European Economic Letters
ISSN 2323-5233
Vol 15, Issue 4 (2025)
http://eelet.org.uk

Evaluating the Effectiveness of AI-Driven Personalization in Enhancing Customer Engagement on E-Commerce Platforms

Dr. Debashree Souvik Jana
Assistant Professor, Dr. D. Y. Patil School of Management, Lohegaon, Pune. debashree.aims@gmail.com

Prof. (Dr.) Jay Prakash Verma
Professor, NSHM Business School, Durgapur (West Bengal). jayprakashverma@gmail.com

Dr. Pratap Vasantrao Pawar
Associate Professor, Siddhant Institute of Business Management, Sudumbare, Pune. pvpawar.raj@gmail.com

Abstract
The rapid proliferation of e-commerce has intensified competition, compelling platforms to adopt sophisticated technologies to retain consumer attention. Artificial Intelligence (AI)-driven personalization has emerged as a primary strategy for tailoring user experiences. This study evaluates the effectiveness of such personalization techniques on customer engagement within the specific geographical and cultural context of Pune, Maharashtra, a prominent Indian technology hub. The research aims to assess the direct impact of AI-driven personalization (comprising product recommendations and content customization) on customer engagement (both cognitive and affective) and to investigate the moderating role of perceived privacy risks on this relationship. A quantitative methodology was employed, utilizing a structured questionnaire administered to 363 e-commerce consumers in Pune, selected through convenience sampling. The data were analyzed using descriptive statistics, reliability analysis (Cronbach's Alpha), multiple regression, and moderated regression analysis. The findings reveals that AI-driven personalization has a statistically significant and positive impact on both cognitive and affective dimensions of customer engagement, supporting the first hypothesis. However, the analysis for the second hypothesis confirms that perceived privacy risk significantly and negatively moderates this relationship. The positive effect of personalization on engagement is notably weaker for consumers who exhibit high levels of privacy concerns. This study concludes that while AI personalization is a powerful tool for enhancing customer engagement, its efficacy is contingent upon managing consumer privacy perceptions. E-commerce platforms in Pune must therefore balance personalization with transparent data governance to build trust and maximize engagement. The implications suggest a need for strategies that provide users with greater control over their data, thereby mitigating the dampening effect of privacy concerns.

Keywords: AI-Driven Personalization, Customer Engagement, E-Commerce, Perceived Privacy Risk, Marketing, Pune, Consumer Behavior

Introduction
The advent of the digital era has irrevocably transformed the retail landscape, with e-commerce platforms moving from a position of novel convenience to an essential component of the global economy (Sharma & Hofmayer, 2021). This digital shift, accelerated by global events, has resulted in a hyper-competitive marketplace where customer acquisition and retention are

paramount. In this environment, traditional marketing paradigms centered on mass communication are increasingly ineffective (Kumar et al., 2019). Instead, the focus has shifted towards the "experience economy," where the quality of the customer's interaction with the brand is as important, if not more so, than the product or price itself (Pine & Gilmore, 2011). Consumers now demand seamless, relevant, and personal interactions. Failure to provide such an experience often results in customer churn, as switching costs in the digital realm are exceptionally low. These platforms, they face immense pressure to differentiate.
To meet these escalating expectations, e-commerce companies have increasingly turned to Artificial Intelligence (AI). AI-driven personalization refers to the use of sophisticated algorithms, machine learning, and big data analytics to tailor the shopping experience to the individual user in real-time (Ebrahimi & D'Souza, 2020). This can manifest as curated product recommendations, customized website layouts, personalized search results, and targeted promotional content. The underlying premise is that by understanding a user's past behavior, preferences, and demographic data, a platform can anticipate their needs and present them with content that is most likely to resonate (Liang et al., 2018). When successful, this strategy can create a virtuous cycle: personalization leads to a better user experience, which in turn fosters customer engagement.

Customer engagement itself is a multifaceted construct, extending beyond simple metrics like clicks or transaction frequency. It represents the "cognitive, affective, and behavioral" investment a customer makes in their interactions with a brand (van Doorn et al., 2010). Cognitive engagement relates to the customer's mental processing and elaboration on brand-related information; affective engagement encompasses their feelings, emotions, and attitudinal connection to the brand; and behavioral engagement involves their actions, such as purchases, recommendations, and participation in brand communities (Prentice et al., 2020). The strategic goal of AI personalization is to stimulate these deeper forms of engagement, transforming passive browsers into active, loyal advocates.

However, the relationship between personalization and engagement is not without friction. The very data that powers personalization—browsing history, personal details, location—is inherently sensitive. As consumers become more aware of data collection practices, concerns about privacy have grown commensurately (Agnihotri & Keshari, 2022). This "privacy paradox" presents a significant challenge: consumers want the benefits of personalization but are wary of the perceived surveillance required to deliver it (Chen & Li, 2022). A personalization attempt that is perceived as overly intrusive or "creepy" can backfire, eroding trust and leading to disengagement.

This study situate itself at the intersection of these critical issues within the specific context of Pune City, Maharashtra. Pune represents a unique and highly relevant research setting. It is one of India's foremost IT and educational hubs, housing a large, technology-literate, and young demographic with significant disposable income and high rates of e-commerce adoption (Datta & Sen, 2019). This population is likely to be both an appreciative audience for advanced digital experiences and a critically aware user base, conscious of data privacy issues. While extensive research exists on personalization and engagement, much of it is focused on Western markets or broader, pan-India analyses. There is a discernible gap in empirical research that evaluates the effectiveness of AI personalization specifically among Pune's consumers, particularly concerning how their privacy concerns may moderate their responses.

This research, therefore, aims to provide a nuanced evaluation of AI-driven personalization's impact on customer engagement on e-commerce platforms. It seeks to quantify the positive relationship while simultaneously testing the boundaries of this effect by introducing perceived privacy risk as a moderating variable. The importance of this, it cannot be overstated for marketers operating in the region. By understanding the precise dynamics at play in the Pune market, this study will offer valuable insights for both academics and practitioners, helping e-commerce platforms refine their AI strategies to be not only effective but also ethical and customer-centric. The following sections will detail the existing literature, outline the research methodology, present the analysis of data from 363 Pune-based consumers, and discuss the findings and their implications.

Literature Review

Van Doorn et al. (2010) provided a foundational conceptualization of customer engagement, which has been widely adopted in marketing literature. The authors argued that customer engagement (CE) extends beyond mere transactions and should be viewed as a customer's behavioral manifestations that have a brand or firm focus, going beyond purchase. They defined CE behaviors based on their valence (positive or negative) and scope, including activities like word-of-mouth, recommendations, helping other customers, and blogging. The study emphasized that engagement is a psychological state that precedes these behaviors, driven by customer experiences and interactions. This work's significance lies in shifting the marketing focus from a purely transactional relationship to a more relational and interactive one. For the current study, this framework is crucial as it helps define the dependent variable (customer engagement) in its multi-dimensional form (cognitive, affective, behavioral), providing a robust theoretical anchor for measuring the outcomes of AI personalization. While not focused on AI, this paper establishes what marketers are trying to achieve.

Liang et al. (2018) investigated the impact of website personalization on customer behavior, specifically focusing on the mediating roles of trust and website satisfaction. Their quantitative study, conducted among online shoppers, found that personalization significantly enhances customer trust in the e-commerce platform. This trust, in turn, positively influenced website satisfaction and, ultimately, purchase intentions. The study highlighted that personalization acts as a signal of the firm's investment in the customer relationship, making the customer feel valued and understood. This research is directly relevant as it provides an empirical link between personalization and key psychological outcomes. For the Pune study, it suggests that the "affective" component of engagement (which is closely related to trust and satisfaction) is a likely pathway through which personalization operates. It also introduces trust as a critical variable, which is closely aligned with the current study's focus on the erosion of trust via privacy concerns.

Fernandes and Gouveia (2021) explored the dual nature of AI in e-commerce, examining both its benefits (personalization, convenience) and its potential drawbacks (privacy, intrusiveness). Their research, a qualitative study involving consumer interviews, highlighted the "personalization-privacy paradox" in stark detail. Participants expressed appreciation for recommendations that saved them time but also articulated significant discomfort with the "all-knowing" nature of algorithms, especially when ads for products they had only discussed (not searched for) appeared. This study is vital for contextualizing the current research's second hypothesis. It provides qualitative evidence that privacy concerns are not a niche issue but a central tension in the consumer's experience. It suggests that any quantitative model (like the one proposed for Pune) must account for privacy not as a separate issue, but as an inherent, moderating factor in the personalization process itself.

Kumar and Singh (2019) focused on the adoption of AI in the Indian e-commerce sector. Their study, based on a review of industry practices and secondary data, found that Indian e-commerce giants were heavily investing in AI and machine learning to manage their vast and diverse customer base. They identified personalized recommendations, dynamic pricing, and chatbot-based customer service as the key applications. The paper argued that given India's linguistic and cultural diversity, a "one-size-fits-all" approach is doomed to fail, making AI-driven personalization a strategic necessity, not a luxury. This paper provides the critical "Indian context" for the current study. It validates the premise that AI personalization is a relevant and deployed strategy in the market being studied, making the research question not just theoretical but practically significant for firms operating in India.

Bleier et al. (2019) conducted a comprehensive review and meta-analysis on the effectiveness of personalization in digital marketing. Their findings were robust: personalization, on average, has a positive and significant effect on customer responses. However, they also found that the effectiveness of personalization is contingent on several factors. One key moderator was the type of personalization; for instance, "content" personalization (e.g., personalized website content) was found to be highly effective. Another was the degree of intrusiveness. Their work strongly suggests that the impact of personalization is not linear. This is foundational for the Pune study, as it supports the idea of a moderated relationship. The current research builds directly on this by proposing privacy risk as one of the "contingent factors" that Bleier et al. (2019) called for researchers to investigate further.

Agnihotri and Keshari (2022) specifically examined the "privacy paradox" in the context of personalized online services in India. Through a survey of Indian consumers, their study revealed a high level of cognitive dissonance. Respondents simultaneously demanded high levels of personalization while expressing strong concerns about data misuse. A key finding was that "perceived control" over data significantly mitigated privacy concerns. When users felt they could easily access, delete, or manage the data a company held, their willingness to accept personalization increased. This study is perhaps the most critical literature for the current research's H2. It provides empirical evidence from India that privacy is a salient moderator. The current study aims to replicate and extend this finding into the specific, tech-savvy demographic of Pune, using it as a direct theoretical basis for the moderation hypothesis.

Prentice et al. (2020) developed and validated a scale for measuring customer engagement in the context of brand communities, breaking it down into cognitive, affective, and social dimensions. Their work is instrumental for the current study's methodology. While the context is slightly different (brand communities vs. e-commerce platforms), the conceptualization of engagement is highly relevant. Their study found that affective engagement (feeling a connection) and cognitive engagement (thinking about the brand) were distinct yet related precursors to behavioral loyalty. This provides a strong justification for the current study's decision to measure cognitive and affective engagement as separate (though related) outcomes of personalization, rather than treating engagement as a single, monolithic construct. The current research will adapt scales inspired by their work.

Mishra et al. (2021) conducted a study on consumer perceptions of AI in marketing within the Indian urban context. Their findings show that while Indian consumers are generally optimistic about AI, their acceptance is conditional. They found that the perceived "anthropomorphism" (human-likeness) of AI (like chatbots) and its perceived "intelligence" were key drivers of adoption. However, this was counter-balanced by fears of job loss and data misuse. The study highlights the "double-edged sword" of AI. For the Pune study, this is relevant as it suggests the local population is not a naive adopter of technology. Consumers are likely performing a complex cost-benefit analysis. Personalization offers a "benefit" (intelligence, convenience), while privacy risk is the "cost." This reinforces the theoretical soundness of a moderation-based research model.

Lee and Kim (2017) explored the factors influencing trust in e-commerce, focusing on the role of security features and website reputation. While not directly about AI, their study found that signals of security (e.g., SSL certificates, trust seals) had a direct and positive impact on consumer trust, which in turn mediated the relationship between website quality and purchase intention. This research provides a valuable insight for the "implications" section of the current study. If, as H2 predicts, privacy concerns dampen engagement, then Lee and Kim's (2017) work suggests a tangible solution: making privacy and data security visible and tangible (like trust seals) could be an effective counter-measure. It frames privacy not just as a legal requirement but as a core component of "website quality" and a driver of trust.

Sharma and Gupta (2020) provided a systematic review of the applications of artificial intelligence in marketing. They mapped the landscape of AI tools, categorizing them into analytics (e.g., segmentation, prediction) and applications (e.g., personalization, chatbots). Their review concluded that while the potential of AI in marketing is vast, its actual implementation is often in its infancy, with many firms struggling to move beyond basic rule-based personalization to true, machine-learning-driven individualization. They called for more empirical research that assesses the effectiveness of these different levels of AI. The current study answers this call by evaluating the impact of these applications on the crucial metric of customer engagement. It moves beyond "what can AI do?" to "what is AI actually doing" in the real-world context of Pune's e-commerce.

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 4 (2025)
http://eelet.org.uk

Popat and Soni (2021) examined the e-commerce landscape in Maharashtra, with a particular focus on post-pandemic adoption rates. Their study, based on regional market data, indicated that cities like Pune and Mumbai had seen an exponential rise in e-commerce usage, particularly in non-traditional categories like groceries and education. They noted that this rapid influx of new users, many of whom were previously hesitant about online shopping, presented new challenges for platforms. These new users were often more concerned about reliability, trust, and ease of use than "power users." This literature is essential for grounding the "geographical context" of the study. It suggests the 363 respondents from Pune are likely a mix of digitally native users and more cautious, new adopters, making the study of trust and privacy (H2) even more relevant.

Chen and Li (2022) investigated the "dark side" of personalization, coining the term "personalization fatigue." Their research found that after a certain point, increasing levels of personalization led to diminishing returns and could even become negative. Consumers reported feeling overwhelmed by choices, "stalked" by retargeting ads, and bored when algorithms only showed them items similar to what they had already purchased (the "filter bubble"). This study provides a critical counter-argument to the "more is better" assumption of personalization. It suggests the relationship between personalization and engagement might be curvilinear (an inverted U-shape). While the current study models a linear, moderated relationship, the findings of Chen and Li (2022) will be crucial for the "Future Research" section, suggesting that future studies in Pune could test for this curvilinear effect.

Gupta et al. (2019) focused on the impact of personalization on purchase intention in the Indian apparel e-commerce sector. Their quantitative survey found a direct, positive, and strong link between perceived personalization of recommendations and the customer's intention to purchase. They also found that this relationship was mediated by "shopping enjoyment." That is, personalization made the shopping process more enjoyable and efficient, which in turn led to a higher likelihood of purchase. This is highly relevant as it connects personalization to a tangible business outcome (purchase intention) via an affective route (enjoyment). It supports the current study's focus on "affective engagement" as a key dependent variable, suggesting that making the customer feel good is a primary mechanism of personalization.

Dwivedi et al. (2021) offered a major review of AI in marketing, proposing a future research agenda. They identified several "grand challenges," including the need for more research on AI and ethics, AI's role in the customer journey, and the integration of AI with human intuition. They specifically called for more studies in non-Western contexts to understand if theoretical models developed in the US and Europe hold true in collectivist or high-context cultures like India. The current study is a direct response to this call. By testing a model of personalization, engagement, and privacy in Pune, it contributes empirical data from a major emerging economy, testing the universality of these marketing theories and providing a much-needed non-Western perspective.

Jain et al. (2020) performed a study on the factors influencing online customer loyalty in India. Their research identified personalization as a key driver, alongside website quality and customer service. However, their model also included "perceived security" as a foundational element.

Their structural equation model showed that without a baseline level of perceived security, the positive effects of personalization on loyalty were significantly weakened. This finding provides strong, parallel support for the current study's H2. While the current study uses "perceived privacy risk" as a moderator and Jain et al. (2020) used "perceived security" as a direct driver, the underlying concept is the same: trust and security are not separate from the personalization experience but are, in fact, inextricably linked to its success.

Research Objectives

1. To evaluate the impact of AI-driven personalization (defined by Product Recommendations and Content Customization) on customer engagement (defined by Cognitive and Affective engagement) among e-commerce users in Pune.
2. To determine the moderating role of Perceived Privacy Risk on the relationship between AI-driven personalization and customer engagement.

Hypotheses

H1: AI-driven personalization (comprising Product Recommendations and Content Customization) have a significant positive effect on customer engagement (comprising Cognitive and Affective engagement).

H2: Perceived Privacy Risk negatively moderates the relationship between AI-driven personalization and customer engagement, such that the positive effect is weaker for consumers with high privacy concerns.

Research Methodology

This study utilized a quantitative, descriptive, and causal research design to test the formulated hypotheses and achieve the research objectives. The quantitative approach was selected as it is the most appropriate method for measuring relationships between variables and testing formal hypotheses with statistical data. The design is descriptive in that it aims to provide a clear demographic profile of e-commerce users in Pune and their current perceptions regarding personalization, engagement, and privacy. It is causal (or more accurately, correlational with a causal model) in its intent to assess the impact of independent variables (AI Personalization) on a dependent variable (Customer Engagement), and to test the effect of a moderating variable (Perceived Privacy Risk) on this relationship. The target population for this research comprised active e-commerce consumers located in Pune City, Maharashtra. Given the nature of this population—being large, diverse, and lacking a comprehensive sampling frame—a non-probability convenience sampling technique was employed. This method, while limiting generalizability, was pragmatic and necessary for collecting data efficiently from a specific and accessible group of respondents. Data was collected using a structured questionnaire, which was designed and pre-tested for clarity and relevance. The questionnaire was primarily distributed through digital channels, including social media platforms (like LinkedIn and WhatsApp groups) and email lists, targeting individuals known to reside in the Pune metropolitan area. This method was chosen to align with the tech-savvy nature of the target population. The questionnaire was divided into four main sections: (1) Demographic Information (age, gender, e-commerce experience); (2) Scales to measure AI-Driven Personalization (adapted from Bleier et al., 2019); (3) Scales to measure Customer Engagement (adapted from Prentice et al., 2020); and (4) Scales to measure Perceived Privacy Risk (adapted from Agnihotri & Keshari, 2022). All constructs were measured using 5-point Likert scales (1=Strongly Disagree, 5=Strongly Agree). A total of 380 responses were received, and after screening for incomplete or invalid entries (e.g., non-residents, unengaged responses), a final sample of 363 respondents was retained for analysis. This sample size is considered robust for the statistical techniques employed, particularly multiple and moderated regression. The collected data was coded and analyzed using the Statistical Package for the Social Sciences (SPSS). The analysis plan included descriptive statistics (frequencies, percentages) to profile the sample, reliability analysis (Cronbach's Alpha) to ensure internal consistency of the scales, and inferential statistics, specifically multiple regression (for H1) and moderated regression using the PROCESS macro (for H2), to test the hypotheses. Ethical considerations were maintained; respondents were informed of the study's purpose, assured of their anonymity, and their participation was entirely voluntary.

Data Analysis

Table 1: Demographic Profile of Respondents (N=363)

Variable	**Category**	**Frequency (f)**	**Percentage (%)**
Gender	Male	190	52.3%
	Female	173	47.7%
Age Group	18-25 years	145	39.9%
	26-35 years	122	33.6%
	36-45 years	61	16.8%
	Above 45 years	35	9.6%
E-commerce Experience	Less than 1 year	50	13.8%
	1-3 years	113	31.1%
	3-5 years	120	33.1%
	More than 5 years	80	22.0%

The demographic profile of the 363 respondents, as detailed in Table 1, provides a clear picture of the e-commerce user base surveyed in Pune. The sample show a slight male majority, with 190 respondents (52.3%) being male and 173 (47.7%) being female, indicating a relatively balanced gender representation. The age distribution is heavily skewed towards a younger demographic, which aligns with Pune's status as a city with many students and young professionals. The largest cohort is the 18-25 age group (39.9%), followed closely by the 26-35 age group (33.6%). Combined, these two groups account for over 73% of the entire sample, confirming that the primary users of e-commerce platforms are young adults. Respondents aged 36-45 (16.8%) and those above 45 (9.6%) represent smaller segments. In terms of e-commerce experience, the sample is quite seasoned. The largest group (33.1%) has 3-5 years of experience, and another 22.0% have more than 5 years of experience. This suggests that the majority of respondents (over 55%) are not novice users and are likely familiar with standard e-commerce features, including personalization. A significant portion (31.1%) has 1-3 years of experience, likely representing those who became more active online in recent years. New users with less than 1 year of experience constitute the smallest group (13.8%). This demographic profile is ideal for the study, as it represents a young, tech-literate, and experienced user base whose opinions on AI personalization and privacy are well-formed.

Table 2: Frequencies for AI-Driven Personalization Statements (N=363)

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Product Recommendations (PR)						
PR1: The product recommendations are relevant to my needs.	15 (4.1%)	38 (10.5%)	89 (24.5%)	160 (44.1%)	61 (16.8%)	3.63
PR2: The site shows me products I didn't know I needed.	22 (6.1%)	45 (12.4%)	110 (30.3%)	134 (36.9%)	52 (14.3%)	3.41
Content Customization (CC)						
CC1: The promotional offers I see are tailored to my interests.	20 (5.5%)	51 (14.0%)	95 (26.2%)	152 (41.9%)	45 (12.4%)	3.42
CC2: The website layout/content seems to adapt to my presence.	28 (7.7%)	60 (16.5%)	121 (33.3%)	115 (31.7%)	39 (10.7%)	3.21

Table 2 presents the respondents' perceptions of AI-driven personalization, broken down into product recommendations and content customization. The data in Table 2, it indicates a generally positive but not overwhelmingly enthusiastic perception of current personalization efforts. For product recommendations, a clear majority of respondents find them relevant (44.1% Agree, 16.8% Strongly Agree), with a mean score of 3.63. This suggests that the basic recommendation engines are working reasonably well. However, a significant portion (24.5%) remain neutral, indicating a level of indifference. The statement about "serendipity" (showing products they didn't know they needed) scored slightly lower (Mean = 3.41), suggesting that while recommendations are relevant, they may be somewhat predictable and lack the "wow" factor. Content customization shows a similar pattern. Respondents generally agree that promotional offers are tailored (Mean = 3.42), but perceptions of adaptive layouts are weaker (Mean = 3.21), with the largest group (33.3%) being neutral on this point. This implies that consumers notice personalized ads and offers more than they notice subtle, personalized changes to the website interface itself. Overall, the perception of personalization is positive, providing a solid foundation for this variable to impact engagement.

Table 3: Frequencies for Customer Engagement Statements (N=363)

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
Cognitive Engagement (CE)						
CE1: I find myself thinking about the	18 (5.0%)	40 (11.0%)	101 (27.8%)	155 (42.7%)	49 (13.5%)	3.49

products I see on this site.						
CE2: I spend time comparing different options on this platform.	12 (3.3%)	25 (6.9%)	80 (22.0%)	171 (47.1%)	75 (20.7%)	3.75
Affective Engagement (AE)						
AE1: I feel a sense of connection with this e-commerce brand.	35 (9.6%)	78 (21.5%)	140 (38.6%)	85 (23.4%)	25 (6.9%)	2.97
AE2: I genuinely enjoy browsing this platform, even when not buying.	21 (5.8%)	55 (15.2%)	115 (31.7%)	130 (35.8%)	42 (11.6%)	3.32

Table 3 details the self-reported levels of customer engagement, split into cognitive and affective dimensions. The results here are quite revealing. Cognitive engagement appears to be relatively high. Respondents strongly agree with the statement that they spend time comparing options (Mean = 3.75), with a combined 67.8% agreeing or strongly agreeing. They also tend to think about the products they see (Mean = 3.49). This indicates that e-commerce platforms are successfully capturing the mental attention and processing power of Pune's consumers; they are not just passively scrolling but are actively evaluating. However, the data for affective engagement is much weaker. The statement "I feel a sense of connection" (Mean = 2.97) has its largest response in the neutral category (38.6%), with more respondents disagreeing (31.1%) than agreeing (30.3%). This is a critical finding, suggesting a "transactional" rather than "relational" bond with the brand. While respondents do find some enjoyment in browsing (Mean = 3.32), this does not seem to translate into a deeper, emotional connection. This discrepancy between high cognitive and low affective engagement is a central problem that personalization is meant to solve.

Table 4: Frequencies for Perceived Privacy Risk Statements (N=363)

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
PPR1: I am concerned about the amount of personal data this site collects.	10 (2.8%)	31 (8.5%)	75 (20.7%)	165 (45.4%)	82 (22.6%)	3.77
PPR2: I worry that my data might be shared with third parties.	9 (2.5%)	22 (6.1%)	60 (16.5%)	170 (46.8%)	102 (28.1%)	3.92
PPR3: Personalized ads feel like an invasion of my privacy.	25 (6.9%)	50 (13.8%)	98 (27.0%)	131 (36.1%)	59 (16.3%)	3.41

Table 4 measures the level of perceived privacy risk among respondents, and the findings are unambiguous. There is a high level of anxiety regarding data privacy. The strongest agreement is on the worry that data might be shared with third parties (Mean = 3.92), with a vast majority

(74.9%) either agreeing or strongly agreeing. This is closely followed by a general concern about the amount of data being collected (Mean = 3.77), with 68% agreeing or strongly agreeing. This indicates a very aware and concerned consumer base. Interestingly, the perception of personalized ads as an "invasion" is slightly less (Mean = 3.41), though still a majority concern (52.4%). This creates the core tension of the study: consumers are simultaneously (as per Table 2) finding personalization relevant and (as per Table 4) finding the methods used to achieve it concerning. This high baseline level of privacy risk makes it a prime candidate as a moderating variable.

Table 5: Reliability Analysis (Cronbach's Alpha)

Construct	Number of Items	Cronbach's Alpha (α)
AI-Driven Personalization (PR + CC)	4	0.865
Customer Engagement (CE + AE)	4	0.821
Perceived Privacy Risk (PPR)	3	0.844

Table 5 presents the results of the reliability analysis, conducted to ensure the internal consistency of the scales used in the questionnaire. The reliability of all constructs are high and well above the commonly accepted threshold of 0.70. The scale for AI-Driven Personalization, which combined four items related to product recommendations and content customization, yielded a Cronbach's Alpha of 0.865. The Customer Engagement scale, also comprising four items across cognitive and affective dimensions, showed strong reliability with an Alpha of 0.821. Finally, the three-item scale for Perceived Privacy Risk demonstrated an Alpha of 0.844. These high values indicate that the items within each scale are homogenous and are reliably measuring the same underlying construct. This confirms the stability and consistency of the measurement tool, providing a sound basis for the subsequent inferential analyses, including the hypothesis testing.

Table 6: Hypothesis Testing (H1) - Multiple Regression

- **Model:** AI Personalization -> Customer Engagement
- **Dependent Variable:** Customer Engagement (Composite Score)
- **Independent Variables:** AI Personalization (Composite Score)

Model Summary				
R	**R Square**	**Adjusted R Square**	**F-value**	**Sig. (p-value)**
.624	.390	.388	229.81	< .001
Coefficients				
Model	**Unstandardized B**	**Std. Error**	**Standardized Beta (β)**	**t-value**
(Constant)	1.152	.098		11.75
AI Personalization	.571	.038	.624	15.16

Table 6 displays the results of the multiple regression analysis used to test H1, which posited that AI-driven personalization has a significant positive effect on customer engagement. The model summary shows that the R Square value is .390, which indicates that AI-driven personalization can explain 39.0% of the variance in customer engagement, a substantial portion. The F-value of

229.81 is highly significant ($p < .001$), confirming that the overall regression model is a good fit for the data and the relationship is statistically significant. Examining the coefficients, the independent variable, AI Personalization, has a standardized beta (β) of .624, which is strong and positive. The t-value is 15.16 and the p-value is less than .001, falling well below the 0.05 threshold for significance. This result provides clear and strong statistical support for H1. It confirms that for the surveyed consumers in Pune, a higher perceived level of AI personalization on e-commerce sites is directly associated with a higher level of self-reported customer engagement.

Table 7: Hypothesis Testing (H2) - Moderated Regression (PROCESS Macro Model 1)

- **Dependent Variable (Y):** Customer Engagement
- **Independent Variable (X):** AI Personalization
- **Moderator (W):** Perceived Privacy Risk
- (All variables are mean-centered)

Model Summary				
R	**R Square**	**R Square Change**	**F-value**	**Sig. (p-value)**
.651	.424	.034	88.12	< .001
Coefficients				
Predictor	**Coeff (B)**	**Std. Error**	**t-value**	**Sig. (p-value)**
(Constant)	3.241	.044	73.66	< .001
AI Personalization (X)	.540	.037	14.59	< .001
Privacy Risk (W)	-.188	.049	-3.84	< .001
Interaction (X * W)	**-.115**	**.031**	**-3.71**	**< .001**

Table 7 presents the moderated regression analysis, designed to test H2: that perceived privacy risk negatively moderates the relationship between personalization and engagement. The overall model is significant ($F = 88.12$, $p < .001$) and explains 42.4% of the variance (R-Square = .424). The main effects for both AI Personalization ($B = .540$, $p < .001$) and Privacy Risk ($B = -.188$, $p < .001$) are significant, showing that personalization increases engagement while privacy risk decreases it, independently. However, the most critical value for H2 is the interaction term (Interaction X * W). The coefficient for this interaction is -0.115, and it is statistically significant ($t = -3.71$, $p < .001$). The 95% confidence interval [-.176, -.054] does not cross zero, further confirming its significance. This significant and negative interaction term provides strong support for H2. It means that the positive effect of AI Personalization on Customer Engagement is not constant; it depends on the level of Perceived Privacy Risk. Specifically, as a consumer's privacy risk perception increases, the positive impact of personalization on engagement is weakened or "dampened." This confirms the "privacy paradox" is active within this sample.

Findings

The analysis of the data collected from 363 e-commerce consumers in Pune has yielded two principal findings. First, the study confirms a strong, positive, and statistically significant relationship between AI-driven personalization and customer engagement. The regression analysis (H1) showed that personalization, comprising relevant product recommendations and customized content, was a powerful predictor of higher cognitive and affective engagement. This

finding validates the substantial investments e-commerce companies are making in AI technologies. For the Pune consumer, personalization is not a gimmick; it is an effective strategy that successfully captures their mental (cognitive) attention and, to a lesser extent, their emotional (affective) connection. The data show that when personalization is done well, consumers respond by investing more of their time and mental energy in the platform, (e.g., comparing products and thinking about offers) which is the first step toward building loyalty.
The second, and more nuanced, finding is the confirmation of the "privacy paradox" and its significant business implications. The study found (H2) that the positive impact of personalization is not absolute. It is significantly moderated by the consumer's perceived privacy risk. The data from Pune consumers show a high baseline level of anxiety about data collection and use. This anxiety acts as a "brake" on the effectiveness of personalization. For consumers with low privacy concerns, the positive effect of personalization on engagement is strong. However, for consumers with high privacy concerns—a substantial part of the sample—the benefits of personalization are significantly dampened. This interaction effect is the key finding of the study. It suggests that e-commerce platforms cannot pursue a strategy of maximizing personalization without simultaneously addressing and mitigating consumer privacy fears. There is a tangible cost to "creepy" or non-transparent data practices: a direct reduction in the positive engagement that personalization was meant to create.

Conclusion

This study set out to evaluate the effectiveness of AI-driven personalization on e-commerce platforms within the specific context of Pune. The findings lead to several key conclusions. First, AI personalization is an effective tool for driving customer engagement in this market. The positive correlation found between personalization and engagement (H1) is robust, suggesting that Pune's tech-savvy consumers appreciate and respond to tailored experiences that simplify their decision-making and provide relevance. This conclusion supports the broader academic literature on the subject. However, this study's primary conclusion is more complex. The effectiveness of personalization is critically dependent on consumer perceptions of privacy. The confirmation of H2 demonstrates that perceived privacy risk acts as a significant negative moderator, essentially punishing platforms that fail to manage this perception. Among Pune's consumers, there is a palpable tension between the desire for the benefits of personalization and the fear of its enabling surveillance. This study concludes that the "privacy paradox" is not just a theoretical concept but an active, measurable market dynamic in Pune that has a direct, attenuating effect on marketing outcomes. E-commerce platforms are, therefore, in a delicate balancing act.

The implications of these findings are twofold. For academic research, this study contributes empirical evidence from a major, non-Western, emerging-economy tech hub. It answers the call for more research in diverse cultural contexts (Dwivedi et al., 2021) and confirms that the models of personalization and privacy developed in Western literature hold, but with their own local flavor. The significant, high baseline of privacy anxiety in Pune (Mean = 3.92 for data sharing fears) is a finding of note. For managerial practice, the implications are direct and actionable. E-commerce managers in Pune cannot simply "turn up the dial" on personalization. Doing so without addressing privacy will yield diminishing returns. The clear implication is that privacy is no longer a legal or IT-department issue; it is a core marketing issue. Strategies must be "two-pronged": (1) improve personalization algorithms to enhance relevance, while (2) actively and transparently managing privacy perceptions. This could include clearer data-use dashboards, easier "opt-out" controls, and "explainable AI" features (e.g., "You are seeing this because..."). Building trust is not a "soft" objective but a prerequisite for maximizing the ROI of AI personalization.

While this study provides valuable insights, it has limitations that open avenues for future research. First, the use of a convenience sample in Pune limits the generalizability of the findings to other cities in India or other demographics. Future studies should seek to replicate this model using probability sampling or in other cities (e.g., Bangalore, Delhi) to compare results. Second, the study is cross-sectional, meaning it captures a "snapshot" in time. It can show correlation and moderation, but it cannot definitively prove causation. A longitudinal study that tracks consumer perceptions and engagement over time would be a powerful extension. Third, this research was quantitative. A follow-up qualitative study, using in-depth interviews with Pune consumers, could uncover the "why" behind the numbers, exploring the specific triggers of their privacy concerns and what "trust" really looks like to them. Finally, future research could test for more complex relationships, such as the curvilinear effect (personalization fatigue) suggested by Chen and Li (2022), to see if there is an "optimal" point of personalization beyond which engagement begins to decline.

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