When Does Personalization Fail? an Analysis of Recommendation Agents

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Research on personalization suggests that online recommendation agents improve consumer decision making by enhancing the quality of the process and the ultimate decision (Haubl and Trifts 2001; Chellappa and Sin 2005). Drawing on the personalization literature in Information Systems and Ratchford’s (1987) product categorization framework, we aim to show the boundary conditions of this claim and argue that the level of personalization and the type of recommended product (hedonic vs. utilitarian) can make a difference in the perceived security and personalization of the website. A pilot study has shown consistent results with our hypotheses.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/14143/la/v2_pdf/LA-02

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Online retailers face tremendous challenges as their markets become increasingly saturated with competitors. This emphasizes the importance for firms to become extremely efficient in meeting customer needs. This efficiency can come through personalizing marketing efforts to each individual consumer. Despite extant literature championing the cause of personalization, the purpose of this study is to show that personalization is not the “silver bullet” it purports to be through the examination of a specific e-commerce personalization tool, the recommendation agent.

Personalization/customization refers to the “ability to offer content or information according to user interests and specifications” (Rayport and Jaworski 2001). Personalization creates not only strategic advantages but also helps predict demand, manage inventories, and engage in discriminatory pricing (Blattberg and Deighton 1991). In other words, personalization provides direct and informational benefits (Chellappa and Sin 2005). From a vendor perspective, adaptive technologies, such as tracking and profiling technologies, provide vendors the ability to create individual-specific profiles that allow the targeting of customers on one-to-one basis, which helps increase customer satisfaction, customer loyalty, and cross-selling possibilities (Peppers, Rogers, and Dorf 1999). These “adaptive interfaces” have the ability to adapt themselves to individual user’s needs, interests, and preferences, or knowledge (Alpert, Karat, Karat, Brodie, and Vergo 2003).

Online retailers use recommendation agents (hereafter referred to as RAs) as a tool for personalizing information and simplifying consumer search tasks. In this paper, we define RAs as personalized web–based agents that provide customers with suggestions based on the user’s personal characteristics (i.e. name and shipping address), preferences, purchase and search history, previous experience with the site and similar users’ common preferences.

RAs are widely used by application providers for making suggestions. However, the level of personalization changes from a website to another. In some cases, it is difficult for users to distinguish whether items in a page are customized suggestions or simply a list of items shown to all users (Miao, Yang, Fang, and Goh 2007). In an era where customization and building customer relationships and loyalty are keys to success, it is inevitable that RAs will become a more important tool to help firms to keep up with the competition (Papazoglu 2000). Moreover, as Haubl and Trifts (2000) state, due to the limited process information capacity of consumers, these RAs provide consumers with an ideal tool to minimize the cognitive load imposed by excessive information on web pages. As RAs become more proficient in their capabilities, Internet consumers will increasingly use them in their search behavior. Moreover, as reliance on RAs increases, consumers will focus less on brand information and more on attribute information provided by these tools (Peterson and Merino 2003). Research shows that RAs improve consumer decision making (via lowered search costs and process quality improvement) and also influence preferences (Haubl and Trifts 2000). Further, the literature implies that recommendation agents always have a positive impact on consumers. However, our goal is to show that personalization does not always result in positive outcomes. Alpert, Karat, Karat, Brodie, and Vergo (2003) indicate that the prevalence of recommendations can lead users to be wary of attempts to infer consumer preferences. This wariness can be linked to trust and privacy issues.

Recent studies have shown that customers may not be willing to share information about themselves due to privacy concerns (Culnan 2000). Regardless of the incentive to use an e-commerce retailer, a lack of perceived privacy and information security could lead customers to be cautious of RAs and firms for fear of identity theft.