



The Benefit-Risk Trade-Off in consumers' decision to opt-in Location-Based Advertising

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Introduction

Location-based advertising (LBA) is one of the ultimate marketing tools, reporting a 71% adoption rate among U.S. retailers (Williams, 2018). Unlike traditional mobile advertising that sends mobile ads to the general public via SMS/MMS, pop-ups, or mobile apps, LBA delivers mobile ads to geographically targeted customers who are within a certain radius from the store, which offers a greater conversion potential. Because of the localization feature of the LBA, retailers can utilize diverse marketing tactics to tailor the content of the mobile ad, based on customers' demographic information, recent purchases, search data, or items under a wishlist/cart saved in their personal accounts (Andrews, Goehring, Hui, Pancras, & Thornswood, 2016; Hoffmann, 2014). Further, LBA can create consumer value by enabling seamless channel integrations, such as online/mobile order pick up, order-online-return-in-store, and scan-and-go. Moreover, offline retailers, who are struggling with a volatile retail environment and the advent of giant online retailers, can take advantages of LBA by improving not only store traffic and sales volume but also customers' in-store experiences and customer relationship management (Andrews et al., 2016).

Despite the potential benefits of LBA to consumers, not all consumers opt-in to receive LBA messages due to their perceived risks. Individual consumers' perceived benefit-risk trade-off leads to their decision to opt in/out with regard to receiving LBA messages. However, little research has delved into this mental trade-off occurring in consumers' minds and what LBA factors may contribute to it. Many previous studies have investigated values and motivations that intrigue customers' attitudes or behavioral intention toward general mobile marketing (Andrew, Drennan, & Russell-Bennett, 2012; Bacile, Ye, & Swilley, 2014; Chan & Chong, 2013), but surprisingly few studies have identified the benefits and risks consumers perceive of receiving LBA messages and how these benefits and risks trade-off in the consumers' mind to lead to their opt-in/out decision. To address this gap, we propose a conceptual model that identifies the types of benefits and risks consumers may trade-off to form their LBA opt-in/out decision and the intrinsic attributes of LBA that may give rise to consumers' perceptions of these benefits and risks. The model also proposes consumer characteristics that may moderate the benefit-risk trade-off.

Literature and Propositions

The major tenets of LBA include its intrinsic ability to tailor advertising messages to the customer's location-, time-, and individual-specific needs, which we refer to as LBA's localization, timeliness, and personalization, respectively (Feng, Fu, & Qin, 2016). The level of performance of an LBA application in each of these intrinsic attributes is expected to drive consumers' perceptions of the benefits and risks of the LBA application.

According to the use and gratification theory, consumers' needs motivate their use of media (Katz, Blumler, & Gurevitch, 1973). Given this theory, we propose that *consumers are likely to perceive an LBA application to be beneficial to them to the extent that they think the application can deliver them ad messages that match their locality and personal interests in a timely manner to meet their needs* (Proposition 1). The benefits consumers perceive from these LBA intrinsic attributes may be multi-faceted including such dimensions as informativeness, entertainment, and sociality (Andrew et al., 2012; Bauer, Barnes, Reichardt, & Neumann, 2005; Chang, 2015).

On the other hand, *the very localization, timeliness, and personalization attributes of LBA also may make consumers feel vulnerable, leading to perceived risks* (Proposition 2). Consumers' personal information, such as location, personal online/mobile account setting, demographics, past transactions, bank/credit card information, and/or social media activity or networks, is utilized by retailers to execute these intrinsic attributes (i.e., timely delivery of location- and individual-specific ads). Thus, consumers may perceive security and financial risks associated with retailers' potential misuse of their personal information and convenience risk associated with potential interruptions by unsolicited LBA message notifications (Andrews et al., 2016; Bansal & Gefen, 2010 ; Shankar & Balasubramanian, 2009).

Consumers' perceived benefits of receiving LBA messages are likely to positively influence their decision to opt in LBA (Proposition 3) (Muk, 2007), whereas *their perceived risks associated with receiving LBA messages are likely to negatively influence their decision to opt in LBA* (Proposition 4) (Shin & Lin, 2016). Therefore, consumers' decision to opt in or out LBA will depend on their mental trade-off between the perceived benefits and risks. Further, *this trade-off calculation may vary across consumers depending on their characteristics* (Proposition 5). For example, more innovative consumers may weigh the benefits more highly than the risks (Gao, Rohm, Sultan, & Huang, 2012; Liu & Zhao, 2015). Consumers' attitudes toward risk (e.g., risk aversion and risk acceptance tendencies) may also affect how much they weigh the risks of LBA relative to its benefits (Bao, Zhou, & Su, 2003; Gao et al., 2012). The constructs and propositions discussed in this paper are visually depicted in Figure 1.

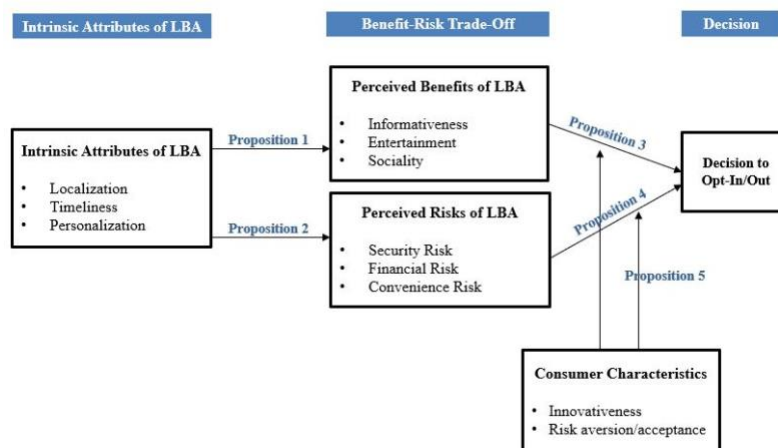


Figure 1. A benefit-risk trade-off model of LBA opt-in/out decision by consumers

Implications

This paper proposes a unique perspective of consumer decision-making toward LBA based on the benefit-risk trade-off. The proposed framework also enlightens the linkages between intrinsic attributes of LBA that lead to consumers' perceptions of benefits and risks, which offers a perspective to understand potential sources of consumer perceptions with regard to LBA. Research is recommended to examine part or whole of the proposed constructs and propositions to generate empirical insights to understand LBA from consumer perspectives.

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