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Determinants of Customers' Responses to Customized Offers: Conceptual Framework and Research Propositions

Marketers have been challenged by proponents of individual (one-to-one) marketing to shift from focusing on market segments to making individually customized offers. Building on current knowledge regarding the construction of customers' preferences, the author examines the basic assumptions underlying individual marketing and presents a process model of customers' responses to customized offers. The model addresses (1) preference development, (2) evaluation of customized offers, (3) likelihood of purchasing the customized offers, and (4) maintenance of relationships with one-to-one marketers. The analysis leads to specific propositions regarding determinants of customers' responses to customized offers. The author discusses future research directions and managerial implications.

Over the past decade, marketers have been challenged to change their old, inefficient ways and take advantage of new technologies to offer individual customers exactly what they want. In their best-selling *Harvard Business Review* article titled "Do You Want to Keep Your Customers Forever?" Pine, Peppers, and Rogers (1995, p. 103) argue that "Customers, whether consumers or businesses, do not want more choices. They want exactly what they want—when, where, and how they want it—and technology now makes it possible for companies to give it to them." Similarly, marketing textbooks (e.g., Kotler 2000) and instructors have emphasized the importance of individual marketing, and new tools and management approaches have been introduced to enable marketers to serve the wants of individual customers better. A prominent example of such approaches is one-to-one marketing (e.g., Peppers and Rogers 1993, 1997; Peppers, Rogers, and Dorf 1999), and the emphasis on customizing offers to individual customer preferences is also a key component of mass customization (Gilmore and Pine 1997; Pine 1993), customer relationship management (e.g., Freeland 2003; Lemon, White, and Winer 2002; Winer 2001), personalization, and smart agents (e.g., Alba et al. 1997; West 1996; West et al. 1999).

Although each of these management approaches has its unique aspects, a common underlying assumption is that customers have hidden or overt preferences that marketers can reveal by building a learning relationship (Peppers and Rogers 1997). After uncovering customers' preferences, marketers can offer them what they want, often even before customers know they want it (e.g., anticipate which shoes, eyeglasses, or greeting cards the customer will prefer). If successful, marketers will be rewarded for the superior value they provide with higher customer loyalty, which will create a "literally insurmountable barrier to competition, for one individual customer at a time" (Peppers and Rogers 1997, p. 177). Indeed, in theory at least, serving "segments of one" cannot be less effective than serving larger segments, unless the additional benefits are outweighed by the additional costs. Learning individual customer preferences and tailoring offers to those preferences is not a new concept and has been the standard practice in many service, business-to-business, and other markets. However, new technologies now enable marketers to apply individual marketing using mass customization in a much wider range of markets.

Offers that are customized to individual customers' preferences may provide superior value if customers have preferences that marketers can uncover and if customers can recognize offers that provide a superior fit to their preferences. However, recent research on the construction of preferences (e.g., Bettman, Luce, and Payne 1998) suggests that customer preferences are often ill defined and susceptible to influence by seemingly irrelevant factors. Therefore, the fundamental assumptions underlying the new approaches for satisfying individual customer preferences often may not hold—customers may not have well-defined preferences to be revealed, and they may fail to appreciate customized offers that fit their measured preferences. Furthermore, when customers do not have well-defined preferences, they may need to rely on various proxies or cues to assess whether an individual offer indeed fits their preferences.

Therefore, a question that arises is whether and, more specifically, under what conditions preferences can be uncovered and translated into superior customized offers that are appreciated and rewarded by the customer. The pre-

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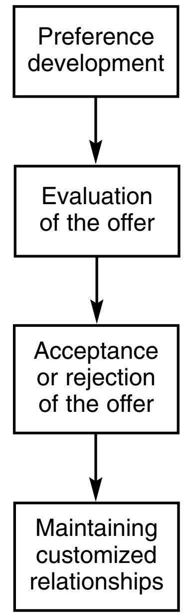
sent research addresses this question and examines the factors that determine customers' evaluation and acceptance of customized offers and one-to-one relationships with marketers. The focus is on situations in which an individual customer's preferences for the focal product or service are first measured or tracked and the information is then used to design offers tailored for that customer. Although the distinction between what has been referred to as individual marketing and market segmentation is subtle (e.g., many examples of one-to-one marketing could also be classified as usage-based segmentation), this research does not focus on approaches that can be regarded as traditional customer segmentation.

The discussion follows the process model summarized in Figure 1. The first component, preference development and stability, underlies customers' evaluations and acceptance of and responses to customized offers. The next component, evaluation of customized offers, refers to factors that affect the perceived fit and attractiveness of the offer. However, the likelihood of customers actually accepting a recommendation or purchasing the offer (holding fit and attractiveness constant) may depend on the specific characteristics of the customized offer and the category. Finally, this research examines influences on the customer's decision to maintain one-to-one relationships and to continue to purchase previously customized offers. The theoretical and managerial implications of this research are discussed.

FIGURE 1
Constructed Response to Customized Offers: An Overview of the Process Model



Preference Development: Stability and Clarity of Customers' Preferences as Antecedents of Responses to Customized Offers

The characteristics of customers' preferences are the antecedents to and main drivers of the response to marketers' offers, including individually customized offers. The emerging consensus among researchers of consumer decision making is that buyers often do not have well-defined preferences that can be retrieved, and they construct their preferences when faced with the need to make decisions (for a review, see, e.g., Bettman, Luce, and Payne 1998; Fischhoff 1991; Slovic 1995). The notion that preferences are constructed rather than retrieved is supported by a great deal of evidence indicating that preferences are contingent on the framing of options (e.g., Levin and Gaeth 1988), the characteristics of the decision task (e.g., Tversky, Sattath, and Slovic 1988), and the choice context (e.g., Huber, Payne, and Puto 1982). For example, Simonson and Tversky (1992) demonstrate that consumers are more likely to exchange $6 for an elegant Cross pen when they also have the option of exchanging $6 for a less attractive pen.

It is noteworthy that the conclusion that preferences tend to be unstable and susceptible to various influences does not apply equally to all preference levels. In particular, much of the research supporting the notion that preferences are constructed and susceptible to a variety of seemingly irrelevant influences has involved options with different attribute values that were in the same product or service category. In contrast, although choices between options in different categories can be difficult and susceptible to influence, preferences for product or service categories or types tend to be more stable and well defined. For example, consumers' likings or dislikings for smoking, plain yogurt, or gambling are likely to be rather stable over time, and consumers are likely to be well aware of their preferences for such product types.

The notion that customers' preferences are often constructed rather than revealed has potentially important implications for the effectiveness of customizing offers to individual tastes. Such approaches would offer the greatest value to the customer and, correspondingly, the greatest advantage to the customizing marketer if the following conditions were to hold: (1) customers have well-defined and reasonably stable preferences; (2) the customers themselves cannot easily define their precise preferences or identify the available options that offer them the best fit; (3) by gathering information about individual customers, marketers can reveal preferences and use the information to customize their offers given those preferences; and (4) customers can recognize and respond favorably to offers that fit their revealed preferences.

The first condition is straightforward. It is easier to satisfy well-defined, stable preferences than fuzzy preferences that are susceptible to influence by contextual, framing, and task factors. That is, if preferences are stable and well defined, a technique that effectively reveals those preferences will enable a marketer to generate a customized offer that accurately matches the customers' wants. The second condition is less straightforward. Consider a typical market in which there is more than one supplier that can potentially provide the same service or product. In that case, if customers have well-defined and stable preferences, the more insight they have into their preferences, the less dependent they are on the private information of a particular marketer, and the easier it is for them to select the most attractive competitive offer. That is, knowledge of their own preferences gives customers greater independence, though even customers with good preference insight can benefit from assistance in identifying suitable options.

The third condition for effective customized offers is again more straightforward—a one-to-one marketer should be able to use information about the customer's preferences (e.g., based on prior purchases) to generate an offer that fits future preferences. However, as is discussed further subsequently, this is a challenging task. Finally, suppose that the consumer has well-defined preferences but does not have good insight into those preferences. In that case, even if the marketer or agent can learn the true preferences of the customer and translate them into a customized offer, the customer may fail to recognize the attractive offer. That is, because customers often do not have good insight into their preferences (e.g., Nisbett and Wilson 1977), they may fail to recognize a good match to their measured preferences.

This analysis suggests that there are two dimensions of consumer preferences that play key roles in the response to customized offers: (1) the degree to which consumers have stable, well-developed preferences and (2) the consumers' self-insight into those preferences, including their perception of the stability and clarity of their preferences. Although both dimensions reflect continuums rather than dichotomies, to simplify the analysis it can be assumed that consumer preferences in a particular category fall into one of four cells, as shown in Figure 2.

The degree to which preferences are stable and well developed and the self-insight into those preferences are likely to be positively correlated. For example, consumers are likely to have stable preferences for product types (e.g., plain yogurt, strawberry jam) and good insight into those preferences. In addition, more knowledgeable and experienced customers are likely to have both better-developed preferences and better insight into those preferences than

FIGURE 2
Preference Development: Customer Classification Based on Preference Stability and Insight

		Customer Preferences	
		Unstable, poorly developed	Stable, well developed
Insight into Preferences	Poor	Group 1	Group 3
	Good	Group 2	Group 4

are less knowledgeable and experienced customers. However, the two factors may diverge in many cases. In particular, customers might believe that they have preferences, but such beliefs are incorrect. Combining the two dimensions of consumer preferences, four basic groups can be defined (see Figure 2):

Group 1. If customers have unstable and fuzzy preferences, it is impossible to offer them a solution that provides a satisfactory fit to their (unstable, weak) preferences. However, because these consumers have poor insight into their preferences, they are susceptible to influence and could be convinced that a customized offer is satisfactory and fits with what they like. If the customized offer does not fail, these consumers may later define their preferences on the basis of the option that they mistakenly believed fit their prior preferences. For example, a consumer may be unable to distinguish between merlot and cabernet sauvignon wines in a blind taste test yet believe that merlot is superior. In that case, a customized offer of a merlot wine may create a more stable preference for merlot wines.

Group 2. Customers who know that they do not have stable, well-defined preferences are likely to evaluate offers on the basis of their apparent attractiveness rather than their fit with (weak) preferences. Furthermore, these customers are likely to be most receptive to advice and assistance in defining their preferences. For example, motivated wine drinkers who recognize their ignorance in wines are likely to be receptive to education and suggestions.

Group 3. This group of customers is probably the smallest. It represents customers who have stable preferences that guide their choices, but they have poor insight into the drivers of their preferences. For example, consumers might believe that their choices are based on rational, objective criteria, even though their decisions are based primarily on affective or aesthetic considerations. Consequently, these customers may mistakenly accept customized offers or choice criteria that do not really fit their preferences, which leads to dissatisfaction. Alternatively, they might reject customized offers and choice criteria that actually do fit their preferences.

Group 4. Customers in this group have both well-defined preferences and good preference insight, which enable them to judge correctly whether a customized offer fits their preferences. Thus, such customers might be good candidates for customized offers, and they may be more satisfied with marketers that make an effort to learn their preferences. However, given their insight into their preferences, they are likely to be less dependent on marketers' recommendations, and if needed, they can teach other marketers how to satisfy their preferences.

Note that the same customer may fall into different preference classification groups, even within a category. In particular, preferences for product types are more likely to fall in Group 4 (well-developed preferences and good insight) than are preferences for specific options within a category. Thus, usage information at the individual customer level is likely to be a better predictor of future preferences for product types than for specific options.

Given that consumers' preferences are often undeveloped and unstable to at least some significant degree and customers tend to have limited insight into their own preferences, the main focus of the present analysis is customers in Groups 1 and 2 in Figure 2. In addition, the factors influencing the response to and impact of customized offers among consumers with well-developed preferences and a good insight into those preferences (i.e., Group 4) are examined.

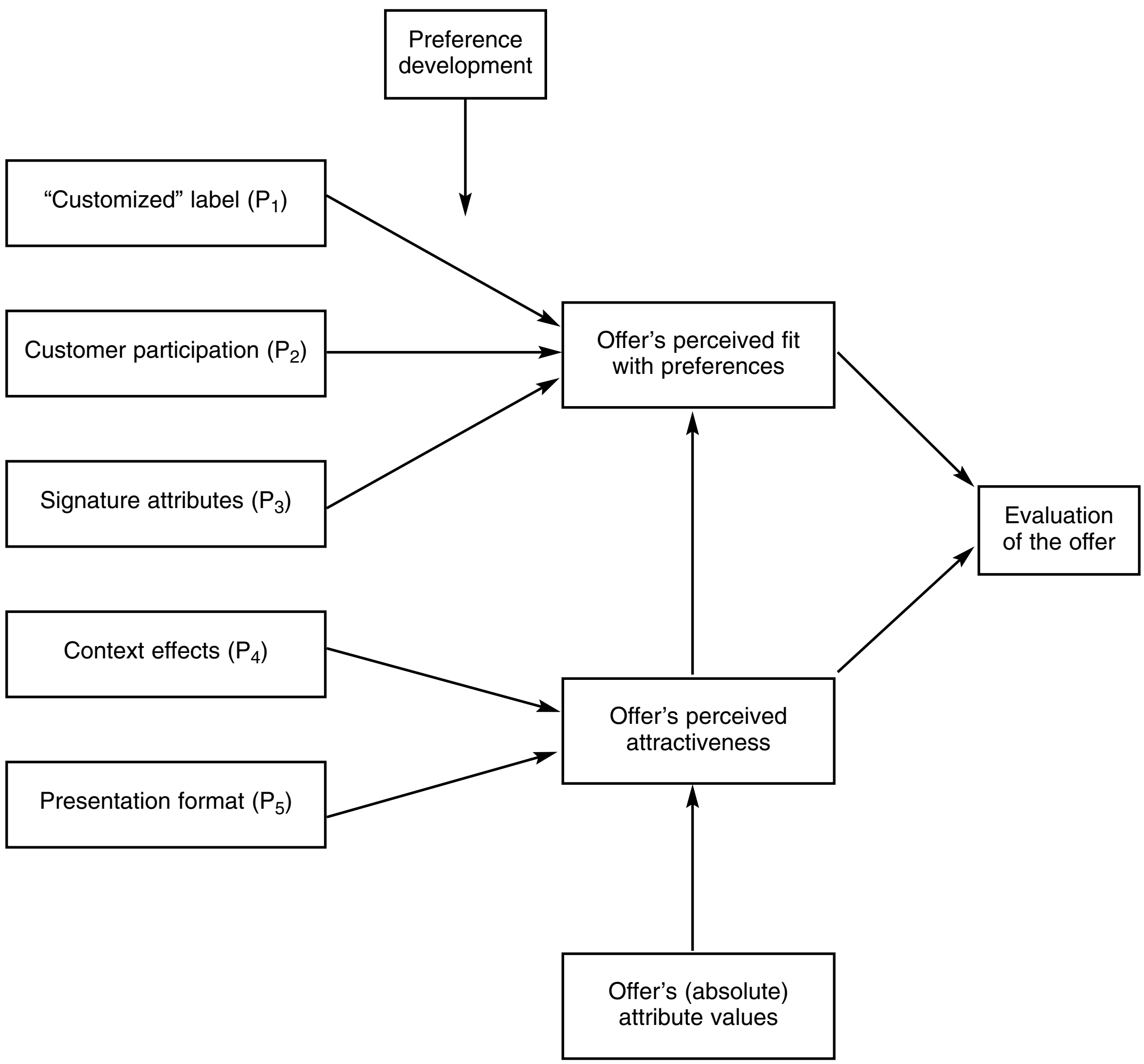
Evaluations of Customized Offers Under Preference Uncertainty

Customers whose preferences are (at least somewhat) fuzzy and unstable but who believe that they have preferences (i.e., Group 1 in Figure 2) are likely to rely on cues for assessing the fit of a customized offer with their preferences. Thus, under preference uncertainty, customers' evaluations of the attractiveness of a customized offer are likely to be influenced significantly by the manner in which it is presented. Figure 3 depicts key drivers of the evaluation of customized offers, which are discussed next.

Influences on the Perceived Preference Fit of Customized Offers

The "customized" label effect. Perhaps the most basic fit cue is the presentation of an offer as customized to the individual customer's tastes. Specifically, given that customers often do not have well-defined preferences or good insights into their preferences, the "customized" label, by itself, can positively affect perceived fit, assuming that the customer trusts the one-to-one marketer or agent. Prior research has identified several key antecedents of trust, including the supplier's expertise, reliability, and motives (e.g., Moorman, Zaltman, and Deshpandé 1992). Accordingly, the evaluation of an offer by a marketer or agent that

FIGURE 3
Influences on Customers' Evaluations of Customized Offers



Notes: The proposition related to each component appears in parentheses.

is presented as customized to the individual customer's tastes is likely to depend on the degree to which the marketer is regarded as a competent and reliable customizer with access to attractive solutions (e.g., has the technology to identify the best deals on the Internet).

Furthermore, the impact of a "customized" label on perceived fit is likely to be mediated by a confirmation bias (e.g., Lord, Ross, and Lepper 1979). Specifically, if customers trust the marketer or agent and believe that it has information about their true preferences, they will be inclined to interpret even ambiguous evidence as consistent with the "customized to your preferences" label. For example, when evaluating a wine presented as based on their previous selections, trusting consumers may find evidence that the "customized offer" indeed fits their preferences. This leads to the first proposition:

> P_1: An offer presented as customized to the customer's preferences will be perceived as providing a superior fit, compared with the same offer without the customization label, assuming that (1) the customer trusts the marketer and (2) there is ambiguity about preference fit.

Customer participation in the design of customized offers as a moderator of perceived fit. In some cases, a marketer informs the customer that a particular offer is individually customized, whereas in other cases a customer is unaware that an offer was derived from his or her preferences and profile (e.g., the marketer tracks and uses the customer's prior preferences to generate an offer but does not reveal that practice to the customer). In other situations, customers both are aware that an offer was customized to their tastes and actively participated in the offer's design. Such participation is likely to be a particularly powerful cue that the offer fits the customer's preferences. Thus, for example, the success of mass customization as applied by Dell Computer, in which customers select the product attribute values they want, can be partly due to the customers' participation in designing the provided products.

Recent research by Kramer (2003) provides indirect evidence in support of the proposition that, other things being equal, an offer that was produced with the active participation of the customer would be perceived as offering a better fit to the customer's preferences. Kramer argues that the effect of preference measurement on a customer's perceptions of the fit of an offer is likely to depend on whether the customer can detect the correspondence between the preferences expressed in the measurement process and the customized offer. Consistent with this proposition, Kramer shows that respondents who provide direct measures of attribute importance weights and partworth values (Srinivasan and Park 1997) evaluate an individually customized option more favorably than do respondents whose preferences have been measured with full-profile conjoint analysis, a decompositional approach that is less transparent to respondents.

In a similar fashion, active participation of customers in the production of offers customized to their tastes is expected to make the fit between the offer and the customers' preferences more transparent. However, the degree to which active customer participation affects perceived offer fit is likely to depend on customers' perceptions of their own preferences and their familiarity with the category and the options available on the market. Specifically, customers who believe that they have strong, well-defined, and informed preferences are likely to place greater value on their participation in the process than are customers who are less sure that they know what they want. However, stronger preferences and greater category familiarity also enable customers to evaluate more accurately the true fit of the customized offer with their preferences. Thus, the role of the strength and clarity of preferences in moderating the impact of active participation in the offer's production on its perceived fit depends on the relative weights of two conflicting factors: the strength of belief that the customer's input to the offer design is important and the customer's ability to evaluate the offer's true fit with his or her preferences.

> P_2: Customized offers produced with the customer's participation in the customization process (holding the offer's specifications constant) will be perceived as providing a better fit to the customer's preferences than will customized offers produced without the customer's participation. The magnitude of this effect depends on (1) the degree to which customers perceive their input to the offer production process to be well informed and thus important and (2) customers' ability to evaluate the true fit of the offers with their preferences.

Key preference fit indicators. Customers' preferences can be divided into those that are shared by many other customers and those that are perceived as idiosyncratic to the customer or to a small segment. Kivetz and Simonson (2003) show that idiosyncratic preferences play a key role and tend to be overweighted in consumers' decisions. For example, Kivetz and Simonson demonstrate that students who like sushi more than most other students do are more likely to join a loyalty program that offers a certain reward (movie tickets) for purchasing both 12 sandwiches and 12 orders of sushi than to join a loyalty program that offers the same reward for purchasing just 12 sandwiches. Similarly, when evaluating a customized offer, customers are likely to overweight the offer's fit on their "signature" preferences, which they believe separate them from most other customers. That is, a match or mismatch on an attribute that is idiosyncratically important to the customer can often determine the offer's perceived attractiveness.

> P_3: A fit (or misfit) of a customized offer on customers' signature (idiosyncratic) attributes will be overweighted in the evaluation of the offer, compared with equal or more important preference dimensions that are perceived to be as important to many other customers.

Moderators of the Perceived Attractiveness of Customized Offers

As discussed previously, many customers may be aware that their preferences are not well defined (i.e., Group 2 in Figure 2). Accordingly, when customers are presented with offers that are (presumably) customized for them, they are likely to focus on the attractiveness of the offer rather than on its fit with their (ill-defined) preferences. Furthermore, the perceived attractiveness of an offer is likely to affect its perceived preference fit among consumers with unstable, poorly developed preferences, who may mistakenly believe that they have well-defined preferences (Group 1 in Figure 2). Primary influences on perceived offer attractiveness (aside from the obvious effect of superior attribute values, such as lower price or higher reliability) are expected to include the set configuration and format of the presented customized offers.

The customized offers' presentation context. A great deal of research has shown that customers tend to evaluate options relative to the (local) choice set presented to them, giving surprisingly little consideration to the other options available on the market (e.g., Huber, Payne, and Puto 1982; Simonson 1989). Accordingly, assuming that marketers present customers with more than one option that is customized to their tastes (e.g., three "recommended" options), they can present a set of options that will make a particular option appear attractive compared with the other presented options. Particularly when customers do not have clear, strong preferences, one option appearing superior to other presented alternatives can convince customers that this target option offers a good fit and is a good buy. However, if customers perceive a recommended, less attractive option as a mere decoy that is designed to make another option appear like a bargain, this strategy will backfire and diminish customers' trust in the one-to-one marketer.

> P_4: Customized offers that seem attractive in the context in which they are evaluated will be perceived as offering a superior fit to the customer's preferences. This effect will be strong for customers with less developed preferences and those who perceive the context to be credible.

The customized offers' presentation format. Customized offers may take different forms. The marketer might offer the customer just one option that best fits that customer's preferences. Alternatively, the marketer might provide the customer with several suitable options, rank-ordering them in terms of fit or value or just presenting them as a set of options that fit the customer's preferences or profile. Prior research suggests that the presentation format used and the number of options presented can have a significant effect on customers' response, including both whether a choice will be made and which option will be selected (for a review, see Bettman, Luce, and Payne 1998). In particular, presenting the customer with two about equally attractive alternatives, as opposed to just one recommended option, may often produce conflict and make it difficult for the customer to identify one offer as clearly attractive, leading to indecision (e.g., Dhar 1996, 1997; Tversky and Shafir 1992). Furthermore, Iyengar and Lepper (2000) demonstrate that presenting consumers with a large set of options decreases the likelihood that any single option will be perceived as sufficiently attractive to justify a purchase.

However, a limitation of presenting just one customized option is that the customer may have difficulty evaluating whether the recommendation represents a good value, because customers tend to rely on comparisons among the options shown to them to assess value (e.g., Huber, Payne, and Puto 1982; Simonson and Tversky 1992). Therefore, there is a higher likelihood that customers will purchase a customized option if they are presented with two or more options and they perceive one recommendation as superior to another (legitimate) option.

Presenting a set of options that are rank-ordered in terms of fit to the customers' tastes has the advantage that it offers customers several customized options to choose from, while reducing the conflict associated with choice among multiple alternatives. However, presentation of rank-ordered recommendations can backfire if the customer has a prior unfavorable opinion of the option ranked first. For example, a customer may already be familiar with and dislike the recommended book or wine ranked first, in which case the customer may become skeptical of the value and accuracy of the customization process. Furthermore, customers may be reluctant to select an option that is ranked lower than one they do not like.

> P_5: Customers are more likely to perceive an offer as attractive and as offering a good fit if they are presented with a set of rank-ordered recommended options, as opposed to just the top-ranked alternative or a set of unranked alternatives. If, however, they have a prior negative opinion of the top-ranked alternative, they are more likely to accept an offer if recommended options are unranked.

Moderators of Customers' Purchases of Customized Offers

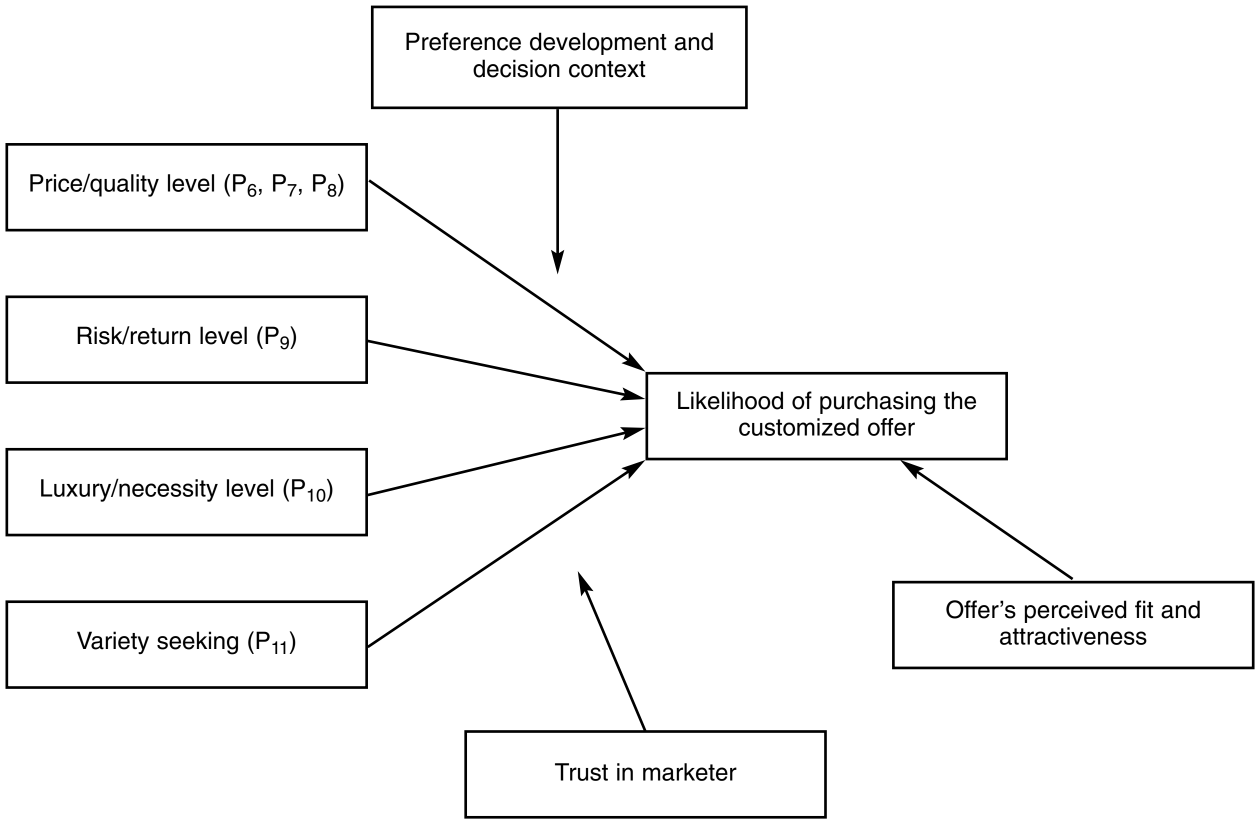
Beyond the evaluation of an offer's fit and attractiveness, a critical question is whether customers will actually accept or purchase the offer. In particular, are customers inherently more receptive to recommendations of certain option types? Although this question has not received much attention, recent research suggests that, if the attractiveness of an offer is held constant, the impact of recommendations on customer action (or purchase decisions) depends on the characteristics of the recommended options (e.g., their price, quality, and risk).

Customized recommendations may also be more effective for certain product categories and types of purchases. For example, recommendations may be made for categories such as books or movies, in which consumers make frequent selections of product variations, or for infrequently purchased products, such as cameras and laptop computers. Again, customers might be more receptive to recommendations in some categories than in others. Figure 4 presents key influences on the likelihood of customers acting on or purchasing customized offers.

The Effect of the Customized Option's Characteristics on Purchase Likelihood

Customers' receptivity to high-price, high-quality versus low-price, low-quality recommendations. A basic dimension on which products and services often differ is price and quality (broadly defined), such that customers might be presented with a customized high-price, high-quality brand or a low-price, low-quality brand. Prior research suggests that it is easier to cause consumers to switch from a low-price, low-quality to a high-price, high-quality option (e.g., in response to a sale) than to switch in the opposite direction (e.g., Heath et al. 2000; Nowlis and Simonson 2000).

FIGURE 4
Influences on Purchases of Customized Offers



Notes: The proposition related to each component appears in parentheses.

Simonson, Kramer, and Young (2004) demonstrate that this generalization is not limited to the effect of sales and that across a wide range of conceptually distinct conditions, consumers are more likely to switch to high-price, high-quality options. For example, consumers who observe another consumer choose a high-price, high-quality option are more likely to select a high price, high-quality option, whereas observing another consumer choose a low-price, low-quality alternative often has little effect on purchase decisions. These findings suggest that consumers are more likely to accept or act on customized offers and recommendations of high-price, high-quality alternatives. Conversely, customized offers to choose low-price, low-quality products are less likely to cause customers to change their purchase decisions.

> P_6: Other things being equal, customers are more likely to accept recommendations to choose a high-price, high-quality option than a low-price, low-quality option.

Although P_6 suggests a main effect whereby customers are more likely to accept a customized recommendation to choose a high-price, high-quality option, the magnitude of this effect is expected to interact with two factors: the level of trust in the marketer making the customized offer and the manner in which the recommended options are presented. It is reasonable to expect that acceptance of a marketer's recommendation to purchase a more expensive item requires a higher level of trust than adoption of a customized recommendation to purchase a less expensive product. Specifically, because of the inherent ambiguity about quality and the typically greater profitability (for the seller) of high-price options, accepting a recommendation to pay more for a high-quality option requires that the customer trusts the marketer. In contrast, a low price is less ambiguous and appears to go against the seller's profit incentive, which is likely to make the recommendation more credible and therefore less dependent on trust. Accordingly, the main-effect prediction that customers are more receptive to customized recommendations to choose a high-price, high-quality option is qualified by an interaction with the level of trust.

> P_7: The tendency to accept recommendations to choose a high-price, high-quality option is positively correlated with the level of the customer's trust in the marketer.

Prior research also suggests that when customers evaluate each alternative separately compared with two or more options jointly, they are more likely to prefer high-price, high-quality brands (e.g., Nowlis and Simonson 1997). Furthermore, when customers are presented with three or more options compared with just two, they tend to avoid the lowest-price, lowest-quality alternative (e.g., Simonson, Nowlis, and Lemon 1993). These results suggest that the number of customized options shown to customers is likely to influence their choices. Specifically, (1) customers are more likely to purchase a high-price, high-quality alternative presented as a separate recommendation ("the best option for you"), and (2) customers are least likely to choose the cheapest alternative when it is presented simultaneously with two or more other recommended options.

> P_8: Customers are more likely to accept a recommendation for a high-price, high-quality product if that option is presented separately; they are least likely to accept a recommendation to choose a low-price, low-quality option when it is the lowest-price, lowest-quality alternative in a set of three or more recommended options.

Customers' receptivity to high-risk, high-return versus low-risk, low-return customized recommendations. Recent research (Simonson, Kramer, and Young 2004) suggests that in choices between low-risk, low-return and high-risk, high-return options, customers tend to choose the safe option by default. Furthermore, various manipulations, such as high involvement and observation of others' choices, often cause consumers to switch from a low-risk, low-return alternative (e.g., using a proven but more limited technology) to a high-risk, high-return alternative (e.g., the next-generation technology); conversely, it is often more difficult to change customer choices from a high-risk, high-return option to a low-risk, low-return alternative. These findings, consistent with the notion that customized recommendations decrease the perceived uncertainty about the riskier option, suggest that customized recommendations that endorse high-risk, high-return alternatives are more likely to influence customers' purchase decisions. However, this prediction is also expected to depend on the level of trust in the customizing marketer. Specifically, the lower the customer's trust in the marketer making the recommendation, the lower is the likelihood that the customer will accept a risky recommendation, and vice versa.

> P_9: In response to a customized offer, customers are more likely to switch from a low-risk, low-return to a high-risk, high-return option than to switch in the opposite direction. This prediction interacts with the level of a customer's trust in the marketer: Lower trust is associated with a lower willingness to accept a risky recommendation.

Customers' receptivity to recommendations of luxuries versus necessities. Consumers often need to choose between spending money on necessities (e.g., savings, education, food) or buying luxuries (e.g., fancy food, a cruise, an expensive bottle of wine) that go beyond the indispensable minimum but add to their quality of life. Kivetz and Simonson (2002) show that many consumers have difficulty choosing a luxury over a necessity and consequently feel that they tend to underconsume hedonic luxuries (see also Scitovsky 1992). To remedy the tendency to reject luxuries in favor of easy-to-justify necessities, consumers may precommit to luxury consumption. For example, approximately 30% of women who were offered a reward for their participation in a study chose to receive a day spa coupon worth $70 over $75 in cash. These findings suggest that consumers often need reinforcement to allow themselves to splurge and choose luxuries over necessities. In particular, compared with the default choices that consumers would have made on their own, customized recommendations to select a luxury over a necessity are likely to have greater impact than recommendations to prefer the necessity. This effect is expected to be more pronounced if the recommended luxury options are offered at a discount (e.g., on sale), which makes it easier for consumers to justify such choices.

> P_{10}: Recommendations to choose hedonic luxuries, compared with utilitarian necessities, are expected to have greater impact on the choices consumers make. This effect is stronger if the recommended option (luxury or necessity) is offered at a discount.

The Effect of Purchase Type and Variety Seeking on Response to Customized Offers

The propensity to accept or reject customized offers is also likely to depend on the nature and degree of variety seeking in the product or service category. In some cases, customers seek no variety at all and habitually purchase the same item without considering other options (e.g., Bettman 1979). In such cases, customization means that the marketer provides the customer with the usual choice without waiting for the customer to ask for it, and the customer accepts the offer.

In other categories, customers do seek variety, but the set of considered options is bounded. For example, customers may have a set of several flavors of yogurt or types of cereal that they purchase from time to time. Because the selection of a particular item depends on the customer's current state of mind (e.g., mood), customization is unlikely to be effective. That is, given that no algorithm or model of the customer's prior preferences or preferences of similar customers can predict transient, state-dependent preferences, the likelihood that the customer will accept a customized offer corresponds to the probability that the customer happens to be in the state of mind that fits the offer.

In yet other situations, customers seek variety, and the set of options is effectively unbounded. For example, in categories such as books, movies, and wine, consumers often seek variety from a large and ever-expanding set of options. In this type of purchase decision, the role of customized offers is to identify and suggest attractive options of the type preferred by the customer. For example, if a consumer likes autobiographies or California cabernet sauvignons that cost around $20, the customizer may suggest attractive new options in these categories. The main focus of the seller's message needs to be indicators or evidence that, in addition to being in the relevant category, the proposed option is indeed attractive. For example, informing a customer that many other customers purchased a particular autobiography and rated it highly is likely to enhance the probability that the customer will accept the (customized) recommendation.

Finally, in infrequently purchased categories in which specifications and features evolve over time (e.g., durable products), the customer's prior preferences are unlikely to provide much guidance to the marketer (and the customer) regarding the best offer. Accordingly, a key role of the customizer is to find out, in as much detail as possible (given preference insight limitations), the features desired by the customer and use that information to identify the most attractive options available on the market. However, persuading the customer to purchase a recommended, customized offer in an infrequently purchased product category can be challenging for at least three reasons.

First, given the financial and other sources of risk, the customer is likely to seek further evidence (e.g., expert reviews) in support of the recommended option. Second, regardless of whether customers have well-developed preferences and good insight into those preferences, they are more likely to accept an offer that is customized to their tastes if they trust the customization process. Specifically, when a product is purchased infrequently, it is clear that the customizer cannot rely on the revealed preferences of the customer. Instead, the marketer or agent must elicit the current preferences of the customer and use that information to identify the best available options. However, if customers believe that they do not have sufficient knowledge or clear preferences, they are likely to be skeptical of recommendations derived from those preferences. Third, because infrequently purchased goods are often associated with high prices and profits for the seller, the risk that a one-to-one marketer has ulterior motives when making customized recommendations is high. For all these reasons, customers are less likely simply to accept a customized offer in a high-price, infrequently purchased category. Instead, they might use the recommendations as one source of information and further examine the product using other sources. To the extent that these customers are susceptible to a confirmation bias (e.g., Lord, Ross, and Lepper 1979), the customized recommendations could still exert an impact on the final purchase decision. This discussion leads to the following general proposition:

> P_{11}: The purchase type and the degree of variety seeking affect customers' acceptance of recommended customized offers. Specifically, (a) higher variety seeking decreases receptivity to customized offers, and this effect is more pronounced if variety seeking is driven by transient states and tastes, and (b) for infrequently purchased high-price items, the willingness to accept customized recommendations is positively correlated with the strength of independent evidence supporting the customized recommendation.

Maintaining Relationships with Marketers That Customize Offers

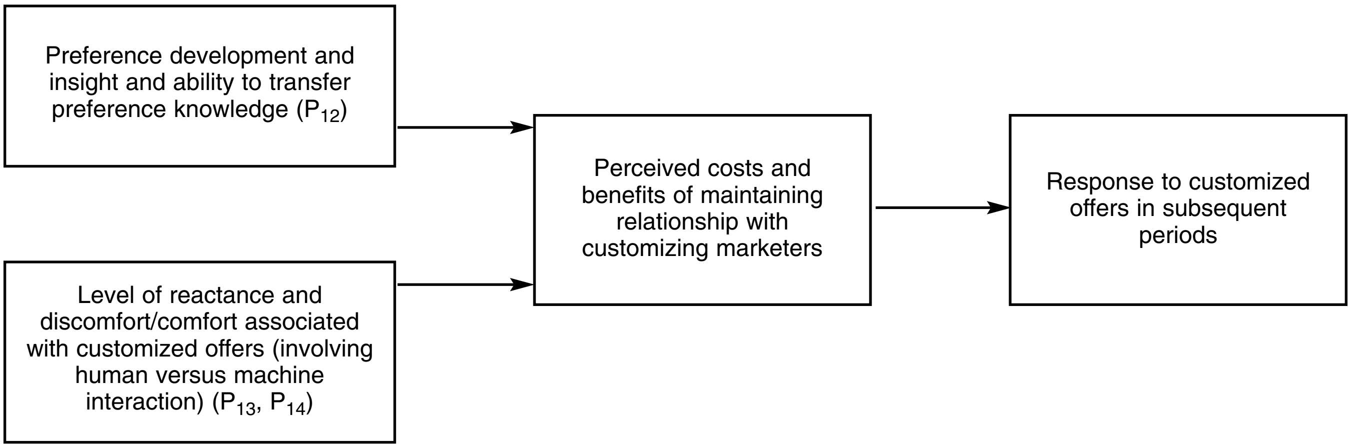
The determinants of customers' interest in and commitment to relationship marketing have been examined extensively in prior research (see, e.g., Bhattacharya and Bolton 2000; Dowling 2002; Garbarino and Johnson 1999; Gundlach, Achrol, and Mentzer 1995; Morgan and Hunt 1994; Sheth and Parvatiyar 1995). In the context of the present research, the question of interest is related to a narrower issue: the effect of a marketer's investment in learning the customer's preferences and designing a customized offer on the likelihood that the customer will continue to purchase from the marketer. As indicated previously, proponents of one-to-one marketing and related approaches have argued that developing learning relationships with customers and using information about customers' preferences to generate customized offers promote customer loyalty and create an almost insurmountable competitive advantage. However, when customers do not have well-defined preferences or good insight into those preferences, the significance of the advantage produced by learning relationships with customers may come into question. Furthermore, customers whose preferences are somewhat fuzzy and unstable may be less willing to commit to continuing to purchase from a one-to-one marketer if the perceived costs of such a commitment outweigh its perceived benefits. The following discussion addresses factors that are expected to influence the tendency of customers with well-developed, stable preferences and those without such preferences to continue purchasing from one-to-one marketers that have customized their offers (see Figure 5).

Commitment of Customers with Well-Defined Preferences to One-to-One Marketers

Most of the examples used by proponents of one-to-one marketing and mass customization to illustrate the value of one-to-one relationships (e.g., Pine, Peppers, and Rogers 1995) refer to situations in which the customer presumably wants the same product or variations of a product repeatedly, such as the same coffee, the same eyeglasses style, and the same shoe or greeting card design. However, in most cases, customers are unlikely to purchase the same item habitually, without considering any other options. Indeed, for such habitual decisions to occur, the following conditions must hold: (1) The product category is not characterized by significant variety seeking or satiation, (2) the product category is characterized by little change in preferences over time, (3) the set of options available in the product category does not change significantly over time, and (4) customers do not feel the need to reevaluate options before each decision. Because one or more of the conditions for habitual purchases usually do not hold, most customers are unlikely to repeat purchase decisions automatically without considering alternatives.

In terms of the customer's costs and benefits of maintaining one-to-one learning relationships, customers with well-defined, stable preferences are likely to prefer marketers that remember their preferences, particularly when the convenience of not needing to respecify wants, switching costs, or inertia play a key role. Furthermore, the marketer's effort to remember and act on the customer's prior preferences can create a favorable attitude and enhance customer loyalty to that marketer. However, customers who have well-established and well-defined preferences and know those preferences are likely to be less dependent on any particular marketer and therefore less willing to accept suboptimal offers. Specifically, the added convenience of not needing to respecify (well-defined) preferences on each purchase occasion often may not be a significant decision factor. More important, when customers know their preferences, they can usually transfer this knowledge easily to

FIGURE 5
Maintaining Relationships with Customizing Marketers



Notes: The proposition related to each component appears in parentheses.

other suppliers if they have a reason to do so. These arguments suggest that customers with stable, well-defined preferences may be more price sensitive and less loyal to any particular marketer, including one-to-one marketers that have invested in learning and storing their preferences.

P_{12}: When faced with competing customized offers, customers with more stable, well-defined preferences are less loyal and more price sensitive than are customers with weaker preferences.

Commitment of Customers with Less Well-Defined Preferences to One-to-One Marketers

As explained previously, in most purchase decisions, customers' preferences are not fixed and predetermined, and customers are likely at least to consider the possibility of selecting other options. In such cases, customers may not respond favorably to marketers' presumptions that they know what the customers want even without asking. Consistent with the notion of reactance (e.g., Brehm 1966), customers may believe that their freedom of choice is restricted as marketers try to invade the domain of their personal preferences by suggesting to them what they want. Customers may also perceive marketers' claims of customization to their tastes as attempts to persuade and manipulate (e.g., Friestad and Wright 1994). Moreover, customers may object to marketing practices that involve keeping track and storing their preferences and then using that information to tell them what they are expected to choose.

Therefore, despite the benefits of individual marketing to customers, entering into customized relationships with marketers may represent a commitment that many customers do not wish to make. Consider the business concept of the Custom Foot chain of footwear stores. As Peppers and Rogers describe (1997, pp. 153–59), the customer first spends seven to ten minutes with each foot placed on a scanner device that makes a perfect measurement of the foot's contours. Next, the salesperson manually takes additional measurements.[1] The customer then sits at a computer console, answering specific questions about the type of wear that he or she has experienced on the current shoes, other questions about his or her prior shoe experiences, and various marketing questions. Custom Foot then uses this information to manufacture shoes that are customized to the customer's profile. However, even if the customized shoes fit fine, the customer may be reluctant to return to the store for the next pair because of the implied obligation to rely on the prior measurements and preference knowledge of the store. Indeed, customers are likely to feel uncomfortable going back to the same store and telling the salesperson that they have changed their minds and tastes and are now looking for a different type of shoe and a different design. Thus, entering into a "learning relationship" creates a commitment that many customers may not wish to make or maintain. This analysis is likely to apply in situations in which the purchase process involves human contact, such as the relationship between a customer and a salesperson. It is less likely to apply if the customized offers are designed and delivered by machines (e.g., a computer). Therefore, such concerns about the response to customized offers are not expected to apply to smart agents.

P_{13}: A learning relationship used to customize offers may be perceived by customers as an indicator of good service but also as a restriction to their freedom of choice and can be a source of discomfort. The stronger the weight of the latter compared with the former factor, the lower is the

[1]As an aside, Peppers and Rogers (1997) quote the company's chief executive officer, who indicated that the manual measurements are never used, but they increase the customers' confidence in the product's fit.

likelihood that a customer will sustain a one-to-one relationship with the marketer.

P_{14}: The level of discomfort associated with a one-to-one learning relationship will be greater if the customization procedure involves human rather than machine (e.g., computer) contact.

General Discussion

Giving customers what they want (at a profit) is perhaps the most basic principle of marketing. Accordingly, the idea that marketers can obtain an insurmountable competitive advantage by learning and satisfying the wants of one customer at a time, as opposed to focusing on market segments, seems compelling. Similar approaches have been employed by marketers in many business-to-business markets, by catalogs, by the local barber and butcher, and by other sellers, which have used customer familiarity and personal service as key selling propositions. However, the new approaches to marketing suggest that learning individual customer preferences and satisfying those segments of one, including anticipating future wants, can now be applied using mass customization. It has thus been assumed in recent years that the age-old practice of targeting market segments is dominated and will be displaced by individual marketing (e.g., Kotler 2000). That is, in the future, customers in most markets may expect and will receive offers customized to their individual preferences. The present research examines the conditions that moderate customers' responses to customized offers and the effectiveness of individual marketing methods.

The process model presented in Figure 1, combined with the component models in Figures 2, 3, 4, and 5, capture key antecedents and phases of customers' responses to customized offers in the short and long run. An essential implication of the proposed framework and research propositions is that the benefits and costs of addressing individual customer preferences are much more complex and less deterministic than has typically been assumed. Furthermore, even when customers have well-defined preferences and receive offers that fit those preferences, it is far from certain that the response to such offers will be consistently and materially more favorable than the response to offers that are based on an analysis of the preferences and characteristics of market segments. Indeed, a great deal of research over the past two decades has shown that customer preferences are often ill defined and susceptible to various influences, and in many cases, customers have poor insight into their preferences (e.g., Bettman, Luce, and Payne 1998; Simonson 1993). The "noise" level created by these characteristics of customer preferences suggests that the true fit between the preferences and the offer is just one determinant of customers' responses to marketing offers. Thus, the response to customized offers depends more on cues regarding the offer's fit and value, customers' receptivity to certain types of offers, and customers' perceptions of one-to-one relationships than on marketers' ability to provide the perfect match to the customers' preferences. This analysis raises important questions that deserve further research, as discussed next.

Directions for Further Research on Individual Marketing

New managerial concepts and techniques that promise dramatic performance improvements have been introduced over the years. Although many of them were supported mainly by examples or anecdotes and were not subjected to rigorous testing, they enjoyed great popularity, usually for a short period. Given the short life cycle of such managerial innovations relative to the time required to publish an article in a major journal, researchers have been less inclined to study such techniques despite their initial popularity. Although this limitation may also apply to specific approaches such as one-to-one marketing and personalization, individual marketing and customer response to customized offers are fundamental to the marketing concept and deserve to be rigorously studied.

The present research identifies several areas for future study and outlines specific propositions. In addition to basic questions about the construction of preferences, further research should investigate the cues that customers use for determining whether the marketer made a genuine attempt to customize the offer or recommendation to their individual preferences and whether the offer fits their preferences. As discussed previously, such an investigation must consider the impact of relevant moderating variables, such as the degree to which customers have stable preferences and good insight into those preferences, the type of purchase at issue, the customer's active participation in the customization process, offer presentation format, and key fit indicators.

Beyond the evaluation of customized offers, further research might examine the factors that influence customers' acceptance of or tendency to act on customized recommendations. As suggested previously, if the perceived fit and attractiveness of an offer are held constant, prior research suggests that certain recommendations (e.g., to purchase a high-price, high-quality alternative or a luxury) are likely to affect actual purchase decisions.

In addition to studying the response to individual customized offers, it is important to examine the impact of practicing customization on the customer's commitment to and long-term relationships with marketers. As argued previously, customers with well-defined preferences and good insight into those preferences, in theory the bread and butter of one-to-one marketing, may be less committed and less loyal to customized relationships and one-to-one marketers. Furthermore, although one-to-one relationships can certainly offer significant benefits to customers, they may also be regarded as a source of discomfort and as restricting the customer's freedom of choice. Again, investigation of these issues must consider the moderating variables (e.g., the degree of variety seeking, the type of purchase and buyer–seller interaction) instead of just searching for main effects.

Managerial Lessons

The present framework and research propositions suggest four key lessons for managers. The first lesson is that the promise of individual marketing–based approaches and their advantage over segmentation have been greatly exaggerated, and in many cases, implementation of such approaches will not produce the expected benefits. Therefore, considering that adoption of individual marketing often involves large investments and profound organizational and marketing strategy changes, managers should carefully evaluate the costs and likely benefits of such a strategy in their particular conditions. Consistent with segmentation based on usage, offering customers what they have consistently purchased in the past (e.g., offering red wine options to consumers who regularly buy red rather than white wines) will be more effective than offering the same options to all consumers. Furthermore, because preferences for generic product types (e.g., frozen orange juice, liquid detergent) tend to be more stable and predictable than preferences for specific options within a category, tracking usage at the individual customer level can improve the effectiveness of promotional tactics. For example, mailing coupons or advertisements for a new frozen orange juice to prior frozen orange juice buyers is likely to produce a higher redemption rate (as practiced, for example, by Catalina Marketing; see www.catmktg.com).

However, because consumer preferences are often unstable and susceptible to influence and consumers often have poor insight into their own preferences, the value-added and impact of individually customized offers, as opposed to simple usage/benefit–based segmentation, will often be rather limited. Therefore, contrary to the claims of the proponents of individual marketing, attempts to customize to individual tastes are unlikely to guarantee customer loyalty or prevent customers from being just as responsive to similar offers, coupons, and advertisements of competing brands.

One qualification to this lesson involves situations in which customers habitually purchase the same item without considering other options. Although such habitual purchases are unlikely to represent most purchase decisions, habitual purchases are likely to be associated with clear and known preferences (to both the marketer and the customers), which make it possible to provide these customers with exactly what they want, when and where they want it. However, even under this scenario, customers may not attach much value to the marketer's knowledge of what they like and may not hesitate to switch to another supplier that offers superior value (e.g., a better price), even if such an action requires transferring the knowledge of their preferences to the new supplier. Thus, although good customer service can be an important purchase factor in many cases, even when individual marketing is effectively applied, it is doubtful that it will be sufficient to create an insurmountable competitive advantage (Peppers and Rogers 1997).

The second lesson from the present research is that managers should not consider individual marketing a technique to match individual customers' preferences. Instead, individual marketing means that a marketer provides the customer with cues that the provided offers fit the customer's preferences. Whereas attempts to learn the customer's true preferences and use that information to formulate the offer might affect the response to these offers, other cues can often have a greater impact on the customer's perceptions. Such cues include, for example, framing the offer as individually tailored, encouraging customer participation in the offer's design, and paying special attention to the customer's signature preferences. Furthermore, because customers often do not have well-defined preferences, presenting a customized offer in a context that makes it appear attractive compared with other presented options (e.g., it is clearly superior to another presented option) is likely to enhance its perceived fit.

The third lesson to managers is that in addition to conveying to customers that individual offers designed for them fit their preferences, it is important to consider the likelihood that the recommended offer will be accepted by the customer. That is, if the perceived preference fit of an offer is held constant, customers are likely to be more receptive to some types of offers than to others. For example, as explained previously, customers are more likely to change a default choice and accept a customized offer if the recommended option is associated with a relatively high price and high quality, a more risky option, or a hedonic luxury option.

The fourth lesson is related to the nature of the one-to-one relationship between the marketer and the customer. Given that the actual value of individual marketing to the customer is constrained when preferences are unstable and poorly defined, a marketer should not overestimate the willingness of the customer to make a long-term commitment to the relationship. Furthermore, despite their investment in developing learning relationships with customers, marketers must make it clear that customers are free to change their preferences at any time, and the marketer's knowledge of what the customers want, or wanted at some point, in no way restricts their freedom of choice and the freedom to consider new options.

Furthermore, individual marketers should be sensitive to the risk of irritating customers and damaging the relationship between the company and the customers by making incorrect assumptions about customers' preferences. For example, *The Wall Street Journal* (Zaslow 2002) reports on a variety of (sometimes entertaining) false assumptions made by TiVo and Amazon about their users. As reported in that article, when Mr. Bezos, Amazon's chief executive officer, performed a live demonstration in front of a large audience of Amazon.com's ability to cater to its customers' interests, the top recommendation the system gave him was the DVD for *Slave Girls from Beyond Infinity*. A spokesman for Amazon later explained that this recommendation appeared because Mr. Bezos had previously ordered the movie *Barbarella*.

Although preference-matching technologies can be improved, the underlying limitations and instability of customers' preferences are unlikely to change. Therefore, it is unwise to adopt indiscriminately the simplified assumption that individual marketing dominates segment-based marketing and will become the standard practice in the future. Instead, marketing researchers should study the implications of the characteristics of customers' preferences and the determinants of customers' responses to marketing offers with respect to the conditions that moderate the effectiveness of one-to-one marketing and ways to enhance the effectiveness of individual marketing.

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