

## Chapter 22

# Retailer–Customers Relationships in the Online Setting: An Empirical Investigation to Overcome Privacy Concerns and Improve Information Sharing

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### ABSTRACT

*Internet merchants are compelled to collect personal information from customers in order to deliver goods and services effectively. However, the ease with which data can be acquired and disseminated across the Web has led to many potential customers demonstrating growing concerns about disclosing personal information. This chapter analyzes the interaction between two strategies that firms can use to alter potential customers' cost/benefit evaluation and increase information disclosure: the development of initial trust and compensation. The derived hypotheses are tested by means of two experimental studies, whose findings are compared across two different consumer target groups.*

### INTRODUCTION

Over the last years, a number of significant technological developments in multimedia - computing power, digital television, the internet/intranet, IP-based services, and terrestrial and satellite mobile communications - have had a profound

impact on society. This ICT evolution has provided customers with tools to search for information, with innovative ways to shop and consume, as well as to interact with family and friends, firms, and institutions.

Firms have been afforded new sales and customer relationship development opportunities,

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as they can acquire a vast quantity and variety of customer data (Cespedes & Smith, 1993; DeCew, 1997). However, realizing all these opportunities requires overcoming the main barrier to new technology adoption: the perceived risk of sharing personal information due to the lack of controls to safeguard it. The increasing interaction opportunities and low cost data exchanges – enriching the content of such interactions – that new technologies allow, also reduce control over the use of exchanged data: anonymous and unknown parties may use this data. Consequently, the ease with which data can be acquired and disseminated and the peculiarities of high-tech settings have led to growing concerns regarding whether and how consumers can safeguard their privacy (e.g., Cullen, 1993; Milne & Gordon, 1993; Milne, 2000; Phelps, Novak, & Ferrell, 1999). It is therefore not surprising that policy makers, customers, and firms – those developing new technologies and those adopting them – are paying increasing attention to privacy issues.

In this chapter, we focus on the online setting, which requires a strong flow of information to operate effectively. Online retailing cannot function at all unless firms receive extremely sensitive customer information: names, street addresses, and credit card numbers among others. Furthermore, online transactions often do not involve goods and money being exchanged simultaneously. The spatial and temporal separation between customers and e-vendors, as well as the information asymmetry between the parties (Hee-Woomg, Xu, & Koh, 2004) means that customers do not truly know what an online firm will do with their personal information. As a consequence, a key question that concerns industry, academics, and policy makers alike is: How do online consumers respond to constant requests for information? A growing debate has emerged on how consumers protect themselves against privacy invasion threats and how they have consequently modified their online behavior. Customers' "protecting behaviors" (e.g., Milne & Boza, 1999; Sheehan

& Hoy, 2000; Raman & Pashupati, 2005) seem to be aimed at reducing the information they share with online firms.

Customers are reluctant to share their data, but firms prefer customers to use self-service technologies, such as the Web, as they lead to cost savings. E-commerce has enabled retailers to enter a foreign market at lower costs than required to open physical stores. Nevertheless, cost savings and international expansion are not the only reasons for retail companies to encourage the use of alternative electronic channels: they are also extremely flexible, allowing firms to optimize their marketing information mix to automatically suggest complementary products and to implement relationship-friendly tools, such as product comparison guides (Viswanathan, 2005). Furthermore, companies can use online channels to complete and complement their local brick-and-mortar business (Steinfeld, 2004). Therefore, a growing number of traditional retailers currently pursue multi-channel strategies (Müller-Lankenau, Wehmeyer, & Klein, 2005), as multi-channel shoppers have a higher purchase volume and are more profitable (Venkatesan, Kumar, & Ravishankar, 2007).

E-tailers will miss all the above-mentioned opportunities unless they find a way to increase customers' information sharing. This chapter's objective is to help companies achieve this by providing recommendations derived from the results of previous studies based on self-disclosure theories (Premazzi, et al., 2010a; Premazzi, Castaldo, Hofacker, & Grosso, 2010b). We specifically examine the effects that initial trust and compensation – two relevant antecedents of sharing information with (unknown) e-vendors – have on two different customer segments as revealed in an experimental research project. This research contributes to the literature development in several ways. First, this study not only investigates the main effects of the two key antecedents of information sharing, but also their interaction. This is relevant because, although trust and compensation have been identified within self-disclosure theories,

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