

# The Dynamic AI Personalization Nexus (DAPN): Redefining Marketing Theory and Consumer Behaviour in the Age of Algorithmic Personalization

Ruchitra.S, Kaavya.T.S, Avinash Sundar.K, Sherin Cynthia.L

Ruchitra.S, MBA, Sona College of Technology, [ruchitrasuresh@gmail.com](mailto:ruchitrasuresh@gmail.com)

Kaavya.T.S, MBA, Sona College of Technology, [kaavyasivasamy@gmail.com](mailto:kaavyasivasamy@gmail.com)

Avinash Sundar.K, MBA, Sona College of Technology, [avinashsundar850@gmail.com](mailto:avinashsundar850@gmail.com)

Sherin Cynthia.L, MBA, Sona College of Technology, [sherincynthia04@gmail.com](mailto:sherincynthia04@gmail.com)

## Abstract

The rise of AI-driven personalization makes a major turning point in marketing, reshaping how companies understand and engage with customers. This conceptual paper introduces the Dynamic AI Personalization Nexus (DAPN) - a framework that explains how firms and consumers interact in a deeply individualized, data-driven environment that goes beyond traditional segmentation. At the heart framework is the idea that personalization relevance drives value creation. However, it also highlights a key tension: while stronger personalization can boost firm performance it may also reduce consumer trust if it feels intrusive – what we term the personalization – autonomy paradox.

The paper proposes algorithmic transparency as a crucial moderating factor that can ease these tensions and support more sustainable, trust-based digital relationships. DAPN draws from marketing theory, behavioural science and AI ethics to present eight conceptual propositions that aim to balance personalization efficiency with respect for consumer autonomy. This study adds a human-centred perspective to algorithmic personalization and offers practical guidance for developing Ethical AI Marketing Frameworks that prioritize fairness, transparency and consumer choice. The DAPN provides a foundation for future research and strategic use within evolving intelligent marketing systems.

## Keywords

AI-driven personalization; Dynamic AI Personalization Nexus (DAPN); Consumer behaviour; Personalization relevance; Algorithmic transparency; Ethical AI marketing; Personalization–autonomy paradox; Marketing theory; Data-driven marketing; Consumer trust

## Introduction

In recent years, the marketing discipline has reached an important inflection point: big data, machine learning and artificial intelligence (AI) have combined to let firms engage consumers not just as segments, but increasingly as individuals. Traditional marketing theory emphasizes Segmentation-Targeting-Positioning (STP) as a means for firms to group consumers with shared needs and to develop offerings that correspond to those needs (Kotler & Keller, 2016). It is this foundation that AI-driven personalization is challenging, because it makes possible real-time tailoring of offerings, messages, and experiences at the level of the individual, and in that sense fundamentally changes the nature of the firm-consumer relationship. Guidelines for AI-driven personalization are marketing practices in which algorithms examine the vast amounts of available consumer data - purchase histories, browsing behaviour, social signals, contextual metadata - and produce personalized content, offers or interactions on a fully automated or semi-automated basis. The impact of this dual shift is significant. On one hand, marketers can now deliver far greater relevance – every consumer receives messages, recommendation, or offers that closely matches their preferences, context and anticipated needs. On the other hand, AI enables unprecedented efficiency and scale. Once these systems are established, personalized experiences can be delivered to millions of users continuously and with minimal manual efforts. In the e-commerce context, research also shows that personalization positively influences purchase intention when consumers perceive the experience as both relevant and trustworthy (Koneti,2025).

In this shift, the company and the buyer make value together through a feedback system: the algorithms absorb each person's tiny actions and adjust to make value with every step. This shift is not smooth. While personalization might help find and act on what people need and want, it can also bring new issues that slow things down, like people feeling they have the power, privacy issues, trust issues, and the feeling that someone is watching them. A growing body of

research identifies what we might label a “personalization-autonomy paradox” consumers appreciate relevant offers, yet they may feel uneasy when personalization seems too precise, obscure, or manipulative. Bleier and Eisenbeiss (2015) noted while trust is necessary for personalized online advertisements, perceived intrusiveness reduces trust and thus confounds the marketing benefit. Customers may appreciate tailored advertising until the personalization crosses a threshold of “creepiness” in which case, the negative consequences can exceed value. Recent publications keep exploring the same theme in the AI era and suggest that, on the one hand, an algorithmically opaque system decreases trust, and, on the other hand, an algorithmically transparent system alleviates risk (Preprints.org, 2024). An example would be a qualitative study where the researchers find that, on the one hand, consumers see the personalization as relevant, but, on the other hand, they are worried that the data will be misused, that they will lose control, or that they will be manipulated—and as a result, engagement decreases, and even higher opt-out rates are triggered, thus, without intentionally employing transparency or consumer control standards, (Sahu, Sankhla, & Anjana, 2025). These new developments reveal a fact that AI-based personalization is not just a drastically extended marketing tool, but it further questions marketing assumptions which have been taken for granted for a long time. One of these is segmentation theory which assumes that there are separate groups with relatively stable preferences. Nevertheless, in a world empowered by AI, preferences change very fast, and consumers may not even know they leave data trails. Marketers are now faced with algorithm trope nudges, adaptation routine behaviour, and behavioural shifting in consumer profiles. Moreover, the notion of “consumer autonomy” should be rethought instead of being purely rational agents that respond to stimuli, consumers are, in fact, behaving as algorithmically curated interactions which may influence their decision-making in a manner that is controlled, yet not entirely obvious (Oğuz, 2025). Looking at how this differs in the past: A firm would create a target segment, for example, “women aged 35-44, higher income,” and create their offering. A firm today, with AI, can customize its homepage, products recommended for each woman, promotional messages, and even slightly adapt in the moment by utilizing real time signals and data. The personalization strategy has gone from targeting segments to targeting individuals and from design static to dynamically dynamic.

Additionally, the relationship of consumers and firms is changing. Value creation is happening less about the firm broadcasting messaging and more about the firm’s ability to predict, learn, and adjust to behaviour for an individual consumer. Data becomes the centre: the richness of the data and how quickly it can turn data allows a personalization engine to exist. As one review mentioned a personalization strategy in 2024 had “data-driven, highly customized experiences, delivered across multiple touchpoints” (Prasanthi, Sahu, Bakshi, Shanmugam, & Milind Wable, 2024, p. 48). The discipline of marketing guides to an interesting way: Artificial intelligence-driven personalization is changing the way firms communicate with consumers, where value is being created, and how marketing performance is captured. This compels a re-consideration of the established marketing theories—from segmentation to individualization, from broadcaster-led communication to interactive and adaptive ecosystems, from static representations of consumer behaviour to dynamic flows of data and algorithmic influence. As companies transition through these landmark changes, their performance will be judged not only by their technical skills but also by the ethical, consumer-centric manner of creating personalization systems. Marketing is experiencing an AI-driven personalization revolution that, giving a new vision to where value is created, and how marketing success is measured, has changed the whole game. These changes necessitate a complete rethink of traditional marketing concepts. Instead of segmentation, there should be individualization. Broadcast-style one-way communication must be replaced by symmetric, adaptable systems. There won't be frozen snapshots of consumer behaviour but rather continuous data streams and algorithmic influences. While companies undergo such a change, technical proficiency in personalization must be accompanied by more ethical and customer-oriented approaches in the design of personalization systems.

## Literature Review

### 1. How Personalization Grew up in Marketing

For the past 30 years personalization in marketing has evolved. With the factors such as age and income tailored the experience of user’s activities and personality. It started with simple factors such as age and income and is now more about tailoring experiences based on the user's activities and personality. In the past marketers were mainly focused on categorizing people into groups depending on their age or location (Smith, 1956). The idea was to target as many similar people as possible. As computers became more powerful, companies began to analyse the habits of individuals to understand their needs (Peppers & Rogers, 1997). Things got interesting when the internet era started in the 2000s. Companies started to use data to personalize customer experiences with the aid of CRM systems and web stats. Some

experts argued that personalization was the only way to do business successfully (Pralhad & Ramaswamy, 2004). Businesses are employing big data to foresee customer needs, generate personalized offers, and improve customer experience. Personalization has gone from a planner's idea to something that is automatically done by computers that learn and predict. The next chapter is the onset of AI-driven personalization. It is a combination of neural networks, machine learning, and natural language processing that results in adaptive marketing systems capable of real-time optimization (Lemon & Verhoef, 2016). Unlike traditional systems that require explicit consumer inputs, AI-enabled models derive preferences from the behaviour patterns of users over different platforms and contexts. As an example, Amazon and Netflix recommendation engines improve customer experience, making it a very dynamic and personalized user experience (Jannach & Adomavicius, 2017). Since then, the main topic of academic debate has shifted from the operational efficiency to the strategic implications, pointing out the different ways in which AI-personalisation changes consumer expectations, decision-making, and feeling of control.

## **2. AI, Data Analytics, and Algorithmic Decision-Making**

The core of personalization is data analytics and machine learning integration, which allows marketers to change vast and unstructured data into streamed actionable insights. The theoretical basis of this change is information-processing theory, which assumes that decision quality increases with the amount and relevance of information (Simon, 1972). However, unlike human decision-making, AI algorithms can simultaneously digest millions of behavioural signals, discovering correlations and predictive patterns that are far beyond the limits of human cognition (Brynjolfsson & McAfee, 2017). In fact, by uncovering non-linear relationships in the data, machine learning algorithms can be able to predict future consumer behaviour scenarios, such as churn risk and purchase likelihood (Haenlein & Kaplan, 2019). The predictions become more accurate with the help of deep learning frameworks, especially neural networks, that extract the latent features automatically from the complex data such as text, voice, and images (Jordan & Mitchell, 2015). This is what is helping companies to deliver contextual marketing in which the users get content or suggestions based on not only their historical data but also the present situation (Kaplan & Haenlein, 2020). For instance, by performing an instant sentiment evaluation, AI chatbots nowadays can not only react to the users' emotions but also change their speaking style and the way the message is framed, thus making the communication a human one, empathetic one (Gursoy et al., 2019). Nevertheless, this algorithmic efficiency also brings about new theoretical issues. As per the personalization–autonomy paradox, AI as a technology that enhances consumer experience limits consumer freedom by deciding which options to influence that are prioritised or visible, even though it helps in getting the right things faster and easier (Shankar, 2018). As algorithms increasingly resemble "choice architects" that guide decisions in a way that might be more beneficial for business than for consumers, the ethical question of whether the influence is used rightly arises (Thaler & Sunstein, 2008). Besides that, AI decision-making's obscurity, which is most of the time called the "black-box problem," leads to significant barriers in terms of customer trust. Most of the time, customers are not aware of the reasons behind receiving certain personalised results and they certainly have no idea about how their data is being utilized (Eslami et al., 2018). Because of this issue, scholars in marketing have drawn the attention to the significance of algorithmic transparency, which refers to the extent to which customers can understand the logic behind tailored suggestions (Shin, 2021). When transparency is exercised in the right way, it indeed acts as a moderator that helps in the building of trust and reduces the feeling of personalisation being a privacy invasion.

## **3. Consumer Behaviour and the Personalization–Autonomy Paradox**

AI-driven personalisation has become very advanced that it has changed the way of understanding the consumer behaviour in the digital environment from a purely theoretical form to a more practical one. Consumer decision-making models assume that consumers make rational decisions and their preferences are stable. However, algorithmic systems create feedback loops, which not only react to but also influence these preferences (Hoffman et al., 2022). Personalization algorithms engage predictive analytics to foresee what the consumer will most likely need - even if the consumer have not figured it out yet-for instance-consumption experience, as Schmitt (2020) terms it, is created by prediction. Although this makes the interaction more comfortable and user-friendly, it also causes a great deal of worry about personal autonomy and control. The paradox of personalization–autonomy exemplifies this struggle: with the increase in the accuracy of the personalization, the consumers feel that they are both empowered and constrained (Shankar, 2018). Satisfaction goes up when recommendations meet the unexpressed needs of the consumers; however, a high level of automation may lead to what is called algorithmic overreach, whereby the users feel that machines are manipulating their choices (Lycett, 2023). Studies based on real-life situations indicate that consumer are for

personalization if it is not too intrusive or beyond their personal boundary; once intrusiveness is perceived, trust declines and, thus resistance behaviours—such as ad avoidance or data obfuscation—get activated (Bleier & Eisenbeiss, 2015). From the standpoint of theory, this paradox to the integration of Self-Determination Theory (Deci & Ryan, 2000) via marketing scholarship. Arguably, need for human autonomy ranks among the most fundamental ones, and AI-powered systems which give an impression of limited choice can be agents of threat to that human need even when the results might be advantageous. Take for instance personalized pricing or behavioural nudging resulting from psychographic inferences, that can cause the user to feel unfairly treated and manipulated (Schreiner et al., 2021). The message delivered by that is if taken to the extreme, a personalized ad not only serves to create a perfect marketing strategy but more importantly it must ensure that consumers feel less manipulated. DAPN, the dynamic AI personalization nexus model, depicts this equilibrium as a continuous interaction among various factors such as personalization relevance, perceived intrusiveness and algorithmic transparency. According to Pavlou (2003), when consumers feel that they have control over their personal data, they are more willing to engage with digital marketing platforms. On the contrary, in an AI-powered scenario, this control seems to be slipping away as consumers are rarely informed about what data is garnered and how it affects the recommendations that they are receiving. As a result, transparency and explainability have become the main elements, which, by helping to retain consumer trust, also contribute to their willingness to continuous management (Shin, 2021). In addition, personalization that works well lastly needs to consider contextual integrity—the notion that information practices are evaluated based on whether they comply with the norms of the situation (Nissenbaum, 2004). The ethically sound intentions of the personalization notwithstanding, it can still violate the expectations of the consumers provided that the latter perceive it as a sensitive context and in such a case, for instance, health, finance or politics. Hence, marketers are not only confronted with the challenge of technical optimization but also that of contextual adaptation- AI systems must learn not only what consumers want but also what they consider appropriate.

#### **4. Ethical and Trust Dimensions in AI Marketing**

Even ethically well-intentioned personalisation can offend a consumer if used in a context that the consumer feels are sensitive, for example, health, finances, or politics. Researchers are cautioned that unless purposely protected the algorithmic personalization can exacerbate biases and take advantage of psychological vulnerabilities thus increase the digital inequality (Martin & Murphy 2017). Automation of persuasion, which Susser et al. (2019) call algorithmic manipulation, results in power imbalances between companies that have control over data infrastructures and consumers who are not in a position to easily check them. The ethics of personalization can be seen as three interlinked aspects:

1. Data ethics - Deals with issues of privacy, consents, and surveillance, thus ensuring responsible collection and use of consumer information.
2. Algorithmic ethics- Concentrates on the aspects of the AI systems being fair, accountable, and transparent in order to prevent bias and provide explainable decision-making.
3. Outcome ethics - Concerns the well-being of the consumer and distributive justice, stressing that marketing which is AI-driven should be socially fair and beneficial (Floridi & Cowls, 2019).

Ethical marketing personalization first of all implies that the marketing practice should move from merely reactive compliance—for instance, with GDPR—to proactive, ethically led design, where features like fairness and explainability are not added modules but are inherent in the very structure of algorithms, Jobin et al. (2019) argue. Fairness-aware machine-learning systems aim to limit bias in the recommendation by achieving demographic parity for the groups being exposed to the offers, content, or pricing (Mehrabi et al., 2021).

Trust constitutes the main psychological factor that mediates the influence of ethical practices on marketing results. When customers are convinced that AI systems function in a responsible and transparent manner, they extend their trust to the brand, which loyalty and purchase intention to the company's products or services are by this increased (Hoffman et al., 2022). Conversely, personalization being non-transparent or manipulative leads to consumer's perceived risk increase and consequently, disengagement most of the time. A human-centred AI marketing forms a framework that gives equal importance to technological effectiveness and ethical responsibility (Rust 2020).

#### **5. Conceptual Figure Description: The Dynamic AI Personalization Nexus (DAPN)**

The DAPN framework conceptualizes AI-driven personalization as a dynamic, interconnected system that links firm performance with consumer well-being. Although the model cannot be visually represented here, its theoretical structure can be outlined textually as follows:

Input Layer:

The foundation of the model lies in Data Quality and Algorithmic Capability .High-quality , diverse and ethically sourced data allow algorithms to identify fine-grained , individualized patterns that drives precise personalization.

**Core Mechanism:**

At the centre of the system is personalization relevance , which refers to the perceived fit between the personalized content and the consumer’s expectations , preferences and context . This mechanism drives value creation.

**Moderators:**

The outcomes of personalization are shaped by two crucial moderators:

- Perceived Intrusiveness-When personalization crisis boundaries and feels overly invasive , consumers may feel a loss of privacy and autonomy.
- Transparency in Algorithmic -Consumers trust is strengthened and uncertainty is reduces when the logic is clear , comprehensible and communicated effectively which helps in personalisation

**Outcome Layer:**

On the firm side , high personalization relevance improves conversion rates , customers engagement and ultimately Customer Lifetime Value (CLV).On the consumer side , however elevated perceived intrusiveness can diminish trust , satisfaction and willingness to engage.

**Balancing Mechanism:** Algorithm transparency operates as a balancing force. By reducing the negative effects of intrusiveness, it helps maintain equilibrium personalization efficiency and consumer autonomy.

**Feedback Loop:**

A continuous feedback loop of consumer input into the algorithmic learning process is an essential feature of the DAPN model. The ability to provide ongoing feedback allows for the refinement and evolution of communication and information delivery methods based upon the actions of the consumer (i.e., click through rates, purchase frequency) and emotional responses (i.e., trust, satisfaction) to communications received before, during, or after the interactions. In theoretical terms, the DAPN model defines personalization as a dynamic equilibrium system and builds upon earlier models, such as the Technology Acceptance Model (TAM) developed by Davis in 19989 as well as the Information System Success Model (ISSM), developed by DeLone and McLean in 2003, by adding psychological and ethical moderating factors that shape consumer responses. For example, using Structural Equation Modelling (SEM) to look at the interaction between personalization relevance, perceived intrusiveness, trust and transparency may provide insights into how these constructs shape the results of personalising communications on the different industries. Future studies using SEM will also be useful for demonstrating that AI driven personalisation represents a disruptive shift in the theoretical basis of marketing and encompasses both the technological and theoretical advancements enabled by real time analytics, machine learning and psychological modelling disrupting many of the long-held assumptions regarding consumer rationality, preference stability and firm-led control. As the DAPN framework argues, sustainable value creation requires maintaining a balance between personalization relevance and ethical responsibility, ensuring that marketing innovation advances in harmony with consumer autonomy and borders societal trust. Looking ahead, the development of actionable frameworks for responsible personalization will demand on continued interdisciplinary research bringing marketing science, behavioural economics and AI ethics. As its core, AI driven personalization involves the use of algorithms to analyze rich streams of consumer data – including purchase histories, browsing patterns, social signals and contextual metadata – to generate tailored content, recommendation or interaction either automatically or semi automatically. As one personalized customer experiences,” AI is transforming digital marketing by enabling hyper-personalized customer experience” (Gugunawat, Khandelwal & Gupta,2024, p.183). There is an two phased impact on this transition. ,The marketers deliver greater relevance by aligning messages and offers closely with each consumer’s preferences and situational needs, which is the first phase. Second, AI enables unprecedented efficiency and scalability, allowing companies to deliver personalization to millions of users on a ongoing basis once the systems are configured. Empirical evidence the business value of this transformation. An industry report , for example , shows that companies implementing advanced personalization strategies can achieve revenue increases of approximately 10%-20% compared with forms that do not personalize (McKinsey & Company , 2021). While this figure is indicative, it highlights the strong commercial potential of AI-driven personalization through improvements in conversion rates , customer engagement and customer lifetime value . Beyond financial metrics, however, the rise of AI personalization signals deeper theoretical shift in marketing. Value creation is moving away from static segmentation models towards continuously adaptive, individualized interactions. In the emerging pattern, firms and consumers participate in an

ongoing feedback loop in which the algorithm learns from each user's micro-responses and adjust the content or recommendation which results in constant co-creation of value. This dynamic process challenges the classical relationship marketing models which assumes a stable consumer preference and a linear firm –led interventions (Shankar,2012). Further while consumers appreciate the relevance of personalized experiences, they also fear data misuse, loss of control and covert influence according to a qualitative study. Value creation now depends less in firms broadcasting standardized messages and more on their ability to anticipate, learn form and respond to individual behaviours. Data becomes the central driver: its richness, granularity and real-time availability are what power modern personalization engines. As one recent observers, personalization is increasingly “data-driven highly customized and delivered across multiple touchpoints” (Prasanthi, Sahu Bakshi & Milind Wable, 2024, p.48). The marketing discipline is at a pivotal moment : the rapid rise of AI-driven personalization is reshaping how firms engage with consumers how value is created and how marketing performances is realized. This transformation requires a re-examination of long-standing marketing theories-shifting from segmentation to individualization, from one-way broadcasting to interactive and adaptive ecosystems and from static models of consumer behaviour to dynamic, data-driven patterns shaped by algorithmic influence. As organizations navigate this evolving landscape, their success will depend not only on technological sophistication but also on ethical and consumer-centred design of personalization systems. With the ability to grow, the consumer behavior theories of the past are being questioned by the marketing research community. Specifically, theories that set the groundwork for consumer behavior, such as The Theory of Planned Behavior (Ajzen,1991) and The Elaboration Likelihood Model (Petty&Cacioppo,1986), were developed under the condition that consumers deliberately and consciously process incoming information. However, consumers now receive marketing messages based on AI-recommended personalized frequency, which, while not necessarily being conscious of it, will affect what they pay attention to, how they feel about and form preferences.

Thus, AI-driven personalization offers new technological capabilities in the marketing area and represents a pivot point for marketing thought; marketers will now need to develop entirely new conceptual frameworks to explain how and where the creation of value will take place as well as how consumers will interact with/possess agency over their experience in algorithmic environments (Huang&Rust, 2021). The larger body of literature indicates that AI-driven personalization should no longer be viewed as only a potentially useful transformational tool; it also represents a new theoretical inflection point in marketing research. When combining the capabilities of the three trends of real-time data analysis, machine learning, and psychological modeling; marketers will need to challenge many of the long-held beliefs regarding how, why, and where consumers make decisions as well as what, if any, remains are in their control during the communications process with firms. The DAPN framework states that for sustainable value creation in this new paradigm, companies need to balance their efforts to build relevant and 'personalised' user experiences with ethical responsibility. Empowering and Trusting Consumers Empowers the Business and Trust within Society Through Ethical Use of Marketing Technology as a Process of Innovation. Developing a practice and process around the ongoing research across the areas of Marketing Science, Behavioural Economics, Data Governance, and Artificial Intelligence is crucial to developing a responsible and actionable model of Personalisation for many decades to come.

## Methodology and Conceptual Propositions

### 1. Methodological Orientation: Conceptual-Theoretical Approach

This paper adopts a conceptual-theoretical approach , which is well suited for studying emerging areas where empirical findings are still limited or evolving .AI-driven personalization fits this description , as its technological sophistication and behavioural implications advance faster than existing measurement tools.The purpose of this study, therefore , is not to test specific empirical relationships but to build theory by identifying core constructs , explaining how they relate to each other and proposing mechanisms that clarify how and why the phenomenon works. In this vein, the DAPN framework conceptualizes personalization as a dynamic interaction system that connects firm-side algorithmic processes with consumer-side psychological responses.Unlike purely descriptive models, the DAPN outlines casual pathways, moderating conditions and feedback loops that together capture the shifting balance between personalization relevance, consumer trust and autonomy.This research is grounded in a critical realist ontology , which assumes that marketing phenomena exists independently of observation , yet our understanding is shaped through social and cognitive interpretation (Bhaskar,1978).Critical realism bridges positivist and interpretivist perspectives by recognizing both the presence of real underlying mechanisms – such as algorithm decision-making and the subjective meanings consumers

assign to those mechanisms. This stance is particularly suitable for AI marketing, where measurable behaviours like clicks and purchases intersect with intangible construct such as trust, fairness and perceived control, Consistent with this view, the DAPN framework incorporates dimensions, such as consumer perceptions, enabling a more comprehensive theorization of personalization's dual effects.

## **2. The DAPN Framework Development Approach**

A multi-step methodological development approach has been taken with the construction of the DAPN framework utilizing previously established theoretical development processes by the American Marketing Association (American Marketing Association, 2011; Jaakkola, 2020).

**Identifying the Constructs:** By acquiring information from research in artificial intelligence (AI) marketing, consumer behavior, and ethical considerations associated with digital marketing, five constructs were identified as taking prominence: relevance of personalization, perceived intrusiveness, algorithmic transparency, consumer trust, and firm performance.

**Mapping the Relationships:** Logical connections or relationships were made among the five constructs through theoretical reasoning and earlier empirical evidence and findings. For instance, Bleier and Eisenbeis (2015) report the empirical evidence that personalization relevance enhances consumer engagement while perceived intrusiveness negatively affects consumer engagement.

**Structuring the Models:** Relationships among the five constructs were arranged into a unified conceptual framework depicting the interrelationships between positive and negative pathways through which AI personalization occurs to a consumer and algorithmic transparency as a moderating variable.

**Creating the Propositions:** Based on the results of the model structure, eight propositions have been created to guide future empirical studies on AI personalization and how it affects how we act, manage, and consider morally, as well as how to approach those things from different perspectives. As recommended by Whetten (1989), our approach to developing the model includes defining what we are studying, explaining how the relationship will develop, and stating why the relationship is meaningful. This has resulted in the DAPN framework as a model that crosses the boundaries of both technology and human psychology and shows their relationships.

## **3. Key Constructs and Theoretical Relationships**

### **Personalization Relevance**

The term personalization relevance reflects a consumer's expected appropriateness of marketing material against their needs or wants (Bleier & Eisenbeis, 2015) or a consumer's later experience when they perceive the material to be actually appropriate (Shankar, 2018). In the framework of Artificial Intelligence Relevance is established through real-time adaptive learning algorithms that make continuously updated offers and recommendations based on behavioural signals. Subsequently, relevance impacts the consumer's understanding of personalization as either helpful customization or unwanted trespass (Shankar, 2018).

### **Perceived Intrusiveness**

Perceived intrusiveness is the extent to which personalization is perceived as privacy-intrusive or manipulative (Li & Unger, 2012). AI systems that overuse personal data or make overly specific inferences may push consumers over psychological boundaries into feelings of awkwardness and resistance behaviors (Martin & Murphy, 2017).

### **Algorithmic Transparency**

Algorithmic transparency is the extent to which consumers can understand how personalized outcomes are produced (Shin, 2021). Algorithmic transparency could be a mechanism for restoring trust and can lessen the negative effects of perceived intrusiveness by increasing interpretability and accountability of complex algorithmic processes.

### **Consumer Trust**

Consumer trust refers to the willingness to be vulnerable to the firm's actions based on positive expectations about the firm's actions (Morgan & Hunt, 1994). For AI-based personalization, consumer trust relies less on human interaction and instead on perceived fairness, privacy safeguards, and transparency (Hoffman et al., 2022).

### **Firm Performance**

Firm performance measures generally include short-term indicators (conversion rates, click-throughs) and longer-term measures of Customer Lifetime Value and loyalty. Personalization can affect performance, perhaps because it leads to higher levels of engagement with the brand; however, higher intrusiveness may also lead to attrition, which will negatively impact Customer Lifetime Value overall (Rust, 2020). As stated, these constructs influence each other and undertake both reinforcing feedback loops and balancing feedback loops - all within the context of the DAPN framework. In the next section, each of these relationships is formalized by way of eight conceptual propositions.

#### 4. Conceptual Propositions

##### **Proposition 1 (P1): The Relevance of Personalization and Firm Performance**

P1: The relevance of personalization, or the perceived relevance of personalization, positively influences outcomes of firm performance such as conversion rates, engagement, and customer lifetime value. Rationale: For example, when advertising, the closer marketing content engages individual preferences - or combines sensory experience and cognitive processing fluency - the greater the satisfaction and the greater the likelihood of a purchase (Lemon & Verhoef, 2016). In comparison, studies have shown that personalization that is targeted specifically, click-through rate is 2-3 times better than general messages (Wedel & Kannan, 2016). Therefore, the relevance of personalization acts a primary driver of firm side value creation.

##### **Proposition 2 (P2): The Importance of Personalization and Customer Trust**

P2: Perceived relevance of personalization enhances consumer trust, particularly when it is seen as authentic existing awareness of the customer rather than being scrutinized for the person. Consumer personalization is perceived as trustworthy when it indicates concern and recognition, rather than being invasive and intrusive (Pralhad & Ramaswamy, 2004). AI systems that can establish relational trust not only focus on prediction but also have privacy in mind while developing technology that can act as a conduit to develop shared value in the relationship

##### **Proposition 3 (P3): Perceived Intrusiveness Negatively Moderates the Link Between Personalization Relevance and Consumer Trust**

P3: Higher perceived intrusiveness decreases the positive effects of personalization relevance on consumer trust. When consumers feel that personalization is above and beyond socially acceptable, even the most relevant content offered becomes a detriment (Bleier & Eisenbeiss, 2015). This is indicative of the privacy-calculus model, in which perceived benefits and perceived risks are evaluated (Culnan & Armstrong, 1999).

##### **Proposition 4 (P4): Algorithmic Transparency Positively Moderates the Impact of Intrusiveness on Trust**

P4: Transparent communication i.e., communicating why recommendations are made, will help reduce uncertainty and re-enable psychological safety (Eslami et al., 2018). The knowledge gained in human-computer interaction denotes that the better the explanation quality, the stronger the perceived fairness and willingness to participate (Shin, 2021).

##### **Proposition 5 (P5): Consumer Trust is a Mediator in the Relationship Between Relevance from Personalization and Firm Performance**

P5: Consumer trust is a mediating variable through which personalization relevance will improve firm performance. Trust is also linked to converting short-term relevance to long-term engagement and loyalty (Morgan & Hunt, 1994). Absent trust, any effects of personalization that may be beneficial to performance are unlikely to persist because consumers will disengage or opt-out when the hassle of perceived manipulation outweighs perceived benefits of convenience (Martin & Murphy, 2017).

##### **Proposition 6 (P6): Perceived Intrusiveness is a Negative Influence to Consumer Autonomy and Satisfaction.**

P6: Higher levels of perceived intrusiveness diminished consumers' perception of autonomy and satisfaction in AI-mediated experiences. Research based on Self-Determination Theory (Deci & Ryan, 2000), show autonomy to be a core psychological need, and personalization that restricts free perceived choice to have negative effects on autonomy leads to reactance, thereby diminishing satisfaction (Schreiner et al., 2021).

##### **Proposition 7 (P7) Algorithmic Transparency Increases Perceived Control and Ethical Acceptability.**

P7: The perception of increased algorithmic transparency increases the consumer's perceived control, resulting in a greater rate of ethical acceptability of AI personalization. The consumer's ability to attain a greater understanding of what is being done with their data and information leads to an increased understanding and reassertion of a perceived sense of agency within the experience. Transparency acts as both an ethical and psychological mechanism (Floridi & Cows, 2019).

##### **Proposition 8 (P8): The DAPN Dynamic Equilibrium - The Balance between Efficiency & Autonomy**

P8: The best possible personalization happens when the system achieves a balance between firm efficiency (performance) and consumer autonomy (trust and satisfaction). P8 smooths the relationships above into one general statement, too much of personalization will create short-term efficiency but will also create long-term distrust, while too little personalization will not create value. DAPN argues that marketing advantage is only sustainable in dynamic equilibrium through transparency and algorithm-centrality (Huang & Rust, 2021).

## 5. Research Implications and Future Empirical Testing

DAPN has the potential to provide the basis for future empirical research in AI-based marketing. Three key implications for research emerge from the discussion.

1. Measuring Innovation: Future researchers will be able to operationalize measured constructs like algorithmic transparency and perceived intrusiveness with dimensional scales that have been tested and validated across cultures,
2. Testing the model: Each of the propositions can be explored by an empirical testing with structural equation modeling or multilevel analysis to explore moderating and mediating effects across sectors like retail, banking, or health.
3. Ethical design in AI: From a managerial level, DAPN would incite firms to build transparency dashboards and user control over personalization that could increase autonomy for consumer while maintaining use of data for firm.

The model also highlights a shift in the marketer's role – from traditional persuasion architects to algorithmic ethicists responsible for embedding fairness, transparency and explainability into AI systems. In establishing a modern marketing governance model, it is necessary to consider modern marketers' responsibility to create an environment that not only provides a profit but also generates and sustains social trust in technology through personalization. To that end, the Dynamic AI Personalization Nexus (DAPN) provides marketers with a theoretical foundation as well as a flexible practical model for how AI-driven Personalization is redefining the relationship between firms and consumers. The DAPN is built on eight propositions outlining the psycho-social, ethical, and performance-specific dimensions of personalization, which encourage researchers and marketers to pursue innovative opportunities without neglecting their ethical and moral obligations.

### Discussion

The rise of AI-powered personalization represents a significant inflection point in both marketing theory and practice, redefining how firms understand, anticipate and influence consumer behaviour. The dynamic AI personalization Nexus (DAPN) positions personalization as more than a tool – it becomes a dynamic, data-intensive ecosystem of continuous interaction between firms and consumers. Within this discussion, the DAPN's propositions illustrate crucial implications for marketing theory, ethical consideration and managerial decision-making, unveiling both the opportunities and inherent tensions embedded in algorithmic personalization.

### Theoretical Construction: The Paradox of Personalization-Agency

Marketing theories, like the Theory of Reasoned Action (Fishbein & Ajzen, 1975), or models of Customer Relationship Management (CRM), are based on the belief that consumer decision making is mostly stable and conscious. The personalization of AI alters this apparent stability by constantly modifying the consumer's choice environment. As algorithms observe behavioral data and micro-contextual signals in the environment, they create preferences rather than simply reacting to preferences (Thaler & Sunstein, 2008; Shankar et al., 2021). We refer to this tension as The Paradox of Personalization-Agency (DAPN) model—what consumers (and often firms) enjoy about personalizing algorithms reflects their preference for relevant suggestions in contrast to the discomfort associated with algorithmic preference (often referred to as intrusion). Under the theorization of the paradox personalization takes cause from asymmetrical information to asymmetrical algorithms in the way firms have access to predictive insights that the consumer does not (Kaplan & Haenlein, 2020). Importantly, the paradox presents as enhancing perceived value and convenience in decision making, while also creating a risk to perceived control and trust (Lankton et al., 2015). As a result, the DAPN model provides others model frameworks (e.g., Parasuraman et al., 2000; Hoffman & Novak, 2018) by proposing that Algorithmic Transparency acts as a mediating construct that calms the perceived intrusiveness of algorithmic suggestion and mediates the agency of the consumer.

### Reframing Consumer Behavior in the Age of Algorithmic Mediation

Personalization powered by AI significantly alters the traditional model of the consumer decision journey. No longer can the consumer process be easily understood as a linear sequence of awareness through to purchase. The consumer no longer acts independently along a linear path, but instead, invites new algorithmic feedback loops (Wedel & Kannan, 2016). Each click, scroll, and time spent engaging with an item of interest creates a behavioral signal that informs an optimization engine that almost instantaneous adapts to each additional behavior. As a result, the consumer identity, consistent with a particular product becomes performance-based rather than based on internal deliberation (Cohen, 2019). Under these conditions, marketers will need to break away from a segmentation logic of managing consumers, to a logic of managing individual trajectories of consumers. Firms like Netflix and Amazon are learning how to use AI to create dynamic recommendation systems that are capable of predicting latent needs (Gomez-Uribe & Hunt, 2016). However, as highlighted by DAPN, this precision of targeting risks creating a filter bubble or a bias into whether they

like or don't like, thereby limiting exploration (Eslami et al, 2015). Thus, the engagement strategy needs to be constructed with a component for diversity towards exploration - a purposeful deviation from their previous selections to retain engagement and ethical fairness.

### **Managerial Implications: Toward Ethical and Transparent Personalization**

The DAPN framework helps us to outline implications that can guide firms aiming to balance their technology capability and expertise with a strong sense of accountability and ethics. Alongside the eight conceptual propositions, we identify several practical implications for managers:

#### **1. Design for algorithmic transparency:**

Managers must discover clear, practical ways to show consumers how their data is handled and how automated decisions and personalized results are generated. Examples might include creating transparency dashboards, informing consumers about opt-in opportunities, and providing explanations like "why am I seeing this?". Evidence demonstrates that transparency has positive effects on perceived fairness and trust - both contributors to a better consumer experience (Shin, 2021).

#### **2. Prioritize consumer autonomy:**

When things are personalized correctly, it should be done so within properly bounded cognition. Firms can develop "autonomy-preserving" design opportunities, such as options for consumers to recalibrate recommendations or pause data collection to provide flexibility to consumers (Custers et al., 2018).

#### **3. Redesign how we measure relevance:**

The DAPN lens provides a new lens through which to conceptualize the success of personalization, the "Personalization Relevance" (PR) concept demonstrates a dynamic equilibrium between utility and comfort for personalization. As a manager, you should be responsible for measuring PR with hybrid metrics that combine levels of engagement (i.e., click-through rates) with a degree of feedback (i.e. satisfaction, trust) from the consumer.

#### **4. Rely on cross functional stakeholders in AI governance design:**

Ethical AI marketing clearly cannot function on its own and typically depends on the shared efforts of data scientists, ethicists and marketing experts. An interdisciplinary governance team helps ensure that algorithmic models follow both performance goals and fairness standards (Martin & Murphy, 2017).

#### **5. Develop consumer-centered data stewardship:**

Beyond basic compliance, personalization approaches must intentionally strengthen trust. This can include using differential privacy methods, anonymization techniques and clear data-sharing agreements to support responsible data stewardship (Rust, 2020)

#### **6. Create ethical AI brand narratives:**

Brands increase brand equity and strengthen consumer loyalty by promoting how their personalization efforts are focused on the well-being of the consumer (Bolton et al., 2021). Organizational Strategy and Competitive Advantage through Personalization done through AI has demonstrated measurable improvements in performance and has the potential to substantially improve Customer Lifetime Value (CLV), conversion rates and overall retention if implemented responsibly (Lemon & Verhoef, 2016). A company that purely focuses on short-term optimizations may end up damaging itself over time through consumer perceptions of manipulative or exploitative behaviours. The DAPN framework promotes thinking of personalization as a whole. It gives an examination of how consumer data, algorithmic decision-making and ethical judgements interact with one another in personalization efforts. Companies must have a sense of responsibility and progress through the various stages of Responsible Personalization Maturity (RPM); progress from using consumer data reactively to using it predictively, transparently, and lastly, allowing for and engaging the consumer in the personalization process. This growth requires both investments in advanced AI methods and investments into the ethical capabilities of marketers to ensure they accurately interpret algorithmic output, are aware of unforeseen consequences and identify potential biases.

### **Managerial and Strategic Importance**

The DAPN Model assists management in understanding how companies can achieve balance between Performance and Personalization along with Consumer Protection. The DAPN Model also informs managers that a company's effectiveness cannot be determined by Engagement and Conversion Metrics alone. Trust Indicators, an Autonomy-Supportive Consumer Behavior and Auditability of Algorithms must be taken into consideration (Shin; Rust). Personalization is a strategic Dialogue that goes beyond technology; It is how the brand engages with consumers and how brands succeed by creating Trust and Respect within their consumers when engaging and connecting through

personalization of their brand with the consumers. A company that invests in Explainable AI Systems (Transparency Dashboards, Routine Audits for Bias and User-Controlled Recommendations) is more likely to be successful long-term building Trust Relationships with consumers. This is more than Regulatory Compliance; It will establish a Competitive Differentiation and Advantage. Competitors will continue to use the same technologies to create Personalization; however, the Ethical Posture of a Company will determine who stays above their competitors. Additionally, brands that Humanize their AI by demonstrating Accountability, Empathy, and Genuine Investment in Consumer Empowerment will not only convert consumers but develop a deep and lasting Loyalty (Bolton). Therefore, Ethical AI is not a limitation to Innovation; It is the Next Level of Meaningful Brand Differentiation.

### **Societal Consequences and Consumer Autonomy Moving Forward**

At a societal level, these technologies are reshaping the diversity of information people encounter, influencing consumer autonomy and even altering cultural conversations (Cohen, 2019). The algorithms that drive attention are also designed for efficiency, which often results in a lack of diversity in the content viewed by users (Eslami et al., 2015). As a result, filter bubbles are created that limit a user's exposure to new ideas and reduce opportunities for accidental discoveries. The DAPN framework aims to address these challenges by incorporating algorithmic pluralism into the algorithmic personalization process by intentionally incorporating diversity, randomness, and user agency.

It's also essential for policymakers and regulatory authorities to begin addressing the myriad of complex ethical challenges connected with the use of AI in marketing. The two sets of new regulations set out by Europe's new General Data Protection Regulation (GDPR) are indicative of the growing recognition of how important it is for the increasing use of these technologies to couple personalization with transparency, accountability and to be accountable for their use (Custers et al., 2018). Therefore, the Digital Autonomy and Privacy Network (DAPN) framework provides an excellent platform for determining if marketing efforts utilizing personalisation is eroding consumer autonomy and how that erosion is in turn impacting market competition and the ethical base of digital capitalism. As data becomes the primary vehicle for transacting online, marketers are also expected to do their part by making available to consumers personalised experiences that enhance the consumers lives, rather than simply using them to further their own self-interests.

### **Limitations and Future Research Directions**

The DAPN model's conceptual framework is a solid foundation, and its conceptual framework must be supported by empirical evidence through the rigorous testing of its constructs (i.e., Personalisation relevance, Perceived Intrusiveness, Algorithmic Transparency) and the development of validated psychometric scales. Future research may incorporate the use of longitudinal research designs to study the evolution of constructs, as well as their relevance to different types of retail, streaming service, and finance industries. Additionally, International research may enhance the model by identifying how individuals perceive Control, Trust and Transparency across different cultures and countries. Moreover, future studies that utilise experimental methodologies to explore the casual effects of Transparency enhancements (i.e., Algorithmic Explanation versus Disclosure type) on Customer attitude and behaviours are also encouraged. Finally, future studies that include techniques in Dynamic Neurocognitive Assessment, Affective Computing or Emotional Analytic Assessment, will provide a greater understanding of how consumers cognitively drive their responses to AI-driven personalisation. The DAPN model indicates that while algorithms play a key role in how businesses market to their consumers, the true value of these algorithms will derive from a working relationship between humans and machines rather than from the use of algorithms alone. The DAPN in essence promotes a hybrid approach when it comes to marketing where technology allows companies to enhance the effectiveness of their marketing efforts. As AI continues to transform market relationships, marketers stand at a crucial inflection point: to design personalization that not only predicts consumer behaviour but also honours the humanity, dignity and agency of the individuals behind the data.

### **Conclusion**

AI-driven personalisation represents a profound shift in marketing thought and practice. As digital ecosystems have become increasingly data-rich and complex, personalization has transformed from a tactical enhancement into a structural principle shaping modern market exchange. The dynamic AI personalisation Nexus introduced in this paper reframes personalisation not merely as a technological function but as a systemic and conceptual evolution in the firm-consumer relationship. Unlike traditional segmentation, which relies on aggregated market insights, DAPN positions personalisation as a dynamic, co-created process powered by algorithmic intelligence and continuous feedback loops. Personalization relevance is the effectiveness of algorithms for individuals' needs. It is an important source of value for firms when they use the marketing, technology and data capabilities of the internet through the use of algorithms to

increase customer engagement and firm performance, but the rise of personalisation also creates a serious paradox (Bleier and Eisenbeiss 2015; amen, et al 2000). As such, the increasing intrusion of AI algorithms on consumer autonomy may cause consumers to question the trustworthiness of AI when it is perceived as rendering the individual less autonomous (Bleier and Eisenbeiss 2015; Ameen et al 2020). Consequently, the need to balance operational efficiency with ethical operations from a managerial and theoretical perspective are becoming more important. However, ensuring that algorithmic systems are transparent can help firms reduce risk to consumers' trust and preserve their relational equity in the data-driven marketplace (Martin and Murphy 2017).

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