Investigating the Negative Impact of Personalized Marketing on Customer Retention among Gen Z Population

Tejas Rathod[1], Khwahish Chhablani[2], Janvi Gupta[3], Vinitha V[4]

[1,2,3,4]*Xavier Institute of Management & Entrepreneurship, Bengaluru - 560100*

*Abstract-***Personalized marketing has been the cornerstone of contemporary digital strategy, using high-end analytics and artificial intelligence to give targeted advertisements and communications. While this would ideally boost customer experience and deepen loyalty, it still faces certain challenges in the new generation that is known to be the most digitally native and keenly aware of privacy: Gen Z. This research examines whether the personalized marketing strategy, such as privacy invasion, information overload from over personalized content, and trust degradation, may harm the retention of these customers.**

Using a mixed-methods approach that integrates structured questionnaires with qualitative interviews, the present study explores how Gen Z perceives and interacts with personalized marketing strategies. It gives particular attention to the moderating effects of privacy sensitivity, digital engagement habits, and alignment with brand values. The findings provide insight into the balance between personalization and ethical marketing practices that focus on transparency and value-driven communication. This research will guide businesses in building long-term loyalty with Gen Z consumers.

*Index Terms***Gen Z, customer retention, marketing ethics, privacy sensitivity, targeted advertising.**

I. INTRODUCTION

The evolution of digital marketing, powered by Big Data and artificial intelligence, has enabled businesses to adopt more sophisticated strategies for consumer engagement. Among these, the most powerful tool is certainly personalized marketing, as a means of creating customer loyalty through experiences designed specifically for the individual. By analyzing behavioral data, marketers can curate content, recommend products, and deliver messages in alignment with individual preferences. The rise in ubiquity, however, has sparked debate regarding its ethical implications, especially about consumer privacy, autonomy, and trust.

Gen Z refers to people born between 1997 and 2012, thus creating a lot of opportunity but also presenting a challenge to marketers. Digital natives, they expect online experiences to be seamless, so their brands need to speak to their values. They prefer authenticity, inclusivity, and sustainability in the purchases they make. However, their heightened awareness of data collection practices and skepticism toward overt marketing efforts make them more critical of intrusive or excessive personalization. Missteps in personalized marketing can lead to mistrust, reduced brand loyalty, and even active disengagement.

This study investigates the intersection of personalized marketing and customer retention in the Gen Z demographic. It aims to understand the conditions under which personalization strengthens or undermines consumer relationships. By looking at variables like privacy sensitivity, engagement habits, and alignment with brand values, the research reveals some critical factors that impact Gen Z's perception of personalization. The study also encompasses the need for ethical marketing, where a model of personalization respects consumer agency while providing value-driven experiences.

Beyond examining these dynamics, this study puts forth a framework for optimizing personalized marketing strategies toward alignment with the expectations of Gen Z. In doing so, it aims to contribute to the general understanding of how businesses might respond to the changing expectations of this critical consumer segment in the digital age.

II. VARIABLES

A. Dependent Variable

1. Customer Retention

Customer retention is the primary outcome variable of this study as it will measure the sustainability of retaining Gen Z customers over a period of time. Such retention can be measured by some metrics, like repeat sales, customer lifetime value (CLV), loyalty programs participation, and churn rate. All such metrics altogether indicate how efficiently the strategies of personalized marketing ensure long-run engagement with the brand on the part of Gen Z consumers.

B. Independent Variable

1. Personalized Marketing

This variable includes the extent of customized marketing activities involved in engaging consumers through information-based insights. Specific characteristics include targeted advertisements, custom recommendations, and communication planning based on consumer data. The study explores how all these efforts may inadvertently lead to adverse outcomes, such as perceived privacy violations, content fatigue, and loss of consumer trust.

C. Moderating Variable

1. Gen Z Population

Specific to the Gen Z population, mediating or moderating variables for the relationship between personalization and customer retention include the following:

- Privacy Sensitivity:

Individual differences in concern regarding the collection and use of information among Gen Z can serve as a mediator or moderator. Those with higher levels of privacy concerns may see personalization as an invasion of privacy, thus enhancing its negative impact.

- Digital Engagement Habits:

The level of Gen Z's engagement with digital platforms, from heavy users to minimal engagement, impacts their sensitivity to personalization. Heavy users are likely to be more sensitive to marketing tactics, while less active users may respond differently to tailored strategies.

- Brand Values Alignment

The degree to which the personalization of a brand is in line with what Gen Z expects in authenticity, inclusivity, and ethics will determine their loyalty.

Misalignment will render personalization ineffective and likely lead to disengagement.

III. OBJECTIVES

A. Objective 1

Identify the negative impact of personalization marketing on customer retention among Gen Z.

This objective explores the negative impacts of personalization marketing strategies, which include:

1. Disengagement from irrelevant or repetitive ads

Over personalization can be frustrating to consumers and may cause them to disengage from interactions with the brand.

2. Perceptual distrust from excessive personal data collection

Overuse or abuse of personal information can inspire skepticism and lower trust with the brand.

3. Perceived undervaluing from misaligned personalization:

Poorly applied personalization that does not connect with individual tastes or beliefs can be seen as an indication of a lack of effort to really get to know the consumer.

B. Objective 2

Find how Gen Z-specific traits drive the relationship between personalizing marketing and customer retention.

This aim examines the generational traits of Gen Z and the influence on marketer outcomes. Specifically, consider the following two aspects

1. Sensitivity about privacy, data, and proper ethics

The role played by data that is processed ethically to gain trust from a group with high senses of privacy.

2. Habits of a digital native

Frequency and extent of exposure through digital use and influence this will have toward the view of personalized messaging and performance of the process.

3. Value alignment-driven loyalty

How the importance of aligning marketing efforts with Gen Z's preferences for sustainability, inclusivity, and authenticity relates to long-term customer retention.

IV. METHODOLOGY

A Survey Design

1. Survey Methodology

This research employed a structured survey tool to collect insights on personalization marketing experiences from the Gen Z respondents. It covered 18 variables which related to key issues including privacy concerns, engagement in personalized content, and brand loyalty. These variables have been selected to ensure the coverage of all the relevant factors determining customer retention in this age group. Respondents were recruited through online platforms to ensure diverse participation, targeting a mix of students and young professionals aged 18 to 26. This demographic range reflects the core of Gen Z and encompasses individuals with varying levels of digital engagement and purchasing power. The survey employed a 5-point Likert scale to measure respondents' attitudes, ranging from "Strongly Disagree" to "Strongly Agree," allowing for nuanced analysis of perceptions and behaviours.

2. Survey Focus Areas
The survey was built to target three major dimensions.
 1. Privacy Sensitivity:
Concern about data collection, storage, and usage in the marketing process.
 2. Digital Content Engagement:
Effectiveness and Relevance of Targeted Ads and Recommended Contents.
 3. Brand Loyalty
Measuring long-term consumer behaviors such as repeat purchase, word-of-mouth, and trust in brands through personalization marketing.

B. Statistical Tools
 1. KMO and Bartlett's Test

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's test of Sphericity was used as the tools for checking that whether the data were appropriate or not for factor analysis or not. Since the values of KMO measures were at more than 0.6, while the statistics for Bartlett's were highly significant.

 2. Factor Analysis
EFA was applied to determine the underlying components of the survey data. Six key components were extracted that explained *62.905% of* the total variance. These components represent important dimensions such as privacy sensitivity, perceived ad relevance, trust in personalization, and engagement with tailored content. The factor structure was used to group variables into coherent constructs, allowing for targeted analysis of their impact on customer retention.

 3. Regression Analysis

Multiple regression analysis was employed to analyse the relationship of the personalization marketing variables to customer retention. Predictor variables involved transparency, perceived ad relevance, and privacy sensitivity measures. This analysis identified the significant predictors, with an emphasis on the role of transparency as a factor in fostering trust, and the necessity for non-intrusive relevant ads.

V. RESULTS

A. KMO and Bartlett's Tests
The results of the KMO and Bartlett's tests confirmed the adequacy of the data for factor analysis:

• KMO Measure of Sampling Adequacy:
The KMO value of 0.663 indicates moderate adequacy, suggesting that the sample size and correlations among variables are suitable for identifying underlying factors.

• Bartlett's Test of Sphericity:
The Chi-square value *of 531.559 (p < 0.001)* confirms that the variables are sufficiently intercorrelated for conducting factor analysis.

B. Factor Analysis
Exploratory Factor Analysis (EFA) identified six distinct components, collectively explaining 62.905% of the total variance. This cumulative variance reflects the multi-dimensional nature of the factors influencing Gen Z's perceptions of personalized marketing.

Key Components and Factors:

Component	Variance (%)	Key Factors
1	20.091	Privacy sensitivity, ad overload
2	13.004	Trust in ethical practices
3	9.470	Perceived relevance

• Component 1 (Privacy Sensitivity, Ad Overload): This component highlights the centrality of privacy concerns and the negative effects of excessive targeted advertising.

• Component 2 (Trust in Ethical Practices): Trust in transparent and ethical marketing practices emerged as a significant dimension influencing consumer engagement.

• Component 3 (Perceived Relevance):

The alignment of personalized content with individual preferences was identified as a critical driver of engagement and loyalty.

C. Regression Analysis

Multiple regression analysis identified significant predictors of customer retention, emphasizing the interplay between personalization strategies and Gen Z's expectations.

a. Significant Predictors:

1. Transparency:
o Standardized Beta (β) = 0.404, p = 0.001
o Transparency had the strongest influence on customer retention. Respondents who perceived brands as transparent in their data collection and personalization practices were more likely to exhibit loyalty.

2. Ad Relevance:
o Standardized Beta (β) = 0.239, p = 0.012
o Relevant and meaningful advertising content positively impacted consumer loyalty, underscoring the importance of personalized messaging that aligns with user preferences.

b. Non-Significant Variable:

1. Frequency of Interaction:
o p = 0.774
o The analysis revealed that the frequency of interaction with digital platforms or personalized content did not significantly influence customer retention. This finding suggests that mere exposure is insufficient to foster loyalty without addressing deeper concerns such as trust and relevance.

VI. ANALYSIS AND INSIGHTS

1. Transparency and Ethical Practices Are Foundational

The regression analysis pointed out transparency as the most important predictor of customer retention at a significance level of 0.001, with β = 0.404. This shows Gen Z's desire for ethical data practices and open communication on how personal information is being collected and used.

o Implication:
Transparency builds trust, which is a critical factor for retaining Gen Z consumers. Brands that show ethical practices and ensure data privacy are likely to have a long-term relationship.

o Risks:

Brands that do not offer transparency or appear exploitative risk losing not only the individual customers but also the broader reputation since Gen Z is more likely to vocalize dissatisfaction on social platforms.

Ad relevance also emerged as a significant predictor (β = 0.239, p = 0.012), affirming the importance of delivering tailored marketing content that aligns with consumer preferences and values.

o Implication:
Personalized marketing is most effective when it resonates with the individual's preferences, habits, and values. Accurate targeting enhances the consumer experience and fosters loyalty.

o Risks:

Poorly executed personalizationsuch as irrelevant ads or excessive targetingcan lead to ad fatigue or perceptions of incompetence, ultimately driving disengagement.

2. Overexposure Without Value Adds No Benefit

The non-significance of frequency of interaction (p = 0.774) suggests that repeated exposure to personalized marketing content does not necessarily enhance customer retention.

o Implication:
Quality is more impactful than quantity. Bombarding Gen Z with frequent personalized ads without ensuring relevance or value can result in ad fatigue and desensitization.

o Risks:

Overexposure without meaningful content may backfire, causing consumers to associate the brand with annoyance rather than engagement.

3. Striking a Balance in Personalization

The factor analysis highlighted the significance of privacy sensitivity (20.091% variance) and trust in ethical practices (13.004% variance), emphasizing the need for a balanced approach to personalization.

o Implication:
Effective personalized marketing must respect privacy, ensure transparency, and align content with consumer expectations. A balanced strategy that avoids excessive targeting while maintaining relevance can create a positive consumer experience.

o Opportunities:
Brands that successfully strike this balance can position themselves as trustworthy and consumer-centric, gaining a competitive advantage in the market.

VII. DISCUSSION

We found a significant "privacy-personalization paradox" among Gen Z in our study. This generation desires personalization in content because it is relevant and convenient, yet they despise invasive marketing approaches. The consumers are perceived as untrusted and less valued if personalization is poorly done by being irrelevant or too frequent. The retention of the consumers goes down in this case. The marketers have to walk this tight rope to provide personalized content while keeping the privacy aspect intact.

A. Comparison to Existing Literature

1. Theoretical Alignment:

The findings of our study resonate with Kotras (2020), who explored the ethical dilemmas inherent in mass personalization. Kotras highlighted the risk of alienating consumers through personalization strategies that are perceived as exploitative, even when intended to enhance user experience. Our findings confirm that when personalization goes wrong, it leads to significant issues with customer trust and retention.

2. Empirical Validation:

In addition, our study supports Chandra et al. (2022), who emphasize the importance of transparency in fostering consumer trust. Our analysis showed that transparency was the strongest predictor of customer retention, validating the need for clear communication about how consumer data is used and collected.

B. Recommendations for Marketers

1. Transparency first

Clearly, from our study, transparency is what will make you not lose Gen Z customers. You must open up how you collect and use consumer data. This works to establish trust as well as ensure your audience feels valued. Be transparent with your policies regarding privacy, and provide consumers with control over the level of personalization they receive.

2. Don't make it about saturation but relevance

We learned that Gen Z is loyal to the content of relevant and meaningful brands, not to the frequency. Overloading them with irrelevant ads can be counterproductive. Instead, aim at delivering a high-quality, context-driven piece of content that is relevant to their interests and values. Such content will drive engagement and loyalty without overwhelming them.

3. Align with Their Values

Gen Z cares deeply about sustainability, inclusivity, and ethics. If the values of your brand are like theirs, they will definitely respond positively. Make sure that your campaigns reflect their priorities, such as supporting social causes or using sustainable materials. Authenticity is key: Don't just say your care, show it through your actions and business practices.

C. Broader Implications for Future Research

1. Longitudinal Studies

We think longitudinal studies would be highly valuable in understanding how Gen Z's perceptions of privacy and personalization evolve over time. As they move through different life stages, such as transitioning from students to professionals, their expectations and comfort levels with personalized marketing may shift. Tracking these changes could provide critical insights into how marketing strategies need to adapt as this generation matures.

2. Cross-Cultural Research

Given the global nature of Gen Z, it would be insightful to explore how cultural differences influence their responses to personalized marketing. For instance, consumer privacy concerns and preferences for personalization may vary across regions due to cultural attitudes towards data usage and trust. Research in diverse cultural contexts may provide a deeper understanding of how marketers should tailor their strategies to appeal to Gen Z worldwide.

3. Emerging Technologies

The rapid evolution of technologies, especially AI-driven personalization and privacy-preserving innovation like federated learning, needs to be put through scrutiny. These could represent technologies that bridge this gap between personalization concerns and privacy concerns, showing alternative, more ethical ways toward providing personalized content. Thereby, future research should aim at exploring how these emerging technologies help marketers better navigate the paradox while maintaining customer trust.

VIII. CONCLUSION

In conclusion, our study highlights the complexity of personalization in marketing to Gen Z. They value relevant and personalized content but expect brands to respect their privacy and be transparent about data use. Marketers who find a balance between these