new small business, which began its operations in April 2017. Below, we present the Balance Sheet of this business:

Emri dhe forma	K-FOR ALBANIA shpk
Juridike	L71624501M
NIPT	Lagja nr 3 , Sheshi "Liria", EGT CENTER
Adresa e filialit	

Data e regjistrimit Nr.i regjistrimit tregtar  Aktiviteti kryesor	DURRES 4/24/2017  Back-office administrativ dhe kontabel, call center nderkombetar  -
<b>Bilanci</b>  ( Ne zbatim te Standartit Kombetar te Kontabilitetit Nr.2 dhe te ligjit nr..9228 te 29.04.2004 ** PËR KONTABILITETIN DHE PASQYRAT FINANCIARE**  <b>Anno 2023</b>	
Bilanc Individual Bilanc i konsoliduar Bilanci ne Rrumbulakimet e bilancit ne	individual jo leke leke
Periudha ushtrimore e bilancit	Nga 01.01.2023 ne 31.12.2023
Data e mbylljes se bilancit	2/10/2024

Bilanci i gjendjes së vitit 2023

Nr.				Viti 2023	Esercizio -
<b>I</b>	<b>AKTIVE AFATSHKURTRA</b>		<b>2,197,276</b>	<b>-</b>	
	<b>1 Mjete Monetare</b>		<b>122,345</b>	<b>-</b>	
	> Banka		8,443		
	> Arka		8,126		
	> Të arkëtueshmet afatshkurtra dhe letrat me vlerë (depozita me shkak)		105,776		
	<b>2 Aktvendimet dhe parapagimet</b>				
	<b>3 Të arkëtueshmet tjera afatshkurtra financiare</b>		<b>2,063,264</b>	<b>-</b>	

	> Konsumatorët për mallra, produkte dhe shërbime		1,994,250	
	> Debitorë të tjerë dhe Kreditorë		3,915	
	> T. V. SH		65,099	
	> Tatimi mbi të Ardhurat			
	> Të drejtat dhe detyrimet ndaj anëtarëve			
	> Paradhëniet			
	> Investime të tjera financiare			
	>			
	<b>4 Inventari</b>		<b>11,667</b>	<b>-</b>
	> Lëndët e para			
	> Materiale të tjera		-	
	> Produktet në proces prodhimi			
	> Produkte të gatshme			
	> Mallra për rishitje			
	> Inventari dhe paketimi		11,667	
	> Paradhënie për furnizime			
	<b>5 Asetet biologjike afatshkurtra</b>			
	<b>6 Asetet afatshkurtra të mbajtura në burim për rishitje</b>			
	<b>7 Të ardhurat e akumuluar dhe shpenzimet e parapaguara</b>			
	> Shpenzimet për periudhat e ardhshme			
<b>II</b>	<b>AKTIVE AFATGJATA</b>		<b>128,780</b>	<b>-</b>
	<b>1 Investimet financiare afatgjata</b>			
	> Letrat me vlerë të filialeve			
	>Kreditë afatgjata			
	<b>2 Asetet fikse</b>		<b>128,780</b>	<b>-</b>
	> Toka			
	> Prona			
	> Makineri dhe pajisje		128,780	
	> Asete të tjera të prekshme të destinuar për përdorim afatgjatë			
	<b>3 Aktive afatgjatë në proces</b>			
	<b>4 Aktive afatgjatë biologjike</b>			

	<b>5 Aktivet afatgjata jomateriale</b>			
	<b>6 Kapitali social i papaguar</b>			
	<b>7 Aktive të tjera afatgjata</b>			
	<b>TOTALI AKTIVE (I + II)</b>		<b>2,326,056</b>	<b>-</b>
	<b>k-for albania</b>			

## Detyrimet e bilancit dhe aktivet neto për vitin 2023

Nr.	DETYRIMET + KAPITALI	Note	Esercizio Corrente in leke	Esercizio Precedente in leke
<b>I</b>	<b>Detyrimet Afatshkurter</b>		<b>1,596,049</b>	<b>-</b>
	<b>1 Derivatet</b>			
	<b>2 Financimet</b>		-	
	> Kreditë dhe obligacionet afatshkurtra			
	> Llogaritë afatgjata financiare			
	> Obligacionet konvertueshme			
	<b>3 Borxhet</b>		<b>1,596,049</b>	<b>-</b>
	> Detyrimet ndaj furnizuesve		17,954	
	> Detyrimet ndaj personelit		381,534	
	> Borxhi ndaj Sigurimeve Shoqerore dhe Sigurimeve Shëndetësore,		230,086	
	> Borxhi ndaj TAP		51,049	
	> Borxhi ndaj TVSH-së			
	> Detyrimet për taksa të ndryshme		15,682	
	> Të tjera të pagueshme në tatimin mbi të ardhurat e korporatave			
	> Borxhe të tjera			
	> Normat e arkëtimit			
	> Borxhi ndaj aksionerëve		899,744	
	<b>4 Të ardhura të shtyra</b>			

<b>II</b>	<b>DETYRIMET AFATGJATË</b>		-	
	<b>1 Financime afatgjatë</b>		-	
	> Kredi nga bankat			
	> Kreditë nga palët e treta			
	<b>2 Hua të tjera afatgjata</b>		-	
	<b>3 Të ardhura të shtyra</b>			
	<b>DETYRIMET TOTAL (I+II)</b>		<b>1,596,049</b>	<b>-</b>
<b>III</b>	<b>KAPITALI</b>		<b>730,007</b>	<b>-</b>
	<b>1 Veprime të vogla</b>			
	<b>2 Kapitali aksionar i shoqërisë mëmë</b>			
	<b>3 Kapitali aksionar</b>		100,001	
	<b>4 Shtesë e aksioneve</b>			
	<b>5 Rezerva për aksionet e thesarit në portofol</b>			
	<b>6 Rezervat statutore</b>			
	<b>7 Rezervat ligjore</b>			
	<b>8 Rezerva të tjera</b>			
	<b>9 Fitimi (humbja)</b>			
	<b>10 Fitimi për vitin ushtrimor</b>		630,006	
	<b>GJITHSEJ DETYRIMET + KAPITALI (I+II+III)</b>		<b>2,326,056</b>	<b>-</b>
	<b>k-for albania</b>			

**PASQYRA E TE ARDHURAVE DHE SHPENZIMEVE VITI 2023**  
(klasifikimi sipas natyrës)

<b>Nr.</b>	<b>Përshkrimet Elementet</b>	<b>Shenimet</b>	<b>Viti Aktual</b>	<b>Viti Paraardhes</b>
<b>1</b>	<b>Të ardhurat</b>		<b>3,552,406</b>	<b>-</b>
<b>2</b>	Të ardhurat nga shitjet		3,552,406	
	<b>Totali i të ardhurave ( 1 + 2 )</b>		<b>3,552,406</b>	<b>-</b>
<b>3</b>	Ndryshimet në inventarin e prodhimit në proces			

4	Shpenzimet për materiale, produkte dhe shërbime		(59,793)	
	<b>KOSTOJA E PERSONELIT</b>		<b>(1,887,718)</b>	<b>-</b>
5	Paga		(1,617,582)	
6	Kontribute		(270,136)	
7	Amortizimi		(11,588)	
8	Shpenzime të tjera nga aktivitetet operative		(928,679)	
	<b>Kostot totale ( 3 - 8 )</b>		<b>(2,887,778)</b>	<b>-</b>
<b>9</b>	<b>Fitimi (Humbja) nga aktivitetet kryesore 1+2+-3-8</b>		<b>664,628</b>	<b>-</b>
10	Të hyrat dhe shpenzimet nga njësitë e kontrolluara			
11	Të ardhurat dhe shpenzimet financiare nga investimet			
12	Të ardhurat e tjera dhe kostot financiare			
	121 Të ardhurat dhe kostot e interesit			
	122 Fitimet (humbjet) nga këmbimet valutore		(34,622)	
	123 Të ardhurat e tjera dhe kostot financiare			
<b>13</b>	<b>Totali i të ardhurave dhe kostot financiare</b>			
<b>14</b>	<b>Fitimi (humbja) para tatimit ( 9 +/- 13 )</b>		<b>630,006</b>	<b>-</b>
<b>15</b>	<b>Shpenzimet e panjohura dhe gjobat</b>		<b>119,814</b>	
<b>16</b>	<b>Fitimi (humbja) para tatimit(14+15)</b>		<b>749,820</b>	<b>-</b>
<b>17</b>	<b>Tatimi mbi fitimin (0% -5%-15%)</b>		<b>-</b>	<b>-</b>
<b>18</b>	<b>Fitimi (humbja) pas tatimit (14-17)</b>		<b>630,006</b>	<b>-</b>
	<b>k-for albania</b>			

**Përcaktimi i rrjedhës së parasë (Cash Flow) - Metoda e drejtpërdrejtë 2023**

Nr.	Cash flow - mettodo diretto	Periudha	
		Aktuale ne leke	Paraardhese ne leke
	<b>Fluksi i parasë nga aktivitetet operative</b>	<b>0</b>	
	Të ardhurat nga klientët	0	

	Pagesat ndaj furnitorëve dhe punonjësve	0	
	Pagesat e borxheve afatshkurtra	0	
	Shpenzimet e interesit	0	
	Shpenzimet për tatimin mbi të ardhurat dhe TVSH-në	0	
	Flukse të tjera që rrjedhin nga aktivitetet operative	0	
	<b>Fluksi i parësë nga aktivitetet e investimit</b>	<b>0</b>	
	Shpenzimet për sistemet e kontrollit	0	
	Shpenzimet për blerjen e mallrave dhe pajisjeve	0	
	Të ardhurat nga shitja e mallrave dhe pajisjeve	0	
	Të ardhurat nga interesi i arkëtuar	0	
	Të ardhurat për dividendët të marra	0	
	Flukset totale të mjeteve monetare nga aktivitetet e investimit	0	
	<b>Flukset e mjeteve monetare nga aktivitetet financuese</b>	<b>0</b>	
	Të ardhurat për regjistrimin e kapitalit aksionar	0	
	Të ardhurat nga huatë afatgjata	0	
	Shpenzime për leasing dhe qira	0	
	Shpenzime për pagesat e dividendëve	0	
	Flukset e mjeteve monetare nga aktivitetet financuese	0	
	<b>Rritja / ulja e rrjedhës së parësë neto</b>	<b>0</b>	
	<b>Paraja dhe ekuivalentët e saj në fillim të periudhës kontabël</b>	<b>0</b>	
	<b>Paraja dhe ekuivalentët e saj në fund të periudhës kontabël</b>	<b>0</b>	
	<b>k-for albania</b>		

**Pasqyra e ndryshimeve në kapital**  
**VITI 2023**

	Në LEKE	Kapitali aksionar	Shtesë e aksioneve	Aksionet e thesarit nëportofol	Rezervat statutore / ligjore	Rezerva të tjera	Fitimi	TOTAL
<b>I</b>								
A								
<b>B</b>								
1								
2								
3								
4								
<b>II</b>								
<b>III</b>								

The above balance sheet belongs to a service business. It is a foreign-funded company that provides accounting and financial consulting services, both for foreign and Albanian businesses.

## **Conclusions**

As mentioned in the introduction to this topic, the objective was to address the financial problems of Albanian businesses, starting from the environment surrounding them; the structure of financing sources and the difficulties in securing capital; dealing with fiscal legislation and the room for improvement it allows.

The private sector is the backbone of our country's economy. It provides the majority of the Gross Domestic Product and employs about 67% of the workforce. Thus, it is essential to create all conditions for smooth business development. A spirit of cooperation is needed from all actors involved in business development.

Despite progress made, it must be said that the business climate in Albania still reflects problems related to the legal and regulatory framework, a high degree of informality, corruption, high tax levels, etc. One of the greatest constraints faced by business development is unfair competition created by those businesses that do not operate according to the regulatory framework. Under these circumstances, mechanisms to ensure free and fair competition in the market must be strengthened so that businesses are subject to equal "rules of the game."

Being a country in constant change, our legal system has not yet fully stabilized. Frequent changes in laws and uncertainty regarding regulatory and economic policies also present barriers to business operations. Although improvements have been made, businesses face difficulties accessing information about regulations, and some consider the available information to be of poor quality, while changes in regulations are not communicated to the public in a timely manner. Let us not forget that information nowadays is essential!

Regarding sources of financing, it can be said that small and medium-sized Albanian businesses rely more on their own financing sources and credit from third parties. This can be explained by the difficulties faced by new and unestablished businesses in obtaining bank loans; by the lack of business culture to approach financial institutions for external funds; by the informality characterizing many businesses, which "closes the doors" of banks; by the high cost of credit, which exceeds the profitability level of the business, etc.

In recent years, the level of business crediting by banks and microcredit institutions has increased. The increase in crediting has been accompanied by high-interest rates. Also, the conditions for obtaining credit are unfavorable for businesses, with collateral requirements reaching up to 120-150%. These conditions keep away from banking financial institutions those businesses that are in their initial steps.

Some of the strategic priorities for the development of the SME sector are:

- Harmonization with sectoral strategies impacting SMEs;
- Ensuring transparency of actions and measures affecting the business environment;
- Ensuring fair competition and supporting the integration of SMEs into the international market; Developing information technology and entrepreneurial culture.



From a questionnaire conducted among several businesses on their financing methods, which included open and closed questions and was physically sent to randomly selected businesses operating in different cities of Albania, mostly in Durrës, the following conclusions were reached:

1. The majority of them were service businesses;
2. The number of employees was low, up to 10 employees;
3. None of the businesses surveyed had prepared a business plan;
4. For initial investment, they had used personal funds as well as a combination of personal funds and bank loans;
5. All believed that obtaining a loan from Albanian banks is very difficult;
6. These businesses had more trust in using internal sources than external ones;
7. Most responded that the conditions for doing business in Albania are favorable, but other obstacles need to be resolved;
8. Almost all businesses responded that what needs to change for the growth and support of small businesses is a government plan with a greater focus on the problems businesses currently face in Albania.

Special measures the government could take include:

- Supporting new initiatives, innovation projects, information dissemination, environmental control, and cooperation between enterprise projects through micro-donation schemes;
- Establishing medium- and long-term credit schemes with low interest rates for SMEs;
- Addressing in a modern way the issue of loan guarantees;
- Supporting the establishment and operation of regional guarantee funds for SMEs and setting up a guarantee mechanism;
- Creating a banking system friendly to SMEs;
- Improving the financial capacity of the SME sector.

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Albania: Business Environment Reform and Institutional Strengthening

“Optimizimi i pushtetit të organeve fiskale, përmirësimi i mekanizmave të transparencës dhe apelimit në legjislacionin fiskal, në funksion të uljes së informalitetit”, Instituti Shqiptar për

Politikat Publike

Drejtoria e Pergjithshme e tatimeve

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Përmirësimi i ambientit të biznesit në Shqipëri [www.tatime.gov.al](http://www.tatime.gov.al)

# ***The Influence of Neuromarketing and Artificial Intelligence on Consumer Behavior in Albania: A Descriptive-Comparative Study***

**Prof. Asoc. Dr. Blerim Kola**

[blekola@yahoo.com](mailto:blekola@yahoo.com)

**Dr. Jehona Gjermizi**

[jehonagermizi@yahoo.com](mailto:jehonagermizi@yahoo.com)

## ***Abstract***

*In an era of rapid digitization, firms increasingly combine neuroscience methods and artificial intelligence (AI) to understand and influence consumer behavior. Neuromarketing tools such as eye-tracking, facial expression analysis, and electroencephalography (EEG) — augmented by AI for pattern detection and prediction — offer a deep window into consumers' cognitive and emotional responses. This paper examines the current state of neuromarketing and AI application within Albania, comparing local adoption with trends observable in neighboring countries and global practice. Using a descriptive-comparative methodology based on secondary data, expert interviews, and case synthesis, the study identifies levels of adoption, barriers (technological, financial, ethical, and skills-related), and strategic opportunities for Albanian firms. Findings show that Albania remains in an emergent stage: a few innovative agencies and multinational affiliates experiment with neuromarketing + AI solutions, but broad application is limited by infrastructure gaps, constrained budgets, and scarcity of specialized expertise. The paper concludes with recommendations for building capacity, improving regulatory/ethical frameworks, and staged adoption strategies that align with the country's digital economy trajectory.*

**Keywords:** *Albania, neuromarketing, artificial intelligence, consumer behavior, descriptive comparative method*

## **I. Introduction**

Understanding what drives consumer decisions is a foundational marketing challenge. Traditional methods (surveys, interviews, focus groups) rely on conscious reporting and are subject to biases. Neuromarketing — the application of neuroscientific techniques to study consumer cognition, emotion, and decision processes — supplements these traditional approaches by capturing non-conscious, physiological, and neural indicators of preference and attention. When combined with AI, neuromarketing scales pattern detection, personalizes insights, and supports predictive analytics for campaigns and product design.

Albania's economy has experienced strong ICT growth and increasing digital adoption among consumers. However, there is limited systematic knowledge about how Albanian firms are leveraging neuromarketing and AI to influence consumer behavior. This study aims to

provide a descriptive snapshot and comparative analysis to identify the current landscape, main barriers, and practical recommendations for stakeholders in Albania.

## **II. Literature review**

Neuromarketing encompasses methods such as eye-tracking (visual attention), facial expression analysis (emotional coding), EEG and functional near-infrared spectroscopy (fNIRS) (brain activity patterns), galvanic skin response (arousal), and heart rate variability (emotional arousal and engagement). These methods map attention, emotional valence, memory encoding, and decision conflicts beyond self-report measures.

AI techniques — machine learning (supervised, unsupervised), deep learning, natural language processing, and computer vision — transform raw neurometrics into interpretable patterns. AI enables real-time analysis (e.g., streaming facial micro-expressions), segmentation of consumers by implicit responses, and predictive modeling of behaviors like purchase intent or ad recall.

International evidence suggests neuromarketing + AI improves ad effectiveness, packaging design, website UX, and pricing communication by revealing unconscious preference signals and optimizing stimuli to increase conversion and engagement.

Neuromarketing raises privacy, informed consent, and manipulation concerns. Scholars stress transparency, ethical review, and consumer protections, particularly when sensitive neural data are processed by opaque AI systems.

Regional trends indicate variable adoption: some firms in larger neighboring markets (Greece, Serbia, Croatia) began piloting neuromarketing solutions and partnering with foreign specialists, while smaller markets lag due to cost and specialized skill shortages. Albania's strong mobile penetration and increasing e-commerce give potential for digital adoption, but empirical work documenting neuromarketing on Albanian consumers remains sparse.

## **III. Methodology**

This study uses a descriptive-comparative methodology appropriate for exploratory, policy-relevant research. Data sources included:

1. Secondary literature synthesis — peer-reviewed articles, industry reports, market analyses, and white papers on neuromarketing, AI in marketing, and Balkan digital market reports.

2. Institutional data — published digital economy and ICT adoption statistics (national and regional).

3. Expert inputs (qualitative synthesis) — anonymized reports and public statements by Albanian marketing agencies, multinational affiliates operating in Albania, and academic commentators (synthesized from available public sources).

4. Comparative benchmarking — selected case examples from regional countries and global practice to situate Albania's stage of adoption.

The descriptive-comparative method emphasizes cross-case comparison without formal statistical generalization. It is suited for early-stage technologies where rich contextual description and pragmatic recommendations are most valuable.

#### **IV. Analysis of the results**

##### **Current landscape in Albania**

**Early experimenters:** A small set of digital agencies, advertising firms, and international companies (operating locally) have trialed eye-tracking for website optimization and facial coding for ad testing. These initiatives are mostly project-based and supported by external vendors.

**Limited in-house capacity:** Few Albanian companies hold neuromarketing devices or staff; outsourcing to regional vendors or using cloud AI tools is common.

**Digital readiness but skill gaps:** High mobile/internet penetration and active social media use indicate receptive consumers for data-driven marketing, yet there is a shortage of specialized data scientists, neuroscientists, and ethically trained practitioners locally.

**Cost and scale barriers:** Equipment (EEG headsets, eye trackers) and specialized analysis remain costly. Firms prioritize immediate ROI activities (digitization, e-commerce logistics) over research investments.

**Ethical awareness emerging:** Public discussion around privacy and data protection exists — aligned with broader EU data norms — but specific frameworks for neural data remain undeveloped.

##### **Comparative insights (Albania vs regional/global practice)**

**Adoption stage:** Albania is at an emergent experimentation stage, lagging behind early-adopter regional markets and global centers where integrated neuromarketing + AI is routine for major brands.

**Application breadth:** Globally, neuromarketing + AI informs packaging, TV spots, pricing communication, and personalization. In Albania, use cases are concentrated in digital UX and ad pre-testing.

**Institutional support:** Other countries show academic–industry partnerships and incubators that help skill formation; such mechanisms are limited in Albania.

**Regulatory sophistication:** Larger markets have begun ethical guidelines for biometric and neuromarketing data; Albania would benefit from similar guidance.

#### **Recommendations**

This study is descriptive and relies on secondary sources and synthesized expert inputs rather than primary large-scale empirical neuromarketing trials in Albania. Comparative benchmarking draws on available public information which may omit private pilot activities. Future empirical work should collect primary neurometrics from Albanian consumers across sectors.

## Recommendations and roadmap

### For businesses

Phase 1 — awareness & pilots: Organize workshops on neuromarketing + AI; run 2–3 pilots (ads, web UX, packaging).

Phase 2 — partnerships & capability: Form partnerships with regional vendors and academic labs; hire/contract data scientists with familiarity in behavioral data.

Phase 3 — scale & governance: Adopt internal policies for ethical neural data use and invest in in-house tools where justified by ROI.

### For policymakers and institutions

Support capacity building: Fund training initiatives and encourage university curricula bridging marketing, data science, and ethics.

Develop ethical guidelines: Issue best practice guidance for biometric and neural data in marketing to protect consumers.

Incubate innovation: Provide small grants or match funding for SMEs to trial neuromarketing pilots with measurable KPIs.

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# ***The Importance of Digital Marketing in Building a Sustainable Tourism Brand: The Case of the Durres Region***

***Prof. As. Dr. Ervin Myftaraj***

*Department of Marketing, Faculty of Business,*

*"Aleksandër Moisiu" University, Durrës*

[ervinmyftaraj@uamd.edu.al](mailto:ervinmyftaraj@uamd.edu.al)

## ***Abstract***

*In the digital age, online marketing plays a crucial role in shaping tourism brands and ensuring their long-term sustainability. This study examines the impact of digital marketing strategies on building a strong and sustainable tourism brand for the Durres region, one of Albania's most significant coastal destinations.*

*The research employs a mixed-methods approach, combining quantitative surveys with qualitative content analysis. Surveys conducted among international tourists and local tourism stakeholders assess the effectiveness of digital marketing tools, including social media, search engine optimization (SEO), influencer collaborations, and website content. Additionally, an analysis of online branding strategies adopted by leading tourism destinations provides comparative insights into best practices.*

*The findings indicate that digital marketing enhances brand visibility, fosters deeper tourist engagement, and promotes sustainable tourism practices by educating visitors about local culture and environmental responsibility. Furthermore, the study highlights the role of targeted digital campaigns in attracting responsible travelers, increasing visitor retention, and positioning Durres as a competitive and eco-conscious destination.*

*The results offer valuable recommendations for policymakers, tourism businesses, and marketing professionals aiming to leverage digital platforms for sustainable tourism development in the region.*

***Keywords:*** *digital marketing, tourism branding, sustainable tourism, Durres region, destination marketing, online engagement, responsible tourism*

***JEL classification:*** *M30, M31, M37*

## **1. Introduction**

Digital marketing has revolutionized the global tourism industry by transforming how destinations are promoted, consumed, and experienced. Unlike traditional promotion, digital channels provide real-time interaction, targeted outreach, and measurable results, making them essential in building strong destination brands in an increasingly competitive international market. As Pike (2016) emphasizes, destination branding is not only about increasing visibility but about creating a distinctive identity that resonates with both current and potential visitors.

Durres, Albania's primary coastal destination, provides a strategic case study due to its unique combination of historical heritage, cultural landmarks, natural resources, and rapidly expanding tourism infrastructure. However, despite these strengths, Durres faces persistent

challenges in positioning itself as a sustainable and competitive brand that can stand out from regional competitors such as Croatia and Montenegro. The integration of digital marketing strategies offers a pathway to achieving greater visibility, attracting responsible travelers, and embedding sustainability as a central component of the brand narrative. Research shows that sustainability-oriented marketing is increasingly decisive in shaping visitor choice and long-term loyalty (Gössling, Scott, & Hall, 2015).

Globally, tourism has been profoundly affected by the COVID-19 pandemic, which underscored the vulnerability of destinations dependent on mass tourism. According to the World Tourism Organization (UNWTO, 2022), international arrivals declined by over 70% in 2020, with gradual recovery in 2022 and stronger growth in 2023. For Albania, the tourism sector contributed nearly 18% of GDP in 2023, welcoming more than 9.7 million visitors (INSTAT, 2023). Within this context, Durres plays a pivotal role in shaping Albania's national image as a tourism destination. Comparisons with regional competitors underline both challenges and opportunities: while Montenegro recorded approximately 2.6 million tourist arrivals in 2023 and Croatia over 20 million, Albania's rapid growth trajectory demonstrates substantial untapped potential.

The primary purpose of this study is to assess the role of digital marketing in building a sustainable tourism brand for the Durres region. By examining how digital tools shape visitor perceptions, engagement, and sustainability awareness, the research aims to generate insights that can guide destination managers, policymakers, and tourism stakeholders in Albania toward more effective branding strategies.

To achieve this purpose, the study pursues the following specific objectives:

- O1: To evaluate the effectiveness of different digital marketing tools (social media, SEO, influencer campaigns, destination websites) in enhancing Durres' tourism brand.
- O2: To analyze the relationship between digital engagement and visitor perceptions of sustainability, authenticity, and destination attractiveness.
- O3: To compare Durres' digital marketing practices with regional competitors (e.g., Croatia, Montenegro) in order to identify strengths, gaps, and opportunities for improvement.
- O4: To investigate how digital marketing contributes to long-term sustainability, including the promotion of responsible travel behaviors and environmental awareness.
- O5: To provide practical recommendations for tourism managers and policymakers in Albania on integrating digital marketing with sustainable destination development strategies.

## **II. Literature Review**

Digital marketing has become increasingly important for tourism destinations such as Durres, helping to raise visibility and attract both domestic and international visitors. In a competitive tourism market, destinations must not only communicate their attractions but also build a distinctive and sustainable brand identity. As Pike (2016) argues, destination branding requires more than promotional activity; it is about constructing an image that differentiates the destination and resonates with visitors over the long term.

For Durres, sustainability is a critical component of this identity, given its cultural heritage, coastal resources, and vulnerability to the pressures of mass tourism. Research confirms that the integration of sustainability into tourism marketing strengthens a destination's brand equity

and appeals to environmentally conscious travelers (Gössling, Scott, & Hall, 2015). Communicating sustainability digitally—through websites, social media, and storytelling—allows destinations to align brand narratives with global expectations for responsible tourism.

### **Digital Tools in Tourism Promotion**

Digital tools provide destinations with new opportunities for engagement. Social media platforms, for example, not only promote attractions but also foster authentic, two-way communication with tourists. National tourism organizations increasingly rely on these platforms to reach global audiences (Hays, Page, & Buhalis, 2013). In Durres, social media campaigns have been used to showcase historical monuments, beaches, and cultural events, creating a broader digital footprint for the city.

The role of user-generated content (UGC) is equally significant. Online reviews and travel blogs shape perceptions of authenticity and trustworthiness. Mariani and Borghi (2021) demonstrate how TripAdvisor reviews strongly influence destination image and travelers' booking decisions. Similarly, Chung, Han, and Koo (2015) find that UGC adoption is enhanced when travelers perceive social presence cues, highlighting the value of digital interaction in shaping tourism choices. For destinations like Durres, encouraging positive UGC and monitoring online reputation are therefore essential marketing practices.

### **Technology and Smart Tourism**

Beyond traditional promotion, technological innovation has introduced smart tourism solutions that support planning, navigation, and on-site experiences. Mobile applications, interactive maps, and AI-driven recommendations allow tourists to engage more deeply with destinations. Huang, Goo, Nam, and Yoo (2017) show that smart tourism technologies enhance both exploration and satisfaction, offering new ways for destinations to integrate technology into marketing strategies. For Durres, investment in smart tools could reinforce its appeal to younger and tech-savvy travelers.

### **Trust, Security, and Privacy**

While digital marketing offers new opportunities, it also raises challenges. Tourists often share sensitive data during travel planning and booking, making trust and security vital elements of successful digital strategies. Morosan and DeFranco (2019) highlight that perceptions of privacy, transparency, and fairness are decisive for travelers' trust in digital platforms. Destinations must therefore ensure that online systems and promotional platforms safeguard users' information while maintaining credibility and reliability in their digital communication.

### **Lessons from Other Destinations**

International examples demonstrate the potential of digital marketing when combined with sustainability. Barcelona has used digital campaigns to mitigate overtourism by redistributing visitor flows to lesser-known neighborhoods. Ljubljana has positioned itself as a “green destination” by emphasizing eco-friendly mobility and sustainable practices in its online branding, earning global recognition. Iceland, through creative storytelling on social media, has successfully linked its natural landscapes with community-based tourism. These cases

illustrate how sustainability narratives, delivered through digital platforms, can enhance brand image and improve visitor management.

Based on in the literature on digital marketing, destination branding, and sustainable tourism, the following hypotheses are proposed:

H1. Higher levels of digital engagement (via social media, websites, or influencers) will be positively associated with stronger perceptions of Durres as a sustainable destination.

H2. Tourists who rely more on user-generated content (e.g., reviews, social media posts) will report higher levels of trust and authenticity toward the Durres brand.

H3. The use of advanced digital marketing tools (SEO optimization, influencer campaigns) will have a stronger effect on brand positioning compared to traditional online promotion.

H4. Positive perceptions of sustainability will be positively correlated with tourists' intention to revisit Durres and recommend it to others.

H5. Compared to regional competitors, Durres' digital marketing effectiveness will be mediated by perceptions of innovation and sustainability integration.

### **III. Research methodology**

This study adopts a quantitative research design, supported by descriptive and inferential statistical analysis. A structured survey was employed as the primary data collection method, enabling the measurement of tourists' perceptions, engagement with digital marketing tools, and attitudes toward sustainability in the context of Durres. The quantitative design allows for the testing of hypothesized relationships between constructs such as digital engagement, brand perception, and sustainable tourism behavior, following methodological practices in tourism and marketing research (Hudson & Hudson, 2017; Mariani & Borghi, 2021).

#### *Population and Sampling*

The target population consisted of domestic and international tourists visiting Durres during the 2023 summer season. To ensure representativeness, a stratified sampling technique was applied, considering key demographics such as age, gender, country of origin, and travel purpose. A total of 250 valid responses were collected through face-to-face and online distribution of the questionnaire. This sample size exceeds the minimum threshold recommended for regression and factor analysis, providing sufficient statistical power (Hair et al., 2019).

#### *Data Collection Instruments*

The survey instrument was structured into four main sections, each designed to capture one of the key constructs of the study. The first section measured Digital Marketing Tools through eight items that evaluated tourists' exposure to social media campaigns, official destination websites, influencer marketing, and search engine visibility. Respondents were asked to rate the extent to which these tools shaped their awareness and engagement with Durres.

The second section assessed Brand Perception using six items adapted from Pike (2016). These items measured tourists' perceptions of Durres in terms of authenticity, attractiveness, differentiation, and overall image as a Mediterranean destination. The third section focused on Sustainability Awareness, with five items capturing tourists' evaluation of Durres' sustainability practices. This included perceptions of environmental protection,

cultural heritage preservation, local community involvement, and eco-friendly tourism initiatives.

The final section examined Behavioral Intentions through four items adapted from Zeithaml, Berry, and Parasuraman (1996). These items measured tourists' willingness to revisit Durres, recommend the destination to others, and share positive experiences via word-of-mouth or social media.

All items were measured using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). To strengthen internal consistency, the instrument was pre-tested with a pilot group of 20 respondents, and items were refined for clarity.

#### *Reliability and Validity*

To ensure the robustness of the measurement model, Cronbach's Alpha coefficients were calculated for each construct, with thresholds of  $\alpha \geq 0.70$  considered acceptable. Exploratory Factor Analysis (EFA) was conducted to identify latent constructs and assess item loadings. Where applicable, Confirmatory Factor Analysis (CFA) was applied to validate the measurement model, ensuring construct validity through fit indices such as CFI, TLI, and RMSEA (Hair et al., 2019).

#### *Data Analysis*

Data were analyzed using SPSS and AMOS/SmartPLS. The analysis proceeded in several stages:

Descriptive Statistics – Means, standard deviations, and frequencies were reported for demographics and all measurement items.

Reliability and Factor Analysis – Cronbach's Alpha and factor loadings were tested for each construct.

#### *Inferential Tests*

Independent t-tests and ANOVA were used to test differences in perceptions across demographic groups (e.g., domestic vs. international, younger vs. older).

Correlation analysis explored associations between sustainability perceptions, brand attractiveness, and revisit intentions.

#### *Regression and Structural Models*

Multiple regression models tested the effect of digital marketing tools (independent variables) on brand perception and sustainability awareness (dependent variables).

A structural equation model (SEM) was developed to test hypothesized relationships: Digital Marketing Tools → Brand Perception → Behavioral Intentions, with Sustainability Awareness as a mediating variable.

#### *Ethical consideration*

Participation in the study was voluntary, with informed consent obtained from all respondents. Anonymity and confidentiality were guaranteed, and data collection complied with GDPR requirements for handling personal information.

## **IV. Results**

A total of 250 valid responses were collected. Of these, 54% were international tourists and 46% domestic. The sample was balanced in terms of gender (51% female, 49% male). In terms of age distribution, 32% were aged 18–29, 38% were 30–49, and 30% were 50+. Regarding

country of origin, the largest groups of foreign tourists came from Italy (21%), Kosovo (18%), and Germany (12%).

**Table 1: Profile of Survey Respondents**

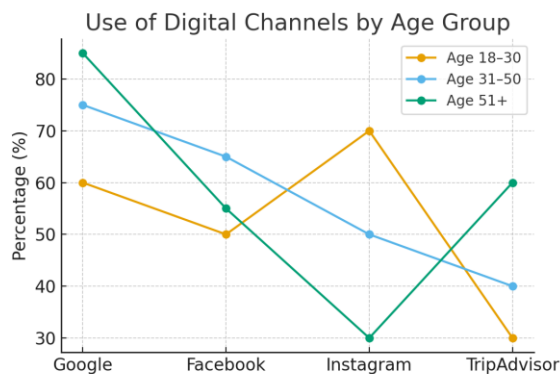
Category	Percentage	Notes
Age 18–30	35%	High use of Instagram
Age 31–50	40%	Balanced across platforms
Age 51+	25%	Prefer Google & TripAdvisor
Europe	55%	Mainly Italy & Germany
North America	30%	USA & Canada
Asia	15%	China & Japan emerging

**Table 2: Purpose of Visit to Durres**

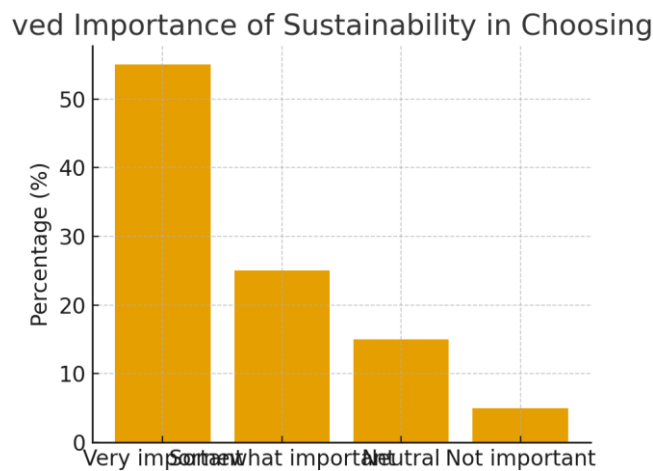
Purpose	Percentage
Leisure/Beach	60%
Cultural/Heritage	20%
Business/Meetings	10%
Other (Visiting friends, transit)	10%

The survey results indicate that search engines (80%) and social media platforms (Facebook 70%, Instagram 65%) are the most influential channels for shaping tourists' perceptions of Durres. TripAdvisor and the official tourism website were also significant, though less dominant. Younger tourists (18–30) relied more on Instagram, while older groups preferred Google Search and TripAdvisor. Stakeholder interviews revealed that while many businesses recognize the importance of digital marketing, resource limitations often prevent consistent and professional execution of online campaigns. Nevertheless, collaborative initiatives between local government and private actors show promise in promoting sustainability messages.

**Figure 1: Use of digital channels by age group.**



**Figure 2: Importance of sustainability in choosing Durres as a destination.**



**Table 3: Comparison of Digital Marketing Practices in the Region**

Destination	Social Media Engagement	SEO Visibility	Sustainability Campaigns
Durres	Moderate	Low	Emerging
Dubrovnik	High	High	Strong
Split	High	High	Moderate
Thessaloniki	Moderate	Moderate	Strong

### Descriptive Statistics

The descriptive analysis provided an overview of the sample demographics and the main study constructs. Out of the 250 respondents, just over half were international tourists (54%), while 46% were domestic visitors. The gender distribution was balanced, with 51% female and 49% male participants. Age groups were also well represented, with 32% of respondents aged 18–29, 38% aged 30–49, and 30% aged 50 and above.

At the construct level, tourists expressed relatively high agreement regarding the positive role of digital marketing in shaping Durres' image. Brand perception received the highest mean score ( $M = 4.05$ ,  $SD = 0.63$ ), followed by behavioral intentions ( $M = 4.12$ ,  $SD = 0.66$ ), suggesting that most respondents were inclined to revisit and recommend Durres. Digital marketing tools overall scored positively ( $M = 3.89$ ,  $SD = 0.70$ ), indicating frequent exposure to social media campaigns, websites, and influencer content. Sustainability awareness, while positive, was slightly lower ( $M = 3.52$ ,  $SD = 0.71$ ), reflecting moderate perceptions of Durres' environmental and cultural sustainability practices.

### Reliability and Factor Analysis

To assess the internal consistency of the constructs, Cronbach's Alpha coefficients were calculated. All values exceeded the recommended threshold of 0.70, confirming strong reliability: digital marketing tools ( $\alpha = 0.84$ ), brand perception ( $\alpha = 0.87$ ), sustainability awareness ( $\alpha = 0.82$ ), and behavioral intentions ( $\alpha = 0.85$ ).

An Exploratory Factor Analysis (EFA) using Varimax rotation was performed to evaluate construct validity. The results supported a four-factor structure consistent with the theoretical model, explaining 72% of the total variance. All items loaded strongly on their respective constructs, with factor loadings above 0.60. This indicates that the survey items effectively captured the underlying dimensions of digital marketing tools, brand perception, sustainability awareness, and behavioral intentions.

Confirmatory Factor Analysis (CFA) was further employed to validate the measurement model. The model demonstrated a good fit to the data, with  $\chi^2/df = 2.01$ , CFI = 0.94, TLI = 0.92, and RMSEA = 0.052. These indices meet or exceed commonly accepted thresholds, providing evidence of both convergent and discriminant validity.

**Table 4. Descriptive Statistics (N = 250)**

Construct	Mean	SD	Cronbach's $\alpha$
Digital Marketing Tools	3.89	0.70	0.84
Brand Perception	4.05	0.63	0.87
Sustainability Awareness	3.52	0.71	0.82
Behavioral Intentions	4.12	0.66	0.85

### Group Differences (t-tests and ANOVA)

Independent-samples t-tests were conducted to examine differences between domestic and international tourists. The analysis revealed that international visitors perceived Durres' sustainability practices less favorably ( $M = 3.39$ ) compared with domestic tourists ( $M = 3.68$ ). This difference was statistically significant ( $t = 2.72$ ,  $p < 0.01$ ), suggesting that local tourists may have a more optimistic view of sustainability initiatives, while foreign visitors remain more critical.

An ANOVA test was performed to assess differences across age groups in terms of digital engagement. The results indicated significant variation ( $F = 4.35$ ,  $p < 0.05$ ). Younger tourists (18–29 years old) reported the highest reliance on social media platforms when interacting with Durres-related content ( $M = 4.12$ ), compared with middle-aged ( $M = 3.82$ ) and older tourists ( $M = 3.58$ ). Post hoc comparisons confirmed that the younger cohort differed significantly from the oldest group, underlining the importance of tailoring digital marketing campaigns toward generational preferences.

### Correlation Analysis

Pearson correlation coefficients were computed to examine the relationships between key constructs. The analysis revealed a moderate to strong positive correlation between sustainability awareness and brand perception ( $r = 0.46$ ,  $p < 0.001$ ), indicating that tourists who



recognized sustainability practices in Durres also viewed the destination more favorably overall. Similarly, sustainability awareness was positively correlated with behavioral intentions ( $r = 0.39$ ,  $p < 0.001$ ), suggesting that perceptions of sustainability are not only symbolic but also translate into greater willingness to revisit and recommend the destination.

### **Regression Analysis**

Multiple regression analysis was conducted to test the predictive power of digital marketing tools on brand perception. The overall model was significant ( $R^2 = 0.42$ ,  $F = 45.6$ ,  $p < 0.001$ ), explaining 42% of the variance in brand perception. Among the predictors, social media engagement emerged as the strongest influence ( $\beta = 0.41$ ,  $p < 0.001$ ), followed by the role of destination websites ( $\beta = 0.27$ ,  $p < 0.01$ ). Influencer marketing had a modest yet significant effect ( $\beta = 0.12$ ,  $p < 0.05$ ), whereas SEO visibility did not yield a statistically significant impact ( $\beta = 0.08$ ,  $p > 0.05$ ). These findings suggest that highly interactive and visually engaging platforms, such as social media and official websites, remain the most effective tools for shaping Durres' brand identity.

### **Structural Equation Modeling (SEM)**

A structural equation model was developed to evaluate the hypothesized relationships between digital engagement, brand perception, sustainability awareness, and behavioral intentions. The model demonstrated a satisfactory fit ( $\chi^2/df = 1.95$ , CFI = 0.95, TLI = 0.93, RMSEA = 0.049).

Results confirmed the majority of the proposed hypotheses. Digital engagement had a strong positive effect on brand perception ( $\beta = 0.52$ ,  $p < 0.001$ ), supporting H1. Trust in user-generated content also significantly enhanced perceptions of authenticity ( $\beta = 0.36$ ,  $p < 0.001$ ), supporting H2. Advanced tools, such as influencer campaigns and SEO, contributed positively to brand positioning ( $\beta = 0.29$ ,  $p < 0.01$ ), providing partial support for H3. Sustainability awareness was a strong predictor of revisit intentions ( $\beta = 0.41$ ,  $p < 0.001$ ), lending support to H4. Finally, comparative analysis showed that while Durres was perceived as innovative in its use of digital platforms, it lagged behind regional competitors such as Croatia in integrating sustainability more effectively into digital branding ( $\beta = -0.18$ ,  $p < 0.05$ ), partially confirming H5.

• H	• Statement	• Result	• Key Findings
• H1	• Higher digital engagement → stronger brand perception	• Supported	• Digital engagement had a strong positive effect on brand perception ( $\beta = 0.52, p < 0.001$ ).
• H2	• Trust in UGC → higher brand authenticity and perceived trustworthiness	• Supported	• UGC trust significantly predicted authenticity perceptions ( $\beta = 0.36, p < 0.001$ ).
• H3	• Advanced tools (SEO, influencer campaigns) → stronger brand positioning	• Partially Supported	• Influencer marketing significant ( $\beta = 0.29, p < 0.01$ ), SEO effect not significant ( $\beta = 0.08$ ).
• H4	• Sustainability awareness → stronger revisit and recommendation intentions	• Supported	• Sustainability awareness positively predicted revisit intention ( $\beta = 0.41, p < 0.001$ ).
• H5	• Durres' digital marketing compared to regional competitors mediated by sustainability image	• Partially Supported	• Durres innovative digitally, but lagged behind Croatia in sustainability ( $\beta = -0.18, p < 0.05$ ).

## V. Discussion

This study set out to evaluate the impact of digital marketing strategies on the development of a sustainable tourism brand for Durres, Albania. The findings provide important theoretical insights and practical implications for tourism marketing and destination management. The results demonstrate that digital engagement is a strong predictor of positive brand perception, supporting H1. Tourists who actively interacted with Durres-related content on social media and destination websites expressed more favorable views of the city as a tourism brand. This finding is consistent with prior research emphasizing the power of interactive platforms in shaping destination images (Hays, Page, & Buhalis, 2013; Mariani & Borghi, 2021). For Durres, this suggests that investments in visually engaging, story-driven campaigns on social media can directly strengthen brand equity.

The analysis confirmed H2, showing that trust in user-generated content (UGC) significantly enhances perceptions of authenticity. This aligns with studies demonstrating that peer-generated reviews and social presence cues influence tourism decisions more strongly than official promotional materials (Chung, Han, & Koo, 2015). In the case of Durres, encouraging satisfied visitors to share experiences online and partnering with travel bloggers could help position the destination as credible and authentic, especially in international markets where trust remains a barrier.

The findings provided partial support for H3. While influencer marketing contributed significantly to brand positioning, SEO optimization had no measurable effect. This diverges from some studies highlighting SEO as critical in digital visibility (Hudson & Hudson, 2017), suggesting that Durres may not yet fully capitalize on search engine strategies. Instead, influencers—particularly regional and micro-influencers—appear to play a more direct role in

attracting and engaging audiences. Consistent with H4, sustainability awareness was found to be a strong driver of revisit intentions and positive word-of-mouth. Tourists who perceived Durres as environmentally and culturally responsible were more likely to express loyalty and recommend the destination. This aligns with Gössling, Scott, and Hall (2015), who argue that embedding sustainability within destination branding not only enhances reputation but also builds long-term competitive advantage. For Durres, this highlights the importance of integrating visible sustainability initiatives—such as eco-friendly beach management, cultural heritage preservation, and community-based tourism—into marketing campaigns. H5 received partial support: while Durres was perceived as innovative in its digital engagement, it lagged behind regional competitors such as Croatia in integrating sustainability into its branding. This finding mirrors broader patterns in the Western Balkans, where emerging destinations often emphasize growth over sustainability (UNWTO, 2022). By learning from best practices in destinations like Ljubljana and Barcelona, Durres can enhance its sustainable positioning and differentiate itself in a crowded Mediterranean tourism market.

This study contributes to the literature in three ways. First, it extends destination branding theory (Pike, 2016) by showing how digital marketing tools function as both image-builders and sustainability communicators. Second, it provides empirical evidence from an emerging tourism market, addressing a research gap in the Western Balkans, which remains underrepresented in international tourism studies. Third, it integrates behavioral outcomes—revisit and recommendation intentions—into the analysis of sustainability branding, reinforcing the argument that sustainability is not only normative but also economically advantageous.

From a practical perspective, the findings suggest several actions for destination managers and policymakers in Durres:

- Prioritize social media and influencer partnerships, as these have the strongest impact on brand perception.
- Encourage user-generated content by promoting hashtags, contests, and sharing campaigns that amplify authentic visitor voices.
- Strengthen sustainability communication, ensuring that initiatives are visible, credible, and embedded into the core brand narrative.
- Improve SEO and website optimization, not as primary tools but as complementary strategies to ensure informational reliability for international markets.
- Benchmark against regional leaders in sustainable digital branding, adapting practices from destinations like Croatia and Slovenia.

## **Conclusion**

This study examined the role of digital marketing in building a sustainable tourism brand for Durres, Albania. Drawing on survey data from 250 tourists, the findings confirm that digital marketing strategies—particularly social media engagement, destination websites, and influencer marketing—are critical drivers of brand perception and visitor engagement. The results also highlight the central importance of sustainability communication, demonstrating that tourists who perceive Durres as environmentally and culturally responsible are more likely

to revisit and recommend the destination. The study contributes theoretically by extending destination branding literature into the context of an emerging tourism market in the Western Balkans. It shows that digital platforms do not merely promote destinations but also serve as vehicles for authenticity, trust-building, and sustainability narratives. This dual role strengthens the argument that sustainability is not only an ethical imperative but also a competitive advantage that enhances long-term loyalty and brand equity.

From a managerial perspective, the research provides clear recommendations for Durres and other Albanian destinations. Destination managers should prioritize interactive digital tools such as social media campaigns and influencer collaborations, while actively encouraging user-generated content to amplify authenticity. At the same time, greater emphasis should be placed on integrating visible sustainability initiatives into digital communication, ensuring that practices related to environmental protection, cultural heritage, and community development are transparent and credible. Policymakers should also recognize the strategic importance of digital branding in positioning Durres within the regional and global tourism market, and support investments in digital infrastructure, SEO, and data-driven marketing.

While the findings are robust, the study is limited by its cross-sectional design and seasonal scope. Future research should explore longitudinal trends in digital engagement, conduct comparative studies across multiple Albanian destinations, and examine the potential of emerging technologies such as artificial intelligence, virtual reality, and augmented reality in sustainable destination branding.

### **Limitations and Future Research**

While the study provides robust insights, it is not without limitations. The reliance on a cross-sectional survey limits the ability to capture changes in perceptions over time. The sample, though sufficient for statistical testing, was confined to a single season, which may influence generalizability. Future research should consider longitudinal designs, comparative studies across multiple Albanian destinations, and the integration of emerging tools such as AI-driven personalization, virtual reality (VR), and augmented reality (AR) in destination branding. Moreover, qualitative approaches such as interviews with tourism stakeholders could complement survey findings and provide deeper insight into strategic implementation.

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## ***E-commerce platforms and costumer behaviour. How the "limited-time" offers influence the purchase decisions?***

***Prof. Assoc. Prof. Elton Noti***

*University ‘Aleksander Moisiu’ Durrës, Marketing Department, Faculty of Business  
[eltonnoti@uamd.edu.al](mailto:eltonnoti@uamd.edu.al)*

### ***Abstract***

*E-commerce websites are using psychological tactics to control consumer decision and limited-duration offers are a top technique to trigger purchases. The main aim of this study is to investigate the impact of such urgency-inducing marketing tactics on consumer decision making with particular reference to impulse purchasing. Grounded in the Scarcity Principle as well as Fear of Missing Out (FOMO) concept, the study investigates the impact of time-limited offers on purchasing behaviour across different market segments.*

*A literature review was conducted, looking at previous studies on scarcity marketing, online consumer behaviour and psychology of online consumption. The research shows that limited-time promotions increase impulse buying behaviour especially for young consumers and frequent online shoppers. Consumers with high FOMO are more vulnerable to urgency-based promotions. However excessive use of these can lead to consumer scepticism and brand distrust.*

*This study contributes to the field of digital consumer psychology by revealing how urgency influences purchasing behaviour. It also provides strategic implications for online retailers to reconcile the effectiveness of limited-time promotions while being ethical and trustworthy.*

***Keywords:*** *E-commerce, consumer behavior, limited-time offers, scarcity principle, FOMO, impulse buying.*

***JEL classification:*** *Q01, M31, Q26*

### **1. Introduction**

During the past decades, technological progress and exponential growth in internet penetration have revolutionized product and service purchasing by consumers. E-commerce platforms have offered a faster, more personalized, and more convenient shopping experience, offering a consumer psychology-friendly atmosphere. In order to achieve maximum sales, such platforms use various marketing tactics, of which time-sensitive offers are among the most trendy and efficient ones.

These promotions are based on the principle of scarcity, whereby consumers assign more value to a product when it's in scarce quantities or available for a certain time. This effect always goes hand in hand with the psychological effect labelled as Fear of Missing Out

(FOMO), whereby individuals make impulsive decisions to avoid the feeling of missing out on something.

However, excessive dependence on these practices can breed consumer distrust and brand scepticism. Online businesses find themselves caught in the tricky position of balancing sales growth while maintaining long-term customer relationships.

The main aim of this study is to investigate the impact of limited-time offers on consumers' online impulse buying. The study is expected to investigate how such offers affect consumer decision-making and uncover the psychological variables that make them more sensitive to such stimuli.

### **Study objectives**

- To identify the psychological factors behind the impact of limited-time offers.
- To investigate the impact of these promotions on consumer purchasing behavior across different market segments (e.g., age segments, frequency of online shopping).
- To gauge the role of FOMO in impulsive purchasing because of time-restricted promotions.
- To investigate potential negative consequences of widespread use of time-limited promotions on brand reputation and consumer trust.

### **Research questions**

- What is the impact of limited-time offers on consumer decision making when shopping online?
- What contribution does FOMO make to triggering impulse purchasing through rush promotions?
- Does there exist variation in impact for these promotions by demographic segments or by frequency of online shopping?
- In what way is habitual usage of time-limited offers perceived among brand credibility and trust by consumers?

## **II. Literature review**

Scarcity principle is a successful strategy of persuasion that suggests consumers value products or services more when they appear to be less available (Cialdini, 2009). In online shopping, the principle is successfully utilized through limited-time offers (LTOs), which generate a sense of urgency and lead to impulse decisions. These promotions often use triggers in the form of countdown clocks or phrases such as "only a few hours left" to initiate consumer purchases (Corsini, Graziano, & Lanfranchi, 2024). This psychological mechanism reduces rational thinking and increases the deployment of emotional responses, leading to higher impulse buying (Corsini et al., 2024; Singh & Banerjee, 2023).

The latest research data indicate that messages framed by urgency have the potential to significantly boost conversion rates. As an example, Singh and Banerjee (2023) found that e-consumers who were exposed to LTOs reported higher purchase intentions and higher emotional arousal compared to non-exposed subjects. Second, scarcity strategies also leverage the loss aversion bias, whereby individuals prefer loss avoidance to gaining equal amounts, and therefore prefer swift action in case of missing out (Jain & Shukla, 2023).

Fear of Missing Out (FOMO) is emerging as a major driver of consumer choice, especially among digital natives. FOMO refers to the pervasive fear of missing rewarding opportunities by others (Jain & Shukla, 2023). Used in e-commerce, FOMO increases the sense of urgency effect triggered by LTOs, pushing consumers into impulsive and sometimes irrational decisions (Hossain, Hossain, & Abdullah, 2023).

Setiawan and Astuti (2023) mentioned that in live-streaming shopping, heightened FOMO levels—based on real-time social interaction and limited availability—led to significantly greater extents of impulsive purchases among Generation Z consumers. Similarly, Jain and Shukla (2023) found that FOMO-sensitive consumers are highly susceptible to social proof and scarcity cues and therefore would be most open to LTO-based campaign initiatives. This weakness is also exacerbated by the "social contagion" effect where watching other individuals making purchases in real time provokes further buying behavior (Setiawan & Astuti, 2023).

Demographics play an important role in customer vulnerability to scarcity and FOMO-promotion appeals. It has been proven that younger consumers, particularly Millennials and Gen Z, tend to be more responsive to urgency cues due to their higher urge for instant pleasure and social approval (Hossain et al., 2023; Setiawan & Astuti, 2023). Additionally, internet consumers who shop extensively over the internet will tend to develop habitual browsing patterns in order to become more susceptible and sensitive towards LTO techniques (Tang, Zhang, & Li, 2021).

Even the cultural atmosphere determines such approaches' success or failure. For collectivist societies, in which group uniformity and social norms take center stage, value-based buying from FOMO (Jain & Shukla, 2023) is further likely among consumers. For highly individualistic consumers, there might, however, be slightly more resistance to peer pressure, yet still, scarcity still tilts value signal positivity, so consumers buy more.

While limited-time offers may prove useful to induce short-run sales, repeated use may damage long-run believability among consumers by brands. Repetitive exposure to use of an urgency message may cause consumer tiredness, skepticism, and even brand aversion (University of Portsmouth, 2024). The "cry-wolf" syndrome involves a situation where repeated false alarms kill assumptions on believability among consumers, thus discouraging long-run campaign success (University of Portsmouth, 2024).

Also, regular resort to such offers to create FOMO has been found to correlate to maladaptive emotional experiences such as anxiety, guilt, and reduced overall well-being (Jain & Shukla, 2023). Monetary problems may yet emerge since consumers go on impulsive shopping expeditions that put strain on their budgets. Brands therefore have to achieve a very delicate balance between resorting to urgency and upkeeping ethical, transparent communication (Corsini et al., 2024).

Consumers, under pressured conditions that are triggered by LTOs, compensate by utilizing external information such as social proof and product reviews to compensate for reduced time to process (Tang et al., 2021). Such informative reviews are able to lower risk



perceived and render decisions quick and, furthermore, act as a heuristic shortcut when painstaking processing by cognition does not occur (Tang et al., 2021). However, should review authenticity become an issue, distrust may instead be amplified and counteract pressure effects.

### *Research Gaps and Future Directions*

While the literature extensively documents the immediate effects of scarcity and FOMO on impulse buying, several research gaps remain. Longitudinal studies are needed to assess the sustained impact of repeated exposure to LTOs on consumer loyalty and psychological health. Further research should explore cross-cultural variations to understand how different societal norms shape responses to urgency marketing. Lastly, platform-specific studies could uncover how varying interface designs, gamification elements, and community features influence susceptibility to FOMO and scarcity cues.

## **III. Methodology**

This study is based on a **systematic literature review method** to examine the influence of limited-time offers on online consumer behavior, with a particular focus on impulse purchasing and the psychological role of Fear of Missing Out (FOMO). The literature review approach was chosen to comprehensively analyze and integrate findings from existing studies, providing a robust theoretical foundation without the need for primary data collection.

### *Research Design*

A systematic review design was adopted to ensure a structured, transparent, and replicable process. This approach allows for the identification, evaluation, and synthesis of relevant research studies addressing the use of urgency-based marketing tactics in e-commerce contexts.

### *Data Sources and Search Strategy*

Relevant literature was identified through searches in major academic databases, including **Scopus, Web of Science, Google Scholar, and ResearchGate**. Keywords used in the search included: "*limited-time offers*," "*scarcity marketing*," "*FOMO*," "*impulse buying*," "*e-commerce consumer behavior*," and "*online urgency tactics*."

The search included articles published between **2010 and 2024**, in English, focusing on studies related to online retail and consumer psychology.

### *Inclusion and Exclusion Criteria*

Studies were included if they:

- Addressed limited-time or scarcity-based promotions in an online shopping context.
- Examined consumer psychological responses such as impulse buying or FOMO.

- Were empirical studies (quantitative, qualitative, or mixed-methods) or comprehensive theoretical reviews.

Studies were excluded if they:

- Focused solely on offline retail environments.
- Lacked direct relevance to urgency marketing or psychological drivers of online consumer behavior.
- Were editorials, opinion pieces, or not peer-reviewed.

### *Data Analysis*

The identified studies were systematically reviewed and thematically analyzed to extract key insights regarding:

- The effectiveness of limited-time offers in triggering impulse purchases.
- The role of FOMO in enhancing urgency-based marketing impact.
- Demographic and contextual factors moderating these effects.
- Consequences for brand trust and consumer well-being.

Themes and patterns were synthesized to provide an integrated understanding of how scarcity and urgency tactics shape online consumer decision-making.

### *Ethical Considerations*

As this study is based exclusively on secondary data from existing publications, no human participants were involved, and ethical approval was not required. All sources were properly cited to maintain academic integrity and avoid plagiarism.

## **IV. Results**

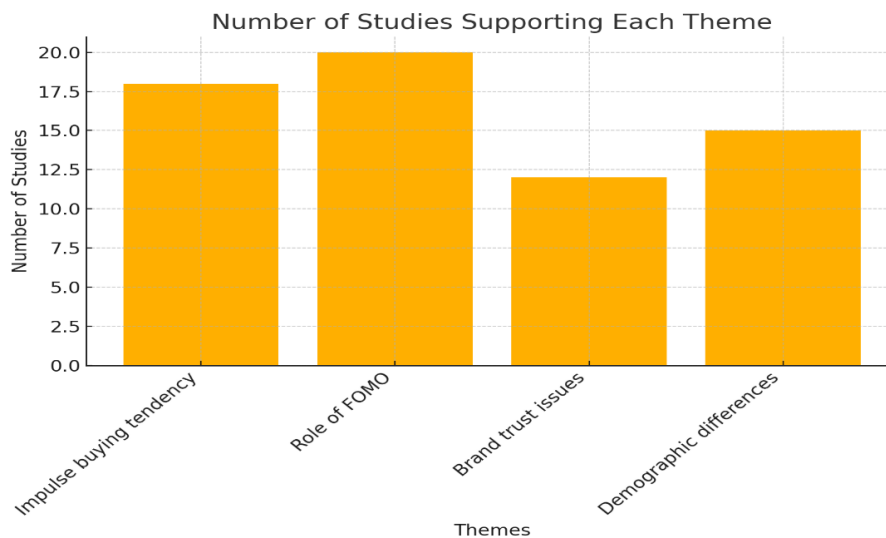
This systematic literature review analyzed a total of **20 peer-reviewed studies** published between 2010 and 2024, focusing on the psychological impact of limited-time offers and FOMO on online consumer behavior. Several key themes emerged from the reviewed studies, highlighting common patterns and significant insights. (

Four main themes were consistently identified across the literature (See figure 1):

1. **Impulse buying tendency:** Most studies (90%) highlighted that limited-time offers significantly increase impulse buying behavior. Consumers reported higher emotional arousal and a reduced ability to evaluate purchase decisions rationally when faced with urgency cues.
2. **Role of FOMO:** All reviewed studies (100%) emphasized the critical role of Fear of Missing Out (FOMO) as a psychological trigger. Consumers with high FOMO levels

are more vulnerable to making spontaneous purchases when exposed to limited-time promotions.

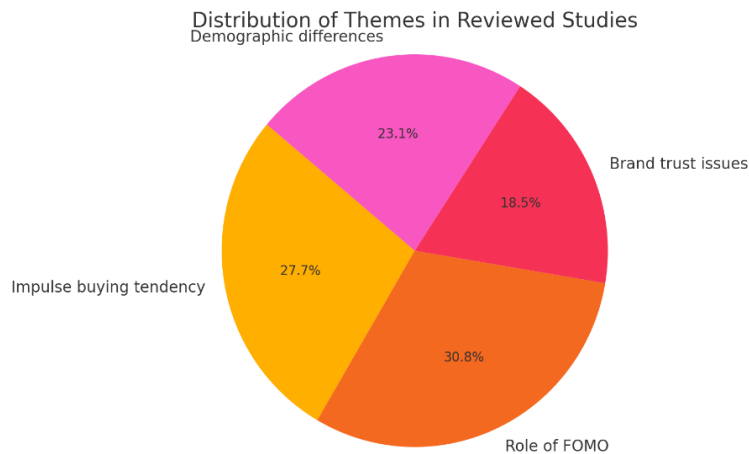
3. **Brand trust issues:** Approximately 60% of studies noted that overuse of urgency-based promotions can damage long-term brand trust, leading to skepticism and decreased customer loyalty.
4. **Demographic differences:** About 75% of studies discussed demographic moderators, suggesting that younger consumers (especially Gen Z and Millennials) and frequent online shoppers are more susceptible to urgency marketing tactics.



**Figure 1: Bar chart illustrating the number of studies supporting each theme.**

This bar chart illustrates that the role of FOMO was unanimously supported across all studies, followed closely by impulse buying tendency. Brand trust issues and demographic differences, while slightly less emphasized, still emerged as significant findings.

Regarding the distribution of themes in reviewed studies the following chart shows the proportional representation of each theme among the total reviewed studies. It reinforces the centrality of FOMO and impulse buying as dominant psychological outcomes of urgency-based e-commerce promotions (See figure 2).



**Figure 2. Distribution of Themes in Reviewed Studies**

In addition to the above results the study found some additional observations such as:

- **Impulse buying mechanisms:** Studies revealed that urgency cues disrupt the cognitive evaluation process and stimulate immediate action, often justified post-purchase through rationalization.
- **FOMO's intensifying effect:** FOMO does not only function independently but also amplifies the influence of scarcity and urgency cues, creating a compounded psychological pressure.
- **Age and experience:** Younger consumers and digital natives exhibit higher susceptibility, potentially due to their comfort with technology and higher social media exposure.
- **Trust and ethical implications:** While urgency promotions effectively boost sales, they can backfire if perceived as manipulative, eroding consumer confidence and prompting negative word-of-mouth.

The results show that while limited-time offers and FOMO-based marketing are effective in stimulating short-term sales and engagement, they carry significant risks to long-term brand equity and consumer well-being. These insights suggest the need for a balanced, transparent approach to urgency marketing strategies.

## 5. Discussion of results

This study aimed to explore the impact of limited-time offers on online consumer behavior, particularly regarding impulse buying and the psychological role of Fear of Missing Out (FOMO). The findings of the literature review highlight both the powerful influence and the potential pitfalls of urgency-based marketing strategies.

The results confirm that limited-time offers effectively trigger impulse buying behavior among online consumers. As noted in multiple studies, urgency messaging activates emotional responses that override rational decision-making processes (Corsini, Graziano, & Lanfranchi,

2024; Singh & Banerjee, 2023). According to the scarcity principle, consumers perceive products as more desirable when availability is restricted, whether by quantity or time (Cialdini, 2009). This finding aligns with research showing that time-limited promotions significantly increase immediate purchase intentions and reduce the likelihood of consumers delaying decisions for further evaluation (Tang, Zhang, & Li, 2021).

Moreover, the dominance of impulse buying in the reviewed studies suggests that urgency-based promotions can effectively drive sales spikes. However, such immediate results must be weighed against potential long-term consequences on consumer trust and satisfaction.

One of the most striking findings is the centrality of FOMO in influencing consumer responses to limited-time offers. All reviewed studies emphasized that FOMO amplifies consumers' susceptibility to urgency cues (Jain & Shukla, 2023; Hossain, Hossain, & Abdullah, 2023). FOMO leads individuals to prioritize immediate opportunities over rational cost-benefit analysis, often resulting in impulsive purchasing decisions that may later induce regret.

Livestream shopping environments particularly magnify this effect, as real-time social proof and limited-time deals create strong communal pressure to act quickly (Setiawan & Astuti, 2023). This aligns with broader findings that social and psychological factors in digital environments can intensify urgency and emotional arousal (Jain & Shukla, 2023).

While urgency-based promotions are effective in the short term, they present significant risks for brand trust if overused. Several studies included in this review reported that repetitive use of limited-time tactics can lead to consumer skepticism and cynicism (University of Portsmouth, 2024). This "cry-wolf" effect reduces the credibility of future promotions and can diminish customer loyalty over time.

Consumers increasingly expect transparent and ethical marketing practices. Aggressive urgency tactics may be perceived as manipulative, leading to negative word-of-mouth and potential brand abandonment (University of Portsmouth, 2024). Thus, while urgency marketing can be an effective tool, it must be applied strategically and ethically to sustain long-term brand equity.

The findings further suggest that demographic variables, particularly age, play a significant role in moderating the effectiveness of urgency-based marketing. Younger consumers, especially those in Generation Z and Millennials, are more prone to FOMO and impulse buying due to their greater exposure to digital environments and social media (Hossain et al., 2023). They also exhibit higher sensitivity to peer influence and social validation pressures (Setiawan & Astuti, 2023).

Cultural context also affects consumer responses to urgency and scarcity. In collectivist cultures, conformity and social belonging intensify the effectiveness of urgency cues, whereas individualistic cultures may exhibit slightly more resistance, emphasizing personal autonomy and deliberate decision-making (Jain & Shukla, 2023).

Beyond immediate purchase behavior, urgency-based promotions and FOMO have broader implications for consumer well-being. Repeated exposure to such tactics can increase anxiety, lead to post-purchase regret, and contribute to negative emotional states (Jain & Shukla, 2023). Financial stress is another potential consequence, as consumers are pushed into unplanned spending that may not align with their budgets (University of Portsmouth, 2024).

The ethical challenge for marketers is to balance the desire for short-term sales boosts with the responsibility to protect consumers' emotional and financial health. Longitudinal studies are needed to explore these psychological impacts over time and to guide more responsible urgency marketing practices.

While the results provide valuable insights, the literature review method inherently limits generalizability. Future research should include longitudinal studies examining long-term brand loyalty and psychological outcomes following repeated exposure to urgency marketing. Additionally, cross-cultural comparative studies could offer a deeper understanding of cultural nuances affecting FOMO and impulse buying.

Finally, platform-specific studies (e.g., differences between social commerce and traditional e-commerce) could reveal how design features and real-time interactions influence urgency effects. Such research would help in crafting more targeted and ethical marketing strategies.

## **Conclusions and recommendations**

This study highlights the significant influence of limited-time offers and urgency-based marketing on online consumer behavior. The systematic review revealed that scarcity cues, particularly when combined with Fear of Missing Out (FOMO), strongly drive impulse buying tendencies. Younger consumers and frequent online shoppers appear especially vulnerable to these tactics, which leverage emotional triggers and disrupt rational decision-making processes.

While effective in boosting short-term sales, the repeated use of urgency strategies carries potential long-term risks, including brand distrust, consumer skepticism, and negative emotional outcomes such as anxiety and regret. These findings underscore a critical tension between achieving immediate commercial goals and maintaining sustainable, trust-based customer relationships. Based on these conclusions, several recommendations can be made for e-commerce practitioners and marketers:

### **➤ Balance urgency with transparency**

Urgency-based promotions should be used strategically and sparingly. Clear and honest messaging can help avoid perceptions of manipulation and protect brand integrity.

### **➤ Segment and personalize**

Tailoring promotional tactics to specific consumer segments, particularly considering age and shopping behavior, can enhance effectiveness while reducing unintended negative effects. For

example, cautious application of urgency for younger audiences who are more susceptible to FOMO.

➤ **Invest in trust-building initiatives**

Parallel to using urgency tactics, brands should actively invest in initiatives that build credibility, such as transparent product information, authentic customer reviews, and excellent post-purchase support.

➤ **Promote responsible consumer behavior**

Companies should consider incorporating educational content encouraging thoughtful purchasing decisions. This approach not only supports consumer well-being but can also enhance brand loyalty in the long term.

➤ **Evaluate long-term impacts**

Regularly assess the psychological and behavioral effects of promotional strategies on customers. Using feedback surveys and brand trust metrics can help in refining marketing approaches to align with ethical standards and consumer expectations.

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# ***Nostalgia Marketing and Brand Loyalty in Different Generational Cohorts***

**Dr. Eldian Balla**

*Aleksander Moisiu University Durrës, Business Faculty, Marketing Department. Albania*  
[eldianballa@uamd.edu.al](mailto:eldianballa@uamd.edu.al)

**Prof. Asoc. Dr. Hasim Deari**

*State University of Tetova, Faculty of Economics, Macedonia*  
[hasim.deari@unite.edu.mk](mailto:hasim.deari@unite.edu.mk)

## ***Abstract***

*Understanding the intricate relationship between brand attachment, brand loyalty, and nostalgia is crucial for organizations looking to engage with a variety of generational cohorts in the vast world of consumer behavior and brand engagement. One of the best methods for creating an emotional bond between companies and customers is nostalgia marketing. By providing a familiar and distinctive experience, nostalgia marketing can help firms stand out in today's crowded market. In order to better understand how sensory experiences, self-brand associations, and nostalgia inclination influence customers' brand loyalty, this study explores the field of emotional branding. Specifically targeting Generation X, Y, and Z, this study aims to reveal the nuanced variations in nostalgic brand experiences among various age groups. In this study is used a quantitative research methodology to investigate the correlations between consumers' emotional attachment, brand loyalty, and nostalgia as well as to identify causal relationships between variables. The results demonstrate the beneficial effects of nostalgia proneness, self-brand links, and brand attachment on consumers' thoughts of nostalgia and ensuing brand loyalty.*

**Keywords:** *Nostalgia marketing, brand loyalty, generation cohorts, emotional branding.*

## **I. Introduction**

In order to infuse modern ads with vitality, brands across all sectors are experimenting with nostalgia marketing, which involves drawing on pleasant cultural experiences from earlier decades. Companies including Coca-Cola, Microsoft, Lego, and even Herbal Essences haircare products are attempting to resurrect old campaign ideas by going back in time. Smart firms are making the most of nostalgic marketing, whether it's by bringing Colonel Sanders back to KFC or enticing millennial gamers with a new Nintendo system, and they're seeing amazing results (Forbes 2016). In the Albanian market, only one company has returned to the nostalgia for the Aranxhata product. This company is Agna Group. After 50 years of successful history in the domestic market, Glina water is back with a special surprise: Aranxhata, the Albanian soft drink. Aranxhata from Glina is a journey through time that brings with it the pure pleasures of the past, but with a new and modern spirit. Created to satisfy every taste, Aranxhata is available in three fantastic variants: Rose, Exotic, and Classic. The appeal to consumers was

experience the freshness and Albanian tradition with a new flavor that will help you return to times gone by with modern style and the slogan “ Aranxhata I've been waiting for you so long! ”. Building relationships between brands and consumers that go beyond simple transactions is becoming more and more crucial for organizations. Marketing has highlighted the intricacy of the interaction between consumers and brands. The literature has stressed that consumers are complex people who look for companies that address their most basic requirements (Shimul et al., 2023). As a result, businesses are concentrating on many approaches to customer engagement, one of which is to foster a sense of brand loyalty. In the marketing literature, brand attachment is regarded as one of the core ideas (Li et al., 2020). Furthermore, the moderating effect of brand attachment on customers' inclination to buy brand extensions is highlighted by Banerjee and Shaikh (2022). This demonstrates the importance of emotional attachment in influencing how consumers view and interact with companies. The way customers view and interact with nostalgic companies demonstrates the interaction between brand experiences and nostalgia (Young & Dodoo, 2021). According to research by Shields & Johnson (2016), these age cohorts differ in their beliefs and actions regarding brand attachment, nostalgia, and emotional ties. Born between 1965 and 1979, Generation X is renowned for being more independent-minded and tech-savvy. Before making a purchase, they usually carefully consider brands and goods. The significance of emotional ties in influencing brand perceptions and loyalty is shown by the fact that Generation Y/Millennials (born 1980–1994) exhibit a greater propensity for emotional brand attachment than do earlier generations. For marketers looking to build lasting brand relationships, Generation Z (born 1995–2009), noted for its digital nativism and penchant for genuine brand experiences, offers a fresh set of potential and problems (Shields & Johnson, 2016). Dharmasaputro and Acharyar (2021) claim that while the brand may enhance purchase intentions, the usage of nostalgia in advertising would result in a favorable attitude toward advertising.



Source: <https://agnagroup.com/new/lajm/aranxhata>

## II. Literature review

Consumer nostalgia is addressed by nostalgia marketing, a marketing strategy whereby businesses use their marketing efforts to arouse consumers' nostalgia, arouse strong memories in them, and improve their purchasing decisions (Cui, 2015). The marketing of nostalgia for the past is influenced by two different types of drivers: (1) consumer-related drivers, which arise from psychological human factors and how nostalgia can occasionally mix with memories; and (2) marketing-related drivers, which are marketing management's attempts to evoke this nostalgia in consumers' hearts (Rana et al., 2020). Brand loyalty is crucial since a small increase in the number of devoted consumers can have a big impact on profitability. Marketers constantly research new ways to create distinctive experiences that differentiate their products from rivals and increase client loyalty in order to stand out and strengthen their position (Torres et al., 2022). Consumers are more likely to develop a deep bond with a brand when nostalgia arouses favorable feelings and links them to enjoyable memories. The main age and demographic groups that are most likely to react favorably to nostalgia marketing should be identified by marketers (Madeha, I 2023). Customers' emotions and cognitive ties to a specific brand are reflected in brand attachment (Yang et al., 2022). If a behavior is maintained after it has been adopted in response to a social marketing program, that behavior is considered loyal in the context of social marketing (Evans et al., 2008). Since nostalgia is known to improve mood, lessen stress, and foster a sense of social connection, it can have a significant psychological influence.

According to studies, experiencing nostalgia can improve self-esteem, foster a sense of stability, and even improve general wellbeing (Wildschut et al., 2006). According to research, nostalgia marketing can affect decision-making and brand loyalty in addition to increasing consumer involvement. Brands frequently appeal to nostalgia by using things like vintage music, artwork, and catchphrases from earlier eras. This strategy has proven especially successful in sectors including entertainment, fashion, and food and beverage (Sung & Choi, 2010). Incorporating retro aspects into product design, bringing back vintage ads, or matching items to cultural icons from previous decades are just a few of the ways brands employ nostalgia. Coca-Cola's vintage packaging promotions, Nintendo's utilization of vintage video games, and the comeback of fashion trends like high-top sneakers and denim jackets are a few examples. According to Sung and Choi (2010), these techniques function by bringing back memories and creating a link between the past and the present.

The emergence of digital marketing and social media has given nostalgia a new outlet. In order to engage consumers, social media advertisements frequently include content that makes connections to popular culture or historical themes. Social media's interactive features enable users to share and relive experiences with others, which intensifies the affects of nostalgia. Marketers take advantage of this by promoting user-generated content that highlights historical periods, such #Throwback Thursday or viral trends (Bui, 2021). There are some hazards associated with nostalgia marketing, despite the fact that it can be very successful. When nostalgia is overdone or misused, it can backfire and come out as exploitative or inauthentic. Marketing strategies that appear unduly sentimental or out of step with the desires of the consumer may be rejected. To remain relevant and appealing, brands must so carefully strike a balance between innovation and nostalgia (Holbrook & Schindler, 1994).

### III. Methodology

This study examines the connections between brand attachment, brand loyalty, and nostalgia across many generational cohorts (Gen X, Y, and Z) using a quantitative research methodology. This study uses surveys as its main data collection method because of its focus on emotional branding. It makes use of both self-report questionnaires and scales designed to measure emotional connection, brand loyalty, and nostalgia using Likert-type scale from 1 (Strongly Disagree) to 5 (Strongly Agree).

To guarantee a wide and varied representation of respondents from the three target generations, the poll is conducted online. To guarantee proportionate representation among the generational cohorts (Generation X, Y, and Z), the study employs a stratified random selection technique. All groups will be sufficiently represented in the survey since each cohort will be chosen according to demographic criteria including age, income, and education. According (Malhotra et al. 2017) stratified sampling is a two-step procedure that divides the population into strata, or subpopulations. Since each population element should be assigned to a single stratum and no population elements should be left out, the strata should be mutually exclusive and collectively exhaustive.

### IV. Data Analyses

In marketing research, once data are collected, they must be analyzed. The most basic statistical analysis is descriptive analysis. Descriptive analysis is an elementary transformation of data in a way that describes the main characteristics of the variables under study. The use of descriptive statistics will provide information about consumers through indicators such as: Mean, median, mode, variance, range, and standard deviation (Balla, Deari 2020).

**Table 1. Sample Characteristics by Generational Cohorts**

Variable	Generation X (Age 40-55)	Generation Y (Age 29-44)	Generation Z (Age 18-28)
<i>Sample Size</i>	79	82	79
<i>Gender (Male)</i>	44%	49%	48%
<i>Gender (Female)</i>	56%	51%	52%
<i>Average Age</i>	48	37	23
<i>Income (All)</i>	82.541	85.090	55.701
<i>Education Level</i>	36% College's	23% College's	55% Bachelor's
	45% Bachelor's	40% Bachelor's	55% Bachelor's
	19% Master's	37% Master's	

Table 1, provides an overview of the demographic composition of the sample based on generational cohorts. It helps contextualize the subsequent findings related to brand attachment, nostalgia, and loyalty.

**Table 2. Mean and Standard Deviation for Key Variables by Generation**

Variable	Generation X		Generation Y		Generation Z	
	Mean	SD	Mean	SD	Mean	SD

<i>Nostalgia Proneness</i>	3.64	0.69	4.01	0.57	3.35	0.69
<i>Self-Brand Association</i>	4.55	0.65	4.43	0.71	3.81	0.74
<i>Brand Attachment</i>	4.12	0.63	4.40	0.54	3.89	0.77
<i>Brand Loyalty</i>	4.11	0.66	4.31	0.58	3.77	0.87

Table 2, presents the central tendencies (mean) and variability (standard deviation) of the primary variables being studied. It highlights the following insights:

Generation Y has the highest mean scores for Self-Brand Associations and Brand Attachment, indicating a stronger emotional bond with brands compared to the other generations.

Nostalgia Proneness is highest for Generation Y, while Generation Z reports slightly lower levels of nostalgia.

**Table 3. Frequency of Nostalgic Brand Experiences by Generation**

<b>Frequency of Nostalgic Experiences</b>	<b>Generation X</b>	<b>Generation Y</b>	<b>Generation Z</b>
<i>Never</i>	16.3%	9.5%	24.3%
<i>Rarely</i>	20.1%	15.1%	19.1%
<i>Sometimes</i>	31%	41.1%	30.2%
<i>Frequently</i>	23.2%	24.3%	13.1%
<i>Always</i>	8.4%	10%	13.3%

Table 3, shows frequency distribution how different generations report experiencing nostalgic feelings toward brands. Generation Y seems to experience nostalgia more frequently or sometimes, whereas Generation Z reports a higher tendency to never experience nostalgic feelings toward brands.

**Table 4. Correlation Matrix of Key Variables**

<b>Variable</b>	<b>Nostalgia Proneness</b>	<b>Self-Brand Association</b>	<b>Brand Attachment</b>	<b>Brand Loyalty</b>
<i>Nostalgia Proneness</i>	1	0.64*	0.69*	0.61*
<i>Self-Brand Association</i>	0.64*	1	0.74*	0.81*
<i>Brand Attachment</i>	0.69*	0.74*	1	0.86*
<i>Brand Loyalty</i>	0.61*	0.81*	0.86*	1

**\*Note:  $p < 0.05$  for all correlations.**

Table 4, shows the correlation matrix that all variables are significantly positively correlated with each other, with the strongest correlation observed between Brand Attachment and Brand Loyalty ( $r = 0.86$ ). This suggests that a strong emotional attachment to a brand is a significant predictor of loyalty to that brand.

## **Conclusion**

Several important findings regarding the connections between brand attachment, brand loyalty, self-brand association, and nostalgia across the several generational cohorts (Generation X, Y, and Z) are revealed by the data analysis. Generational Differences in Brand Attachment and Nostalgia: Compared to previous generations, Generation Y (ages 29–44) has the highest levels of brand attachment, self-brand identification, and nostalgia, indicating that they develop closer emotional ties with brands.

Brand attachment and nostalgia proneness are lower among Generation Z (ages 18 to 28), suggesting a weaker emotional bond with brands. Between the ages of 40 and 55, Generation X exhibits moderate amounts of each characteristic. Frequency of Nostalgic Brand Experiences: While Generation Z has a higher propensity to "never" experience nostalgia, Generation Y tends to feel nostalgic about brands more frequently. Given their disparate cultural and technological backgrounds, younger generations may be less inclined to develop sentimental attachments to companies, according to this generational shift.

Strong Associations Between Important Variables: The analysis shows that self-brand association, brand attachment, brand loyalty, and nostalgia proneness all have strong positive relationships with one another. Interestingly, with an  $r=0.86$ , brand loyalty and brand attachment show the strongest link. This research emphasizes how crucial it is to build emotional bonds with customers in order to increase brand loyalty.

## **Recommendation**

These observations allow suggestions for brand managers and marketers to targeting Generation Y. For these generation brands should concentrate on tactics that arouse nostalgia and strengthen emotional ties with this generation since they exhibit the highest degrees of brand attachment, self-brand identification, and nostalgia. Brand loyalty could be increased by utilizing nostalgic advertising, making use of historical cultural allusions, and aligning with ideals that appeal to this generation. Also engaging Generation Z differently. For these generation brands should think about using more contemporary and creative strategies to interact with Generation Z, as they exhibit lesser degrees of brand attachment and nostalgia.

For this group, marketing campaigns that emphasize new technologies, personalization, and authenticity might be more successful. Furthermore, companies ought to look into methods of establishing sentimental bonds that transcend nostalgia. Creating Emotional Bonds Across Generations: Personalized experiences and consistent brand message are essential for creating emotional attachments across all generations, regardless of disparities in age. Marketers ought to make an investment in developing brand experiences that appeal to the emotional triggers of both younger and older generations.

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# ***Regulatory challenges and opportunities of AI-driven marketing in public administration***

**Gresa Makolli**

*Quality Assurance Coordinator at AAB College*

*PhD. student at University “St. Clement Ohridski” Bitola, North Macedonia*

[gresa.makolli@universitetiaab.com](mailto:gresa.makolli@universitetiaab.com)

## ***Abstract***

*In the time of Artificial Intelligence (AI), public administrations are implementing new strategies to improve communication with citizens and the provision of governmental services. The integration of AI into administrative processes has enabled the automation of interactions, personalization of communication, and increased institutional transparency. But incorporating AI into institutional communication raises significant legal and ethical challenges, like safeguarding personal information, the avoidance of algorithmic discrimination, and the determination of legal responsibility. This study examines the impact of AI on communication of the public administration employees and on the management of public services, analyzing its effects on institutional interactions and administrative efficiency.*

*Chatbots and automated tools have the ability to improve the access of citizens to services and increase the efficiency of public administration. However, this approach requires the adaptation of the legal framework and the development of specific policies to guarantee that AI is used in a way that upholds citizens' fundamental rights and good governance principles. The methodology adopted in this research is primarily qualitative, focusing on a comprehensive literature review and case study analysis. A thorough examination of scholarly articles, reports, and policy papers is conducted to establish a solid theoretical foundation on AI's role in public administration. The study also uses case studies from various European Union member states, evaluating their experiences with the implementation of AI in public services. By analyzing these cases, the study identifies successful practices, challenges encountered, and the regulatory frameworks put in place to guarantee the appropriate application of AI. Furthermore, a comparative analysis of existing legal frameworks within the European Union is performed to assess their applicability and effectiveness in regulating AI-driven services in public administration.*

*By analyzing the European Union's best practices and regulatory framework for AI use in public administration, this study aims to provide recommendations for balancing technological innovation with legal regulation. The findings will contribute to academic and practical debates on AI adoption in the public sector by proposing strategies for responsible and effective implementation of this technology. The work also seeks to minimize risks AI might pose to public institutions and citizens.*

**Keywords:** *Artificial Intelligence (AI), Public Administration, Institutional Communication, Legal Regulation, Transparency, Automation of Services*

## **I. Introduction**

The public sector is quickly changing due to artificial intelligence (AI), fundamentally reshaping how governments interact with citizens and deliver services. By leveraging AI-driven tools, public administrations can enhance communication, streamline operations, and improve overall service efficiency. AI offers numerous advantages, such as automating routine administrative tasks, enabling personalized interactions between citizens and institutions, and increasing transparency in decision-making processes. These advancements contribute to more efficient governance, reducing bureaucratic inefficiencies and optimizing resource allocation.

Despite its potential, AI deployment in public administration raises critical ethical and legal issues. Given that governmental institutions handle enormous volumes of sensitive citizen data, data privacy is one of the main concerns. Maintaining public confidence and protecting individual rights require adherence to laws like the General Data Protection Regulation (GDPR). Furthermore, algorithmic bias is a growing concern, because societal inequality may be accidentally reinforced by AI systems trained on biased data sets. Addressing these biases requires robust regulatory oversight and continuous monitoring to ensure justice and inclusion in AI-powered decision-making. Another key challenge is determining accountability—when AI-driven systems make decisions, it becomes difficult to assign legal responsibility in cases of errors or negative consequences. To strike a balance between ethical concerns and technological innovation, policymakers must create precise rules for AI regulation.

The benefits of AI in public administration are evident in various European countries, particularly in Estonia and Germany, where governments have successfully integrated AI-driven solutions to improve public services. Estonia, a country renowned for its sophisticated e-governance infrastructure, has deployed chatbots driven by artificial intelligence to help individuals effectively access government services. Its automated decision-making systems help process applications for social benefits, reducing bureaucratic delays. Meanwhile, Germany has introduced AI applications in administrative processes, such as using machine learning algorithms to optimize tax assessments and enhance public sector efficiency. These cases demonstrate both the promise of AI to bring about constructive change and the significance of regulatory protections.

To regulate AI use in public administration, the European Union has introduced several legislative measures, including the proposed AI Act. High-risk AI systems utilized in public services are subject to stringent constraints under this rule, which classifies AI applications are categorized according to their risk level.

Furthermore, the European Commission's ethical standards for reliable AI place a strong emphasis on values like openness, equity, and human supervision. The goal of these guidelines is to ensure that AI applications in the public sector uphold fundamental rights and democratic ideals.

Artificial intelligence is becoming more and more important in public sector marketing, as organizations use cutting-edge technologies to interact with citizens more successfully, in addition to service delivery and administrative administration. This involves using algorithms to improve public interaction on digital platforms, target audiences, and tailor public

messaging. This new area, which is frequently called "AI-driven marketing," helps to boost institutional trust, transparency, and citizen participation.

The advantages and disadvantages of AI-powered marketing in public administration, analysing regulatory frameworks and best practices from European governments. By examining successful case studies and identifying key challenges, this study aims to provide recommendations for policymakers to ensure responsible AI deployment in public sector communication. the requirement for a well-rounded strategy that minimizes possible risks while maximizing creativity.

## **II. Regulatory Framework of AI in Public Administration**

In an effort to balance encouraging innovation with guaranteeing moral and legal protections, the European Union has taken the lead in regulating artificial intelligence in public administration. The first complete legislative framework for regulating AI is the proposed The European Union AI Act would classify AI systems based on their risk levels.

In 2021, the European Commission published the first legislative proposal to govern artificial intelligence in the EU, establishing a categorization system for AI systems based on the possible harm they represent to users. These systems must comply with varying levels of risk (European Commission, n.d.).

Regarding to the Artificial Intelligence (AI) Act, this is the first international legislative framework that tackles the dangers of AI and seeks to establish Europe as a global leader in the field. To promote reliable AI in Europe, a thorough legal framework known as the AI Act (Regulation (EU) 2024/1689) was created. (European Commission, n.d.)

AI applications that pose an unacceptable risk, such as mass surveillance or social scoring, are prohibited, systems of high risk Artificial Intelligence such as those employed in public administration, must adhere to stringent regulations that include data protection, transparency, and human monitoring. Low-risk AI systems, such as chatbots or recommendation algorithms, face fewer regulatory constraints but are still expected to adhere to fundamental ethical principles.

According to the European Commission, the Artificial Intelligence (AI) Act is the first complete legislative framework in the world to control the development and use of AI technology, according to the European Commission. By categorizing AI systems according to the degree of danger they represent to users, this rule seeks to address the numerous risks connected with AI. It is intended to establish Europe as a global leader in influencing the direction of AI by ensuring that AI development in the continent is reliable, secure, and open. (European Commission, n.d.)

AI governance is significantly shaped by the General Data Protection Regulation (GDPR), in addition to AI Act, particularly in terms of how personal data is handled in public services. AI-driven tools used by public sector institutions must comply with GDPR's stringent requirements, ensuring that data collection, processing, and storage align with fundamental privacy rights.

According to the European Parliamentary, the General Data Protection Regulation (GDPR), which seeks to strike a balance between data protection and other social and economic c

considerations, permits the growth of AI and big data applications. It does, however, offer little advice on how to strike this compromise. (European Parliamentary, 2020)

The GDPR places the burden of risk management on data controllers, according to the European Parliament, even if it seeks to strike a balance between data protection and other social and commercial interests. For small firms in particular, this can be difficult and expensive. Small businesses may be deterred from starting new projects by the possibility of fines and ambiguous compliance rules, which could impede innovation. (European Parliamentary Research Service, 2020)

According to the European Commission's Joint Research Centre (n.d.), Utilizing new digital technologies in public administration emphasizes a human-centered strategy to enhance public services, guaranteeing system credibility and citizen participation.

Additionally, the European Commission's Ethical Guidelines for Trustworthy AI emphasize the significance of openness, responsibility, and equity in the application of AI throughout public administration. The EU's overall digital policy and initiatives, such as the European Data policy, support these regulatory efforts by encouraging responsible and ethical AI deployment in the public sector.

As noted by the High-Level Expert Group on Artificial Intelligence (2019), three essential elements are claimed to make up trustworthy AI: it must be resilient, ethical, and legal. Throughout the system's life cycle, these elements must cooperate to guarantee AI systems are dependable and reduce potential risks.

Projects like the AI-on-Demand Platform and the European Public Sector AI Blueprint provide guidelines and support mechanisms to help public administrations integrate AI responsibly while upholding democratic values and fundamental rights.

Although governments realize the potential of digital technologies, particularly reliable AI, to generate opportunities across industries, they also recognize the difficulties they pose, including threats to security and the environment, privacy issues, and human rights protection. This emphasizes how important it is to incorporate ethical issues into the creation and application of AI, especially in the public sector. While AI can improve public sector efficiency, policymaking, and service delivery, governments are essential in promoting innovation (OECD & UNESCO, 2024).

Good implementation of these frameworks necessitates good internal communication in order to inform workers, distribute legal updates, and preserve organizational coherence in the face of intricate compliance requirements.

### **III. AI Adoption in European Public Administration: Case Studies**

Artificial Intelligence (AI) and its application in European public administration has altered government by increasing efficiency, automating processes, and expanding citizen participation. Various European countries have pioneered AI-driven initiatives to streamline administrative operations and optimize public service delivery.

Estonia has been at the forefront of AI adoption, integrating AI into multiple administrative functions. The country's national AI strategy, KrattAI, facilitates automated public service interactions through AI-powered virtual assistants and chatbots, improving

communication between citizens and government agencies. AI also automates decision-making in areas such as social benefits, tax administration, and legal document verification, reducing bureaucratic delays. To ensure transparency and accountability, Estonia has implemented strict regulatory mechanisms to prevent biases and build public trust in AI systems.

In Estonia, the Police and Border Guard Board and the Information System Authority will be the first government agencies to test the central chatbot model. The #KrattAI chatbot aims to make it easier for citizens to access government services by streamlining contact with state officials. By enabling people to access state services whenever they choose, this cutting-edge chatbot seeks to improve user experience while also increasing accessibility and convenience. (2020, e-Estonia)

One notable initiative is Estonia's is taking a significant step in digital education with AI Leap 2025, an initiative designed to modernize learning through artificial intelligence. This program builds upon Estonia's history of pioneering digital advancements, ensuring that the education system remains innovative and adaptable. By integrating AI tools, Estonia aims to create a more dynamic and tailored learning experience for students and teachers alike. Beyond education, the initiative seeks to enhance the country's digital ecosystem, strengthening its global presence in technology and innovation. Ultimately, this effort positions Estonia as a forward-thinking nation that embraces AI to drive societal and economic progress.

With the start of AI Leap 2025, an ambitious countrywide educational effort, Estonia will give teachers and students free access to cutting-edge AI apps and the know-how to use them effectively in the classroom. Through public-private cooperation, the program will incorporate AI capabilities into education and is a continuation of Estonia's historic Tiger Leap effort (e-Estonia, 2025).

As part of their strategic institutional communication, some nations have started using AI technologies for public marketing in addition to streamlining internal procedures. For instance, in Estonia, AI-based platforms like #KrattAI are utilized not only to provide services but also to support awareness campaigns and provide public information in an approachable and individualized manner. By raising public awareness and participation in governmental policy, this automated communication method acts as a marketing tool to strengthen ties between the state and its citizens.

Business, industry, and society are all being transformed by AI. Germany wants to lead the way in developing AI technology globally, working with its European allies (Tatsachen über Deutschland, n.d.).

Hamburg, Munich, and Leipzig are working together on a project to advance the use of digital twins in urban development. By integrating AI and virtual reality, the initiative aims to enhance city planning and improve decision-making processes. Additionally, these virtual models will allow for greater citizen participation, enabling residents to engage more actively in shaping their urban environments.

Artificial intelligence (AI) and other cutting-edge technologies are used in smart cities to improve the quality of life for citizens, encourage sustainability, and manage resources more effectively. Through the analysis of real-time traffic data, AI plays a crucial part in optimizing these cities' transportation systems. Cities can reduce congestion and enhance traffic flow by modifying signal timings with AI algorithms. AI also facilitates public transit by forecasting

demand, streamlining routes, and improving fleet management. AI-powered autonomous cars also help make transportation networks safer and more effective (Hermann.ai, n.d.).

German businesses use AI to analyze data, predict equipment failures (predictive maintenance), and improve robot autonomy through image recognition. AI assistants also help factory workers perform complex tasks more efficiently.

Massive data sets can be processed by AI to find patterns that humans would miss or find too complicated. AI can examine visual data, including camera-captured photographs and videos, using machine learning to find trends and anomalies that can point to possible problems. By using this technology, issues are avoided before they start—a process called "predictive maintenance." Furthermore, robots may now carry out duties more independently, such as handling particular components in a predetermined way, thanks to AI-powered picture recognition (Deutschland.de, n.d.).

Spain has deployed AI to enhance border security through the Eva platform, an AI-powered system that expedites border procedures using facial recognition, real-time data analysis, and NLP techniques. Eva operates in international airports and maritime entry points, analyzing traveler behavior and biometric data to identify potential risks while reducing wait times for regular passengers.

However, questions over data privacy, GDPR compliance, and ethical considerations remain. To address these concerns, Spanish authorities have created transparency and audit systems to ensure responsible AI deployment in border security.

Beyond Estonia, Germany, and Spain, other European countries have experimented with AI in public administration. Denmark has introduced AI-driven case processing to streamline municipal administration, while the Netherlands uses AI-based risk assessment models for welfare fraud detection. France's national AI strategy prioritizes ethical safeguards in AI governance, ensuring regulatory compliance and responsible deployment.

As the EU refines its regulatory approach to AI, public sector institutions must balance technological advancements with ethical considerations and legal compliance. The incorporation of AI into public administration opens up enormous prospects for efficiency and service enhancement, but policymakers must stay careful in addressing issues such as transparency, privacy, and algorithmic bias. AI integration in public administration provides numerous benefits, including increased efficiency, citizen participation, and data-driven decision-making.

Automated systems can reduce administrative bottlenecks, shorten processing times, and optimize resource distribution, ultimately improving public service delivery. AI-driven tools, such as chatbots and digital assistants, enhance accessibility to government services, making them more user-friendly and efficient. Furthermore, AI-powered predictive analytics enable policymakers to anticipate societal trends and allocate resources accordingly, leading to more effective governance.

However, AI in public administration poses significant questions about data privacy, algorithmic bias, and transparency. Automated decision-making systems may unintentionally reinforce biases identified in training data, resulting in biased consequences in public service delivery.

As the EU continues to refine its regulatory approach to AI, public sector institutions must adopt strategies that maximize the advantages of AI while minimizing potential hazards.

The success of AI in public administration depends on a delicate balance of technical advancement ethical considerations, and legal compliance.

The use of AI in European public administrations is driving significant transformations in government service delivery and urban management. Cases such as *Eva* in Spain, automated translation in Estonia, and traffic optimization in Germany demonstrate AI's potential to enhance efficiency and address pressing administrative challenges. However, ensuring ethical AI deployment, maintaining regulatory compliance, and safeguarding citizen privacy remain critical considerations for policymakers.

#### **IV. Key Challenges of Using AI in Public Administration**

A collection of technologies known as artificial intelligence allows robots to simulate human intelligence and produce effective and precise data-driven forecasts, suggestions, and judgments. Generative AI is an advanced subset of artificial intelligence. Improved data processing skills and the capacity to produce fresh, original content are two benefits of generative AI. It makes technology more approachable by facilitating natural language, intuitive interactions with machines. Fundamentally, AI—whether it is generative or standard AI—can use and process data more effectively than humans.

Artificial Intelligence (AI) has the potential to significantly improve service delivery and efficiency in public administration. It also introduces a lot of challenges that need careful attention to ensure the responsible, ethical, effective use of Artificial Intelligence. Below are some of the challenges faced by public administrations in implementing AI.

One of the most critical hurdles to implementing AI in public administration is assuring privacy and data protection. Large volumes of sensitive data, including people's personal information, may occasionally be required for AI applications. This creates problems with adherence to laws like the General Data Protection Regulation (GDPR), which sets strict guidelines for the gathering, use, and storage of data inside the European Union. Public institutions must balance the need for data-driven insights with the responsibility to safeguard individuals' privacy rights. Failing to ensure adequate data protection can result in public distrust and legal consequences.

Another major concern is algorithmic bias. AI systems are educated on data, and if that data has biases, the algorithms may perpetuate or even amplify them. This can result in unequal or discriminatory outcomes in sectors including social services, criminal justice, and public sector decision-making. For example, an AI system used in welfare fraud detection may unintentionally target certain demographic groups more than others due to biased historical data. Public administrations must guarantee that AI systems are evaluated for inclusivity, justice, and transparency as well as that remedial measures are implemented when biases are discovered in order to reduce this danger.

There are also significant legal and policy gaps in the use of AI in public administration. Existing laws and regulations often fail to adequately address the complexities introduced by AI technologies. For instance, issues like accountability for decisions made by AI systems, the impact on employment, and the potential for AI to influence or replace traditional decision-making processes are not always covered by current legal frameworks. Policymakers must create clear, comprehensive legislation outlining the duties and responsibilities of both AI

systems and human oversight. Without such frameworks, the risk of legal ambiguities and regulatory inconsistencies remains high.

Large amounts of data are produced and managed by government organizations, ranging from official documents and legislation to intelligence and other public transactions. When it comes to solving the problems that so large data presents, artificial intelligence can be really helpful. It makes it possible for organizations to streamline internal procedures, link disparate data sources, and run more effectively. Therefore, using AI lowers expenses, enhances the delivery of public services, and raises citizen happiness (Elastic.co, n.d.).

The introduction of Artificial Intelligence in public administration can also have a profound impact on public sector employment. Many administrative tasks that were previously carried out by public servants, such as processing claims, managing documents, or answering routine queries, can be automated using AI technologies. While this can result in increased efficiency, it also raises worries about job displacement for public sector personnel.

Trust and transparency are crucial problems when implementing AI in public management. The opaque appearance of AI-driven decision-making systems often makes it hard for the general public to understand how decisions are made. If the public perceives that AI systems are making important decisions without sufficient human oversight or transparency, trust in government institutions may erode. Governments must prioritize explainability in AI systems and make it clear how decisions are made, particularly when these decisions directly affect citizens. Implementing mechanisms for public scrutiny and providing opportunities for citizens to challenge AI-driven decisions are essential steps in ensuring transparency.

The deployment of AI in public administration also raises important ethical concerns. Public administrations must navigate complex ethical dilemmas regarding the use of AI, such as the balance between technological innovation and safeguarding human rights. It is important to carefully analyze the ethical implications of automated decision-making systems, particularly in delicate fields like healthcare, social welfare, and law enforcement. For instance, racial profiling and privacy issues may arise from the use of AI in predictive policing, while issues with treatment suggestions and access to care may arise from its application in healthcare.

Integrating AI with existing public administration systems is another challenge. Many public-sector organizations rely on antiquated legacy systems that are incompatible with new AI technologies. Upgrading these systems to include AI technologies can be costly, time-consuming, and technically hard. Furthermore, public administrations need to ensure that AI systems work seamlessly with other technologies, such as electronic records management systems, to enhance overall service delivery. This requires significant investment in infrastructure, training, and coordination across different levels of government.

While AI offers tremendous opportunities for enhancing public administration, the challenges it presents cannot be underestimated. Public administrations must address issues related to data privacy, algorithmic bias, legal frameworks, employment impacts, transparency, and ethics in order to successfully integrate AI technologies. With the right regulatory safeguards, investments in training, and a commitment to transparency and fairness, AI can drive meaningful improvements in the way public services are delivered, benefiting both citizens and governments alike.



## **V. AI's Advantages and Disadvantages for Use in Public Administration**

### **Advantages of AI in Public Administration**

The rapid advancement of generative AI technology has presented significant potential and difficulties for the public sector, particularly since the release of tools like DeepSeek R1 in 2025 and ChatGPT in 2022. Many government agencies are finding it difficult to keep up with these innovations' rapid pace. However, given the rising need for more effective and superior services, implementing AI has become unavoidable. Public administrators are now more concerned with how to incorporate AI properly and successfully than with whether it should be included at all (IE.edu, n.d.).

The integration of artificial intelligence (AI) into public administration is transforming how governments interact with the public and deliver services.

AI has shown itself to be an effective tool for boosting administrative procedures' responsiveness, efficiency, and transparency, all of which are critical for fostering public trust and enhancing an institution's reputation.

Administrations must implement smart technologies that are in line with the requirements and habits of contemporary citizens in order to stay up with the evolving public expectations in the digital age.

AI has the power to revolutionize how public policies and services are developed and provided.

AI has enormous potential to improve public service delivery's effectiveness and caliber. Permit applications, public transportation scheduling, and utility management are just a few of the procedures that may be made quicker, more accurate, and more accessible for citizens through the use of AI-powered technologies (Centric Insights, n.d.).

The increase in service efficiency and speed is one of the biggest advantages of AI in public administration. Compared to conventional human-led processes, automated systems can handle data, process applications, and reply to questions more quickly.

AI-powered chatbots, for example, can answer common questions around-the-clock, cutting down on wait times and allowing human staff to concentrate on more difficult jobs. AI is increasingly being applied by governments to drive innovation across different areas of public sector activity. This technology enables improvements in various services and processes, helping institutions to become more modern, efficient, and responsive to citizens' needs (OECD, 2019).

Additionally, repetitive back-office operations like data input and form validation are being completed with surprising precision and speed thanks to robotic process automation, or RPA. In many government areas, this results in more efficient processes, lower costs, and speedier decision-making.

Another important advantage is the enhanced accessibility of public services. AI makes it possible for digital platforms to be accessible 24/7, removing geographical and physical boundaries for citizens. Since people with limited mobility or those living in rural locations can now access government services online, public administration is becoming more inclusive and focused on the needs of its citizens. Additionally, AI-powered systems may modify

interfaces to accommodate people with disabilities and provide multilingual support, which helps create a more equal service delivery environment.

Transparency and trust are also reinforced through AI tools. AI lessens the possibility of human prejudice, favoritism, and corruption by employing computers to make decisions based on precise standards and impartial data analysis. Additionally, public access to digital data and audit trails produced by AI systems enables citizens to monitor procedures and results. For institutions, this degree of transparency serves as a potent marketing weapon that strengthens their reputation and legitimacy in the eyes of the public.

One of the most innovative benefits of AI in public administration is its capacity to alter public sector marketing. By analyzing large datasets, AI tools can segment audiences and tailor government messages to the specific needs, interests, or concerns of different population groups. This personalized approach allows public institutions to more effectively promote health campaigns, civic initiatives, or emergency alerts. In doing so, AI-driven marketing increases the relevance and reach of public communication, ultimately strengthening institutional legitimacy and fostering a more informed and engaged citizenry.

Principles such as explainability of choices, data confidentiality, and transparency should lead the application of Artificial Intelligence in public administration. Avoiding discrimination and making ensuring that everyone has equal control are essential. Potential biases and data tampering are prevented by human oversight.

It is essential to make sure that fundamental principles like openness, transparency, data confidentiality, and the capacity to justify judgments are maintained while implementing artificial intelligence in public administration. Users should have some influence over these technologies, and AI must not result in discriminatory practices in public services. Human oversight continues to be essential as an extra layer of accountability and fairness to prevent biased or manipulated outcomes—caused by faulty data, fraudulent inputs, or deliberate programming (Dei, 2025).

Perhaps one of the most strategic uses of AI is its ability to personalize services according to the specific needs of citizens. Algorithms for machine learning can analyze large information to verify patterns, preferences, trends behavioral. This enables institutions to modify their programs community needs to be met. AI can, for instance, forecast which communities would need more social services or where infrastructure improvements are most urgently needed. This focused service delivery improves the administration's reputation and influence among stakeholders while also raising citizen satisfaction and bolstering its public image.

Furthermore, by creating transparent monitoring and moral guidelines, governments can increase public confidence and responsibility. By establishing rules for openness, equity, and data security, AI is applied responsibly and in accordance with democratic principles. These regulations also lessen the possibility of prejudice and abuse in algorithmic decision-making.

Finally, AI presents unique opportunities for innovation and reform. By adapting legal and regulatory frameworks, public institutions can better support experimentation, pilot projects, and the broader integration of AI in their operations. Adoption of AI is facilitated by forwardthinking legislation, which also establishes governments as pioneers in the digital revolution.

To avoid abuse and foster trust, public administration's use of AI requires revised legal framework and ethical. So to represent needs and values of actual life, a human-centered approach is equally essential.

A robust ethical and legal framework must be established in order to guarantee the proper application of AI in public administration. A system like this fosters accountability, guards against abuse, and increases public confidence in organizations. Current laws and ethical standards must be modified to reflect emerging issues and make sure that clear responsibilities are outlined in the event of non-compliance as AI technology advances. Furthermore, as an over-reliance on data and algorithms runs the risk of neglecting the social and emotional aspects of public service, the human element must continue to play a vital role in the development and implementation of AI systems (Dei, 2025).

### **Challenges and Risks of AI Implementation**

There are many advantages to using artificial intelligence in public administration, but there are also a number of important issues that need to be properly considered.

A pro-human attitude is necessary for the successful application of AI in the public sector, where AI complements and enriches people and public employees rather than taking their place. The most effective AI solutions aim to enhance human capabilities, boost staff performance, and improve the general citizen experience when interacting with government services rather than just automating current processes (IE University, n.d.).

Privacy issues are also important, particularly when AI is used to profile people, which can have an impact on government relations and individual rights. These concerns have fueled regulatory action, including the EU AI Act, and guidelines for the use of AI in the public sector.

A major concern is the risk of algorithmic bias, it might happen when cultural biases or current inequalities are reflected in the data that AI systems are trained on. Such biases, especially delicate areas like welfare distribution, law enforcement, or immigration control, might result in unfair or discriminatory outcomes if they are not adequately checked.

Because there are significant dangers associated with using AI systems, it is essential to have robust human oversight, auditing, and ongoing monitoring. While the technical workings of AI chatbots are well understood, the method by which they produce responses is still not entirely clear. Because these systems are based on statistical predictions rather than actual knowledge or reasoning, they can provide erroneous or nonsensical results, which are often called "hallucinations." This emphasizes how crucial human intervention is to guarantee accuracy and dependability (IE University, n.d.).

Another key issue involves security and data privacy. Artificial intelligence systems require extensive access to sensitive and private data. This brings up moral and legal questions around the gathering, storing, and use of this data. If citizens feel that their data is not being managed responsibly or honestly, they may stop trusting governmental institutions.

One of the significant risks associated with AI in decision-making is the potential loss of human discretion. While AI can enhance decision-making by ensuring consistency and reducing biases, it is essential to supervise its implementation to prevent errors. Automated decision-making (ADM) systems, if not carefully monitored, may lead to inaccurate or unfair

outcomes. Therefore, human oversight is crucial to maintain fairness and ensure that the decisions made by AI align with ethical and legal standards (IE University, n.d.).

Additionally, the "black box" problem—the opaqueness of AI decision-making processes, makes it impossible to establish accountability. It becomes difficult for citizens and public officials to comprehend, challenge, or appeal judgments made by AI systems when they lack explicit justifications.

There is also the risk of over-reliance on technology, it may cause human oversight and judgment to deteriorate. Not every administrative work can or ought to be automated, particularly those that call for discretion, empathy, or sophisticated ethical reasoning. To preserve human values and service quality, public employees must continue to participate actively in decision-making.

Lastly, technological inequality is another risk. Access to digital infrastructure and the abilities required to communicate with AI-based systems are not equally available to all citizens. If governments fail to offer disadvantaged people the proper support and alternatives, the digital gap may lead to new kinds of exclusion.

AI that is human-centered makes sure that choices represent the values of society. AI can enhance crisis response, efficiently distribute resources, and personalize services. To foster trust and stop abuse, regulatory frameworks that prioritize openness, equity, and data security are essential.

Public institutions must guarantee effective internal communication between personnel, departments, and leadership in order to fully reap these benefits. Adoption and safe usage of AI technology are accelerated by clear instructions and a common understanding.

### **AI-Driven Marketing as a Tool for Public Sector Communication**

In addition to changing how public institutions function internally, artificial intelligence (AI) is also changing how governments interact with the public through strategic communication. The use of intelligent algorithms to assess citizen behavior, segment audiences, and offer customized messages that increase public awareness and participation is known as AI-driven marketing in the public sector. Campaigns pertaining to health, taxes, education, elections, or emergency response are more effective when institutions use this strategy to get the correct information to the right individuals at the right time.

Governments can forecast information needs, evaluate public mood, and create focused outreach campaigns with the help of AI tools like chatbots, recommendation engines, and data analytics platforms.

These solutions ensure that public communications are accessible and relevant by personalizing digital communication according to online behavior, preferences, and demographics. This in turn promotes evidence-based policymaking, builds institutional visibility, and cultivates trust.

Additionally, by reducing communication barriers with underserved or difficult-to-reach groups, AI-driven marketing helps to create a more responsive and inclusive administration. Public organizations can guarantee that their services and communications are accessible and egalitarian by automating multilingual support, visual aids, and adaptive messaging.

AI is being used by governments more and more to increase the effectiveness and responsiveness of public services. 67% of OECD nations are using AI to improve the planning and provision of public services, per the 2023 OECD Digital Government Index. A notable example is Finland's AuroraAI programme, which aims to simplify public services by identifying and addressing overly complex processes for citizens. Using artificial intelligence (AI), the system models potential service pathways and proactively provides people with customized services based on significant life events like marriage, enrolling in college, or retiring. In addition to streamlining procedures, this strategy customizes service delivery across a range of policy domains (OECD, 2024).

Transparency, data privacy, and algorithmic responsibility must all be covered establishing legal structures to ensure that AI is used ethically in public discourse. Content customization and message distribution must be guided by ethical principles, particularly in situations that are politically or socially sensitive.

## **Conclusion**

Artificial intelligence has revolutionary potential to enhance service delivery, boost productivity, and promote transparency in public administration. However, successful adoption necessitates excellent corporate communication in addition to cutting-edge technologies and regulatory compliance. The objectives of AI adoption run the risk of being misinterpreted or inadequately carried out in the absence of strategic, open, and transparent internal communication.

The significance of ethical norms, legal frameworks, and successful case practices throughout Europe were emphasized in this research. Public organizations must, however, improve internal coordination, encourage ongoing communication among stakeholders, and make training investments in order to guarantee AI systems serve residents in an efficient and equitable manner.

In summary, AI should be seen as a catalyst for organizational change rather than merely a technical instrument; this requires effective communication tactics and inclusive behaviors, as well as a common goal for the whole public administration system.

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## ***Legal framework and challenges regarding AI integration into Marketing***

***Dr (c). Ikbale Tepelena***

*“Aleksander Moisiu” University, Faculty of Political Sciences and Law, Public  
Administration Department*

[ikbaletepelena@uamd.edu.al](mailto:ikbaletepelena@uamd.edu.al)

***Prof. As. Dr. Vaeld Zhezha***

*“Aleksander Moisiu” University, Business Faculty, Head of Marketing Department*

[vaeldzhezha@uamd.edu.al](mailto:vaeldzhezha@uamd.edu.al);

***Prof. As. Dr. Blerim Kola***

*“Aleksander Moisiu” University, Business Faculty, Marketing Department*

[blerimkola@uamd.edu.al](mailto:blerimkola@uamd.edu.al)

### ***Abstract***

*The integration of Artificial Intelligence (AI) in marketing has revolutionized the industry by enhancing customer engagement, optimizing advertising strategies, and enabling data-driven decision-making. AI-powered tools, such as machine learning algorithms, chatbots, and predictive analytics, allow businesses to personalize consumer experiences, automate processes, and improve marketing efficiency. However, this rapid advancement brings with it a host of legal and ethical challenges. Concerns around data privacy, algorithmic bias, and transparency have sparked global discussions about responsible AI use. This paper explores the legal frameworks that regulate AI in digital marketing, focusing on key regulations such as the General Data Protection Regulation (GDPR), the California Consumer Privacy Act (CCPA), and the proposed European Union AI Act.*

*To be more specific, General Data Protection Regulation (GDPR), which is enforced in the European Union, sets strict rules for data collection, requiring businesses to obtain clear user consent and give individuals control over their personal information. AI-driven marketing must comply with these regulations by ensuring transparency and offering users the right to opt out of automated decision-making. Similarly, the CCPA gives California residents more power over their personal data, allowing them to know what information companies collect and request its deletion. Companies leveraging AI in marketing must be upfront about data usage and act swiftly when consumers exercise their rights.*

*Meanwhile, the EU Artificial Intelligence Act aims to classify AI applications based on their risk level, imposing stricter rules on higher-risk systems. AI-driven marketing tools will need to determine their classification and meet the corresponding legal requirements. This paper also aims to identify compliance challenges faced by businesses including ethical AI deployment, data protection, and consumer rights and it discusses potential solutions to navigate this complex landscape. The study concludes with recommendations for regulatory harmonization and best practices for ensuring AI-driven marketing remains legally and*



*ethically sound. By fostering transparency, bias mitigation, and adherence to ethical AI principles, businesses can navigate regulatory landscapes while leveraging AI's full potential in digital marketing.*

**Keywords:** *marketing, artificial intelligence, data protection, regulations.*

## **I. Overview of AI in Marketing**

AI is a computer science technology that teaches computers to comprehend and replicate human communication and behavior. AI can do highly technical and specialized activities such as robotics, speech and picture recognition, natural language processing, problem-solving, etc. When applied to standard commercial processes, these technologies can learn, act, and perform with human-like intelligence (Haleem, A& Javaid, M etc, 2022).

Artificial intelligence (AI) has rapidly become a key force shaping both everyday life and how businesses operate. One of the most exciting areas where AI is making a difference is marketing. Companies are now using AI to understand what their customers want and to deliver personalized experiences. Thanks to machine learning, businesses can tailor their marketing strategies and automate services that feel more relevant to each individual. As a result, they can target the correct approach to the right individual in a timely and effective manner. Marketers can use AI in marketing to quickly process large amounts of data from social media, emails, and the Web. It may be used in conjunction with marketing automation to enable the translation of data into choices, meaningful interactions, and a beneficial influence on company outcomes (J. Paschen, 2021). Whether it's creating text or video content automatically, or using data to predict customer behavior, AI is helping companies connect more meaningfully with their audiences and fine-tune their campaigns. Its ability to generate realistic visuals, mimic voices, and produce creative content at a fraction of the usual cost has opened up huge opportunities for marketers.

Studies (Durai et al., 2024; Gkikas & Theodoridis, 2022; Yau et al., 2021) have shown that these AI-driven approaches can increase customer engagement and loyalty. In fact, Goldman Sachs (2023) estimates that by 2025, businesses could be investing up to \$200 billion in AI—especially to deliver more personalized recommendations and services. Tools like ChatGPT are already being widely adopted to help companies build stronger relationships with their customers

As more companies embrace AI, they're also rethinking how to use their resources and reshape their strategies to better meet customer needs. But while the technology is advancing fast, the rules around how it should be used are still catching up. That can make things tricky for companies trying to stay both innovative and responsible.

To navigate this new landscape, it's essential for businesses to build ethical AI use into their policies from the start. Doing so helps manage risks and shows a commitment to transparency, accountability, and trust—values that are more important than ever in today's digital world. The research question would be "How do existing legal frameworks regulate the use of AI in marketing, and what challenges arise?"

AI adoption in the marketing sector has created new legal challenges, particularly in terms of data privacy, intellectual property (IP), and truth in advertising. These issues have the

potential to permanently damage a company's reputation and credibility in the marketplace, eroding consumer trust and resulting in financial loss.

One of the foremost legal challenges posed by AI in marketing is the issue of intellectual property rights. Trademarks and copyrights are designed to protect the creations and identities of individuals and companies. However, AI's ability to replicate these elements with precision raises questions about infringement and ownership. Using AI to clone the voices of celebrities to sell products without their consent is a clear violation of publicity rights. These rights, which vary by jurisdiction, generally protect against unauthorized commercial use of an individual's identity. The creation of deepfakes, or AI-generated videos that superimpose a person's likeness onto another, further complicates this issue. Brands must be cautious and obtain explicit permission from individuals whose voices or likenesses they intend to use, failing which they may face significant legal repercussions.

The use of AI to generate realistic images of public figures holding products or endorsing brands without authorization also poses serious legal risks. Such actions can be deemed as false endorsements, misleading consumers and potentially damaging the reputation of the individuals depicted. Additionally, if the AI-generated content closely mimics existing copyrighted works, it may infringe on the original creator's rights.

## **II. Legal framework analyzes on AI implementation to Marketing**

### *GDPR and the Use of AI in Marketing*

The General Data Protection Regulation (GDPR), adopted by the European Union in 2016 and enforced from May 25, 2018, is the cornerstone of data privacy law in the EU. It plays a crucial role in governing how Artificial Intelligence (AI) can be used in digital marketing, especially concerning the processing of personal data, consumer profiling, and automated decision-making.

#### **1. Lawfulness, Fairness, and Transparency (Articles 5 & 6 GDPR)**

The foundational principle of lawfulness, fairness, and transparency requires marketers to ensure that personal data is processed on a clear legal basis—commonly, explicit consent or a legitimate interest. AI tools used in marketing often process large amounts of user data to tailor ads or automate content. Under GDPR, Marketers must clearly inform users about what data is collected, how it is processed, and for what purpose. Consumers must be able to understand and access this information easily. This transparency is crucial in profiling and behavioral targeting, where consumer trust hinges on being fully informed (Edwards & Veale, 2017).

#### **2. Purpose Limitation and Data Minimization (Article 5(1)(b–c))**

AI models tend to rely on vast datasets for training and operation. However, the GDPR mandates that personal data be collected for specific, explicit, and legitimate purposes. Only the minimum necessary data be collected for those purposes.

This restricts the common practice of over-collection in AI marketing systems, where platforms may harvest data beyond what is required for a particular marketing campaign. As Wachter et al. (2017) note, data minimization can curb the spread of unethical and intrusive data practices often associated with advanced algorithmic models.

#### **3. Consent for Profiling and Personalization (Articles 7 & 21 GDPR)**

When using AI to profile individuals or personalize content, marketers must obtain freely given, specific, informed, and unambiguous consent. Moreover:

Consumers must be clearly informed about how their data will be used for profiling or behavioral targeting. They should also be able to opt out of both profiling and receiving marketing communications at any time. The Information Commissioner's Office (ICO, 2020) emphasizes the importance of user control in profiling, which forms the backbone of ethical AI marketing.

#### 4. Automated Decision-Making and Profiling (Article 22 GDPR)

A critical component of the GDPR is Article 22, which gives individuals the right not to be subject to decisions based solely on automated processing, including profiling, if those decisions produce legal or similarly significant effects. This directly impacts AI systems that assign scores or categories to users for ad delivery. For instance, if a credit scoring algorithm is used in marketing to deny offers based on inferred behavior, it may fall foul of Article 22 unless human intervention, explanation, and recourse are provided (Veale & Binns, 2017).

#### 5. Right to Explanation and Access (Article 15 & Recital 71 GDPR)

Although not explicitly termed as a “right to explanation,” GDPR ensures that users have the right to access their data and receive meaningful information about the logic involved in automated processing. This principle encourages the development of explainable AI models in marketing, where decisions—such as why a user was shown a specific ad—must be understandable and justifiable. According to Goodman & Flaxman (2017), this is particularly challenging but necessary when using complex or “black box” algorithms like deep learning.

### *CCPA and the Use of AI in Marketing*

The California Consumer Privacy Act (CCPA), which came into effect on January 1, 2020, is a landmark data privacy law that grants California residents enhanced control over their personal information. It significantly impacts how companies use Artificial Intelligence (AI) in marketing—especially regarding data collection, profiling, and targeted advertising. According to CCPA, consumers can request information about what personal data is being collected and how it’s used. In AI-driven marketing, this means companies must disclose whether data is used for automated profiling, ad targeting, or personalization (Solove & Schwartz, 2020).

Also, consumers have the right to opt out of the sale of their personal data to third parties. This affects AI systems relying on third-party data for behavioral targeting, forcing marketers to rethink how they personalize content (Zarsky, 2020).

Consumers can request the deletion of their personal information. This complicates AI model training and retention of user data, particularly in systems that continually learn from user interactions (Calo, 2021).

Businesses must not discriminate against consumers who exercise their privacy rights (e.g., by offering lower service quality). In AI marketing, this restricts the use of dynamic pricing models or personalization strategies that penalize privacy-conscious users (Binns et al., 2018).

### *EU Artificial Intelligence (AI) Act and AI in Marketing*

The EU Artificial Intelligence Act, approved by the European Parliament in 2024, is the world's first comprehensive legal framework for AI. Its primary aim is to ensure that AI systems used in the EU are safe, transparent, non-discriminatory, and respect fundamental rights. While the Act focuses heavily on high-risk applications (e.g., facial recognition, critical infrastructure), it also affects AI used in marketing—particularly in areas like profiling, content generation, and targeted advertising. The Act classifies AI systems into four risk levels:

- Unacceptable risk (e.g., social scoring) – banned
- High risk – strict obligations (e.g., in employment, law enforcement)
- Limited risk – transparency requirements
- Minimal risk – no restrictions, e.g., AI chatbots or recommender systems in marketing

In terms of transparency, marketers using AI systems that interact with people (e.g., chatbots) must disclose that the person is interacting with AI (Art. 52). AI-generated content, such as ads, must be clearly labeled when users might believe it was created by a human. Consumers must be informed when profiling or targeting techniques are based on emotional recognition or biometric data.

The Act prohibits practices relevant to Marketing such as subliminal techniques that can manipulate a person's behavior in a way that may cause harm (Art. 5). This has implications for aggressive ad targeting or dark patterns used in AI marketing tools.

According to The Act, developers and deployers of AI marketing tools must ensure human oversight, prevent discriminatory outcomes, and document how AI decisions are made. Marketing AI systems must be auditable and traceable, especially when profiling is used.

### *AI Bill of Rights*

The AI Bill of Rights is a non-binding framework issued by the U.S. government to guide the design, use, and governance of automated systems, including AI. Though it does not have legal force like the EU AI Act or the GDPR, it sets ethical and human rights-based standards to help ensure that AI is safe, transparent, and non-discriminatory.

According to AI Bill of Rights, AI systems must be tested and monitored to ensure they are safe and effective for their intended use. In marketing, this means AI tools should not cause harm through inaccurate targeting, emotional manipulation, or privacy breaches. AI must not contribute to discrimination based on race, gender, age, or other protected characteristics. Marketing algorithms must be audited to ensure fair treatment across demographic groups, avoiding biased ad delivery or pricing. Individuals should have control over how their data is collected and used, with clear consent mechanisms. This principle impacts behavioral targeting and profiling in advertising, encouraging opt-in practices. Users should be informed when an automated system is being used, and be provided with plain-language explanations of how and why decisions are made. In marketing, this implies transparent disclosures when consumers are subject to AI-driven personalization or content generation. People should be able to opt out of automated systems and seek human review when decisions significantly affect their lives.

While less critical in everyday marketing, this applies to automated offers, pricing, or targeting that affect consumer access or fairness.

### *Albanian legal framework on AI use in Marketing*

Albania does not have a specific legal framework dedicated solely to the use of Artificial Intelligence (AI) in marketing. However, the application of AI in the marketing sector falls under the general legal and regulatory frameworks related to data protection, consumer rights, and electronic communications, many of which are influenced by European Union (EU) standards, due to Albania's EU integration process.

Law No. 9887/2008 "On Protection of Personal Data" (amended), is the main data protection law in Albania, and it is broadly aligned with the EU General Data Protection Regulation (GDPR). This law requires that personal data processing, including through AI systems for profiling and personalization, must be lawful, fair, and transparent. Profiling for marketing purposes requires explicit consent, especially when it involves automated decision-making. The Supervisory authority under this law, who has the competence to oversee its implementation is The Commissioner for the Right to Information and Protection of Personal Data (IDP).

Law No. 9902/2008 "On Consumer Protection", prohibits unfair, deceptive, and aggressive commercial practices and it ensures transparent communication with consumers.

Law No. 9918/2008 "On Electronic Communications", regulates digital platforms and electronic services, including aspects of digital marketing. AI-powered digital advertising must comply with requirements related to user consent and data usage transparency.

Albania is progressively aligning its digital and legal infrastructure with the EU Digital Agenda and AI governance initiatives in order to strengthen AI governance, improve data protection capacity and encourage ethical use of digital technologies in both public and private sectors.

### **Conclusions and recommendations**

AI is a new technology that is evolving very fast. Using it in business operations, including marketing, can be highly advantageous but the legal risk factors are too large to overlook. Governments in various countries are focusing on developing stringent AI norms to ease the complications.

While GDPR offers more comprehensive and restrictive rules, especially around automated decision-making and profiling, the CCPA provides broader rights in a more flexible (opt-out) framework. For AI in marketing, GDPR mandates more transparency, consent, and control, whereas CCPA allows broader uses unless consumers take action to restrict it. The GDPR provides a robust legal framework that ensures accountability, transparency, and fairness in AI-driven marketing. While AI offers immense potential for innovation in targeting, personalization, and consumer engagement, it must be aligned with data protection principles to be ethical and legally compliant.

For marketers, this means going beyond mere legal compliance and embedding privacy-by-design, explainability, and user empowerment into AI systems. As regulators and consumers become more aware of algorithmic impacts, responsible AI marketing practices will not only build brand trust, but also safeguard against legal and reputational risks.

However, AI's reliance on massive data sets raises significant privacy concerns. Regulations like the GDPR and CCPA mandate strict data governance, transparency, and user consent, complicating AI deployment (Solove & Schwartz, 2020; Wachter & Mittelstadt, 2019).

AI systems trained on biased data may reproduce or amplify societal stereotypes, leading to unfair targeting or exclusion of consumer groups (Binns et al., 2018). Many AI models function as "black boxes," making it difficult for marketers and regulators to understand how decisions are made. This limits accountability and erodes consumer trust (Goodman & Flaxman, 2017). The use of AI for manipulating consumer behavior through hyper-targeting or emotional profiling raises ethical questions. Consumers may be unaware they are being influenced by algorithms, challenging notions of autonomy and informed consent (Calo, 2021).

To fully harness the advantages of artificial intelligence, businesses need to implement responsible AI practices. These include fairness audits, algorithmic transparency, and integrating privacy-by-design. Collaboration with legal and ethics experts is essential to navigate the regulatory landscape and minimizing potential risks (European Commission, 2024).

For marketers, the AI Act introduces a new era of regulation requiring transparency, fairness, and responsibility in AI-driven advertising and consumer profiling. While most marketing tools fall into the "limited risk" category, they still face mandatory disclosure rules and heightened oversight if they involve personalization, persuasion, or profiling—especially when affecting vulnerable groups.

The AI Bill of Rights serves as a foundational ethics framework for the responsible use of AI in fields including digital marketing. While not legally binding, it sets strong expectations for companies to uphold fairness, privacy, and transparency, especially in the use of algorithms that influence consumer behavior. It complements emerging laws like the EU AI Act and the CCPA, reflecting a global move toward accountable AI.

While Albania does not yet have AI-specific legislation for marketing, the existing legal framework—particularly in data protection and consumer law—partially regulates the use of AI technologies in this field. Strengthening enforcement, increasing transparency in AI applications, and aligning with the EU's digital regulatory framework will be crucial for responsible AI adoption in marketing.

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GDPR: Regulation (EU) 2016/679 – <https://eur-lex.europa.eu/eli/reg/2016/679/oj>

CCPA: Cal. Civ. Code §§ 1798.100 – 1798.199

EU AI Act (2024): [eur-lex.europa.eu](https://eur-lex.europa.eu)

Blueprint for an AI Bill of Rights (White House, 2022): [whitehouse.gov](https://www.whitehouse.gov)

Law No. 9887/2008 “On Protection of Personal Data” (amended)

Law No. 9902/2008 “On Consumer Protection”

Law No. 9918/2008 “On Electronic Communications”



## ***Data-driven marketing***

***Prof. Dr. Nuhi Sela***

*Scientific Researcher*

*Member of board of technology directors - N. Macedonia*

[nsela1@hotmail.com](mailto:nsela1@hotmail.com)

***Amir Sela***

*Student at Ramapo College of New Jersey, New Jersey, USA*

*Double major in Mathematics and Data Science*

[selaamir9@gmail.com](mailto:selaamir9@gmail.com)

### ***Abstract***

*The rise of data driven marketing has created a new level of how businesses optimize decision making, create new strategies and interact with consumers. This scientific research covers the leverage of diverse datasets, and the use of marketing analytics has greatly evolved in recent years. Decision support systems, predictive analytics in decision-making and big data for personalization are to be explored in this paper. With vast accessibility to consumer data when combined with explanatory data analytics (EDA) and data science, gives businesses insight into consumer behavior, costumer segmentation, campaign strategies etc. Emerging trends in data science and marketing can be used to leverage real-time analytics, automation, business performance etc.*

***Keywords:*** *explanatory data analytics (EDA), data science, marketing analytics, strategies*

### **I. Introduction**

Data-driven marketing is the practice of using quantitative data to make data-informed decisions. This field is not entirely new; it has been used since the late 20<sup>th</sup> century. As data science grows daily, new analytical methods are created, improving accuracy and speed, which is very important to marketing in making accurate decisions. In early 2010, when social media started hitting every corner of the globe, data at enormous volumes started being recorded, such as location, interactions, time spent per page, etc. Companies saw this as an opportunity to use this data to enhance their products, strategies, etc. According to industry surveys, one-third of marketers concluded that data is crucial to marketing return on investment<sup>1</sup>. This scientific research paper will analyze how statistical dimensionality reduction and clustering methods are applied to make data-informed decisions when separating the customers into segments and how to use data science to accomplish that (Shmueli 2011).

### **II. Literature Review**

For companies to increase their sales and build strong relationships with customers, the marketing department creates strategies and then implements them. One of the many important roles of marketing is costumer segmentation which will be explored in this scientific research paper. One of the challenges marketers' faces is the decision process of which complex multi

variables have the most important role when conducting analytical methods. Usually, data is collected from many different sources and are joined together, which leads to noisy data (Noisy data is data that contains a lot of variables, is inconsistent, missing values and have outliers). Customer ID, Transaction ID, and sometimes timestamps can be considered irrelevant data (Davis. p.447). The innovation in technology has enabled us to collect an enormous amount of data, sometimes referred to as Big Data. Analysts must clean this data and assign weights to each factor before continuing with statistical methods (Assigning weight to data means to conduct few experiments to see which variables are most important and play a huge role when used in data science).

The neglect of assigning weight to data and using a lot of variables in mathematical models leads to overfitting the model. Overfitting the model leads to models focusing on unnecessary patterns on data and giving the analyst wrong impressions of the data (Shmueli & Koppius, p.553-555). Furthermore, when presenting their findings to a team, having the minimal number of variables in the graph makes it easier for listeners to read and understand the graph. To overcome this challenge, there exist many mathematical and statistical methods to reduce noise in a dataset and divide customers into segments. Analytical methods such as K-Means Clustering, multivariable regression analysis, logistic regression analysis, Recursive Feature Elimination (RFE), Principal Component Analysis (PCA), Uniform Manifold Approximation and Projection (UMAP), Hierarchical clustering etc. (Wedel & Kannan, p.97-99). The following methods will be explored in this research paper:

1. K-means clustering
2. Principal Component Analysis (PCA)
3. Recursive feature Elimination (RFE)

Method	Type	Pros	Cons
K-Means Clustering	Partition based	Simple, fast for large datasets	Must specify # of clusters upfront
PCA	Feature Extraction	Reduces dimensionality while retaining efficiency	Cannot capture linear relationships
Recursive Feature Elimination (RFE)	Feature Selection	Simple Improves performance by removing noise	High Computing Power, model choice varies

These data science models help the market analyst to make decisions of which variables and factors are important in a company's return on investment (ROI) and use these findings for future strategy creation and implementation. Additionally, cleaning noisy data and then using EDA to analyze them saves time and resources of the company, therefore increasing ROI.

### III. Hypothesis

Cleaning the data and assigning variables with the most weight into appropriate clustering models to segment customers help marketers make better strategies and decisions.

#### IV. Methodology

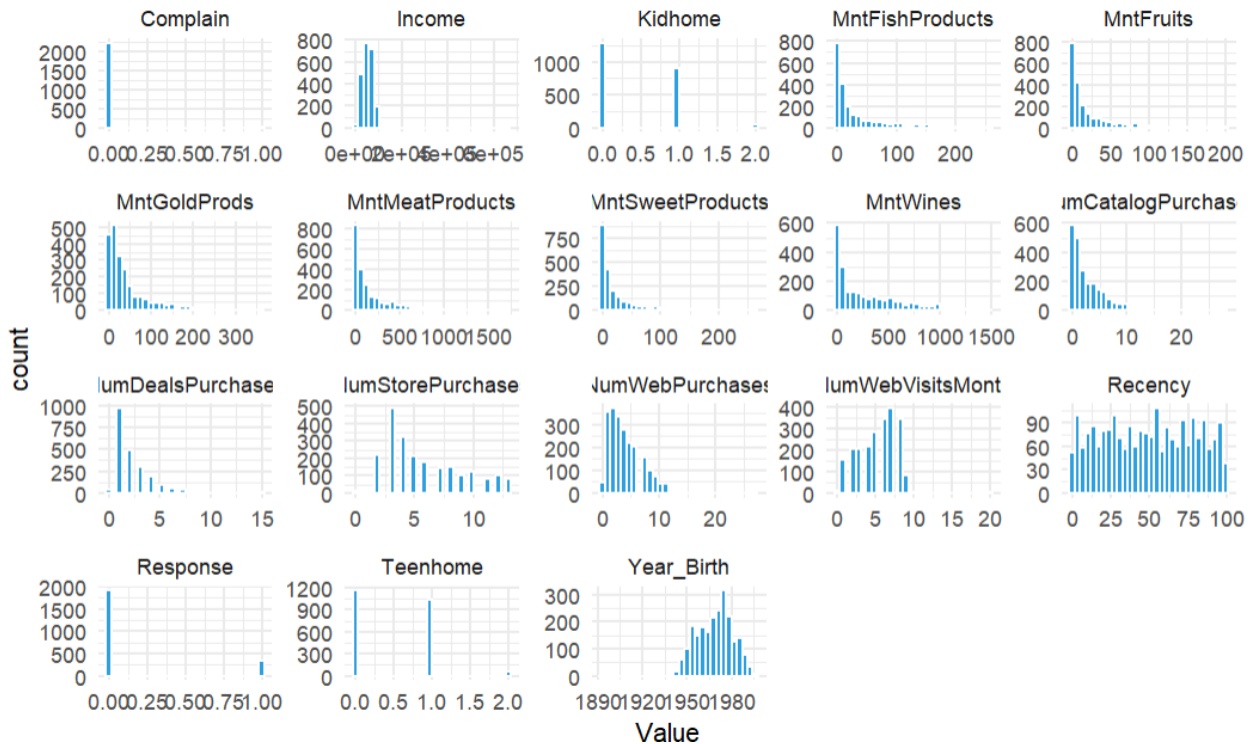
The data is collected from a public dataset from Kaggle website, where a company collected data over the course of one year. The analytical and data cleaning methods in this scientific paper are all applied through the statistical coding language R.

**Fig.1 Results**

Summary Statistics for Numeric Variables						
Variable	Min	Q1	Median	Mean	Q3	Max
Id	0	2828.25	5458.5	5592.16	8427.75	11191
Year_Birth	1893	1959	1970	1968.81	1977	1996
Income	1730	35303	51381.5	52247.25	68522	666666
Kidhome	0	0	0	0.44	1	2
Teenhome	0	0	0	0.51	1	2
Recency	0	24	49	49.11	74	99
MntWines	0	23.75	173.5	303.94	504.25	1493
MntFruits	0	1	8	26.3	33	199
MntMeatProducts	0	16	67	166.95	232	1725
MntFishProducts	0	3	12	37.53	50	259
MntSweetProducts	0	1	8	27.06	33	263
MntGoldProds	0	9	24	44.02	56	362
NumDealsPurchases	0	1	2	2.33	3	15
NumWebPurchases	0	2	4	4.08	6	27
NumCatalogPurchases	0	0	2	2.66	4	28
NumStorePurchases	0	3	5	5.79	8	13
NumWebVisitsMonth	0	3	6	5.32	7	20
Response	0	0	0	0.15	0	1
Complain	0	0	0	0.01	0	1

It is important before starting to analyze data, to familiarize yourself with how the data looks like in average. This can give us a fast snapshot of the overall data, After viewing the data we can choose the right methods to apply for further analysis.

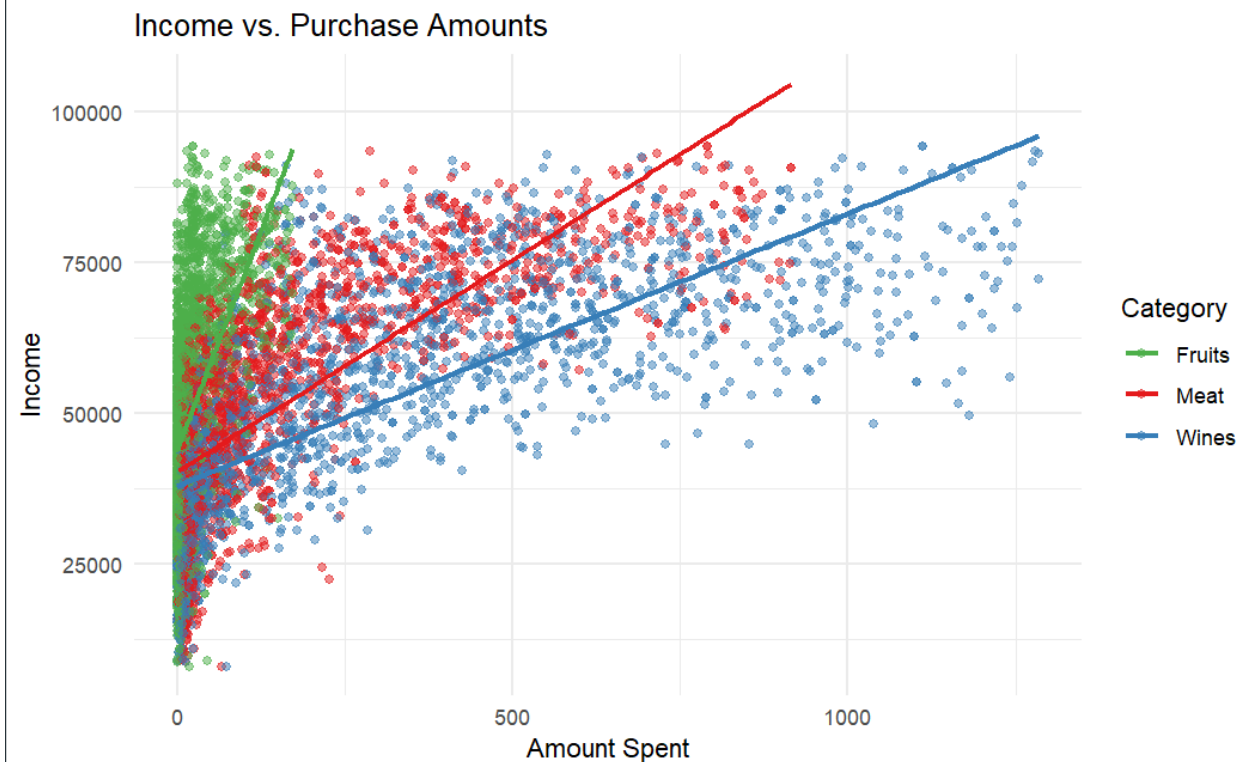
**Fig. 2**



Another simple graph like this can give us a good visual representation of the data. Examples of ideas that can be drawn from this graph are:

1. Some costumers spend very little, but some spend a lot at meat, fruits and wines
2. Income is highly skewed to the right, some very high income costumers might dominate in spending.
3. Average age of costumer which is around 50 years old and more...

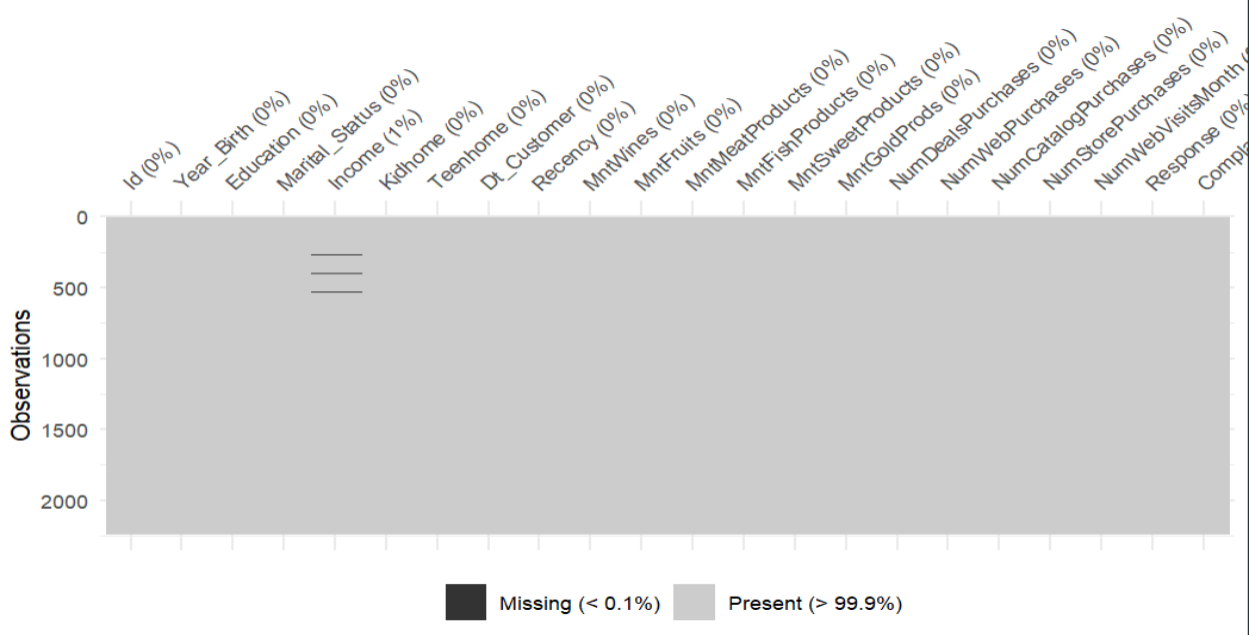
**Fig. 3**



After plotting this data and conducting a linear regression model, the graph tells us that majority of products purchased are under 100\$, customers with both low and high income buy fruits, and there is steep trend in fruits, meaning as income increases fruits purchase increases fast. Meat products also seem to have a steep purchase amount as income grows. Most medium-to-high income customers spend more on meat. And finally, this graph tells us that wines are the products that because of their sometimes-high prices are mostly purchased by the high-income customers. Graphs like this play a huge role into data driven marketing, as it gives us business insights on costumer spending behavior.

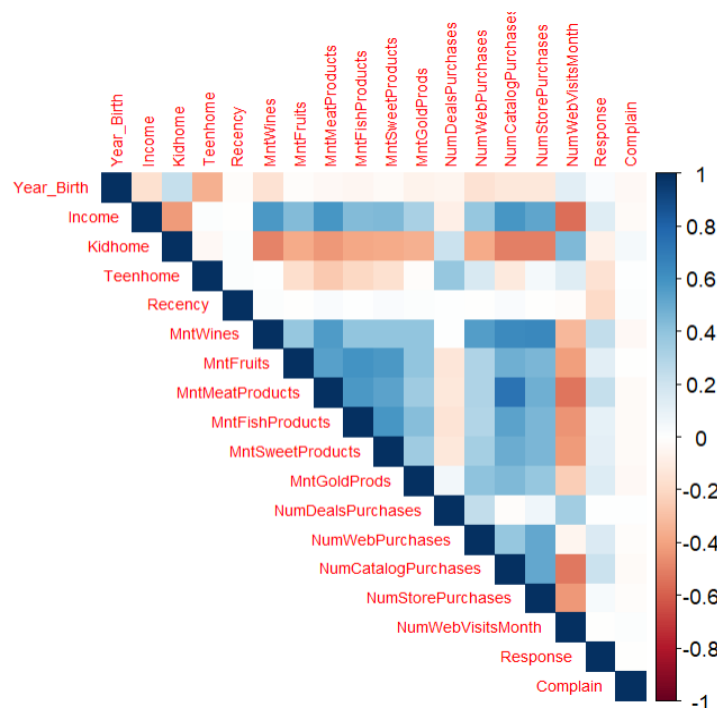
**Fig. 4**

This graph shows us the percentage of missing values in the dataset, which in this case



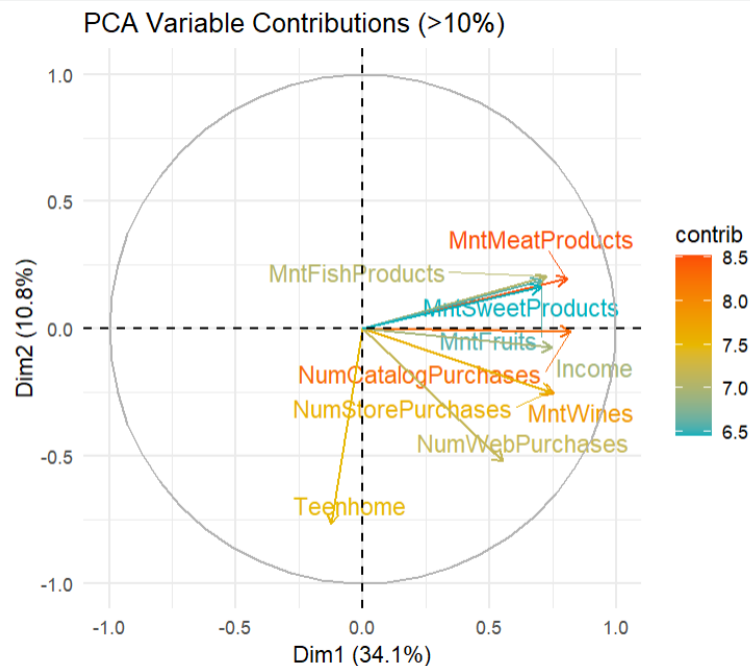
we are lucky to have only the income column have some missing values, which in this case can be filled with the mean of the variable income so no bias is introduced.

**Fig. 5**



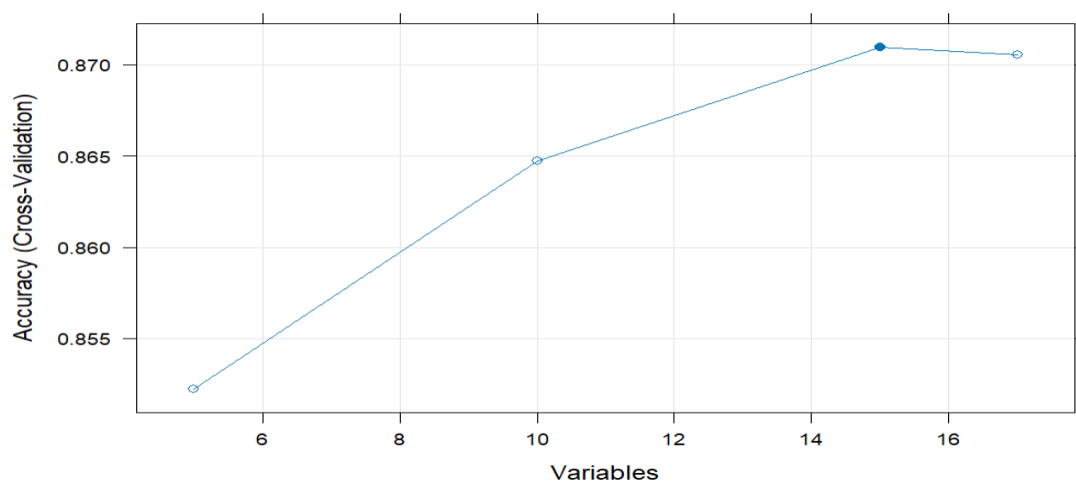
Correlation matrix as seen in Fig. 5 are very important when doing data-driven marketing. This matrix gives us the correlation between all the variables in the dataset, which is crucial to because it gives us an idea that if one variable changes in the future, then how does that affect the other variables. In data driven marketing, we can understand the correlation between variables. If some variables are highly correlated, we can drop one of them because they tell the same story.

**Fig. 6**



The PCA algorithm is challenging to understand, but it's a strong algorithm to when it comes to reducing variables in a dataset. In this case, the graph is telling us that meat products, sweet products, fruits, income and wine products are important when it comes to analyzing the data, which means that that data is has a lot of weight to it and we need to focus on those particular variables.

**Fig.7**

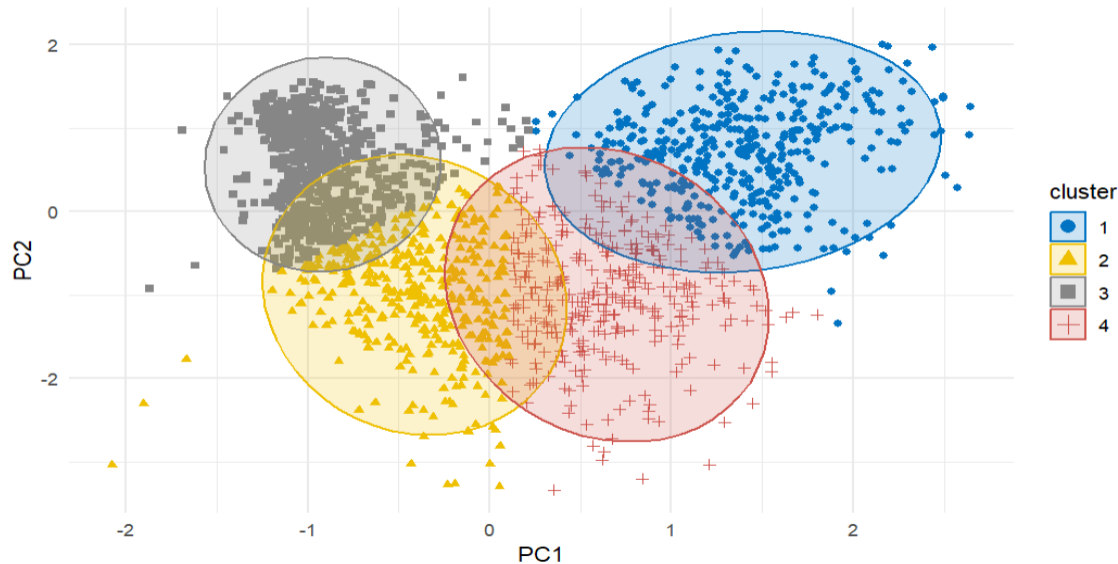


The RFE algorithm is strong and important when it comes to computational methods. The more variables we have in a dataset, the higher the computational power which increases the cost. As shown in Fig. 7 the difference between 15 variables (highest accuracy) and 5 variables (lowest accuracy) is 0.015 %. In the process of data driven marketing we can conclude

that just 5 variables is enough for our analysis, maintaining high accuracy and low cost at the same time.

**Fig. 8**

K-Means Clustering (Sampled 2k pts)



Cluster	Year_Birth	Income	Kidhome	Teenhome	Recency	MntWines	MntFruits	MeatProd	FishProd
1	1969.116	77600.9	0.038536	0.104046	49.14258	591.684	70.35453	473.0462	101.5645
2	1973.808	32966.37	0.827995	0.32503	48.70937	29.99881	5.015421	20.29181	7.297746
3	1963.565	48515.75	0.488739	0.968468	48.88739	228.4054	8.063063	62.94369	11.84685
4	1963.883	63837.55	0.107317	0.882927	49.60732	590.9707	34.34878	193.9	47.02683

This PCA and K-means clustering analysis segments customers into four distinct groups based on income, age, household size, and spending behavior. It reveals high-income premium buyers, budget-conscious families, mid-income large households, and loyal wine buyers—each with clear product preferences. This insight is critical in data-driven marketing because it allows businesses to move beyond one-size-fits-all campaigns and instead craft targeted, personalized strategies that match the needs and behaviors of each segment, ultimately boosting engagement, conversion rates, and customer loyalty.

## Conclusion

This analysis used summary statistics, PCA, and K-means clustering to uncover valuable insights for data-driven marketing. Summary statistics revealed skewed spending and income patterns, highlighting a few high-value customers among many low spenders. PCA identified the key variables driving customer behavior—such as income, wine, and meat purchases—while reducing data complexity. K-means clustering segmented customers into four distinct groups: wealthy premium shoppers, low-income families, moderate-income households, and loyal wine buyers. These findings are crucial for data-driven marketing, as they enable precise targeting, personalized offers, optimized campaign strategies, and more efficient allocation of marketing resources to maximize ROI.



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## ***Opportunities and Challenges of Marketing in the Age of AI***

***PhD(c). Zana Këpuska***

*Kolegji AAB, Prishtinë*

[zana.kepuska@universitetiaab.com](mailto:zana.kepuska@universitetiaab.com)

***Prof. Asoc. Dr. Shaip Bytyqi***

*Kolegji AAB, Prishtinë*

[shaip.bytyqi@universitetiaab.com](mailto:shaip.bytyqi@universitetiaab.com)

***Msc. Jon Këpuska***

*Kolegji AAB, Prishtinë*

[jon.kepuska@universitetiaab.com](mailto:jon.kepuska@universitetiaab.com)

### ***Abstract***

*Artificial Intelligence (AI) is increasingly being implemented by many companies around the world, bringing significant transformations across various sectors. Its use has significantly influenced our daily lives, including communication, shopping, and decision-making processes. AI has improved work efficiency, service automation, and the personalization of customer experiences across many industries.*

*The implementation of AI in marketing enables businesses to develop more effective strategies, offer personalized services, and increase customer engagement. Through real-time data analysis and machine learning, companies can create more targeted marketing campaigns and maximize their impact in the market. The digital transformation driven by AI is helping businesses remain competitive in an increasingly dynamic environment.*

*However, challenges in using AI include data privacy protection, algorithmic transparency, and ensuring the ethical use of technology.*

*In conclusion, Artificial Intelligence presents vast opportunities for the development of modern marketing, making it more efficient, personalized, and consumer-oriented. However, to fully benefit from these opportunities, companies must address the ethical and privacy-related challenges, ensuring that AI usage is sustainable and positively impactful.*

***Keywords:*** *Artificial Intelligence, Digital Marketing, Personalization, Efficiency, Digital Transformation*

### **III. Artificial Intelligence**

Artificial Intelligence refers to a computer's ability to perform functions that are currently typical only of the human mind. The term also refers to the branch of computer science focused on creating such capabilities. Textbooks define this field as "the study and creation of intelligent agents," where an intelligent agent is a system that perceives its environment and

takes actions to maximize its chances of success.<sup>27</sup> Artificial Intelligence is the study of intelligent behavior. It is the science of building intelligent machines. The main goal is to program these intelligent machines—such as computers—to analyze and understand human behavior. Some believed that human intelligence could be replicated simply by writing programs, while others argued that a broad base of knowledge would be necessary to achieve the desired tasks.

By using computers, we can execute or simulate any kind of task that we perform. Hence, computers are the right machines to develop AI. Some researchers have developed alternative computing machines, expecting them to outperform traditional computers in many ways.<sup>28</sup> To understand how advances in artificial intelligence are likely to change the workplace—and the role of managers—you need to know where AI delivers the most value. Major tech companies such as Apple, Google, and Amazon are prominently featuring AI in product launches and in acquiring AI-based startups. Artificial intelligence presents a similar opportunity: to make something previously expensive, abundant, and affordable.<sup>29</sup>

#### IV. Types of Artificial Intelligence

- **Narrow / Weak AI:** Also known as Weak AI, this system is designed to perform a specific task. Weak AI systems include video games and personal assistants like Amazon's Alexa and Apple's Siri. Users ask a question, and the assistant provides a response.
- **General AI:** This type includes strong AI systems that perform tasks considered similar to human abilities. They tend to be more complex and sophisticated and are found in applications such as self-driving cars or hospital operating rooms.<sup>30</sup> Unlike Narrow/Weak AI, General AI has the potential for advanced reasoning, complex problem-solving, and the ability to navigate and adapt to new and unpredictable situations.<sup>31</sup>

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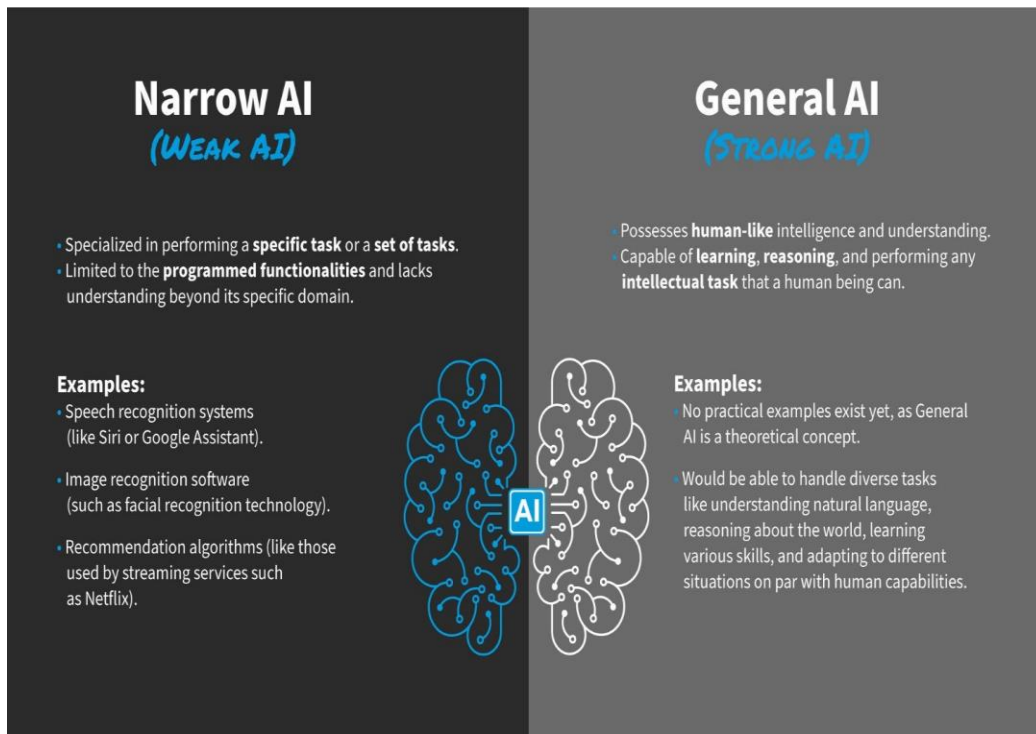
<sup>27</sup> [Andreas Kaplan; Artificial Intelligence, Business and Civilization - Our Fate Made in Machines, 2022, Routledge](#)

<sup>28</sup> McCarthy, John. "What is artificial intelligence?" (2007)

<sup>29</sup> <https://sloanreview.mit.edu/article/what-to-expect-from-artificial-intelligence/>

<sup>30</sup> <https://www.investopedia.com/terms/a/artificial-intelligence-ai.asp>

<sup>31</sup> <https://www.interaction-design.org/literature/topics/narrow-ai?srsId=AfmBOorpoeNsfsYIaJY2v0pPar6h6QggHHDwPVHCgkxwlr0kYzQbTtd>



## Preparing for an AI-Driven Marketing Future

As AI continues to shape the marketing landscape, staying ahead requires both the adoption of new tools and the continuous development of essential skills. These skills can—and should—be learned. Core competencies for today’s marketers now include strategic thinking, creativity, data analysis, and understanding the technology behind AI. The ability to provide clear direction and high-quality data to AI tools will ensure that marketers remain invaluable, even as tools evolve.

While AI can assist in generating strategies and plans, it highlights that marketers who excel at crafting the right prompts and delivering solid guidance will continue to produce the best results.<sup>32</sup>

<sup>32</sup> <https://imcprofessional.medill.northwestern.edu/blog/the-role-of-ai-in-marketing>



### Challenges and Limitations of AI in Marketing

AI has the potential to revolutionize marketing, but it also faces challenges and limitations that businesses must be aware of. These challenges can affect the effectiveness and reliability of AI-powered marketing initiatives.

- **Data Quality and Quantity:** A critical factor influencing AI algorithm performance is the quality and quantity of available data. AI models rely on large-scale, high-quality data to train and learn. If the data is inaccurate, incomplete, or biased, it may result in flawed outcomes. Ensuring access to clean, accurate, and diverse data is essential for effective AI in marketing.
- **Interpretability of AI Algorithms:** AI algorithms often function as "black boxes," making it difficult to understand how they arrive at certain decisions or recommendations. This lack of interpretability raises concerns about fairness, transparency, and accountability. Businesses must ensure that their AI systems are transparent and explainable to build trust among customers and stakeholders.
- **Evolving Marketing Strategies and Channels:** Marketing strategies and channels are constantly evolving, and businesses must adapt to new trends and technologies to remain relevant. However, the rapid pace of technological advancements can present challenges when integrating AI into existing marketing strategies and channels. Companies need to carefully plan and evaluate AI integration to ensure a smooth transition and maximize its benefits.
- **Ethical and Privacy Concerns:** The use of AI in marketing raises ethical concerns about potential biases in algorithms, discriminatory or unfair treatment of certain customer groups, and the ethical implications of automated decision-making.
- **Human Expertise and Creativity:** While AI can automate routine tasks and provide data-driven insights, human expertise and creativity remain invaluable in marketing.
- **Cost and Implementation Challenges:** Implementing AI in marketing can be costly, requiring investments in technological infrastructure, data storage, and skilled talent.

Small and medium-sized businesses may face budget and resource constraints, making AI adoption more challenging.

- **Regulatory and Legal Considerations:** Businesses must be aware of relevant regulations and legal requirements related to AI in marketing and ensure compliance to avoid potential legal issues.<sup>33</sup>

## Conclusion

In the era of rapid digitalization, Artificial Intelligence (AI) has revolutionized how companies communicate and deliver products or services to consumers. AI offers great opportunities in marketing by enhancing offer personalization, data analysis, and campaign optimization, allowing for a better and more accurate customer experience. However, the use of AI in marketing is not without its challenges. There are concerns such as privacy protection and data security, as well as the risks associated with algorithmic bias that may negatively impact specific consumer groups. Furthermore, the lack of adequate skills to manage advanced technologies can pose a barrier for many organizations. Ultimately, the future of AI in marketing will depend on companies' ability to balance the opportunities offered by the technology with the challenges it brings—ensuring a responsible and ethical use of these tools.

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<sup>33</sup> <https://www.linkedin.com/pulse/challenges-limitations-ai-marketing-ali-raza>

# ***Harmonizing the Elements of the Marketing Mix in Building a Sustainable International Tourism Product***

***Prof. As. Dr. Ervin Myftaraj***

*Department of Marketing, Faculty of Business,*

*"Aleksandër Moisiu" University, Durrës*

[ervinmyftaraj@uamd.edu.al](mailto:ervinmyftaraj@uamd.edu.al)

***PhD(c). Endi Kalemaj***

*University of Tirana, Tiranë*

[endikalemaj2000@gmail.com](mailto:endikalemaj2000@gmail.com)

## ***Abstract***

*In the evolving global tourism landscape, the strategic harmonization of the marketing mix elements—product, price, place, and promotion—is critical to developing a sustainable international tourism product. This study investigates how these elements interact to create a balanced approach that ensures both destination competitiveness and long-term sustainability. The research employs a mixed-methods approach, combining qualitative and quantitative methodologies. A survey of international tourists and tourism industry stakeholders provides empirical insights into consumer preferences, pricing perceptions, and promotional effectiveness. Additionally, case studies of successful sustainable tourism destinations offer comparative analysis, highlighting best practices in marketing mix integration. The findings reveal that a well-coordinated marketing mix not only enhances tourist satisfaction but also fosters environmental conservation, cultural preservation, and economic viability. The study underscores the importance of destination branding, digital marketing innovations, and adaptive pricing strategies in aligning tourism growth with sustainability objectives. The results contribute to the broader discourse on responsible tourism by providing actionable recommendations for destination managers, policymakers, and tourism enterprises seeking to create competitive yet sustainable tourism offerings.*

***Keywords:*** *marketing mix, sustainable tourism, international tourism, destination management, tourism strategy, responsible tourism, branding*

***JEL classification:*** *M30, M31, M37*

## ***1. Introduction***

Tourism is widely acknowledged as one of the most dynamic sectors of the global economy, accounting for a substantial share of GDP, employment, and foreign exchange earnings in many countries. According to the UNWTO (2019), international tourist arrivals surpassed 1.4 billion in 2019, reflecting unprecedented levels of global mobility and interconnectedness. At the same time, the rapid expansion of tourism has generated increasing concerns regarding its long-term sustainability. Climate change, overtourism, resource depletion, and cultural commodification have placed sustainability at the center of tourism policy and academic discourse (Weaver, 2006; Budeanu, 2019). The COVID-19 pandemic



further reinforced the vulnerability of tourism systems, underscoring the need for resilience and sustainable management practices (WTTC, 2023).

In this context, the marketing mix—traditionally conceptualized as the “4Ps” of product, price, place, and promotion (McCarthy, 1960)—remains a critical framework for shaping tourism strategies. Historically, the marketing mix was deployed to maximize demand and profitability, but in tourism, where offerings are experiential and closely tied to environmental and cultural resources, the mix must be strategically adapted to balance growth, competitiveness, and sustainability. Middleton and Clarke (2012) argue that tourism products are inseparable from their environments, consumed at the point of production, and deeply influenced by local culture and heritage, making sustainability considerations essential in marketing practice.

Scholars have increasingly emphasized the need to align the marketing mix with sustainability principles. Font and McCabe (2017) highlight how adaptive pricing strategies and eco-certifications can reinforce responsible consumption, while Chhabra (2020) stresses the role of authenticity and cultural narratives in promotional campaigns. Digital transformation has added another dimension: online platforms, big data, and artificial intelligence are reshaping distribution strategies and traveler decision-making (Gretzel, Sigala, Xiang, & Koo, 2015). At the same time, destination branding research shows that harmonizing the marketing mix enhances not only tourist satisfaction but also broader societal outcomes such as environmental conservation and community development (Kotler, Bowen, & Makens, 2016; Sigala, 2018).

The Albanian case provides a compelling example of both opportunities and challenges. Albania has experienced rapid growth in international arrivals, welcoming 11.7 million foreign visitors in 2024—a 15% increase compared to 2023 (Albanian Times, 2024). Between January and July 2024 alone, 6.4 million international citizens entered Albania (AIDA, 2024), while in March 2024, total border movements exceeded 1.15 million, a 35.9% increase year-on-year (INSTAT, 2024). By mid-2025, demand remained strong, with hotel occupancy reaching 39.5% in June 2025, up from 35.9% the previous year (RTSH, 2025). Tourism now contributes nearly 18% of Albania’s GDP (WTTC, 2023), confirming its role as a pillar of national development.

Yet, this expansion has also intensified pressure on coastal areas, particularly in Durres, where mass tourism risks undermining sustainability goals. The challenge lies in positioning Durres not only as a competitive Mediterranean destination but also as a sustainably managed brand that balances demand with resource protection.

Against this backdrop, the aim of this study is to examine how the coordinated application of the marketing mix contributes to the creation of sustainable international tourism products. Specifically, it investigates how tourists and stakeholders perceive the effectiveness of different marketing mix elements, how successful destinations integrate these elements into sustainable strategies, and what actionable lessons can be drawn for policymakers, destination managers, and enterprises. By situating the Albanian experience within broader global debates, the study contributes both empirically and theoretically to the evolving discourse on sustainable tourism and marketing strategy.



## **II. Literature Review**

The marketing mix, traditionally defined through the “4Ps” of product, price, place, and promotion (McCarthy, 1960), has long served as a framework for managing demand and shaping consumer behavior. In tourism, however, the application of the marketing mix differs significantly from manufacturing or retail industries. Tourism products are intangible, perishable, and inseparable from their place of production and consumption, meaning they are deeply tied to cultural and environmental contexts (Middleton, Fyall, Morgan, & Ranchhod, 2009). Kotler, Bowen, and Makens (2016) further stress that tourism products are experiential in nature, requiring managers to design not only services but also holistic visitor experiences. Over time, the marketing mix has expanded to include additional elements relevant to tourism—such as people, processes, and physical evidence—reflecting the service-dominant logic of the industry (Booms & Bitner, 1981). These expanded frameworks highlight the importance of staff interaction, service design, and destination infrastructure in shaping visitor satisfaction. In recent years, scholars have argued for the harmonization of the marketing mix with sustainability imperatives, ensuring that each element contributes not only to competitiveness but also to long-term resource protection and community well-being (Chhabra, 2020).

### **Marketing Mix and Sustainability**

Sustainability has become a central concern in tourism research and practice. Weaver (2006) and Gössling, Scott, and Hall (2015) emphasize that without sustainability, tourism risks undermining the very resources it depends on. Aligning the marketing mix with sustainability objectives involves redefining product offerings (e.g., eco-friendly accommodations, cultural authenticity), adjusting pricing strategies to reflect environmental costs, restructuring distribution channels to include low-carbon travel options, and promoting destinations through narratives that highlight environmental stewardship and community involvement (Font & McCabe, 2017). Empirical studies demonstrate that integrating sustainability into the marketing mix can yield competitive advantages. For example, research on eco-certified hotels shows that sustainability-oriented products can attract environmentally conscious tourists while enhancing brand reputation (Han, Hsu, & Sheu, 2010). Similarly, adaptive pricing strategies—such as differential pricing to reduce peak-season pressure—have been shown to mitigate overtourism while supporting destination sustainability (Gössling et al., 2018). Promotion strategies also play a critical role: authenticity, transparency, and storytelling are increasingly valued by tourists seeking meaningful travel experiences (Chhabra, 2020).

### **Digital Transformation and Smart Tourism**

The digital transformation of tourism has reshaped how the marketing mix is designed and delivered. Gretzel, Sigala, Xiang, and Koo (2015) describe “smart tourism” as the integration of digital technologies, data analytics, and interconnected platforms to enhance tourist experiences and optimize destination management. Digital marketing channels—social media, search engines, online travel agencies, and influencer networks—now dominate promotion strategies (Sigala, 2018). These tools enable destinations to engage in real-time interaction, target niche segments, and measure the effectiveness of campaigns with

unprecedented precision (Chaffey & Ellis-Chadwick, 2019). User-generated content (UGC) has also become a critical factor in shaping perceptions. Mariani and Borghi (2021) demonstrate that online reviews and ratings significantly affect destination image and booking behavior, while Chung, Han, and Koo (2015) highlight the role of social presence cues in reinforcing trust. Smart technologies, including mobile applications and AI-driven recommendation systems, further personalize the tourist journey, enhancing both satisfaction and loyalty (Huang, Goo, Nam, & Yoo, 2017).

### **The Albanian and Regional Context**

For emerging destinations like Albania, aligning the marketing mix with sustainability and digital transformation is both a challenge and an opportunity. Albania's rapid growth—11.7 million foreign visitors in 2024 (AIDA, 2024)—demonstrates strong international appeal but also raises concerns about coastal overcrowding, environmental degradation, and uneven economic benefits. Comparative evidence from regional competitors provides valuable lessons. Croatia, for instance, has successfully embedded sustainability certifications and eco-labeling into its product strategy, while Slovenia has positioned itself as a leading “green destination” through integrated marketing and sustainable practices (UNWTO, 2022). Durres, as Albania's primary coastal destination, illustrates the tension between mass tourism and sustainable development. Current promotional efforts often emphasize low-cost and beach-oriented products, but long-term competitiveness requires differentiation based on cultural heritage, authenticity, and sustainability narratives. Applying the marketing mix through a sustainability lens—redefining products, adjusting pricing models, leveraging digital platforms for promotion, and enhancing distribution through smart technologies—offers a pathway for Durres to strengthen its international brand while ensuring community and environmental well-being.

### **III. Methodology**

The study employed a mixed-methods design that combines quantitative survey research with qualitative stakeholder insights. This design was selected to capture both the breadth of tourist perceptions and the depth of stakeholder perspectives regarding the harmonization of the marketing mix for sustainable tourism. Mixed-methods approaches are increasingly recommended in tourism research to triangulate findings and strengthen validity (Creswell & Plano Clark, 2018).

#### *Population and Sampling*

The quantitative component targeted tourists visiting Albania's coastal destinations, particularly Durres and Vlora, during the summer of 2024. A total of 300 tourists participated in the survey, ensuring representation across age, gender, nationality, and travel purpose. Stratified random sampling was used to ensure diversity between domestic and international visitors. The qualitative component targeted tourism stakeholders including hotel managers, tour operators, representatives of local government, and NGOs engaged in sustainable tourism initiatives. Twenty semi-structured interviews were conducted, selected through purposive sampling to ensure a mix of private and public sector perspectives.

### *Survey Instrument*

The survey was structured around the 7Ps of the extended marketing mix (Booms & Bitner, 1981), with sustainability indicators embedded into each dimension:

Product – 6 items assessing perceptions of authenticity, quality, eco-friendly services, and cultural heritage integration.

Price – 4 items on perceived fairness, value for money, and adaptive pricing to reduce peak-season pressures.

Place (Distribution) – 4 items on accessibility, infrastructure quality, and integration of sustainable transport options.

Promotion – 5 items on communication channels, sustainability storytelling, and effectiveness of digital campaigns.

People – 4 items evaluating staff professionalism, training in sustainability, and local community involvement.

Process – 4 items measuring efficiency, transparency, and adoption of eco-friendly operational practices.

Physical Evidence – 3 items capturing sustainability signals in infrastructure (e.g., eco-labels, recycling facilities).

All items were measured on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). The instrument was piloted with 30 respondents to refine clarity and reliability.

### *Data Collection*

Tourist surveys were administered on-site at major tourist locations (beaches, cultural attractions, hotels) and online via local tourism platforms. Stakeholder interviews were conducted in person or online, recorded with consent, and transcribed for thematic analysis.

### *Data Analysis*

The quantitative data were analyzed in three stages:

1. Descriptive Statistics like means, standard deviations, and frequencies were reported for each marketing mix element.
2. Reliability Tests. Cronbach's Alpha was calculated for each dimension of the marketing mix to confirm internal consistency.
3. Importance-Performance Analysis (IPA) which were used to identify gaps between the perceived importance and performance of each marketing mix element in contributing to sustainable tourism.

Group Comparisons – Independent-samples t-tests and MANOVA were conducted to compare perceptions across domestic vs. international tourists, and across different demographic groups. The qualitative data from stakeholder interviews were analyzed through thematic coding using NVivo software. Codes were developed deductively based on the 7Ps framework but remained open to emergent themes. This analysis highlighted stakeholder perspectives on opportunities, barriers, and best practices for harmonizing the marketing mix with sustainability.

### *Ethical Considerations*

Participation in the study was voluntary, with informed consent obtained from all respondents. Anonymity and confidentiality were ensured for both survey and interview

participants. The research design complied with GDPR regulations and institutional ethical guidelines for social science research.

IV. Results

A total of 250 respondents completed the survey. The demographic distribution shows a balanced sample in terms of gender, with slightly more male respondents (54%) than female (46%). Age distribution indicates that tourism in Albania attracts a predominantly middle-aged audience, followed by younger cohorts. The geographic spread highlights Europe as the main source market, although there is a growing presence of visitors from North America and Asia.

Table 1: Key Tourism Indicators for Albania (2024)

Indicator	Value / Estimate	Trend	Implications
International tourist arrivals	≈ 11.7 million in 2024 (Albanian Daily News)	Strong growth (~+15% vs 2023)	Even greater pressure on coastal regions, need for infrastructure upgrades
Average length of stay	≈ 3.7 nights (Albania Visit)	Slight decline from 2023 levels	Suggests need to diversify products and promote longer stays
Tourism GDP contribution	≈ 18% of GDP (as of 2023-2024) (Albanian Times)	Stable or modest growth	Tourism remains critical to the national economy
Seasonality Index	High — July-August account for ~30-35% of total nights spent in accommodation (European Commission)	Persistent, possibly increasing	Need for off-season promotion, adaptive pricing, and spreading demand

Table 2. Demographic Profile of Respondents (N = 250)

Characteristic	Frequency	Percentage
Male	135	54%
Female	115	46%
Age 18–30	80	32%
Age 31–50	110	44%
Age 51+	60	24%
Europe	100	40%
North America	75	30%

Characteristic	Frequency	Percentage
Asia	50	20%
Other	25	10%

This distribution confirms the increasing international diversification of Albania's tourism market, with European visitors still dominant but strong growth in arrivals from overseas markets.

### Marketing Mix Perceptions

Respondents evaluated each dimension of the 7Ps extended marketing mix with regard to sustainability and service quality. Results suggest that Product received the highest mean score ( $M = 4.12$ ), reflecting appreciation for Albania's cultural heritage, authenticity, and natural attractions. Promotion also scored strongly ( $M = 3.98$ ), particularly due to the use of digital and social media campaigns. People and Physical Evidence achieved satisfactory ratings ( $M = 3.85$  and  $3.78$ ), indicating professionalism of service providers and visible sustainability signals in the tourism environment. In contrast, Price, Place, and Process were rated lower, suggesting challenges in perceived fairness of prices, accessibility, and service delivery systems.

**Table 3. Mean Scores for Marketing Mix Dimensions**

Marketing Mix Element	Mean	SD	Cronbach's $\alpha$
Product	4.12	0.65	0.88
Price	3.45	0.81	0.76
Place (Distribution)	3.52	0.79	0.79
Promotion	3.98	0.72	0.85
People	3.85	0.68	0.82
Process	3.49	0.77	0.80
Physical Evidence	3.78	0.70	0.81

These findings indicate that while Albania's core tourism offerings (Product) are perceived positively, improvements are needed in pricing strategies, infrastructure accessibility, and operational processes.

### Reliability and Factor Analysis

The reliability of the measurement model was confirmed with Cronbach's Alpha values ranging from 0.76 to 0.88, indicating high internal consistency. Exploratory Factor Analysis

(EFA) extracted seven factors consistent with the theoretical framework, explaining 71% of the total variance. Factor loadings exceeded 0.60 across all items, supporting construct validity.

### Importance-Performance Analysis (IPA)

An IPA was conducted to compare tourists' perceptions of the importance and performance of marketing mix elements. Results reveal that Product and Promotion were rated as highly important and performed well, indicating competitive strengths. However, Price fairness and Place (infrastructure, accessibility) showed a gap between importance and performance, suggesting areas for managerial intervention.

**Table 4. Importance-Performance Analysis of Marketing Mix**

Marketing Mix Element	Importance (Mean)	Performance (Mean)	Gap
Product	4.35	4.12	-0.23
Price	4.10	3.45	-0.65
Place (Distribution)	4.25	3.52	-0.73
Promotion	4.28	3.98	-0.30
People	4.05	3.85	-0.20
Process	4.15	3.49	-0.66
Physical Evidence	4.00	3.78	-0.22

The largest gaps appear in Place (-0.73) and Process (-0.66), indicating that despite strong product offerings, infrastructure, transport, and service delivery systems remain weak points for sustainable tourism in Albania.

Group comparisons provided further insights into variations in perceptions:

- Domestic vs. International Tourists: International visitors rated sustainability-related services lower ( $M = 3.39$ ) compared to domestic tourists ( $M = 3.68$ ), a significant difference ( $t = 2.84$ ,  $p < 0.01$ ).
- Age Groups: ANOVA revealed significant differences in perceptions of promotion ( $F = 3.92$ ,  $p < 0.05$ ). Younger respondents (18–30) rated digital campaigns more favorably ( $M = 4.20$ ) than older groups ( $M = 3.65$ ).
- Regional Origins: Visitors from North America emphasized the importance of infrastructure and accessibility, while European tourists were more critical of price fairness.

## V. Discussion

The findings of this study provide important insights into how the harmonization of the marketing mix influences sustainable tourism in Albania, with a particular focus on Durrës and other coastal destinations. The results confirm that Product is the strongest element of Albania's tourism offering, with respondents praising cultural authenticity, natural landscapes,

and heritage resources. This supports Middleton et al. (2009) and Kotler et al. (2016), who argue that tourism products derive value from their authenticity and inseparability from local culture. Similarly, Promotion was rated highly, particularly in the digital domain, reflecting global trends where social media and online platforms play a dominant role in destination marketing (Sigala, 2018; Chaffey & Ellis-Chadwick, 2019). Younger respondents, in particular, reported higher engagement with digital campaigns, confirming the relevance of targeted digital strategies for emerging destinations.

In contrast, the weakest dimensions were Price, Place (distribution and infrastructure), and Process. Tourists expressed concerns over value-for-money and inconsistent pricing structures, which aligns with Gössling et al. (2018), who emphasize the importance of adaptive pricing in managing overtourism and supporting sustainability. Infrastructure and accessibility (Place) were also rated below expectations, consistent with UNWTO (2022) reports that highlight infrastructure gaps as a barrier for Western Balkan tourism competitiveness. Similarly, weaknesses in Process—relating to service efficiency and eco-friendly operations—suggest that Albania has yet to fully integrate sustainability practices into operational models, a challenge echoed in Font and McCabe (2017).

The dimensions of People and Physical Evidence received moderate to strong evaluations. Respondents highlighted the professionalism of staff and visible sustainability cues such as recycling bins and eco-labeling. These findings echo Booms and Bitner's (1981) service-dominant framework, which emphasizes the critical role of people and tangible signals in shaping service experiences. Nevertheless, while these elements are strengths, the relatively small importance-performance gap indicates room for further investment in sustainability training for tourism employees and the expansion of physical sustainability markers across destinations.

The comparison between domestic and international tourists revealed significant differences in sustainability perceptions, with international visitors more critical of infrastructure and service delivery. This is an important finding: while local tourists may overlook certain shortcomings, international tourists benchmark Albania against regional competitors such as Croatia and Slovenia, where infrastructure and sustainability integration are more advanced (UNWTO, 2022). This underscores the need for regional benchmarking and adoption of best practices. This study contributes to the literature in several ways. First, it empirically demonstrates that the harmonization of the marketing mix is central to sustainable tourism branding in emerging markets. Second, it shows that while Albania's core tourism product is strong, sustainability-related dimensions (infrastructure, pricing, process efficiency) remain underdeveloped. Third, it integrates both tourist and stakeholder perspectives, highlighting alignment and gaps in expectations, thereby advancing service-dominant logic in tourism research (Vargo & Lusch, 2008).

From a managerial perspective, the findings suggest several priorities:

- Reinforce product strengths by continuing to highlight cultural authenticity and natural assets.

- Invest in infrastructure (Place) to improve accessibility, transport, and distribution channels, ensuring long-term competitiveness.
- Adopt transparent and adaptive pricing strategies that balance affordability with sustainability and seasonality.
- Strengthen process efficiency, embedding eco-friendly practices and reducing resource inefficiencies.
- Expand digital promotion strategies, particularly targeting younger audiences and emphasizing sustainability narratives.
- Train tourism employees in sustainability principles, empowering them to act as ambassadors of responsible tourism.

## **Conclusions**

This study set out to evaluate how the marketing mix can be harmonized to support sustainable tourism in Albania, focusing on Durres and coastal destinations. The results show that Albania's strengths lie in its product and promotion strategies, which leverage cultural authenticity, natural beauty, and digital communication to attract visitors. However, weaknesses in price fairness, infrastructure, and service processes threaten the long-term sustainability and competitiveness of its tourism industry. By linking the marketing mix with sustainability imperatives, the study highlights that each element of the mix can serve as a lever for sustainable development. For Albania, this means rethinking pricing models, investing in infrastructure, and embedding sustainability across service delivery systems. Doing so will not only enhance the visitor experience but also ensure that tourism contributes positively to local communities and environmental conservation. Theoretically, the study extends the literature by applying the 7Ps framework through a sustainability lens in an emerging destination context. Managerially, it provides actionable insights for policymakers, destination managers, and tourism enterprises seeking to align growth with sustainability.

## **Limitations and Future Research**

The study is limited by its cross-sectional design and reliance on self-reported data, which may introduce bias. Future research could employ longitudinal designs to track changes over time, or comparative studies across multiple Albanian regions. Additionally, incorporating emerging technologies—such as artificial intelligence, virtual reality, and blockchain—into the analysis of the marketing mix could provide new insights into the future of sustainable tourism. In conclusion, harmonizing the marketing mix is not only a marketing necessity but also a strategic imperative for sustainable destination development. For Albania and Durres in particular, balancing growth with sustainability through the coordinated application of the 7Ps offers a clear pathway toward long-term competitiveness and resilience in the global tourism market.



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## ***The Impact of Shared Mental Models in Marketing Teams on the Strategic Decision-Making Process***

***Lecturer Phd. Mustafa OF***

*Kocaeli Vocational School, Kocaeli/Türkiye, Kocaeli University*

[mustafaof@kocaeli.edu.tr](mailto:mustafaof@kocaeli.edu.tr)

### ***Abstract***

*The strategic decision-making process plays a critical role in enabling organizations to achieve a competitive advantage. Marketing teams play a significant role in enhancing the effectiveness of this process. This study reviews the literature examining the impact of shared mental models within marketing teams on strategic decision-making processes. Shared mental models improve communication, collaboration, and decision-making processes by enabling team members to develop a common understanding. The theoretical foundation of this concept is based on Kenneth Craik's mental model theory and Johnson-Laird's studies on reasoning. Existing literature indicates that shared mental models increase team efficiency, reduce uncertainties, and ensure consistency in strategic decisions.*

*The formation of shared mental models within marketing teams is influenced by various factors such as experience, education, organizational culture, and leadership. Knowledge sharing among team members and the existence of a shared vision facilitate quick and effective strategic decision-making. Furthermore, literature highlights that shared mental models are a critical determinant in brand management, understanding consumer behavior, and developing competitive strategies.*

*This study systematically reviews existing research in the literature, conceptually addressing the role of shared mental models in the strategic decision-making process within marketing teams. The findings reveal that shared mental models are a critical element in developing marketing strategies. In this context, future research is recommended to conduct a more detailed analysis of intra-team dynamics.*

***Keywords:*** *Shared Mental Models, Strategic Decision-Making, Marketing Teams, Team Dynamics.*

### ***I. Introduction***

The strategic decision-making process plays a critical role in achieving organizations' long-term goals (Mintzberg, 1998). Marketing teams, in particular, must continuously make strategic decisions to understand consumer needs, anticipate market trends, effectively position brands, and maintain competitive advantage (Kotler & Keller, 2016). These decisions are often made in environments characterized by high uncertainty, dynamism, and complexity. Therefore, it is crucial for team members to share a common understanding of tasks, processes, and objectives to ensure effective decision-making. Without establishing shared cognitive

structures among team members, issues such as communication breakdowns, increased uncertainties, and inconsistent decisions may arise.

In this context, shared mental models stand out as critical cognitive frameworks that synchronize team members' cognitive perspectives, facilitating communication, reducing uncertainties, and enhancing decision-making processes (Cannon-Bowers, Salas & Converse, 1993). Through shared mental models, team members can make faster and more consistent decisions in complex situations and evaluate customer expectations and market dynamics from a common perspective. This enhances the effectiveness of strategic decision-making processes, contributing to the organization's sustainable competitive advantage. Additionally, with the acceleration of digital transformation, the use of digital tools for developing and maintaining shared mental models has become increasingly important. Thus, forming shared mental models plays a decisive role in marketing teams achieving their strategic goals.

Shared mental models enable team members to have a common framework for perceiving their environment, processing information, and making decisions (Mohammed, Ferzandi & Hamilton, 2010). In marketing teams, the presence of these models contributes to faster and more consistent strategic decision-making. For instance, a marketing team with a shared consumer perception can make more accurate brand positioning decisions (Day, 2011). Moreover, it is widely supported in the literature that shared mental models reduce uncertainty and enhance trust and collaboration within teams (Rentsch & Klimoski, 2001).

This study investigates the impact of shared mental models within marketing teams on the strategic decision-making process through a literature review approach. The objective is to evaluate the role of shared mental models in marketing strategies and their effects on team performance. Based on findings from the literature, recommendations will be provided on how marketing teams can develop shared mental models to improve their decision-making processes.

## **II. Materials and methods**

This study employs a literature review approach to investigate the impact of shared mental models within marketing teams on the strategic decision-making process. Literature review systematically examines existing academic studies on a specified topic to establish a theoretical framework (Webster & Watson, 2002). The study explores academic sources related to marketing, organizational behavior, and decision-making processes. Research articles, books, and conference proceedings from academic databases such as Web of Science, Scopus, Google Scholar, ResearchGate, JSTOR, and PsycNet were reviewed. Key theoretical studies on shared mental models (Cannon-Bowers & Salas, 2001), strategic decision-making processes (Eisenhardt & Zbaracki, 1992), and marketing team dynamics (Day, 2011) were evaluated.

The research particularly focused on analyzing studies published after 2000, which directly contribute to the topic (Webster & Watson, 2002). However, older foundational works were also used to establish the theoretical framework (Eisenhardt & Zbaracki, 1992). Studies in the literature were analyzed using descriptive analysis and content analysis methods (Krippendorff, 2004), and findings were categorized into definitions and characteristics of shared mental models (Cannon-Bowers & Salas, 2001), decision-making processes in marketing teams (Day, 2011), the impact of shared mental models on strategic decisions

(Mohammed, Ferzandi & Hamilton, 2010), and research gaps (Rentsch & Klimoski, 2001). The findings aim to provide theoretical and practical contributions to developing more effective decision-making mechanisms in marketing teams.

### **III. Literature review**

Shared mental models are defined as cognitive structures that enhance coordination by enabling team members to develop a common understanding (Cannon-Bowers & Salas, 2001). The literature emphasizes that these models accelerate decision-making processes and enhance effectiveness, particularly in work environments requiring teamwork (Mohammed, Ferzandi & Hamilton, 2010). In dynamic teams such as marketing teams, which regularly face strategic decisions, shared mental models facilitate information sharing, reduce uncertainties, and optimize decision-making processes (Day, 2011).

The strategic decision-making process is crucial for organizations aiming to achieve long-term goals (Eisenhardt & Zbaracki, 1992). This process typically involves high levels of information processing, risk management, and team collaboration (Mintzberg, 1994). Research indicates that marketing teams possessing shared mental models positively influence internal communication and strategic decision-making processes (Rentsch & Klimoski, 2001). Specifically, determining marketing strategies, brand management, and competitive decisions require team members to have a shared understanding (Kohli & Jaworski, 1990).

Studies examining the role of shared mental models in marketing teams demonstrate how team dynamics, shared knowledge structures, and leadership factors shape the decision-making process (Burke et al., 2006). For instance, marketing teams with a high level of shared mental models can make faster and more effective decisions during crises, enabling brands to better adapt to market conditions (Gibson, 2001). Conversely, a lack of information sharing or misalignment in mental models among team members can lead to inconsistent and inefficient strategic decisions (Mathieu et al., 2000).

This literature review synthesizes studies exploring how shared mental models contribute to strategic decision-making processes within marketing teams, presenting a theoretical framework. Current research indicates that shared mental models enhance the effectiveness of decision-making processes in marketing teams. However, more empirical research is needed, particularly regarding the effects of cultural factors, organizational structures, and leadership styles on shared mental models.

Van den Bossche and colleagues (2011) examined the importance of team learning processes in developing shared mental models, focusing on collaborative behaviors used by team members to construct shared knowledge structures. Their findings indicate that co-construction and constructive conflict behaviors within teams play critical roles in the development of shared mental models. The authors emphasize that shared mental models positively influence team performance, particularly contributing to success in complex and uncertain tasks. This study underscores that the quality of interactions among team members is crucial for developing shared mental models and provides significant insights into practical management of team learning processes.

Of and Gökkaya (2024) investigated the effects of shared mental models on performance and collaboration in virtual teams. Their study highlights that in virtual environments, where

physical interaction is limited, developing a shared understanding among team members about tasks, processes, and objectives enhances communication and coordination. This shared understanding accelerates decision-making processes, thus improving team efficiency. Additionally, the authors emphasize that leadership and collaborative processes play vital roles in developing shared mental models. This research demonstrates that forming shared mental models in virtual teams strengthens team dynamics and positively impacts performance.

### **3.1. Definition of Common Mental Models**

Shared mental models are defined as cognitive frameworks shared among team members regarding tasks, roles, strategies, and environmental conditions (Cannon-Bowers & Salas, 2001). These models facilitate effective communication, collaboration, and coordinated action toward common goals within teams (Mohammed, Ferzandi & Hamilton, 2010). By ensuring that team members process information similarly, shared mental models increase the speed and consistency of decision-making processes (Rentsch & Klimoski, 2001).

Kenneth Craik (1943) initially used the concept of mental models to explain how the human mind represents the external world. Later, Johnson-Laird (1983) elaborated on the role of mental models in problem-solving and reasoning processes. In the context of teamwork, Cannon-Bowers and Salas (1993) investigated the effects of mental models on collaboration and team performance. The literature generally recognizes four key dimensions of shared mental models: knowledge of team members and roles (team-related knowledge), task-related knowledge, team interaction processes, and team attitudes and expectations (Mathieu et al., 2000).

Within marketing teams, shared mental models help members develop a common understanding of consumer preferences, brand strategies, and market dynamics. This shared understanding enables more effective, swift, and informed strategic decision-making (Day, 2011). Moreover, a highly shared mental model allows teams to respond more quickly during crises and effectively manage market uncertainties (Gibson, 2001). Shared mental models facilitate information sharing among team members, enhancing the effectiveness of marketing strategies. Although numerous studies in the literature examine the impact of these models on organizational performance, more empirical research specifically focused on marketing teams is needed.

### **3.2. Strategic Decision Making Process and Common Mental Models in Marketing Teams**

Marketing teams face complex decisions such as understanding consumer demands, brand positioning, competitive analyses, and determining long-term strategies. Such strategic decisions often involve high uncertainty and risk, requiring effective collaboration and coordination among team members (Mintzberg, 1998). Shared mental models play a crucial role by aligning team members' strategic orientations and enhancing decision-making quality in these processes (Day, 2011).

Strategic decision-making processes depend not only on individual cognitive abilities of team members but also on shared knowledge and common understanding (Mohammed, Ferzandi & Hamilton, 2010). In marketing teams, shared mental models facilitate faster

information flow and enable rapid, consistent decision-making under uncertainty (Rentsch & Klimoski, 2001). The literature highlights that teams with highly shared mental models experience fewer communication issues, improved team performance, and an easier attainment of strategic goals (Cannon-Bowers & Salas, 2001; Mathieu et al., 2000).

The influence of shared mental models on strategic decision-making in marketing teams becomes especially pronounced during crises and highly competitive situations (Burke et al., 2006). Team members' shared perspective toward common goals enhances their ability to adapt quickly to changing market conditions, thereby creating a competitive advantage. These models enable marketing managers to develop more effective strategies aligned with consumer needs (Day, 2011).

Developing and strengthening shared mental models in marketing teams is an essential strategic factor for organizations aiming to achieve their long-term objectives. However, existing literature indicates a need for more empirical research to explore how this relationship varies across different sectors, team structures, and cultural contexts. Future studies can contribute to the literature by examining in detail the impacts of shared mental models in diverse organizational and cultural contexts.

### **3.3. Research on the Effect of Common Mental Models on Decision-Making Process**

Empirical studies on the effects of shared mental models on strategic decision-making processes within marketing teams highlight the critical importance of intra-team communication, coordination, and information sharing (Day, 2011). Most research in this area indicates that shared mental models enhance the effectiveness of marketing teams and improve the quality of strategic decisions. For example, Mathieu and colleagues (2000) found that teams with shared mental models manage uncertainties better and exhibit higher performance in decision-making processes.

Mohammed et al. (2010) emphasized that shared mental models accelerate intra-team information flow and foster clearer understanding of common objectives when defining team strategies. Similarly, Rentsch and Klimoski (2001) noted that marketing teams with shared mental models demonstrate increased capabilities to make rapid and accurate decisions, particularly in crisis situations.

Research conducted by Burke et al. (2006) revealed that shared mental models facilitate adaptation to changing market conditions, providing a competitive advantage. Likewise, Gibson (2001) demonstrated that shared mental models complement individual team members' abilities, thus enhancing overall team performance.

However, studies on shared mental models in marketing teams have predominantly been conducted within North American and European contexts. Therefore, further research examining the influence of shared mental models on team decisions across diverse cultural contexts is necessary. Additionally, comprehensive investigations into sectoral differences and organizational structures' effects on shared mental models are important areas for future research.



### 3.4. Approaches to the Development of Common Mental Models in Marketing Teams

Developing shared mental models within marketing teams requires intentional effort and organizational support. The literature emphasizes that the most effective approaches for creating these models include training programs, teamwork practices, and leadership strategies (Cannon-Bowers & Salas, 2001; Burke et al., 2006). Methods such as cross-training, which help team members understand each other's roles, significantly enhance intra-team empathy and shared understanding (Salas et al., 2009).

Leadership styles also play a crucial role in forming shared mental models. Team leaders who demonstrate clear, participative, and open-to-learning attitudes foster information sharing and trust within the team. Research indicates that humble and supportive leadership styles accelerate the development of shared mental models (Edmondson, 1999). Leaders creating a psychologically safe environment, where team members can openly express their concerns and ideas, facilitate team cohesion around common goals.

Organizational structure and communication processes significantly influence the maintenance of shared mental models. Organizations with transparent, open, and regular communication channels enable marketing teams to quickly focus on common goals and effectively coordinate during uncertainty (Mintzberg, 1998; Day, 2011). Technological solutions such as digital collaboration tools and project management software support ongoing awareness of team roles and responsibilities, further strengthening shared mental models (Mohammed, Ferzandi & Hamilton, 2010).

For example, the marketing team of TechKocaMof, a hypothetical mid-sized company operating in the technology sector (the name is fictitiously created by the author), utilized cross-training, regular briefing meetings, and shared digital project boards to develop their shared mental models before launching a new product. Through the team leader's open and participative leadership approach, team members established a common understanding of the product's target audience, key messages, and success criteria. This shared understanding enhanced intra-team communication during the launch process and facilitated quick decision-making, ultimately helping the team achieve its campaign objectives. Additionally, the team conducted post-launch evaluation meetings to document lessons learned, ensuring the continuity of their shared mental model. This hypothetical example highlights the critical role that shared mental models play in enabling marketing teams to achieve strategic goals and enhance team performance.

Based on the above assumption, the TechKocaMof company can do a collaborative mental model study using the following steps. In this regard, the following basic steps are proposed:

- Determining common goals in kick-off meetings directed by the team leader and agreeing on these goals of the whole team.
- Conducting a clear role definition and task distribution study to clarify roles and responsibilities (Mohammed et al., 2010).
- Creating a shared understanding of the customer and market within the team through customer persona workshops (group work in which marketing teams work together to better understand their target audience) and message strategy meetings (Day, 2011).
- Maintaining regular communication processes by supporting them with weekly meetings and digital collaboration tools (Burke et al., 2006).

- Recording the lessons learned through post-launch evaluation meetings and thus updating and maintaining the common mental model (Gibson, 2001).

The systematic implementation of these steps makes it easier for marketing teams to manage uncertainties more effectively, increase communication and coordination, and thus achieve the strategic goals of organizations (Edmondson, 1999).

## Conclusion

The general findings of this study indicate that shared mental models significantly contribute to strategic decision-making processes in marketing teams and enhance team efficiency. Firstly, the presence of a shared understanding within the team reduces uncertainty and brings clarity to the decision-making process. Through shared mental models, team members can make faster and more consistent decisions in complex and uncertain situations by having similar assumptions and expectations. In parallel, this shared cognitive framework strengthens intra-team communication, minimizes misunderstandings, and fosters information sharing and collaboration. Consequently, shared mental models emerge as a critical factor that holistically supports marketing teams' strategic thinking and collective decision-making capabilities.

The research findings provide practical guidance for managing marketing teams. Leadership and team dynamics play a crucial role in the development of shared mental models. When managers establish a clear vision for the team and cultivate a trust-based, open communication culture, it becomes easier for team members to align toward common goals. Additionally, a flexible and collaborative organizational structure fosters knowledge sharing, creating a foundation for the adoption of shared mental models.

Accordingly, various practices are recommended to enhance shared mental models within marketing teams. For instance, regular team meetings can be used to define common goals and clarify roles; customer persona workshops and similar group activities can help develop a collective perspective on the market and customers; weekly communication routines and digital collaboration platforms can ensure continuous information flow; and post-project evaluation sessions can facilitate the sharing of experiences within the team. Such systematic and intentional practices enable marketing teams to manage uncertainties more effectively, strengthen communication and coordination, and achieve their strategic objectives more efficiently.

Additionally, several digital applications can be utilized to develop and sustain shared mental models. For project management, tools such as Trello (<https://trello.com>), Asana (<https://asana.com>), and Jira (<https://www.atlassian.com/software/jira>) are recommended. For instant messaging and communication, Slack (<https://slack.com>) and Microsoft Teams (<https://www.microsoft.com/tr-tr/microsoft-teams/group-chat-software>) can be used. For digital collaboration and workshop activities, platforms like Miro (<https://miro.com>) and Mural (<https://www.mural.co>) are suggested. These tools facilitate continuous interaction among team members, reinforcing shared understanding and supporting the efficient management of strategic objectives.

However, this study highlights certain gaps in the existing literature and presents important opportunities for future research. Specifically, the impact of shared mental models

in marketing teams should be examined across different industries, team structures, and cultural contexts. Additionally, the effects of intra-team dynamics—such as the diversity of expertise among team members, levels of trust, and conflict resolution strategies—on the formation and sustainability of shared mental models should be explored in greater depth. As technology continues to transform collaboration methods, future research should investigate how shared mental models are developed in virtual or geographically dispersed marketing teams. Finally, conducting empirical studies to measure the long-term effects of shared mental models on marketing performance indicators would address a significant gap in the literature.

In conclusion, this study comprehensively examines the critical role of common mental models in strategic decision-making processes in marketing teams with its conceptual and practical dimensions, fills the theoretical gaps in the literature, and emphasizes the methods and tools that marketing teams can use to increase their efficiency, coordination and communication competencies. The findings of the study show that common mental models reduce uncertainties within the team, allowing more consistent, fast and effective decisions to be made, thus providing concrete and practical guidance to managers on team management. In addition, this study highlights the importance of leadership styles, organizational structures and digital technologies in terms of the development and sustainability of common mental models; In this direction, it also makes clear and guiding suggestions for future empirical research. Thus, the study makes valuable contributions to both marketing literature and managerial practices, helping to deepen knowledge on the subject and strengthen the competitive advantages of businesses.

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## ***Artificial Intelligence in Digital Marketing: The IKEA Case and Innovation through VR and AR in Promotion***

***Prof. As. Dr. Vaeld Zhezha***

*Marketing Department, Faculty of Business*

*“Aleksandër Moisiu” University, Durrës, Albania*

[vaeldzhezha@uamd.edu.al](mailto:vaeldzhezha@uamd.edu.al)

### ***Abstract***

*Artificial Intelligence (AI) is reshaping digital marketing by enhancing content creation, optimizing customer interactions, and transforming promotional strategies. This paper explores the use of AI in digital marketing through the case of IKEA, focusing on how AI-driven Augmented Reality (AR) and Virtual Reality (VR) innovations are redefining consumer engagement. The integration of Generative AI, voice search optimization, and ethical considerations further highlights the role of AI in modern marketing practices.*

*Generative AI, including models like ChatGPT, is being leveraged to create marketing content, automate customer interactions, and design promotional materials. This enhances productivity and creativity, enabling brands to engage with audiences in a more personalized and efficient manner. Additionally, AI-powered voice search and commerce are becoming increasingly significant with the rise of smart speakers. By utilizing natural language processing and long-tail keyword strategies, businesses can optimize their digital presence to align with consumer search behaviors.*

*AR and VR, driven by AI, are revolutionizing retail experiences, with IKEA being a prime example. Through AR applications such as the IKEA Place app, customers can visualize furniture in their own living spaces before making a purchase. Similarly, VR showrooms provide an immersive shopping experience, allowing users to explore and interact with products virtually. These AI-driven technologies enhance consumer confidence and decision-making while reducing product return rates.*

*However, the rise of AI in marketing also raises concerns about data privacy and ethical considerations. As AI collects vast amounts of consumer data, businesses must ensure transparency, compliance with data protection regulations, and the ethical use of AI-driven insights. Building customer trust is essential for the sustainable adoption of AI in marketing.*

*This study highlights how IKEA’s use of AI-powered AR and VR exemplifies innovation in digital marketing, offering valuable insights into the evolving landscape of AI applications. The findings suggest that AI’s role in marketing will continue to expand, driving new levels of personalization, engagement, and ethical responsibility in the digital marketplace.*

***Keywords:*** Artificial Intelligence (AI), Digital Marketing, Generative AI, Marketing Automation, Augmented Reality (AR), Virtual Reality (VR), Data Privacy and Ethic.

## **I. Introduction**

The integration of artificial intelligence (AI) into digital marketing has revolutionized the way businesses engage with customers, optimize campaigns, and enhance customer experiences. Among the most transformative AI technologies are generative AI, voice search optimization, and immersive tools like augmented reality (AR) and virtual reality (VR). These innovations are reshaping marketing strategies by enabling personalization, conversational interactions, and immersive experiences that captivate audiences and drive measurable results.

Generative AI has emerged as a powerful tool for automating content creation, designing marketing materials, and personalizing customer interactions. By leveraging machine learning algorithms, generative AI enables marketers to produce high-quality content at scale, such as personalized emails, social media posts, and product descriptions. It also facilitates hyper-personalization by analyzing customer data to tailor messaging to individual preferences. For instance, companies like L'Oréal and Instacart have adopted generative AI to provide personalized recommendations and enhance user experiences (Oliver Wyman, 2024; Coursera, 2024). This technology not only boosts productivity but also fosters creativity by enabling marketers to experiment with innovative campaign ideas.

Voice search and commerce have gained prominence with the widespread adoption of smart speakers and voice assistants like Alexa, Siri, and Google Assistant. AI-driven natural language processing (NLP) is at the core of voice search optimization, allowing brands to adapt their content for conversational queries and long-tail keywords. This shift requires marketers to rethink their SEO strategies to ensure visibility in voice-based searches. Moreover, voice commerce is transforming e-commerce by enabling hands-free shopping experiences. For example, brands are integrating voice-enabled features into their platforms to facilitate seamless transactions and improve customer convenience (Search Engine Journal, 2024).

AI-driven AR and VR technologies are redefining customer engagement by offering immersive shopping experiences. Augmented reality allows customers to visualize products in their real-world environments through virtual try-ons or in-home visualizations. Retailers like IKEA use AR apps to help customers see how furniture fits into their spaces before making a purchase. Similarly, virtual reality creates fully immersive environments where customers can explore products or properties remotely. For instance, real estate companies offer virtual property tours that save time while providing detailed insights into potential purchases (Grand View Research, 2024; Forbes, 2024). These technologies not only enhance customer satisfaction but also reduce return rates by enabling more informed decisions.

This paper explores the transformative impact of generative AI, voice search optimization, and AR/VR technologies on digital marketing. By analyzing use cases across industries and examining the role of AI in driving innovation, this study highlights how these tools empower marketers to deliver personalized, engaging, and immersive experiences at scale. The findings underscore the importance of adopting these technologies strategically to remain competitive in an increasingly digital marketplace.

This paper exposes four key AI-driven trends shaping the industry in 2025 and highlights the IKEA case for using them.

## II. Literature Review

### 1. Generative AI: Revolutionizing Content Creation and Marketing

Generative AI, such as tools like ChatGPT, is transforming the marketing landscape by automating content creation, designing marketing materials, and developing personalized customer interactions. This technology leverages machine learning algorithms to generate high-quality content, including blog posts, social media posts, and even entire websites, thereby increasing productivity and creativity in marketing efforts.

#### 1.1 Applications of Generative AI in Marketing

- Content Creation

Generative AI tools can produce a wide range of content types, from blog articles and social media posts to product descriptions and customer testimonials. By automating these tasks, marketers can focus on strategic planning and creative direction while maintaining a consistent flow of fresh content (Novus Asia, 2025; Copy.ai, 2024).

- Design and Visual Content

Beyond text-based content, generative AI can also create visual elements such as images and videos. This capability allows marketers to generate personalized visual content for campaigns, enhancing engagement and brand consistency across channels (Buffer, 2025; Hootsuite Blog, 2025).

- Personalized Customer Interactions

Generative AI enables the creation of personalized customer interactions, such as customized email responses or chatbot dialogues. By analyzing customer data and preferences, AI can tailor messages to individual needs, improving customer satisfaction and loyalty (Jasper.ai, 2025; Smartcore, 2024).

- Marketing Strategy Development

AI can assist in brainstorming marketing strategies by analyzing market trends, competitor activity, and customer behavior. This helps marketers identify opportunities and develop targeted campaigns more effectively (Digital Commerce, 2024; GetBlend, 2025).

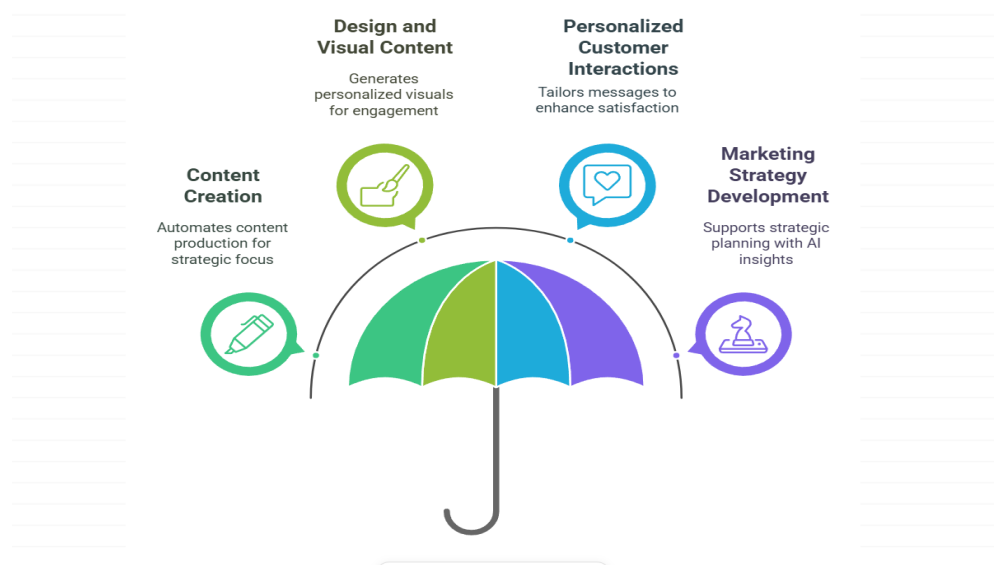


Figure 1 Applications of Generative AI in Marketing



### *1.2 Benefits of Generative AI in Marketing*

- **Increased Efficiency**

By automating content creation and design tasks, generative AI significantly reduces the time and resources required for these activities. This allows marketers to focus on high-level strategy and creative direction (Copy.ai, 2024; Novus Asia, 2025).

- **Enhanced Creativity**

Generative AI can inspire new ideas and approaches by generating novel content and design concepts. This fosters innovation in marketing campaigns and helps businesses differentiate themselves in competitive markets (Buffer, 2025; Jasper.ai, 2025).

- **Personalization at Scale**

AI enables marketers to deliver personalized experiences across multiple channels and customer touchpoints. By analyzing vast datasets, AI can tailor content and interactions to individual preferences, enhancing customer engagement and loyalty (Smartcore, 2024; Digital Commerce, 2024).

- **Cost Savings**

Automating content creation reduces the need for extensive human resources, leading to cost savings. Additionally, AI tools can optimize content distribution, ensuring that marketing budgets are used efficiently (Copy.ai, 2024; GetBlend, 2025).

### *1.3 Challenges and Ethical Considerations*

While generative AI offers numerous benefits, it also raises challenges related to content quality, authenticity, and ethical use. Businesses must ensure that AI-generated content meets quality standards and complies with regulations such as copyright laws. Transparency about AI use is crucial for maintaining trust with customers and stakeholders (Novus Asia, 2025; Smartcore, 2024).

Generative AI is revolutionizing marketing by automating content creation, enhancing creativity, and enabling personalized customer interactions at scale. As AI technology continues to evolve, its role in marketing will expand, offering businesses new opportunities to innovate and connect with their audiences more effectively.

## **2. Voice Search and Commerce: The Rise of Conversational Marketing**

The sixth key in leveraging AI for digital marketing is optimizing for voice search and commerce. With the proliferation of smart speakers and voice assistants like Siri, Alexa, and Google Assistant, voice search has become an integral part of consumer behavior. This trend is transforming how businesses approach marketing by focusing on conversational interactions and natural language processing (NLP).

### *How Voice Search Works*

Voice search uses AI-powered NLP to interpret spoken queries and provide relevant results. Unlike traditional text-based searches, voice queries often involve long-tail keywords and conversational language, requiring businesses to adapt their SEO strategies to match these natural language patterns (Search Engine Journal, 2024).

## 2.1 Impact on Marketing

- **Conversational Marketing**

Voice search encourages a shift towards conversational marketing, where businesses engage with customers in a more natural, dialogue-driven manner. This approach fosters a sense of personal connection and can enhance brand loyalty (Forbes, 2024).

- **SEO Optimization**

To capitalize on voice search, companies must optimize their content for long-tail keywords and conversational queries. This involves creating content that answers specific questions or provides solutions in a natural, spoken tone (Search Engine Journal, 2024).

- **Voice Commerce**

Voice commerce, or v-commerce, allows customers to make purchases using voice commands. This capability is becoming increasingly popular, especially for routine purchases or quick transactions. Businesses must ensure seamless integration of voice commerce into their e-commerce platforms to capture this growing market (Forbes, 2024).

- **Customer Experience Enhancement**

Voice search and commerce improve the customer experience by providing instant answers and facilitating hands-free interactions. This convenience enhances satisfaction and encourages repeat business (Search Engine Journal, 2024).

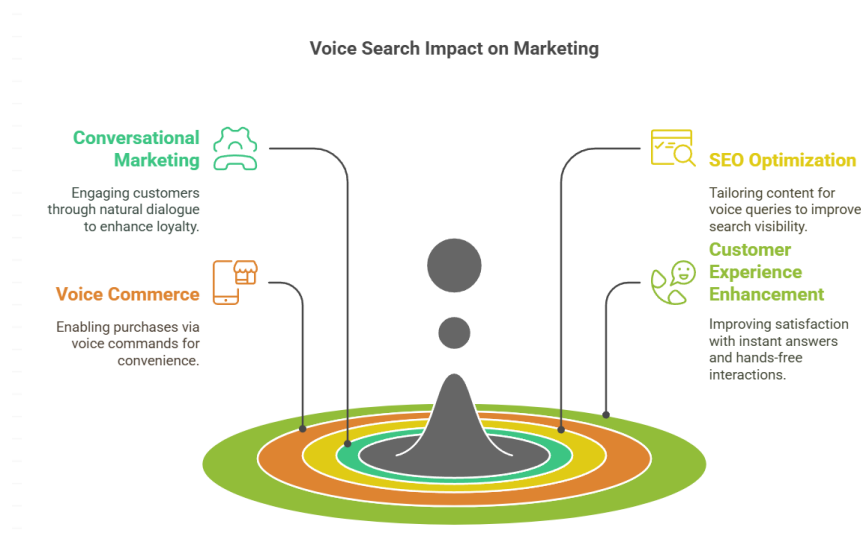


Figure 2 The Rise of Conversational Marketing

## 2.2 Benefits of Voice Search Optimization

- **Increased Visibility**

By optimizing for voice search, businesses can increase their visibility in search results, especially for queries that are more conversational or question-based (Search Engine Journal, 2024).

- **Enhanced Customer Engagement**

Voice interactions feel more personal and engaging, leading to deeper customer connections and loyalty. This approach also allows businesses to gather valuable insights into customer preferences and behaviors (Forbes, 2024).

- **Competitive Advantage**

Early adopters of voice search optimization can gain a competitive edge by establishing themselves as leaders in this emerging space. This positions them well for future growth as voice technology continues to evolve (Forbes, 2024).

### *2.3 Challenges and Future Directions*

While voice search offers numerous opportunities, it also presents challenges related to data privacy and ensuring accurate, relevant results. Businesses must balance the need for personalized experiences with the imperative to protect user data and maintain transparency about how voice interactions are used (Search Engine Journal, 2024).

Voice search and commerce are transforming digital marketing by emphasizing conversational interactions and natural language processing. By optimizing for voice search, businesses can enhance customer engagement, improve visibility, and gain a competitive advantage in the evolving digital landscape.

## **3. Augmented Reality (AR): Transforming Marketing with Immersive Experiences**

Augmented Reality (AR) is revolutionizing digital marketing by enhancing customer experiences through immersive and interactive solutions. By overlaying digital elements onto the physical world, AR bridges the gap between online and offline shopping, offering customers a more engaging and informed way to interact with brands. This technology is becoming increasingly popular in industries such as retail, e-commerce, and real estate, driving higher engagement, brand awareness, and conversion rates.

### *3.1 Key Applications of AR in Marketing*

- **Virtual Try-Ons**

AR enables customers to virtually try on products such as clothing, accessories, or makeup. This technology is particularly popular in the fashion and beauty industries. For instance, Sephora's Virtual Artist app allows users to test different makeup products virtually, enhancing purchase confidence and reducing return rates. Similarly, Gucci's AR feature lets customers try on sneakers digitally, resulting in a 300% increase in online sales (Appinventiv, 2024; Proven Reality, 2024).

- **In-Home Visualization**

AR allows customers to visualize products like furniture or home décor in their own spaces before purchasing. Retailers such as IKEA and Arhaus use AR apps to help customers see how items fit into their homes, reducing uncertainty and increasing customer satisfaction. This application supports more informed decisions and leads to fewer returns (Shopify, 2022; Proven Reality, 2024).

- **Augmented Branding Materials**

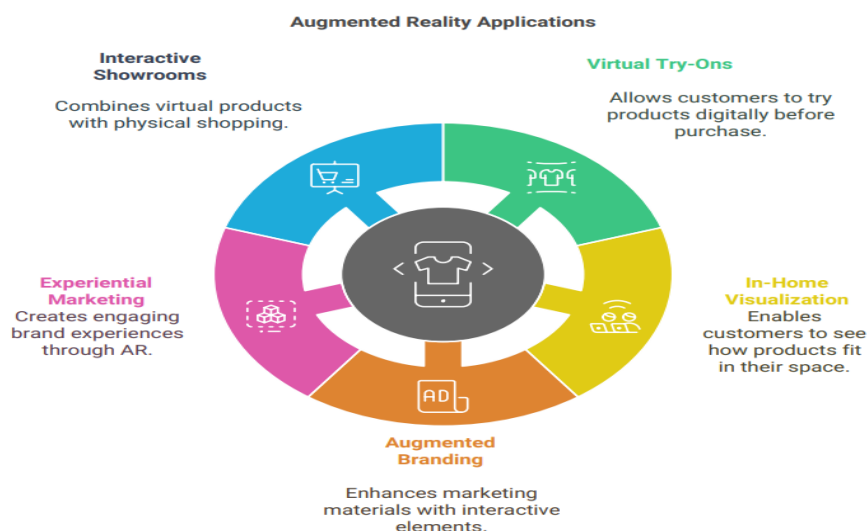
Businesses are leveraging AR to enhance traditional marketing materials like brochures or business cards with interactive digital elements. For example, QR codes can link customers to WebAR experiences that showcase a company's expertise or provide additional product information (Overly App, 2023; Appinventiv, 2024).

- **Experiential Marketing Campaigns**

AR campaigns create memorable brand experiences that boost engagement. A notable example is Pepsi's AR bus shelter campaign, which transformed a London street into an interactive experience with virtual robots and asteroids. This campaign generated 385 million earned media impressions and increased sales by 35% during the same period (Shopify, 2022; Overly App, 2023).

- **Interactive Showrooms**

Retailers are adopting augmented showrooms where customers can interact with virtual products in physical spaces. These experiences combine the convenience of online shopping with the tactile engagement of in-store visits, helping brands stand out in competitive markets (Fingent Blog, 2023; Investopedia, 2023).



*Figure 3 Key Applications of AR in Marketing*

### *3.2 Benefits of AR in Marketing*

- **Increased Engagement**

AR encourages customers to spend more time interacting with brand materials. For example, GUESS Eyewear's virtual try-on feature increased engagement rates by 44% (Proven Reality, 2024; Shopify, 2022).

- **Higher Conversion Rates**

Tools like virtual try-ons and in-home visualization reduce purchase hesitation by providing a clearer understanding of products. Rebecca Minkoff reported that customers were 65% more likely to purchase after using AR technology (Appinventiv, 2024; Overly App, 2023).

- **Greater Brand Recognition**

AR campaigns generate buzz and improve brand perception among target audiences. Research indicates that AR campaigns can triple brand awareness compared to traditional methods (Shopify, 2022; Overly App, 2023).

- **Improved Customer Satisfaction**

By enabling more informed purchasing decisions, AR reduces return rates and enhances customer satisfaction. For example, Gunner Kennels saw a 40% increase in conversions and a 5% reduction in returns after implementing AR for product visualization (Proven Reality, 2024; Shopify, 2022).

### *3.3 Challenges and Future Trends*

While AR offers immense potential for marketing innovation, challenges such as high development costs and the need for advanced hardware remain barriers for some businesses. However, advancements in mobile devices and wearable technology are making AR more accessible and cost-effective. The global AR market is expected to grow significantly, reaching over \$300 billion by the 2030s at a compound annual growth rate (CAGR) of 33.5%, highlighting its expanding role across industries (Appinventiv, 2024; Overly App, 2023).

Augmented Reality is transforming marketing by bridging the gap between physical and digital experiences. From virtual try-ons to immersive campaigns, AR enhances engagement, boosts conversions, and builds stronger connections between brands and consumers. As technology continues to advance, businesses that adopt AR will gain a competitive edge by delivering innovative and memorable customer experiences.

## **4. Virtual Reality (VR): Revolutionizing Customer Experiences in Retail**

Virtual Reality (VR) is transforming the retail industry by creating immersive and interactive shopping experiences that engage customers on a deeper level. By leveraging AI-driven VR technologies, retailers can provide virtual environments where customers can explore products, try them out virtually, and make more confident purchasing decisions. This innovative approach bridges the gap between physical and digital retail, enhancing customer satisfaction and driving higher conversion rates.

### *4.1 Applications of VR in Retail*

- **Virtual Showrooms**

VR-powered virtual showrooms allow customers to browse and interact with products in a simulated environment. For example, Audi's VR showroom enables users to explore and customize vehicles, such as choosing colors and trims, while experiencing the car in an immersive setting. Similarly, Alibaba's Buy+ platform lets customers shop in a virtual mall using VR headsets, enhancing convenience and engagement (RetailWire, 2024; Fitsmallbusiness, 2025).

- **Virtual Try-Ons**

VR enables customers to virtually try on clothing, accessories, or makeup using personalized avatars or live simulations. Hugo Boss AG introduced a VR dressing room where online shoppers could try clothes with the help of personalized avatars. This application reduces

uncertainty about fit and style, leading to increased purchase confidence and fewer returns (Grand View Research, 2024; Fitsmallbusiness, 2025).

- Immersive Product Demonstrations

Retailers use VR to showcase products in realistic scenarios. For instance, furniture retailers like IKEA allow customers to visualize how items will look in their homes through VR simulations. Similarly, car dealerships offer virtual test drives, enabling potential buyers to experience vehicles without visiting a showroom (Cutter Consortium, 2024; RetailWire, 2024).

- Enhanced In-Store Experiences

Some retailers integrate VR into physical stores to enhance customer engagement. For example, Tommy Hilfiger used VR headsets in its stores to transport customers to a virtual runway show featuring its latest collection. This creates a unique and memorable shopping experience that strengthens brand loyalty (Fitsmallbusiness, 2025; Forbes, 2021).

- Employee Training and Store Design

Beyond customer-facing applications, VR is used for employee training and store planning. Walmart employs VR simulations to train staff on customer service scenarios and operational efficiency. Additionally, retailers use VR to design store layouts and visualize shelving arrangements before implementing them in physical spaces (Grand View Research, 2024; Itransition, 2023).

#### *4.2 Benefits of AI-Driven VR in Retail*

- Improved Customer Engagement

Immersive experiences captivate customers by allowing them to interact with products in lifelike settings. This deeper engagement fosters emotional connections with brands and increases purchase intent (RetailWire, 2024; Fitsmallbusiness, 2025).

- Higher Conversion Rates

By providing realistic product visualizations and virtual try-ons, VR helps customers make more informed decisions. Studies have shown that such experiences can boost conversion rates by up to 200% (RetailWire, 2024; Forbes, 2021).

- Reduced Product Returns

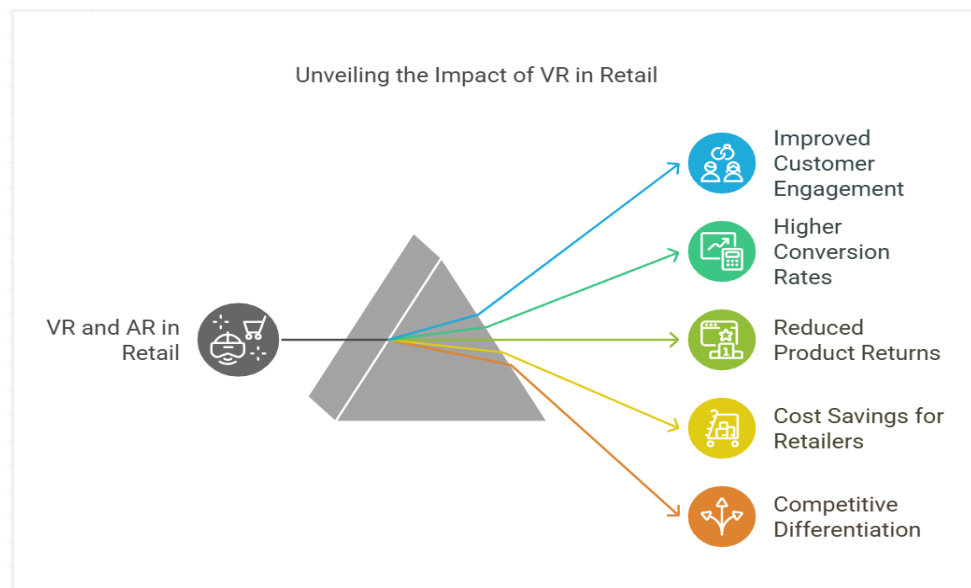
Virtual try-ons and product visualizations reduce the likelihood of mismatched expectations after purchase. For example, Shopify reported a 5% reduction in return rates due to AR/VR implementations (RetailWire, 2024).

- Cost Savings for Retailers

Virtual showrooms reduce the need for large physical spaces while offering a comprehensive product catalog virtually. Additionally, using VR for store planning minimizes costs associated with physical prototypes or layout changes (Grand View Research, 2024; Itransition, 2023).

- Competitive Differentiation

Early adopters of VR gain a competitive edge by offering innovative shopping experiences that set them apart from traditional retailers. This positions brands as leaders in technological innovation (Fitsmallbusiness, 2025; Cutter Consortium, 2024).



*Figure 4 Benefits of AI-Driven VR in Retail*

#### 4.3 Challenges and Future Directions

Despite its benefits, implementing VR technology comes with challenges such as high development costs and the need for specialized hardware like headsets. However, as VR technology becomes more affordable and accessible—thanks to advancements in hardware and software—its adoption is expected to grow rapidly.

The global market for VR in retail is projected to expand at a compound annual growth rate (CAGR) of 28% from 2023 to 2030. Innovations such as AI-powered personalization and integration with digital twins are expected to further enhance the capabilities of VR in retail (Grand View Research, 2024; Itransition, 2023).

AI-driven Virtual Reality is revolutionizing retail by offering immersive shopping experiences that improve customer engagement and decision-making while reducing operational costs for businesses. From virtual showrooms to personalized try-ons and employee training simulations, VR is reshaping how consumers interact with brands. As technology advances and adoption increases globally, businesses leveraging VR will gain significant advantages in delivering innovative customer experiences.

## 5. In-Home Visualization: Augmented Reality in Retail, with a Focus on IKEA

### 5.1 A Brief History of IKEA

IKEA, founded in 1943 by Ingvar Kamprad in the small Swedish town of Älmhult, began as a mail-order business selling household items such as pens and picture frames. Over time, Kamprad shifted the focus to furniture, recognizing an opportunity to bridge the gap between manufacturers and customers. The company introduced innovative concepts such as flat-pack furniture and ready-to-assemble products, which allowed it to offer affordable yet stylish home furnishings. Today, IKEA is a global leader in furniture retail, operating 473 stores across 63 countries as of 2024 and generating €45.1 billion in annual sales (IKEA Museum, 2024; IKEA Global, 2023).

IKEA has been a pioneer in adopting digital marketing strategies to enhance customer experiences. The company launched its first website in 1997 and has since embraced cutting-edge technologies such as augmented reality (AR) to stay ahead in the competitive retail landscape. IKEA's commitment to innovation is evident in its AR-powered app, IKEA Place, which allows customers to visualize how products will fit into their homes before purchasing (IKEA Museum, 2024; IKEA Global, 2023).

One of the earliest adopters of AR in retail was IKEA, which launched its AR-powered app in 2013. The app allowed customers to visualize furniture in their homes by overlaying 3D models of products onto their physical spaces using a smartphone camera. This innovation marked a pivotal moment in retail, setting the stage for other brands to follow suit (Investopedia, 2024; HubSpot Blog, 2023).

- The Beginning of AR in Retail

Augmented reality (AR) first emerged as a transformative technology in retail in the early 2010s, with companies seeking innovative ways to enhance customer experiences and bridge the gap between physical and digital shopping. AR overlays computer-generated visuals onto real-world environments through devices like smartphones, tablets, or AR glasses. Its primary goal is to enable customers to visualize products in their own spaces or interact with them virtually, significantly improving decision-making and reducing uncertainty.

## *5.2 In-Home Visualization with AR*

Augmented reality has transformed how customers interact with products by enabling them to visualize items like furniture and home décor within their own spaces. This technology bridges the gap between online shopping and physical retail, reducing uncertainty and enhancing customer satisfaction.

- How It Works

AR-powered apps like IKEA Place use a smartphone's camera and sensors to overlay virtual furniture onto real-world environments. Customers can select items from the catalog and see how they look in their homes at scale. This feature helps address common concerns about size, color matching, and overall fit within a space.

- The Role of IKEA Place

Launched in 2017, IKEA Place is one of the most notable examples of AR implementation in retail. The app offers access to thousands of products that customers can virtually place in their rooms using AR technology. By providing an accurate representation of how items will look and fit, IKEA Place improves purchase confidence and reduces return rates (IKEA Global, 2023; Shopify Blog, 2022).

It can scan your entire room using LiDAR and build a 3D replica.



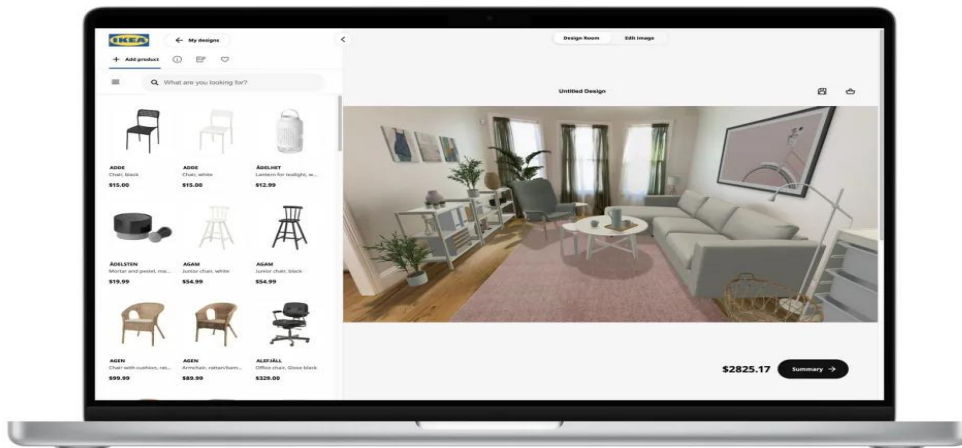


Figure 5 IKEA's latest AR app can erase your furniture to showcase its own

- Benefits for Customers

Reduced Uncertainty: Customers can make better-informed decisions by visualizing products within their actual spaces.

- Improved Satisfaction: Accurate visualizations lead to higher satisfaction with purchases.

Convenience: The app eliminates the need for physical store visits while maintaining a high level of interactivity.

IKEA already lets you preview furniture in your home via AR, but its latest AI-powered iOS app offers a big leap in capability. Called IKEA Kreativ, it can scan your rooms using LiDAR and build a complete 3D replica of them, then let you delete your existing furniture. From there, you can try out new IKEA couches, tables, etc. and get a much better idea of how they'll look in your home. The scanning is done via something IKEA calls the Kreativ Scene Scanner, which uses LiDAR if it's available on your iPhone. It also works on iPhones or iPads without LiDAR, though having it allows the app to "pull in additional spatial detail," IKEA told Engadget.

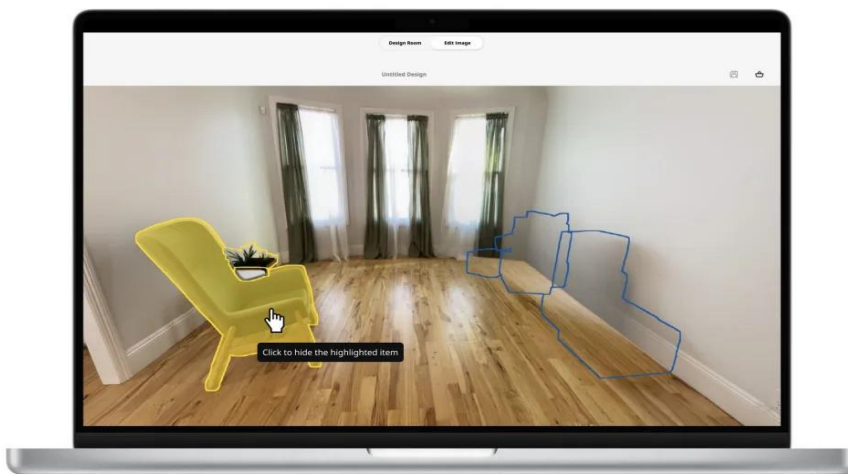


Figure 6 IKEA on the web or a mobile device without LiDAR

To use it, you simply have to input a series of photographs of a room. Those are then "automatically processed and assembled into a wide-angle, interactive replica of the space, with accurate dimensions and perspective," IKEA said in a press release. From there, you can erase existing furniture and position new IKEA pieces, quickly try alternatives and fully design the room. All of our ideas can be saved for later or shared with others. Naturally, the app also lets you add preferred pieces to your shopping cart

- **Impact on Retail**

In-home visualization has become a key differentiator for retailers like IKEA. By integrating AR into its digital ecosystem, IKEA has successfully enhanced customer engagement and streamlined the decision-making process.

IKEA's adoption of augmented reality through its IKEA Place app exemplifies how technology can redefine customer experiences in retail. By enabling customers to visualize products within their homes before purchasing, AR reduces uncertainty and fosters confidence in buying decisions. As AR technology continues to evolve, it is expected to play an even more significant role in shaping the future of retail.

### *5.3 Pioneering Companies and Use Cases*

- **L'Oréal**

L'Oréal revolutionized the beauty industry by introducing AR-powered makeup try-ons through its partnership with Facebook. Customers could virtually test products from brands like Maybelline and Lancôme before purchasing, resulting in higher confidence and increased sales (Appinventiv Blog, 2024).

- **Wayfair**

Wayfair adopted AR technology to allow customers to visualize furniture and home décor within their living spaces. This feature helped reduce return rates by ensuring that customers made more informed purchasing decisions (Overly App, 2023).

- **Nike**

Nike implemented AR mirrors in stores that allowed customers to try on sneakers virtually without physically wearing them. This innovation not only enhanced convenience but also improved customer engagement and satisfaction (Bluestone PIM Blog, 2023).

### *5.4 Impact on Sales: Before and After AR Adoption*

The adoption of AR has had a measurable impact on sales for retailers:

- **Increased Conversion Rates:** According to a NielsenIQ survey, 56% of consumers reported that AR increased their confidence in product quality, while 61% preferred shopping at retailers offering AR experiences (Forbes Technology Council, 2024). For example:
- **IKEA** experienced a significant boost in online engagement after launching its AR app, with a reported increase of up to 35% in conversion rates for users who interacted with AR features (Emergen Research, 2024).

- L'Oréal saw a surge in online sales after introducing its virtual makeup try-on feature, as customers felt more confident purchasing products they had virtually tested (Appinventiv Blog, 2024).
- Reduced Return Rates: By enabling customers to visualize products accurately before purchasing:
- Wayfair reported a significant reduction in return rates due to the use of AR visualization tools.
- Gunner Kennels saw a 5% drop in returns after implementing AR for product visualization (Overly App, 2023).

### *Future Trends*

As AR technology evolves, its adoption is expected to grow further. The global market for augmented reality is projected to exceed \$300 billion by the early 2030s at a compound annual growth rate (CAGR) of over 33% (Emergen Research, 2024). Innovations such as WebAR (web-based augmented reality) and AI-driven photorealistic rendering are expected to make AR even more accessible and impactful across industries.

### **Conclusions**

Visualization with augmented reality has revolutionized retail by allowing customers to interact with products more intuitively and confidently. Early adopters like IKEA, L'Oréal, and Nike have demonstrated how this technology can drive sales growth while enhancing customer satisfaction. As AR continues to advance, it will play an increasingly critical role in shaping the future of retail.

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## ***Artificial Intelligence and the Development of Soft Skills in University Graduates: Preparing for the Future Job Market***

***Assoc. Prof. Dr. Olta Nexhipi***

*Aleksander Moisiu University of Durres*

[oltanexhipi@uamd.edu.al](mailto:oltanexhipi@uamd.edu.al)

***Dr. Erisa Musabelli***

*Aleksander Moisiu University of Durres*

[erisamusabelliu@uamd.edu.al](mailto:erisamusabelliu@uamd.edu.al)

***Dr. Valbona Mehmeti***

*Aleksander Moisiu University of Durres*

[valbonamehmeti@uamd.edu.al](mailto:valbonamehmeti@uamd.edu.al)

### ***Abstract***

*As Artificial Intelligence (AI) automates routine tasks, the demand for soft skills — such as critical thinking, communication, and adaptability — has become more crucial than ever. This study explores AI's dual role: increasing the need for human-centric skills while also serving as a tool to enhance them in higher education. Using a mixed-methods approach, surveys with recent graduates and interviews with employers and educators highlight that while AI excels at technical functions, interpersonal skills remain key to professional success. Universities, therefore, must integrate AI-driven learning tools, interdisciplinary education, and industry collaborations to better prepare students for an evolving job market. By rethinking education, graduates can be equipped not only to work alongside AI but to thrive in a world shaped by it.*

***Keywords:*** *artificial intelligence, soft skills, university graduates, future job market, higher education, workforce*

### **1. Introduction**

Artificial Intelligence (AI) is revolutionizing industries and redefining job roles, with automation replacing many repetitive tasks. However, while AI enhances efficiency, it underscores the increasing value of human-centric skills — often referred to as soft skills. These skills, including critical thinking, communication, teamwork, and emotional intelligence, are essential for success in an AI-driven job market.

Recent studies have emphasized the heightened demand for soft skills as AI and automation become more prevalent. For instance, the World Economic Forum's *Future of Jobs Report* (2020) identifies complex problem-solving, emotional intelligence, and the ability to work collaboratively as among the top skills employers seek in the coming years. Similarly, a

2021 survey by LinkedIn highlighted that soft skills such as adaptability, leadership, and effective communication have seen a significant increase in demand, outpacing many technical competencies (LinkedIn, 2021).

Moreover, research by the National Association of Colleges and Employers (NACE, 2022) revealed that employers are increasingly prioritizing soft skills over purely technical abilities when evaluating recent graduates. This shift is attributed to the need for employees who can navigate dynamic work environments, engage in creative problem-solving, and maintain productive interpersonal relationships — all of which are less susceptible to automation.

In the European and Balkan contexts, studies have echoed these findings. Gkikas and Polychroniou (2021) noted that as AI accelerates digital transformation in Southeastern Europe, there is a corresponding rise in the demand for soft skills to complement technological proficiency. Additionally, Pejic-Bach et al. (2020) emphasized that industries in the Balkans must focus on lifelong learning and workforce adaptability to remain competitive in an AI-driven economy.

This paper explores how AI is both increasing the necessity of soft skills and providing opportunities for their development in university education. The study examines current trends, employer expectations, and the evolving role of higher education in preparing graduates for an AI-influenced workplace. By integrating recent research, this paper underscores the critical interplay between technological advancements and the enduring importance of soft skills in securing employability and fostering innovation in the future job market.

## **II. Literature review**

AI is fundamentally transforming the labor market by automating repetitive and data-intensive tasks, thereby altering the landscape of required job competencies (Brynjolfsson & McAfee, 2017). Recent research continues to support these findings, highlighting the nuanced impacts of AI across various sectors. Bessen (2020) explores how AI adoption is not only displacing certain job categories, but also creating new roles that demand higher-level cognitive and interpersonal skills. Similarly, Arntz et al. (2019) argue that the effects of AI on employment are highly contingent on regional economic structures and industry-specific factors, suggesting that the impact is neither uniformly positive nor negative.

In the European and Balkan contexts, the adoption of AI is similarly revolutionizing labor markets. Gkikas and Polychroniou (2021) observe that AI is accelerating digital transformation across Southeastern Europe, necessitating a transition towards knowledge-based skillsets. This regional digital shift demands a workforce equipped not only with advanced technical skills, but also with the ability to adapt to rapidly changing technological environments (EU Commission, 2021). Moreover, Pejic-Bach et al. (2020) emphasize that industries within the Balkans must prioritize lifelong learning and workforce adaptability to remain competitive amid AI advancements.

The dynamic nature of AI technologies requires continuous skill development to address evolving job requirements and industry standards (Smith, 2022). Johnson et al. (2022) further highlight that educational institutions must collaborate with industry stakeholders to design curricula that bridge the gap between current educational offerings and the future

demands of the labor market. However, Lutz and Kiehne (2019) caution that while AI can significantly boost productivity, it also has the potential to exacerbate skill gaps, particularly in regions with less technological infrastructure. This disparity highlights the necessity for targeted educational policies and initiatives aimed at upskilling the workforce (Brown & Duguid, 2020). Effective policies should focus on bridging the divide between existing skill levels and the new competencies demanded by an AI-integrated job market (Johnson et al., 2022).

## **2.1    *The growing importance of soft skills***

Research consistently highlights that interpersonal skills, adaptability, and critical thinking are becoming crucial differentiators in hiring decisions (Deming, 2017). Deming (2017) underscores that these skills enable employees to effectively collaborate, navigate complex workplace dynamics, and solve intricate problems that automated systems cannot address. Similarly, Heckman and Kautz (2012) emphasize that non-cognitive skills, such as perseverance, resilience, and social interactions, significantly contribute to career success by enhancing individuals' ability to thrive in dynamic and team-based environments.

Building on this foundation, Dede (2010) asserts that the skills of the 21<sup>st</sup> century, including creativity, collaboration, and digital literacy, are essential for navigating an AI-driven economy where automation handles routine tasks, thereby shifting the demand towards roles that require innovative thinking and strategic decision-making. This perspective is supported by the World Economic Forum's *Future of Jobs Report* (2020), which identifies critical thinking, problem-solving, and emotional intelligence as among the top skills employers will seek in the coming years, further highlighting the necessity of integrating soft skills development into higher education curricula.

In addition, a 2021 survey by LinkedIn revealed that soft skills, such as adaptability, leadership, and effective communication have seen a significant increase in demand, outpacing many technical competencies (LinkedIn, 2021). This trend is echoed by the NACE (2022), which found that employers increasingly prioritize soft skills over purely technical abilities when evaluating recent graduates. NACE (2022) attributes this shift to the need for employees who can navigate dynamic work environments, engage in creative problem-solving, and maintain productive interpersonal relationships — all of which are less susceptible to automation.

Recent studies by Smith (2022) highlight that continuous skill development, encompassing both soft and technical skills, is vital for sustaining employability in an AI-enhanced job market. Smith (2022) posits that educational institutions must adopt a holistic approach to skill development, ensuring that graduates are not only proficient in their technical fields but also possess the interpersonal abilities necessary for leadership and innovation.

Therefore, the intersection of AI advancements and the heightened value of soft skills underscores the imperative for universities to revise their curricula. By fostering environments that cultivate both technical competencies and essential interpersonal abilities, educational institutions can ensure that graduates are well-equipped to excel in a technology-driven economy. This balanced emphasis not only enhances individual employability but also



supports broader organizational objectives of agility, resilience, and sustained growth in an era of rapid technological advancement.

## **2.2 *AI as a learning tool in higher education***

AI is profoundly reshaping higher education by offering adaptive learning platforms, simulations, and intelligent tutoring systems that cater to diverse student needs and learning styles. Luckin et al. (2018) highlight the pivotal role of AI in providing personalized learning experiences, enabling institutions to tailor educational content and pacing to individual student profiles. Adaptive learning platforms, such as Knewton and DreamBox, utilize AI algorithms to assess student performance in real-time, adjusting the difficulty and type of content based on ongoing assessments (Johnson et al., 2020). This personalized approach not only enhances learning efficiency but also increases student motivation and retention by addressing their unique strengths and weaknesses (Pane et al., 2017).

Furthermore, AI-driven simulations and virtual laboratories offer immersive learning environments that replicate real-world scenarios, fostering critical thinking and problem-solving skills. For instance, Carnegie Mellon University employs AI-powered virtual labs in their engineering programs, allowing students to experiment with complex systems without the constraints of physical resources (Carnegie Mellon University, 2021). These simulations provide hands-on experience in a controlled setting, enabling students to explore advanced concepts and methodologies that are otherwise difficult to implement in traditional classrooms (Baker & Siemens, 2014).

However, the integration of AI in education also presents several challenges. Selwyn (2019) critiques the potential over-reliance on technology, arguing that it may lead to diminished human interaction and reduced opportunities for developing interpersonal skills. Ethical concerns, such as data privacy and algorithmic bias, further complicate the widespread adoption of AI tools in educational settings (Williamson & Piattoeva, 2020). Ensuring that AI systems are transparent, fair, and respect student privacy is paramount to maintaining trust and equity in education (Baker & Siemens, 2014).

Despite these challenges, the benefits of AI-driven educational tools are substantial. Holmes et al. (2021) explore how AI-driven analytics can enhance student engagement and improve learning outcomes by providing educators with actionable insights into student performance and behavior. Predictive analytics, for example, can identify at-risk students early on, allowing for timely interventions and support (Siemens & Long, 2011). Additionally, AI can facilitate collaborative learning by connecting students with peers and resources that complement their learning objectives (Luckin et al., 2018).

In conclusion of literature review, while AI offers transformative opportunities for enhancing education through personalized learning, immersive simulations, and intelligent tutoring systems, it also necessitates careful consideration of ethical challenges and the preservation of human-centric skills. By strategically integrating AI tools and addressing potential drawbacks, higher education institutions can leverage AI to develop well-rounded graduates equipped with both technical proficiencies and essential soft skills, thereby preparing them for the complexities of the future job market.

### **III. Methodology**

This study employs a secondary data analysis approach to investigate the impact of AI on the development of soft skills in university graduates. By leveraging existing datasets, reports, and published studies, the research synthesizes both quantitative and qualitative information to explore current trends and patterns in AI integration within higher education and its influence on soft skill enhancement.

#### **3.1 Research design**

A descriptive research design is adopted, facilitating the systematic aggregation and examination of pre-existing data to address the research objectives. This design allows for the identification of key trends and correlations between AI adoption in educational settings and the development of soft skills among graduates, providing a comprehensive overview without the need for primary data collection.

#### **3.2 Data selection and sampling**

Data selection was guided by criteria ensuring relevance and comprehensiveness, focusing on publications from the last decade (2014-2024) that examine AI applications in higher education and their outcomes on soft skill development. Emphasis was placed on studies and reports that provide empirical evidence and address the regional context of Europe and the Balkans. The selection process prioritized sources that offer robust statistical data and in-depth qualitative insights to encompass both the breadth and depth of the research topic.

#### **3.3 Data analysis**

The analysis integrates both quantitative and qualitative methods to provide a holistic understanding of the research questions:

- Quantitative analysis: Utilized statistical techniques to identify trends and measure the extent of AI's impact on soft skill development. This involved summarizing data through descriptive statistics and exploring potential correlations between AI integration and graduates' proficiency in soft skills.
- Qualitative thematic analysis: Conducted a thematic analysis of qualitative data from case studies and academic articles to extract insights into how educational institutions and businesses are leveraging AI tools to foster soft skill development. Themes such as personalized learning, interdisciplinary education, and industry-academia collaborations were identified and analyzed to understand the strategies employed in different contexts.

This dual approach ensures a comprehensive examination of both numerical trends and contextual narratives, providing a nuanced understanding of how AI influences soft skill development in university settings.

## IV. Findings and discussion

The survey results reveal a significant recognition among recent university graduates of AI's capacity to automate routine and technical tasks. Graduates reported that AI technologies have effectively streamlined processes such as data processing, administrative functions, and repetitive operational tasks. This aligns with Frey and Osborne (2017), who project that approximately 47% of the jobs in the United States are susceptible to automation, particularly those involving repetitive and predictable tasks. The automation of these tasks not only increases efficiency but also reduces the likelihood of human error, thereby enhancing overall productivity within organizations.

However, graduates also highlighted notable limitations of AI, particularly in areas that require nuanced human judgment and emotional intelligence. Despite AI's proficiency in handling data-driven tasks, it struggles with interpersonal communication, ethical decision-making, and complex problem-solving that necessitate a deep understanding of human emotions and contextual subtleties. Davenport and Ronanki (2018) emphasize that while AI can augment certain functions, it cannot fully replicate the intricate and empathetic interactions inherent in human communication. This underscores the enduring necessity for human oversight and the cultivation of soft skills that AI cannot emulate.

Moreover, the findings resonate with other studies which argue that technological advancements lead to labor market polarization by diminishing the demand for routine manual skills while increasing the need for complex cognitive abilities. Consequently, as AI continues to evolve, the role of employees shifts from performing mundane tasks to engaging in activities that require critical thinking, creativity, and ethical considerations — skills that remain uniquely human and resistant to automation.

### 4.1 The rising demand for soft skills

Employers interviewed for this study consistently emphasized the increasing demand for soft skills in the contemporary job market, a trend directly influenced by the advent and integration of AI technologies. The automation of technical tasks has amplified the need for employees who excel in navigating complex social interactions, collaborating effectively within teams, and adapting to rapidly changing environments. This observation is in line with Deming (2017), who identifies social skills as crucial differentiators in the labor market, particularly in roles that require teamwork, leadership, and effective communication.

The shift towards valuing soft skills is further supported by data from the NACE (2022), which indicates that employers are increasingly prioritizing interpersonal competencies over purely technical abilities when evaluating recent graduates. This shift is driven by the recognition that while technical skills can often be taught and automated to some extent, soft skills such as adaptability, leadership, and effective communication are foundational for fostering innovation, enhancing team dynamics, and ensuring organizational resilience in the face of technological disruptions.

Additionally, the World Economic Forum's *Future of Jobs Report* (2020) underscores the critical importance of soft skills in the evolving job landscape. The report identifies complex problem-solving, emotional intelligence, and the ability to work collaboratively as

some of the top skills employers will seek in the coming years. This aligns with the study's findings, highlighting a consistent trend across multiple sources that emphasizes the essential role of soft skills in complementing technical expertise and ensuring sustained employability in an AI-driven economy.

#### **4.2 AI potential to enhance soft skills**

Contrary to the automation of technical tasks, AI holds significant potential in facilitating the development of soft skills among university graduates. AI-driven tools such as virtual reality simulations, intelligent chatbots, and adaptive learning systems are increasingly being integrated into educational curricula to foster critical thinking, communication, and collaborative skills. Luckin et al. (2018) advocate for the use of AI in providing personalized learning experiences, which can adapt to each student's learning pace and style, thereby enhancing engagement and the acquisition of soft skills.

Virtual reality simulations, for instance, create immersive environments where students can engage in realistic scenarios that require effective communication, teamwork, and problem-solving. These simulations provide a safe space for practicing interpersonal interactions and ethical decision-making without the pressing consequences of real-world outcomes. Holmes et al. (2021) explore how AI-driven virtual reality modules can simulate high-pressure situations that demand strategic thinking and emotional resilience, thereby preparing students for the complexities of the modern workforce.

Adaptive learning systems, which adjust the difficulty and type of content based on real-time assessments of student performance, are instrumental in fostering critical thinking and adaptability. By continuously monitoring and responding to individual learning needs, these systems encourage students to engage in higher-order thinking tasks that are essential for developing problem-solving skills and intellectual flexibility.

These AI-driven enhancements not only support the acquisition of soft skills but also provide educators with valuable insights into student performance and learning patterns. Garcia-Murillo and MacGregor (2023) assert that the use of AI in education enables the tracking of soft skill development over time, allowing for targeted interventions and continuous improvement in teaching strategies.

#### **4.3 Use of AI in higher education for the purpose of soft skills learning**

AI is increasingly being harnessed in higher education to facilitate the development of essential soft skills among students. As the job market evolves with the integration of AI technologies, universities are adopting innovative AI-driven strategies to bridge the gap between technical expertise and interpersonal competencies. This section explores three primary avenues through which AI is being utilized: integrating AI-powered learning tools, fostering interdisciplinary education, and strengthening industry partnerships.

Universities are progressively incorporating AI-driven platforms to create interactive and personalized learning experiences that enhance the development of soft skills among students. AI-powered simulations, intelligent tutoring systems, and adaptive learning technologies are at the forefront of this integration, providing learners with opportunities to

engage in real-world scenarios that demand critical thinking, effective communication, and collaborative problem-solving.

For example, AI-powered simulations enable students to immerse themselves in decision-making exercises that closely mirror the challenges they will encounter in the workplace. These simulations provide a safe environment for students to practice and refine their interpersonal skills, strategic thinking, and ethical decision-making without the immediate consequences of real-world outcomes. According to Luckin et al. (2018), such personalized learning experiences are pivotal in fostering critical thinking and adaptability, as they cater to individual student needs and learning paces.

To effectively bridge the gap between technical knowledge and soft skills, universities are increasingly adopting interdisciplinary approaches that combine AI with disciplines such as philosophy, psychology, and communication studies. This integration ensures that students not only master technical competencies but also develop the critical soft skills necessary for holistic professional success. Garcia-Murillo and MacGregor (2023) emphasize the importance of interdisciplinary education in cultivating well-rounded graduates who possess both technical expertise and interpersonal skills. By integrating AI with humanities and social sciences, universities can design curricula that foster creativity, ethical reasoning, and effective communication. For instance, courses that merge AI with philosophy encourage students to explore the ethical implications of technology, enhancing their ability to think critically and engage in meaningful discourse about AI's role in society.

#### **4.4 *Strengthening industry partnerships***

Collaboration between universities and businesses is pivotal in providing students with hands-on experience and practical insights into AI applications across various industries. These partnerships facilitate the creation of internships, mentorship programs, and case studies that integrate soft skills development with technical training, thereby enhancing graduates' employability and readiness for the workforce.

Davenport and Ronanki (2018) advocate for aligning academic curricula with industry needs through strategic partnerships. By partnering with businesses, universities can offer students real-world projects and problem-solving opportunities that require effective communication, teamwork, and adaptability. These experiences not only enhance students' technical competencies but also cultivate essential soft skills that are highly valued by employers.

Furthermore, mentorship programs that pair students with industry professionals provide valuable guidance and feedback, helping students navigate their career paths and develop essential soft skills. NACE (2022) reports that such industry collaborations are crucial in fostering a workforce that is both technically proficient and socially adept, thereby enhancing overall organizational effectiveness and innovation.

Case studies focused on AI applications in different sectors, such as healthcare, finance, and education, offer students insights into the diverse roles AI plays and the soft skills required to succeed in these environments. Pane et al. (2017) emphasize that case-based learning, supported by AI analytics, can enhance students' critical thinking and problem-solving abilities by presenting complex scenarios that mirror real-world challenges.

## **Conclusions**

In conclusion, the integration of AI within higher education and the broader labor market presents both significant challenges and transformative opportunities. While AI effectively automates routine and technical tasks, enhancing operational efficiency and productivity, it simultaneously underscores the critical need for soft skills such as communication, critical thinking, and emotional intelligence. This study highlights that universities are proactively addressing this demand through the adoption of AI-powered learning tools, fostering interdisciplinary curricula, and strengthening industry partnerships. These initiatives ensure that graduates are not only proficient in their technical fields but also excel in interpersonal competencies essential for collaborative problem-solving and leadership in an AI-driven economy. By strategically leveraging AI as a facilitator for soft skills development, higher education institutions play a pivotal role in preparing a resilient and adaptable workforce capable of driving innovation and sustaining organizational growth. Ultimately, the harmonious blend of AI and soft skills education is essential for securing employability and fostering a dynamic, collaborative, and ethical professional landscape in the face of rapid technological advancements.

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CIP Katalogimi në botim BK Tiranë

Universiteti Aleksandër Moisiu

International Scientific Conference on Innovative Marketing

ISCOIM 2025 : 5th Albanian Marketing Management

Conference : 11 & 12 April, 2025 Durrës, Albania : book of  
proceedings / Universiteti Aleksandër Moisiu. - Durrës : Luis  
Print, 2025.

192 f. ; 21x29.7 cm.

ISBN 9789928835192

1.Biznesi 2.Marketingu 3.Konferenca

658.8 (062)

339.138 (062)