Personalization as a Strategy to Build Customer Relationship: The Role of Intimacy

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April 14, 2009

To Whom It May Concern:

I am writing this letter to nominate Ms. Yuwen Li to participate in the 2009 PACIS Doctoral Consortium. She is a doctoral student under my supervision who has completed all requirements for a doctoral degree except her dissertation.

Her thesis research investigates the effect of emotional factors in the acceptance of personalized services. As information technology provides strong analytical capabilities for identifying customer preferences, personalization has become an important technology for online services. Although a few theories have been proposed to interpret how personalization is liked by the recipient, not much has been done from the relationship building perspective. Ms. Li’s research targets at applying the concept of intimate experience in human interaction and adapt the model to human-computer interaction online. Our preliminary findings indicate the concept is very promising in interpreting consumer’s attitude toward receiving personalized advertisement. Her dissertation goes beyond the intimacy to include an integrated model that includes both emotional and rational factors. I believe this dual process model can make a significant contribution toward our understanding of the effect of personalized services in electronic commerce. Her attending the consortium will allow her to receive early feedback from the professors for improving her research model.

She has performed very well in the doctoral program. She had no problem completing her qualify exam and has been actively involved in my research projects. Under reasonable schedule, she will be able to complete her dissertation in a year and this is a good opportunity for her to learn how to complete her research in high quality and prepare her to be a successful faculty member in the future. Therefore, I would strongly recommend that she be accepted into the 2009 PACIS Doctoral Consortium. Please feel free to contact me should you have any questions.

Sincerely yours,

Ting-Peng Liang

Director, ECRC
Chair Professor
## Dissertation Title

| Personalization as a Strategy to Build Customer Relationship: The Role of Intimacy |

## Candidate Information

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With this nomination, I, as the nominating faculty, certify that the candidate __________ Yu-Wen Li ____________ is the sole nominee for PACIS 2009 Doctoral Consortium from the __National Sun Yat-Sen__ University.
PERSONALIZATION AS A STRATEGY TO BUILD CUSTOMER RELATIONSHIP: THE ROLE OF INTIMACY

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Abstract

Personalization that uses information technology to tailor content and products/services to the preferences and tastes of individual customers has become a useful function for online marketing. Many techniques have been developed, and research on personalized services has increased substantially in recent years. The objective of the thesis research is to investigate the relationship building perspective in investigating the effectiveness of personalization, which treats intimate experience resulting from personalized response as an important factor to affect the outcomes of relationship marketing, including the willingness to self-disclosure, customer loyalty, and customer's attitude towards the personalized recommendations. This study will conduct controlled laboratory experiments on personalization Website in which the personalization agent will appear socialness, use personalized interface to interact with users, and provide personalized recommendation to users. The results and findings will provide valuable information to practitioners and researchers.

Keywords: Personalization, Theory of intimacy, Relationship quality, Relationship marketing.

1 INTRODUCTION

The rapid development of information technology has made personalization a common practice in today’s business (Adomavicius and Tuzhilin 2005; Ansari and Mela 2003; Chiasson et al. 2002; Murthi and Sarkar 2003). Personalization, relying on using advanced information technologies to offer services based on consumers’ personal data and preferences, enables Websites to attract and retain consumers by meeting their needs, tasks, and desires. Recent empirical evidence indicates that about 80 percent of Internet users are interested in personalized services (Kobsa 2007). Freedman (2007) also reported that 56 percent of frequent online shoppers were more likely to make a purchase at a website that offers personalization features than one that does not. Since personalization is a popular mechanism benefiting not only firms but also customers, what kinds of abilities personalization should have and how the personalization could benefit a firm becomes an interesting issue in information system.

Given the popularity of personalization among online vendors, internal portals, and corporate intranet services, an increasing number of studies examined theories that can be used to explain and predict its effect on consumer behavior. Existing literature has adopted two groups of theories for such a purpose. One is based on rational behavior, such as the information overload theory that argues that personalized services can reduce the complexity of consumer choice. Hence, effort reduction and money savings to customers are the reasons why personalization is liked by customers.

A second perspective is from the personal persuasion perspective that treats personalized services as providing more convincing message to the customer. A typical theory is the Elaboration Likelihood Model originally proposed by Petty and Cacioppo (1986). The model uses a central route and a peripheral route to interpret how attitudes are formed and changed. The central route processes require a great deal of thought and elaboration, while the peripheral route processes often rely on environmental characteristics. Both routes are found to have effect on consumer attitudes (Tam and Ho 2005).
Another perspective that is closely related to personalization but has not yet well investigated is the relationship building perspective. As a result of shifting trend of marketing from the transactional approach to the relationship-based approach, personalization is viewed as using information technology (IT) as a tool to build customer relationships. Relationship marketing emphasizes the importance of developing a long term relationship with customers for mutual benefit (Morgan and Hunt, 1994). Personalization that enables a firm to meet customers’ interest is just right way for attracting and retaining customers. A large body of literature has indicated the importance of using IT for relationship marketing and customer retention. The classic article by Treacy and Wiersema (1993) proposed that the key value that IT can create is customer intimacy. That is, IT can be used to understand customers’ personal preferences effortlessly and to satisfy their needs immediately so as to enable customers to experience intimate interaction with a firm. Prager (1995) argued that close relationship is built upon intimate interactions that consist of intimate behaviors and intimate experiences. Liang et al. (2009a) found that personalization could result in customers’ intimate experiences and intimacy mediated the effect of personalization on customers’ attitude toward recommendation made by personalization agent. Besides, they further proposed that intimate experiences could be divided into cognitive intimacy (including perceived level of communication and caring) and affective intimacy (including commitment, comfort, and trust) (Liang et al. 2009b). A personalized service should show understanding and caring so that service receivers could elicit their positive feelings toward service providers. Such empathic response made by personalization agent is the key factor for building close relationship with service receivers.

In contrast to rational perspectives, such as reducing information overload or giving assistance in one’s information process, relationship building perspective provides an affective view and long-term standpoint to investigate the effect of personalization by intimacy developing process. As long as customers experience intimate interaction with a personalization agent, they will form a closeness of feeling toward the personalization service provider (a firm or a Website). Since people usually express positive attitude toward the message sent by one who has a close relationship with them, the close relationship then contributes to the effect of recommendation made by personalization agent. Personalization is not intelligent enough to exactly satisfy customers’ needs. However, why firms could still take advantage from personalization? The affective way by relationship building perspective could give us a reasonable explanation, and expend our view of personalization.

As mentioned above, the effect of personalization can be examined by relationship building perspective that involves one’s intimacy development. However, in order to make this contention more persuasive, some issues should be considered. First, intimacy, a closeness of feeling, is likely to be influenced by one’s individual characteristics, such as attachment style. The individual differences cannot be ignored in exploring one’s intimacy development. Second, since personalized service can be viewed as an empathic response that is a key factor for building relationship. What capabilities a personalized service should develop for expressing empathy needs to be identified. For example, is socialness an important feature of personalization for building relationship with customers? Third, though perceived empathic response (cognitive aspect of the intimate experience) is a key factor for eliciting one’s positive feelings, some rational factors may also contribute to one’s positive feelings. According to social exchange theory, for example, when an individual is aware of the benefits of building relationship, he/she would have strong desires for building relationship and hence creates positive feelings toward the partner. Accordingly, rational factors should also be considered for investigating the effect of personalization in relationship building. Forth, according to prior research in relationship marketing, relationship closeness contributes not only to the effect of recommendation but also to customer loyalty and reduction of risk perception. Therefore, the effect of personalization can be investigated more extensively.

To sum up, this research is to extend previous research from the relationship building perspective to examine the effect of personalization. The research questions are:

(1) How individual differences influence one’s intimacy development in the process of receiving personalized services?
(2) Whether different capabilities of personalization agents may lead to different intimate experience? In particular, we will examine the effects of providing social cues, personalized user interface, and personalized contents to see how they may have different influences on the receiving customer.

(3) What kind of rational factors could contribute to intimacy development and how rational factors are compared with emotional intimacy?

(4) How can intimate experiences change customer attitude, loyalty, and risk perception.

2 THEORETICAL DEVELOPMENT

As described above, personalization focuses on individual-oriented communication aimed at building relationship. The interactions between personalized services provider and a customer can generate intimate experience for building close relationship (Gore et al. 2006; Laurenceau et al. 2005; Prager 1995). Intimacy, as a feeling of closeness, then influences consumers’ purchasing behavior. Therefore, intimate interaction plays a key mediating role in developing positive relationship between service providers and customers.

2.1 The Intimate Interaction on Internet

According to Reis and Shaver’s (1988), intimacy is an interpersonal process and results from intimate interactions between two persons. Prager (1995) argued that intimate interactions are composed of intimate behaviors and intimate experiences. Intimate behavior refers to intimate sharing that involves the disclosure of personal information, preferences, and so on, while intimate experience refers to the positive feelings and perceptions resulting from partner’s responsive behavior. Generally speaking, an intimate interaction is initiated when someone is willing to be a speaker and the other one is ready to be a listener. The speaker shares personal information in order to be intimate (intimate behavior), while the listener respond to the speaker’s self-disclosure emphatically so that the speaker could experience the interaction as intimate (intimate experience) (Laurenceau et al. 2005; Laurenceau et al. 1998; Prager 1995). Finally, the speaker’s intimate experience will prompt him/her to behave intimately with the listener again. In such intimate interaction, the extent of intimate experience is exactly the degree of the speaker’s development of intimacy. Laurenceau (1998) contended that intimacy is created when the speaker perceived the listener’s emphatic response. The experience of intimacy is the consequence of the speaker’s intimate behavior, and will influence the speaker’s future behavior toward the listener. Accordingly, intimate experience is the major process for development of intimacy in an intimate interaction.

Extending interpersonal process model to the context of interaction with users on the Internet, a Website offering personalized services can be viewed as a listener, and the user can be viewed as a speaker. Personalized services can be delivered by the provider through via email, text message, Web pages or other communication channels. As long as users are willing to disclose their personal information or to interact with the Website, a personalization intelligent agent can offer tailored services to the users based on their preferences or personal information. Figure 1 is a diagrammatic illustration of the interaction process.

In order to build close relationship with the users, personalization agent has three ways to offer personalized services to create empathic responses to the users, including appearing socialness, personalized interface, and personalized recommendation. According to the social response theory, if personalization agent possesses human-like attributes or social cues, such as language (written or spoken communication), politeness, and interactively, the users would respond to personalization agent in a way that is similar to the during human-human interaction and easily perceive the service offered by personalization agent as empathic (Wang et al., 2007). For example, a greeting message “Hi Angela, how are you?” would show caring to the users. In addition, a personalized interface that provides the exclusive way to access the services would also contribute to users’ intimate experiences.
Providing personalized interface is common on many portal sites or company websites on the Internet. Personalization agent enables users to experience intimate interaction by providing service through personalized interface, such as showing the user’s name on the screen, reorganizing menu based on the user’s browsing habit, and summarizing the information relevant to the user (e.g., a bank website shows account balance for their customers). Finally, the content can be personalized. For example, books recommended to one customer is very different from those recommended to another at Amazon.com. This personalized content is a core element in personalization. A recommendation agent that offers content (e.g., advertising) tailored to the user’s needs based on their preferences could express understanding and caring to the users.

To sum up, since the warm responses described above are empathic to the customer, they could result in intimate experience (Gore et al. 2006; Laurenceau et al. 2005; Prager 1995). A recent study by Liang et al. (2009a) showed that intimacy does exist in the interaction process between the personalized service provider and service receivers, and intimacy contributes to the effectiveness of recommendation made by personalization agent. That is, people who communicate with personalized systems may feel warm interactions, and may have a closer relationship with the provider (Adomavicius and Tuzhilin 2005; Ansari and Mela 2003). Figure 1 shows different elements in the intimate interaction on the Internet.

**Personalization Agent**

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<tr>
<th>Collect &amp; Analyze User’s Preference</th>
<th>User’s Self-disclosure</th>
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<tr>
<td>Generate Personalized Service</td>
<td>User’s Intention to Behavioral Response</td>
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<tr>
<td>Provide Personalized Interface</td>
<td>Cognitive Intimacy</td>
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<tr>
<td>Provide Personalized Recommendation</td>
<td>Perceived Social Benefit</td>
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<td>Intimate Experience</td>
<td>Affective Intimacy</td>
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**Figure 1. The model of intimacy development on the Internet**

### 2.2 Major Components of Customer Intimate Experiences

Since the process of building relationship is complicated, intimacy is usually treated as a multi-dimensional concept. Schaefer and Olson (1981) described five types of intimacy, including emotional intimacy, social intimacy, intellectual intimacy, sexual intimacy, and recreational intimacy. They considered that intimate experiences might involve in one or more of these five types, depending on what kind of relationship is developed. In service relationship, Stern (1997) argued that customer intimacy belongs to “limited intimacy”, and it is different from “full intimacy” in other
intimate relationship (i.e., romantic relationship). Because of the difference between “limited intimacy” and “full intimacy”, customer intimacy should merely involve emotional intimacy. Stern (1997) further proposed that the basis of a service relationship is the five components of emotional intimacy, known as the five C’s: communication, caring, trust (conflict resolution), comfort, and commitment. They are shared by all intimate relationships and contribute to the relationship quality between service providers and receivers. Recent research also has found that this kind of emotional intimacy can explain the interaction in customer-firm relationship (Liang et al. 2009a; Liang et al. 2009b; Yim et al. 2008). Therefore, the five components can be treated as good indicators of customer’s intimate experience in an intimate interaction on Internet.

However, the five C’s are not exactly independent from each other. Reis and Shaver (1988) contended that intimacy is an interpersonal process that involves sharing personal information and responding warmly. For the positive feelings to be elicited, one must perceives partner’s response as empathic. Based on this claim, Prager (1995) proposed that intimate experiences in an interaction can be divided into the experience of cognitive intimacy and the experience of affective intimacy. Cognitive intimacy refers to perceived partner’s empathic responses, while affective intimacy refers to the positive feelings to partner. Several studies have also shown that positive feelings could result from perceived empathic responses in an interaction (Gore et al. 2006; Laurenceau et al. 2005; Laurenceau et al. 1998; Liang et al. 2009a; Liang et al. 2009b). That is, cognitive intimacy could lead to affective intimacy.

Therefore, cognitive intimacy, perceived the listener’s empathic response, is crucial at the beginning of a relationship. The listener must accurately capture the speaker’s needs and show the affection for the speaker so that the speaker can experience the interaction as intimate in order for an affective interdependence to occur (Laurenceau et al. 2005). Among the five C’s, communication and caring imply that the speaker’s perception of being understood and being concerned by listener respectively. These two components exhibit the characteristics of cognitive intimacy (Gore et al. 2006; Laurenceau et al. 2005; Prager 1995). In an intimate interaction, the speaker’s self-disclosure must be understood by the listener so that the speaker could perceive that the communication is successful and the listener’s response is relevant. Besides, it is very important to enable the speaker to gain psychological support from the listener in order to perceive the listener is empathic (Prager 1995).

Affective intimacy refers to the speaker’s positive feelings to the listener, and usually includes the feeling of commitment, comfort, and trust (Gore et al. 2006; Li et al. 2006; Palmatier et al. 2006). Affective intimacy signifies the validation that the listener is acceptable and worth being together (Laurenceau et al. 2005; Prager 1995). Commitment indicates a psychological state that occurs when an intimate interaction is so important that maximum efforts are guaranteed in order to maintain it (Gustafsson et al. 2005; Kumar et al. 1995; Morgan et al. 1994). Comfort is the degree to which the speaker is physically relaxed and satisfied to get along with the listener; specifically, it means an emotional state that is evoked by the overall evaluation of intimate interaction (Crosby et al. 1990; Gustafsson et al. 2005; Roberts et al. 2003). Trust refers to the feeling that the listener is honest and benevolent (Doney et al. 1997; Ganesan 1994; Kumar et al. 1995; Morgan et al. 1994). These three major effective responses to the listener’s empathic behavior demonstrate the enjoyment in an intimate interaction and achieve the development of intimacy. Therefore, these three components contribute to relationship closeness as well as relationship strength, and are the important experiences in an intimate interaction.

3 RESEARCH MODEL AND HYPOTHESIS

Based on the interaction process illustrated in Figure 1, this study proposes an intimacy development model for explaining the effect of personalization on relationship marketing. Personalized services are considered empathic responses to an individual’s disclosure of personal information and can trigger an intimate experience when the personalization agent shows socialness, personalized interface to interact with users, and personalized recommendation to users.
Since personalization creates not only emotional effect but also rational effects such as reduction in search effort. Hence, we propose a research model that combines intimacy and the rational factor of transaction costs to examine their relative influences. Therefore, in addition to psychological factor, we also include the transaction cost as a potential factor that affect the intimate experience between the service provider and the customer. This intimate experience, then, induces users’ intention to their behavioural response, including willingness to self-disclosure, intention to retention, and positive attitude toward adopting the personalized recommendation. Besides, since individual difference may influence user’s intimacy development, attachment style that represents an individual personality trait is treated as a moderator. Figure 2 shows the proposed research model. The following research hypotheses can be posited:

**Figure 2. Research Model**

**Effect of different designs of personalization**

**H1** : Perceived socialness will have a positive effect on users’ cognitive intimacy in an interaction with personalized service provider.

**H2** : Perceived self-relevance will have a positive effect on users’ cognitive intimacy in an interaction with personalized service provider.

**H3a** : Perceived content relevance will have a positive effect on users’ cognitive intimacy in an interaction with personalized service provider.

**H3b** : Perceived content relevance will have a positive effect on users’ perceived transaction cost in an interaction with personalized service provider.
Impact of intimate experience

H4: Users’ cognitive intimacy is positively associated with their affective intimacy.
H5a: Users’ perceived transaction cost is positively associated with their affective intimacy.
H5b: Users’ perceived transaction cost is positively associated with their attitude toward recommendation made by the personalization agent.
H6a: Users’ affective intimacy is positively associated with their willingness to self-disclosure.
H6b: Users’ affective intimacy is positively associated with their loyalty.
H6c: Users’ affective intimacy is positively associated with their attitude toward recommendation made by personalization agent.

Moderating effect of the attachment style

H7: The effect of perceived socialness on users’ cognitive intimacy is moderated by the user’s attachment style.
H8: The effect of perceived self-relevance on users’ cognitive intimacy is moderated by the user’s attachment style.
H9: The effect of perceived content relevance on users’ cognitive intimacy is moderated by the user’s attachment style.

4 RESEARCH DESIGN

In order to test the hypotheses, this study will conduct a controlled experiment in which an experimental website will be designed and all participants will be invited to visit that Website. All participants will be asked to complete the online product preference questionnaire where their purchasing preferences and demographic information will be recorded. A $2 \times 2 \times 2$ between-subjects factorial design will be employed. Three manipulated variables will be socialness (appearing vs. not appearing), personalized interface (providing vs. not providing), and personalized recommendation (providing vs. not providing). After visiting the Website, all participants will be asked to complete the validated questionnaire in order to evaluate their intimate experience and their intention to behaviour response. To test the proposed hypotheses, the Structural Equation Modelling will be used to estimate the proposed research model and test the hypotheses.

References


