Personalized ads on Facebook: An effective marketing tool for online marketers

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ABSTRACT

A growing number of researchers have examined the effects of personalized advertising in traditional media, however, little has been known about personalized advertising on Facebook. The primary objectives of this research are threefold: (1) Develop a comprehensive model that captures the effects of perceived personalized ads on Facebook on customer attitudinal and behavioral reactions (ad credibility, ad avoidance, ad skepticism, ad attitude, and behavioral intention) to the ad; (2) Test hypothesized relationships using two data sets collected through an online survey; and (3) Develop appropriate customer segments based on personal views of personalized ads on Facebook. The paper reveals that eleven out of thirteen hypotheses are supported and that three market segments are identified including Ad Lovers, Ad Accommodators, and Ad Haters. The paper concludes with conclusion and discussions highlighting managerial and research implications.

1. Introduction

Advertising strategies have been changed drastically as a result of development of social media. Online advertisers have used social media (i.e. Facebook) to connect customers with companies, developing new opportunities for customers know about their brands and products (Comscore Media, 2009). To draw customers' attention, online marketers have employed social networking sites to customize ads more appealing to customers. That is reasonable to understand why more companies are employing social media as marketing tools and why social networking sites like Facebook are preferred to non-virtual media in creating ads (Waters et al., 2011).

Statistical figures show that Facebook is an ideal platform for advertisement. Facebook has 1.39 billion active users visiting the website per month and 92% of social marketing companies have chosen Facebook as a marketing tool, that help Facebook reach the level of revenue of 12.7 billion in 2014 (Rudolph, 2015). Additionally, many companies or service providers, either small or large, choose to create online ad on Facebook because it is less expensive than other media.

Online advertising has moved to a new phase after IBM teamed up with Facebook on May 6, 2015 in attempt to create better advertisings on the world's largest social network by incorporating Facebook's targeting technology into IBM's services for marketers (Finley, 2015). For example, a retailer can develop an ad of a product that a customer previously views on its websites and place it to the customer's Facebook feed. Through this cooperation, both companies hope that the advertising campaigns more effective. "These new capabilities will allow

Facebook to deliver more relevant, more personalized experiences," said Jay Henderson, a director of strategy for IBM commerce (Finley, 2015). These "personalized experiences" are associated with a number of benefits, for instance, reducing customer's resistance against ad (Baek and Morimoto, 2012), enhancing ad credibility (Xu, 2006) and improving brand awareness (Johns and Perrott, 2008).

Although researchers have attempted to investigate the impact of personalized ads in traditional media (Baek and Morimoto, 2012; Yu and Cude, 2009), website (Awad and Krishnan, 2006; Bleier and Eisenbeiss, 2015; Ho and Bodoff, 2014), or mobile (Kim and Han, 2014; Xu, 2006), little has been made to examine the effects of personalized ads on Facebook (Keyzer et al., 2015; Tucker, 2014). Given the fact that Facebook has grown to be the most popular social media and that personalization has been increasingly utilized as an advertising strategy that makes an ad more relevant to the users, the impact of personalized advertising on Facebook is worth investigating (Taylor et al., 2011). The current research is developed to fill the research gap. The primary objectives of this research are threefold: (1) Develop a comprehensive model that captures the effects of perceived personalized ads on Facebook on customer attitudinal and behavioral reactions (ad credibility, ad avoidance, ad skepticism, ad attitude, and behavioral intention) to the ad; (2) Test hypothesized relationships using two data sets collected through an online survey; and (3) Develop appropriate customer segments based on personal views of personalized ads on Facebook.

The research is organized as follows. First, related literature on personalized advertising is elaborated which is then followed by hypotheses development. Methodology is then presented with formative

and reflective measurement model and structural model, mediation tests, and cluster analysis. The paper ends with discussions and conclusion.

2. Theoretical background

2.1. Perceived personalization

The concept of personalization emerged as early as late nineteenth century (Ross, 1992) and usually referred to segmentation and targeting and profiling while other researchers use this term in the context of mass customization, or one-on-one marketing (Petrison et al., 1997). Broader meaning of personalization has been employed in practice that includes, but is not limited to, tailoring the product, tailoring content of message, or location diagnosis (Wind and Rangaswamy, 2001).

Personalization can be understood to be an activity of developing individualized communication to a particular customer which is tailored based on the customer's implied or stated interests (Roberts and Zahay, 2012). Imhoff et al. (2001) conceptualize personalization as a firm's capability of identifying and treating customers on the individual basis through customized individual messages (i.e., special incentives, target banner ads). Alternatively, personalization is perceived as a firm's practice of utilizing customers' information and delivering targeted solutions to those customers (Peppers and Rogers, 1998).

Although several definitions are proposed in seminal literature, the core value of personalization is in common – personalization is the process (Vesanen and Raulas, 2006). Kotler et al. (2001) view personalization as a process of targeting, segmentation, and positioning. Peppers and Rogers (1997) consider personalization as a way to obtain personal information of customers and tailor favorable solutions. Personalization is part of a company's customer relationship management in which the company collects customer data through an interactive process between customers and the company and the process of collecting data is referred to as learning relationship (Peppers et al., 1999).

Personalization can be applied in the online setting and is integrated in the system to help website interfaces more appealing. Data mining is used to collect data on the website which then is analyzed to make the web more personalized (Pierrakos et al., 2003). Adomavicius and Tuzhilin (2005) interpret personalized as a Understanding-Delivering-Measuring cycle. This concept is consistent with Murthi and Sarkar's (2003) 3 phase conceptualization of personalization: (1) learn what customers need, (2) match what customers need to what is offered, and (3) evaluate the two previous phases.

Personalization is also viewed as an integrated marketing communication that is derived from two way communication system, ability to control responses of each party in communication process, database application and personalized communication relationship (Peltier et al., 2003). An integration of the four components plays a role in synthesizing key elements necessary for personalized marketing and the whole process of personalization. Drawing on the concepts of personalization, this research defines personalized advertising on Facebook as "*the process of advertising in which a retailer develops a customized ad of a product or service on Facebook based on prior customer activities on the Internet.*"

Both consumers and marketers are beneficiaries of personalized advertising. From a customer's perspective, personalized advertising helps customers concentrate on the product that they want as a result of matching between customers' preferences and the product advertised (Bleier and Eisenbeiss, 2015). So the customers do not waste time searching through a large assortment of products as they do in a regular searching (Srinivasan et al., 2002). Compared to traditional marketing, personalized advertising is a cost-saving solution. This advertising is sent to selected customers through highly customized commercial messages (Kim et al., 2001).

Besides the advantages provided by personalized advertising, negative responses to this type of advertising is also reported across advertising media. Early research indicates that personalized mailing does not generate better response rate (Weilbacher and Walsh, 1952). More recent research shows that customers feel unpleasant when receiving an advertisement that is not targeted specifically to them (Pavlou and Stewart, 2000). Customers are only interested in receiving messages that are related to purchase decision or desired responses. Personalized advertising through mobile phones does not have a positive effect either if the message is sent to customers without permission (Tsang et al., 2004) because they feel their privacy is possibly threatened. Therefore, personalized advertising makes customers unhappy, leading to negative responses and feeling to advertising, such as advertising avoidance, or skepticism.

3. Hypotheses development

3.1. The effects of perceived personalization

Drawing on the foundation of perceived utility (i.e., benefits or rewards) of targeted advertising (Weilbacher and Walsh, 1952), personalized advertising is a strategic approach to optimizing advertising messages through matching with customer characteristics and interests. A personalized advertisement well-tailored to a customers' need provides useful information, and therefore affects the way customers respond when they are exposed to the ad – the response that is measured by ad avoidance, ad skepticism, ad attitude and ad credibility.

Ad avoidance refer to activities in which users are involved to prevent their exposure to the advertisement content (Speck and Elliott, 1997a). In Facebook, ad avoidance can be measured in three levels: affection (i.e., I hate the ad), cognition (i.e., I ignore the ad), and behavior (i.e., I install AdBlock to block the ad). Ad skepticism, on the other hand, is perceived as a customer's predisposition to disbelieve the messages conveyed by an ad (Obermiller and Spangenberg, 1998). Ad skepticism plays a role in developing a customer's tendency to resist the advertisement and to be suspicious about persuasive stimuli (Knowles and Linn, 2004). Both ad avoidance and ad skepticism capture negative responses that viewers have about an ad. However, since personalized ads are created on the basis of the viewers' prior interaction on Internet, the viewers will have a lower degree of ad avoidance and ad skepticism when being exposed to those ads than when being exposed to general ads (Obermiller and Spangenberg, 1998; Pasadeos, 1990).

On the other hand, ad credibility captures a positive view of an ad. If an ad is perceived to be credible, it is truthful and believable (MacKenzie and Lutz, 1989). As explained earlier, a personalized ad is tailored according to a viewer's interactive activity, the viewer would trust the ad more. Stated differently, personalized ads improve ad credibility (Kim and Han, 2014) and enhance customer's positive ad attitude (Xu, 2006) (see Fig. 1). Formally,

H1. Ad avoidance is negatively affected by perceived personalization on Facebook.

H2. Ad skepticism is negatively affected by perceived personalization on Facebook.

H3. Ad attitude is positively affected by perceived personalization on Facebook.

H4. Ad credibility is positively affected by perceived personalization on Facebook.

3.2. The effects of ad skepticism

Ad skepticism is a customer's predisposition to disbelieve the messages conveyed by an ad (Obermiller and Spangenberg, 1998). Therefore, people are prone to be wary and distrustful when being exposed to a proposal, a message or ad advertisement. A key characteristic of ad skepticism is its stability and its profound impact on customers'