

## **Personalization: Adding Value or Risking Consumer Privacy?**

On February 16, 2005, the Center for Digital Strategies' fifth Tech@Tuck, "Next Generation Services: Personalization & Privacy," examined the ways businesses are collecting and using personal information about its customers to anticipate their needs and enhance existing products and services. In addition to a hands-on demonstration and display featuring a variety of products offering personalization services, this year's program included two moderated panels.

The main panel, "Personalization and Privacy in the Consumer Space," discussed whether such "product-enhancing" information-gathering in the commercial space violated consumer trust, or their right to privacy. Ari Schwartz of the Center for Democracy and Technology moderated the panel of Lisa Rosner of BroadVision, Charles Giordano of Bell Canada, and Robert Ellis Smith, publisher of the *Privacy Journal*. Dr. Larry Ponemon of the Ponemon Institute, an institute dedicated to advancing ethical information and privacy management practices in business and government, gave introductory remarks via telecast.

### **Respect for consumer privacy leads to trust and brand loyalty**

Dr. Ponemon opened the discussion by asking, "What is the relationship of privacy and trust to business success?"

In a recent survey conducted by the Ponemon Institute, in which consumers rated the "trustworthiness" of major corporations, Ponemon noted that the six highest-rated (i.e., most trusted) companies were : 1) eBay, 2) American Express, 3) Proctor & Gamble, 4) Amazon, 5) HP, and 6) United States Postal Service. The survey also showed that certain industries, given the nature of their transactions (e.g., handling customers' personal information or directly affecting consumers' welfare), were better rated for trustworthiness: banking and financial services, health care, food service, and hospitality.

What do these companies and industries do to build that reputation of trustworthiness? By being responsive to consumers' voiced concerns, and respecting their privacy by requesting only information pertinent to each transaction or concern.

How does this translate into incremental revenue and bottom-line profitability? For one thing, Ponemon said, by demonstrating that they are adept at handling sensitive personal information, these companies earned the confidence of their customers and reinforced brand loyalty.

In the old brick-and-mortar transactions, that sense of trust was built up over time with regular personal interactions with a salesperson or customer representative. In the online space, no such face-time exists. Consumers must be persuaded to initiate a transaction before companies can prove themselves, and be encouraged to provide more information with each successive transaction to build that relationship.

## **Does personalization help build or hinder consumer trust?**

Charles Giordano of Bell Canada remarked, “You can’t build trust on that first [web] visit.” Most consumers approach an online store in the following steps. First, they browse storefronts, assessing whether or not to proceed with a transaction. Then, they buy something, providing the first set of information to a company through their order and their billing address. From there companies can start to build a profile: e.g., what do they like, how much did they pay, where do they live?

That first transaction is crucial and sometimes difficult to get to. Lisa Rosner of BroadVision finds that most consumers still rely on the internet only to do research about a product, and then go to the brick-and-mortar store to buy.

Without personal interactions with that customer or without having the customer provide information about their preferences themselves, companies must rely on profiling, making assumptions about what that customer is looking for based on previous transactions. Profiling, however, can often be inaccurate and may actually offset customers who become suspicious of these assumptions.

Personalization, on the other hand, requires the customer to take active role in the information exchange, with the promise of a more unique, tailored product or experience. This often takes more time than profiling, but provides more accurate, and thus more valuable, information about a customer.

Companies gather this information with the intent to create a more meaningful marketing strategy for each customer. However, Robert Ellis Smith of the *Privacy Journal* remarked that although a great number resources have been poured into gathering information, companies have yet to effectively use this information in marketing beyond increased emails. There is great potential to be had, in streamlining such things as utility bills or direct product suggestions, it just hasn’t happened on a great scale yet.

Smith also believed that while companies are getting better about training its employees about information security, e.g., to contain or prevent breaches of information within and across companies, they are not doing any kind of training about privacy as it pertains to customers and customers’ information.

Giordano said that Bell Canada is training its employees to incorporate sensitivity to privacy issues early in product development, rather than treating it as an afterthought while a product is being rushed to market. By respecting privacy when building personalization services, the hope is that consumers will have more confidence in the product and adopt personalization services more readily.

While all three panelists agreed that personal information, when gathered and assessed appropriately, can lead to greater convenience, there is still concern about what happens to that information once it leaves consumers’ hands on its way to its intended, and customer-consented, recipient.

For example, how vulnerable is that information stored in cookies, the small data files created by a server and stored on a computer so that a web site can identify users and keep track of their preferences? Another web site, to whom a user has not given their consent to use the information, may be able to access these files.

The suspicion of the cookies on the part of the consumer can have more negative consequences than just lost sales. Customers often lie on web forms in order to avoid revealing personal information, while still obtaining the product or service. This results in poor data for companies, a huge hidden cost.

Smith was not so much concerned about the impact of personalization on the customer relationship, but that this information about customers is now compiled by third parties—large companies like ChoicePoint and Acxiom:

... This data, which was gathered for marketing purposes, and which I have contended earlier has limited accuracy, is now being used for governmental purposes. And I think that raises much larger privacy concerns. These databases most likely will be used to determine whether you can get on an airplane or not, whether you can enter a federal building. They have been used for employment purposes. When you start to affect people's welfare, by these databases, then it raises much higher concerns than whether they're just going to get incidental email or telephone calls.

Smith believed this secondary use of information, repurposing gathered information without consumers' knowledge, blurs the line between public and private.

### **Does personalization change the shopping experience for the better or worse?**

One proposed added value that personalization offers is that companies will examine each customer's preferences and needs on an individual basis, rather than lump them into a vague demographic. By being more attuned to each customer, companies will be able to more successfully target items for that customer. Thus personalization would give consumers more control of what is important to them.

But is there a downside to consumer-defined shopping? Smith believed that personalization can deprive consumers of the serendipitous shopping experience, stumbling onto items of interest that they might not have considered before. Personalization might lock people into singular buying habits, offsetting a desire to browse.

Giordano countered that with increased personalization comes relevancy. By knowing more about consumer preferences and needs, companies can minimize marketing campaigns for items consumers do not want. This leads to improved targeting and reduced churn. Also, in a truly attuned customer relationship, personalization will allow companies to change with the consumers' lifestyle changes. The aim of personalization is not to set up blinders, but rather to help consumers separate the wheat from the chaff.

Rosner agreed, maintaining that effective personalization must be a process, an ongoing dialog. Overall, the panelists agreed that a good dialog can only exist if there is mutual trust.

A second panel in the evening addressed personalization efforts coordinated across the more complicated healthcare system, including the sharing of patient information records. Don Conway, adjunct professor at Tuck and Dartmouth Medical School, moderated the panel of Paul Gardent, Executive VP of DHMC, Hilary Llewellyn-Thomas, director of Health Decision Research at Dartmouth Medical School, and Shawn Roman, Accenture.

For more information about the two panels, visit the Center for Digital Strategies' website at [www.tuck.dartmouth.edu/digitalstrategies](http://www.tuck.dartmouth.edu/digitalstrategies).