

COSTS AND BENEFITS OF PERSONALISED MARKETING COMMUNICATION IN ONLINE RETAIL: THE COMPARISON OF CUSTOMER AND BUSINESS PERSPECTIVES

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1. Introduction
2. Costs and benefits of personalized marketing communication based on 7 techniques
3. Development of the overview of the personalized marketing communication costs and benefits from the academic perspective
4. Conclusions, Limitations and Future Directions



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AGENDA

Introduction

In retail there is an **evident trend towards the highly personalized communication as a shift away from the one-to-many communication that treats everyone the same**

[Sheth et al., 2000; Shah et al., 2006; Matz et al., 2019].

Rapid and frequent changes in personalized marketing communication led to the **academician-practitioners divide in marketing theory** associated with the practitioner knowledge autonomy

[Nyilasy and Reid, 2007; Nyilasy et al., 2012; Strycharz et al., 2019].

Such tendency is expected to continue



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89% of digital businesses are investing in personalization. *[Forrester, 2019]*

71% of consumers feel frustrated when a shopping experience is impersonal. *[Segment, 2019]*

58% of consumers say brands send them items that they don't want: many companies clearly still don't know what their customers want well enough to provide proper personalized communications. *[SmarterHQ, 2018]*

Introduction

Academic literature struggles to keep up with the practical developments and tools [Strycharz et al., 2019] and evaluation of respective costs and benefits.

This paper follows the literature analysis to **identify the academic approach to personalized marketing communication costs and benefits** from customers and business perspectives.

Aim: first step to fill this gap by clarifying initial academic perspective on the costs and benefits of personalized marketing communication in retail.

RQ: how the perspectives of customers and businesses differ in regards to costs and benefits of PMC.

Objective: to set the initial foundation of academic perspective on the PMC costs and benefits based on the analysis of papers from top-level international journals within the categorization of PMC suggested by [Strycharz et al., 2019]

Contributions are twofold:

academic contribution - systematization of the vast literature on PMC to identify the patterns of costs and benefits to set initial further directions of research, *and*

practical contribution - development of roadmap on the consequences of each PMC tool implementation.

The analysis is structured into 8 categories of personalized marketing communication:

- a) online behavioural targeting,
- b) email marketing,
- c) social media advertising,
- d) apps and notifications,
- e) on-site personalization;
- f) customization,
- g) price differentiation.

The analysis on the costs and benefits was theory-based, as 137 articles from the ABS list in the field of business and management were selected for in depth literature analysis for the development of the overview, highlighting most frequent and prevailing issues (based on the frequency of occurring and the nature of focus).

Costs and benefits of personalized marketing communication

With the rise of technology, the scientific literature identified the upcoming fundamental changes in the practice of marketing [Moon, 2000].

Personalization as an umbrella term includes segmentation, targeting, customization, depending on data used and its initiator [Strycharz et al., 2019].

This paper focuses on the personalized marketing communication (PMC) as such an interactive process [Vesanen, Raulas, 2006].

Various aspects of marketing output can be personalized [Strycharz et al., 2019]: banners [Bang, Wojdyski, 2016], address lines [Maslowska et al., 2011], website content [Tam and Ho, 2005].

In contrast with the academic perspective, practitioners do not differentiate between the channels, they refer to seven techniques. This paper is structured based on these categories.

Such approach of **abandoning separate marketing channels** in favour of **more integrated digital marketing communication** leads to the acceptance of consumers' inclination to think in terms of **convenience rather than the channels use** [Manser Payne et al., 2017, Strycharz et al., 2019].



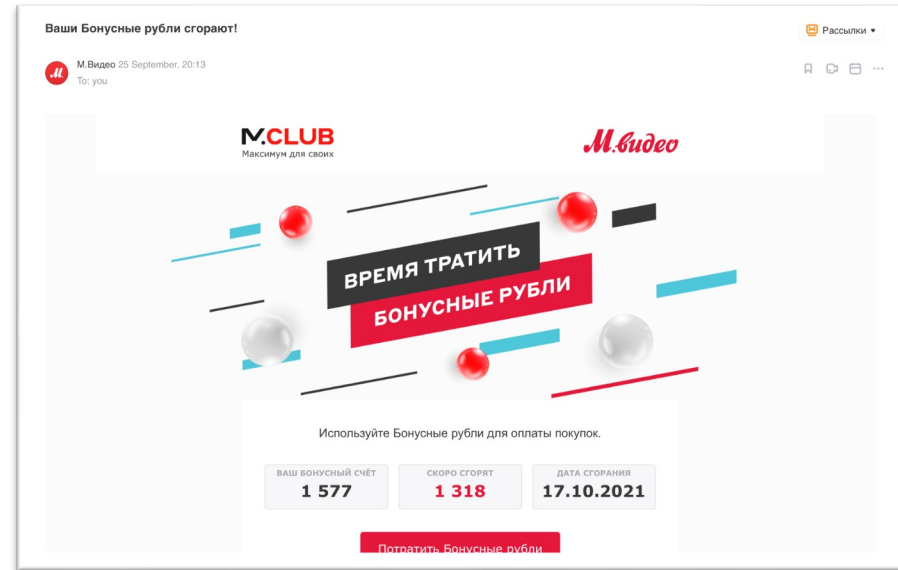
Email marketing

Emails in the customer research appeared more than 20 years ago [Albaum, 1987] and still remains one of the most researched personalization channels [Postma and Brokke, 2002; Maslowska et al., 2011; Steinhoff et al., 2019].

With the intention to achieve better open rates, practitioners confirm the emails become more advanced as not only the title but the content of the email undergoes the adaptation (personalization). Such personalization happens based on either customers' prior click behavior data or general demographical data [Strycharz et al., 2019].



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Apps and Notifications

With the emergence of technology, the most recent personalization interfaces are getting attention in the consumer context research [Inman and Nikolova, 2017].

The mobile application availability helps customers to increase their loyalty to the particular retailer, additionally, applications increase customers' trust [Ozturk et al., 2017].

One of important aspect of mobile applications relate to the in-app notifications.

Even though it could be considered convenient for the customer, there is strong evidence towards strong reactance of the customers towards such notifications: customers consider them too private and intrusive [Strycharz et al., 2019].



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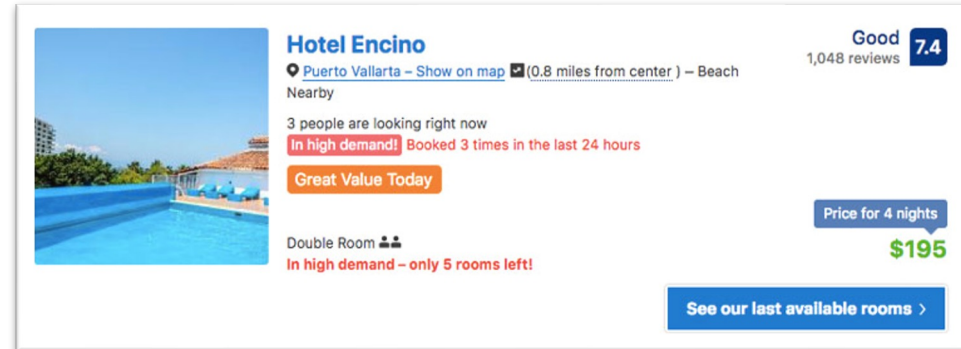
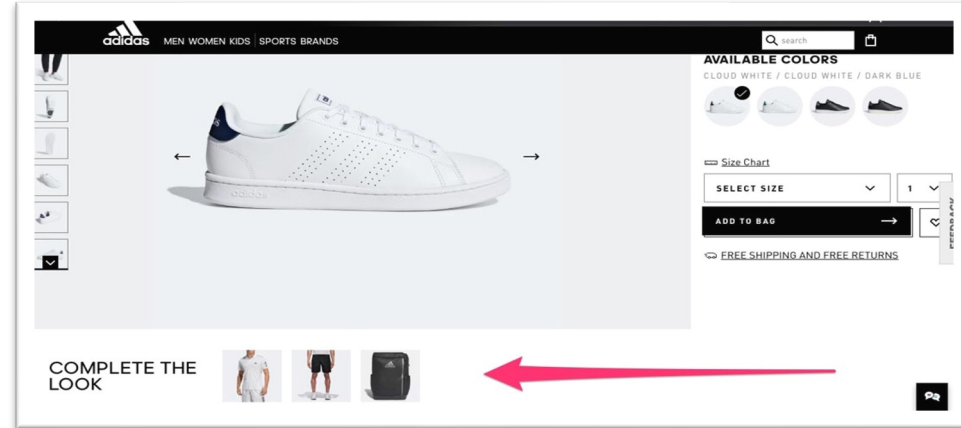
NMD_R1 Shoes NMD_R1 STL Ultraboost Shoes Ultraboost Shoes

On-site personalization + Customization

On-site personalization is also known as “web-morphing” and is defined as “inferring latent customer segments from clickstreams and then changing websites’ look and feel to maximize revenue” [Hauser et al., 2014].

On-site personalization relates to the adaptation of certain parts of the web-site to meet the needs and profile of the customer.

Such changes include the identification of customer location (city, country), appropriate currency, appropriate clothing sizes and personal recommendations of different filtering types and framings [Gai, Klesse, 2019].



Price Differentiation

Price differentiation is less discussed topic as it refers not to the product or service but its price [Strycharz et al., 2019].

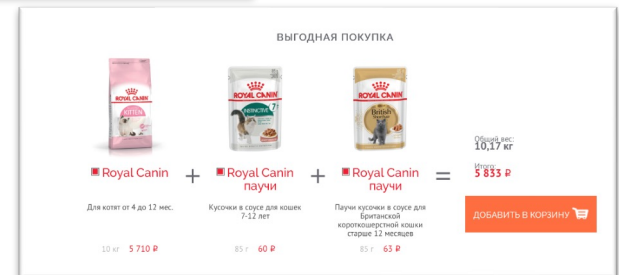
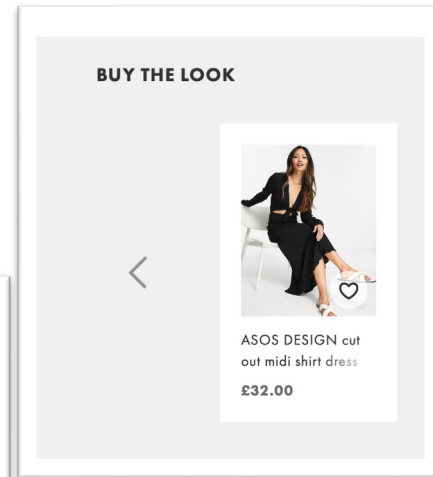
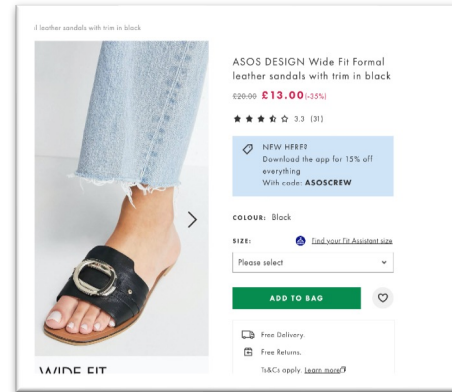
According to [Rust et al., 2017], dynamic pricing influences customers' demand on particular goods and services.

Such approach relates to particular aspects on the online retailer interfaces in the form of recommendations framed as “good bargain” or “good sell”.

Additionally, it is worth mentioning that dynamic prices may also relate to the geographical location of the customer, meaning that the price changes are based on the average prices of the customer location.



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Overview of the personalized marketing communication costs and benefits from the academic perspective

PERSONALIZATION TECHNIQUES	PERSPECTIVE	BENEFITS	COSTS/RISKS
General	Customer	<ul style="list-style-type: none"> • Better preference match [Vesanen, 2007] • Better service [Vesanen, 2007] • Better communication [Vesanen, 2007] • Better experience [Vesanen, 2007] • Expectation of economic benefits from PMC (coupons, discounts, vouchers) [Zhu et al., 2017] 	<ul style="list-style-type: none"> • Privacy risks: fear of their personal data to be sold to the third parties, Spam risks [Vesanen, 2007] • Perceived privacy costs and risks [Aguirre et al., 2015] • Increased processing costs for looking through all the messages [Krishnamurthy, 2001] • Feeling of being followed, personalization based on prior experience is considered to be “creepy” [Schade et al., 2017; Krafft et al., 2017, McDonald and Cranor, 2010]
	Business	<ul style="list-style-type: none"> • Development of better understanding of customer knowledge and needs [Strycharz et al., 2019] • Higher/better response rates [Vesanen, 2007] • Differentiation from competition [Vesanen, 2007] • Higher persuasive impact on customer [Wind and Rangaswamy, 2001; Postma and Brokke, 2002; Baek and Morimoto, 2012; Strycharz et al., 2019] • Higher price from product/service [Vesanen, 2007] 	<ul style="list-style-type: none"> • Lack of common personalization framework, hence, risk of misunderstanding (ex., with the third party) [Strycharz et al., 2019] • Reactance to personalization due to customers’ lack of digital literacy and digital capabilities [Smit et al., 2014; Turow, 2015] • Rising negativity among customers leads to lower effectiveness of personalization and chilling effects [TRUSTe, 2016] • Limitation of online activities due to customers’ own concerns about their data [Strycharz et al., 2019] • Refraining from clicking on personalized ad [Strycharz et al., 2019]
Online behavioral targeting	Customer	<ul style="list-style-type: none"> • Reduction of customer’s time waste [Strycharz et al., 2019] 	
	Business	<ul style="list-style-type: none"> • Ad avoidance mitigation [Baek, Morimoto, 2012] • Maximization of advertising effects [Van Doorn and Hoekstra, 2013; Smit et al., 2014] • Reduction of organization’s time waste [Strycharz et al., 2019] 	

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	Business	<ul style="list-style-type: none"> • Ad avoidance mitigation [Baek, Morimoto, 2012] • Maximization of advertising effects [Van Doorn and Hoekstra, 2013; Smit et al., 2014] • Reduction of organization's time waste [Strycharz et al., 2019]
Email marketing	Customer	
	Business	<ul style="list-style-type: none"> • Positive effect on click-through rates [Postma, Brokke, 2002] • Improved open rates [Strycharz et al., 2019] • More advanced email personalization requires considerable financial resources [Strycharz et al., 2019]
Social Media Advertising	Customer	<ul style="list-style-type: none"> • Consumer reactance to highly personalized ad [Strycharz et al., 2019]
	Business	<ul style="list-style-type: none"> • Effectiveness in mitigating the ad skepticism and improving ad credibility [Tran, 2017] • No substantial costs are required for targeting and data access [Strycharz et al., 2019] • Comparatively low banner blindness [Strycharz et al., 2019]



Apps and Notifications	Customer	<ul style="list-style-type: none"> • Increased privacy concerns due to perceived vulnerability to privacy intrusiveness [Gu et al., 2017] • Considerable reactance towards the in-app notifications [Strycharz et al., 2019]
	Business	<ul style="list-style-type: none"> • Positive influence on customer trust and loyalty [Ozturk et al., 2017]
On-site personalization	Customer	<ul style="list-style-type: none"> • Better customer experience [Strycharz et al., 2019]
	Business	<ul style="list-style-type: none"> • Emphasis on the increased direct sales due to the personalized content/product offering [Strycharz et al., 2019] • Better customer experience leading to longer customer visits [Strycharz et al., 2019] • Longer customer visits leading to the higher ROI [Strycharz et al., 2019]
Customization	Customer	<ul style="list-style-type: none"> • Improvement of visitor's satisfaction [Barnes and Vidgen, 2003] and decreased consumer concerns [Strycharz et al., 2019] • Reduction of time waste in non-relevant offerings scrolling [Strycharz et al., 2019] • Customer is empowered to identify their preferences and get the offerings they want [Strycharz et al., 2019]
	Business	<ul style="list-style-type: none"> • Opportunities for more active interaction with the customers [Pang et al., 2018]
Price Differentiation	Customer	<ul style="list-style-type: none"> • High amount of content is needed for full customization for various individuals [Strycharz et al., 2019] • Not all customers are ready to engage in the customization process [Strycharz et al., 2019]
	Business	<ul style="list-style-type: none"> • Feeling of discrimination based on the purchasing possibilities [Odlyzko, 2009] • Not used frequently due to companies' fear of backlash from the customers [Odlyzko, 2009] • Fear of the unlawful discrimination with this practice and lack of clarity on what data to use for the pricing [Strycharz et al., 2019]

Conclusions, Limitations and Future Directions

CONCLUSIONS

This paper expands and systematizes the costs and benefits of personalization and its techniques from customer and business perspectives.

According to the resulting overview, there is high variety of benefits and costs per each personalization technique, therefore, it is quite expected that companies utilize not particular channels but the general techniques, which unify the channels.

The costs and benefits therefore will be cumulative as the result of the overall personalization techniques used by the online retailer.

LIMITATIONS AND FURTHER DIRECTIONS

limited amount of personalization techniques, sector is retail
need to expand the tools and channels analysis (ex., chatbots)
development of research methodology for the analysis of customer preferences - digital footprints, social media profiles and language

Article sets the grounds for the following steps:

- a) the frequency-based analysis of the availability and functioning of 8 PMC on the businesses' web-sites, apps and wearable technology;
- b) the semi-structured interviews with the business representatives in online retail, and
- c) surveys and objective tracking data to learn the points of view of the customers.

By following these steps, the broad goal of this research in limiting the academicians-practitioners divide in marketing will be accomplished.



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