

Artificial Intelligence in Consumer Decision-Making: A Review of AI-Driven Personalization and Its Managerial Implications

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Abstract

Artificial intelligence (AI) inclusion into consumer decision-making procedures has changed how companies interact with and impact their consumers. The function of personalization driven by artificial intelligence and how it affects managerial strategies in customer relationship management (CRM) and marketing. Using cutting-edge technology including machine learning, natural language processing, recommendation engines, dynamic pricing models, and predictive analytics will help companies provide hyper-personalized experiences that increase user involvement and pleasure. These technologies lower cognitive burden and provide pertinent product and service recommendations in real time, therefore simplifying difficult decision-making procedures. AI improves confidence, loyalty, and perceived value, therefore influencing important behavioral results as brand attachment, purchase intentions, and conversion rates. Companies have difficulties with data privacy, algorithmic bias, and lack of openness, which, if not properly addressed could compromise customer confidence. Good use of artificial intelligence personalization calls for organizational preparation, a qualified staff, and ongoing observation of personalizing techniques. Practical managerial advice to strike a balance between ethical issues and technological innovation thereby guaranteeing responsible usage of artificial intelligence. It also provides benchmarks for assessing artificial intelligence (ROI) of projects, thereby enabling managers to assess performance and maximize next projects. The ongoing expansion of AI's impact in forming tailored and data-driven consumer decision-making

environments, the analysis ends by noting the limits associated to the fast-evolving character of artificial intelligence and consumer behavior trends.

Keywords: *AI personalization, consumer behavior, decision-making, ML, predictive analytics, customer engagement*

1. Introduction

Recent technology advances have changed how consumers connect with brands and make purchases. Businesses in the digital economy face massive amounts of customer data from e-commerce platforms to social media outlets. This data is now processed by sophisticated algorithms, revealing patterns and insights that traditional analytical approaches could not. This transition has changed customer behavior, as highly tailored and data-driven interactions now dominate decision-making instead of personal preferences or mass marketing. With predictive models and clever technologies, companies can now precisely adapt offerings to individual interests. Based on users' browsing history, past purchases, and inferred emotional states, product recommendations, dynamic pricing, and targeted promotions are now created in real time. Streaming services, internet shops, and financial platforms have raised the bar by offering personalized experiences. Thus, shoppers demand and expect individualized trips that simplify their decision-making. Intelligent technologies enable chatbots and virtual assistants to provide seamless customer support and influence purchasing behavior with prompt, context-aware responses. These tools answer questions, provide product information, and even complete transactions automatically, reducing friction and improving user happiness. This shift affects consumer engagement, trust, and loyalty. Users value brand interactions more when they receive personalized suggestions and communications that match their needs and preferences. A deeper connection often boosts retention, brand advocacy, and conversions. Successful companies deliver such experiences, outperforming competitors in customer pleasure and financial rewards. This expanding use of automated decision-making technologies raises concerns about transparency, data ethics, and consumer-brand power. Technology simplifies and speeds choices, but data privacy, algorithm bias, and consumer autonomy are growing issues. Therefore, businesses must carefully manage this changing terrain to avoid losing client trust to customisation.

1.1 AI-driven personalization in marketing and sales

The marketing and sales landscape has undergone a significant transformation with the increasing adoption of data-centric and automation technologies. What was once a one-size-fits-all approach to reaching customers has evolved into a dynamic, highly tailored system where businesses communicate with individuals in ways that feel personal, timely, and relevant. This shift has been largely driven by the growing sophistication of algorithms that can analyze consumer behavior, preferences, and contextual data to deliver customized experiences across all stages of the customer journey. Personalization has become a core competitive strategy in marketing, largely because consumers now expect brands to understand their unique needs and provide solutions accordingly. Rather than targeting broad market segments, companies are now designing campaigns that adapt in real time to user behavior. Whether it's tailored product recommendations on an e-commerce platform, individualized email content, or adaptive pricing strategies, brands are deploying automated systems to create interactions that resonate on a personal level. This level of customization not only captures attention but also builds a stronger emotional connection with the audience. In sales, the impact has been equally profound. Digital platforms, powered by behavioral insights, allow businesses to anticipate customer needs and proactively engage them with relevant offers or information. For example, customer relationship management (CRM) systems now integrate predictive models that help sales teams prioritize leads, recommend next-best actions, and personalize outreach efforts based on the likelihood of conversion. Sales automation tools can also track customer engagement across multiple channels email, social media, websites and adjust messaging strategies in real time to align with evolving consumer interests. The rise of real-time personalization has blurred the lines between online and offline experiences. Retailers, for instance, can now leverage shopper data gathered from mobile apps, loyalty programs, and point-of-sale systems to create consistent, individualized experiences both in-store and online [1]. A customer browsing products on a website might later receive a location-based discount when entering a nearby physical store, seamlessly merging digital insights with brick-and-mortar operations. One of the most notable developments is the integration of recommendation engines and predictive analytics into marketing platforms. These systems don't just react to past behavior but actively anticipate future needs and preferences, offering products or

services before a consumer even realizes they are relevant. Streaming services suggesting shows you didn't know you wanted or online retailers presenting "frequently bought together" bundles are just a few common examples of how this predictive capability influences purchasing decisions and increases customer lifetime value. At the heart of this rise is the focus on customer-centricity. Modern consumers are inundated with choices and information, and brands that cut through the noise by delivering hyper-relevant content stand out. As a result, personalized marketing has become essential not only for customer acquisition but also for building long-term relationships and driving sustained business growth. However, this surge also comes with heightened responsibility. As businesses refine their targeting capabilities, they must remain mindful of privacy regulations and ethical concerns. Striking the right balance between personalization and data protection is now a key challenge that marketers and sales leaders must address to maintain consumer trust [2].

2. Fundamentals of AI and Consumer Behavior Models

2.1 Consumer decision-making process

The decision-making processes of customers have significantly evolved due to the incorporation of intelligent systems. Traditionally, the process adhered to a linear trajectory, commencing with need recognition and concluding with post-purchase behavior, predominantly influenced by individual effort and constrained external information. Conversely, contemporary decision-making, bolstered by sophisticated analytics and automation, is increasingly dynamic, data-centric, and tailored. In the preliminary phase of identifying a need or issue, the traditional method predominantly depended on introspection or external influences such as marketing or social peer pressure. Currently, predictive systems are crucial in recognizing behavioral and preference patterns, frequently anticipating demands prior to the consumer's cognitive realization. For example, platforms suggest new products or services based on previous consumption behaviors, gently influencing tastes. The subsequent phase, information search, previously entailed active research via physical retail establishments, printed resources, or basic web inquiries. This was frequently laborious and disjointed. Currently, pertinent content is sent proactively via curated feeds, suggestions, and targeted advertisements, reducing the work needed to obtain insights and expediting the discovery process.

This table 1 highlights key differences between conventional and modern, AI-supported consumer decision-making. It illustrates how automation and data-driven systems influence each stage, from recognizing needs to post-purchase engagement, creating a more efficient, personalized, and dynamic decision journey for today's consumers compared to earlier manual approaches.

Stage	Traditional Decision-Making	AI-Driven Decision-Making
1. Problem/Need Recognition	Triggered by personal needs, external stimuli (ads, peers), or unmet wants.	Anticipated by predictive models analyzing behavior patterns and preferences.
2. Information Search	Consumers actively seek information via ads, word-of-mouth, websites, and reviews.	Algorithms deliver targeted suggestions and curated information automatically.
3. Evaluation of Alternatives	Based on personal judgment, subjective criteria, and manual comparison of available options.	Personalized recommendations narrow down choices, using behavioral and contextual data.
4. Purchase Decision	Influenced by price, availability, social proof, and past experiences.	Influenced by AI-optimized offers (e.g., dynamic pricing, limited-time recommendations).
5. Post-Purchase Behavior	Consumer reflects on satisfaction, shares feedback or complaints manually.	Systems automate feedback collection, send personalized follow-ups, and upsell offers.

Table 1: Traditional vs. AI-Driven Consumer Decisions

Historically, evaluating alternatives entailed comparing possibilities through subjective judgment and often limited accessible facts. Currently, algorithms analyze extensive user-specific and contextual data to refine options, frequently offering customized recommendations that correspond to personal requirements. Consequently, consumers obtain a curated array of options, mitigating choice overload while enhancing perceived relevance. The decision to buy, once swayed by elements like as cost, brand allegiance, and social validation, is increasingly dictated by automated mechanisms including tailored discounts, urgency signals, or fluctuating prices. These strategies utilize real-time insights to discreetly influence the decision towards a specific product or service. Post-purchase behavior has transformed from sporadic feedback and passive loyalty into a more consistent, automatic engagement cycle. Businesses now utilize tailored suggestions, satisfaction surveys, and loyalty programs driven by machine learning models, thereby enhancing future interactions and sales.

2.2 Personalization in consumer behavior

Personalization denotes the customization of products, services, and marketing communications to align with individual consumer preferences, behaviors, and requirements. In consumer behavior, it significantly influences how individuals perceive, assess, and choose products in the marketplace. The core principle of customization is based on the recognition that consumers are diverse; they possess distinct expectations, interests, and purchasing behaviors, necessitating tailored strategies for effective engagement. Personalization is rooted in various underlying theories of marketing and psychology. A fundamental framework is the Customer-Centric Approach, which underscores the necessity of prioritizing the consumer in business strategy. By concentrating on individual wants and preferences, organizations may provide value that is pertinent and significant, so cultivating better customer relationships and enhanced loyalty. The Elaboration Likelihood Model (ELM) elucidates the mechanisms by which consumers process persuasive information. ELM posits that personalization can augment the "central route" of processing, wherein customers are more inclined to interact deeply with and be influenced by communications pertinent to their individual circumstances or interests. Personalized product recommendations typically garner increased attention and are regarded as more valuable than generic suggestions. Relationship Marketing Theory is essential for comprehending customisation. This philosophy emphasizes the establishment of enduring relationships with clients instead of solely concentrating on short-term transactions. Personalization augments relationship marketing by delivering consistent, customized experiences to consumers, thereby enhancing trust, satisfaction, and customer lifetime value. In the digital realm, customization is significantly shaped by Behavioral Targeting and Recommendation System Algorithms. Behavioral targeting entails monitoring user activities and preferences to deliver personalized advertisements and offers, whereas recommendation systems employ collaborative filtering or content-based filtering methods to anticipate a consumer's subsequent preferences. These systems utilize extensive databases to generate highly personalized experiences that affect purchasing decisions. The Theory of Planned Behavior (TPB) elucidates the influence of attitudes, perceived behavioral control, and social norms on decision-making processes. Customized marketing communications that correspond with a consumer's attitudes and perceived requirements are more likely to foster favorable behavioral intentions, resulting in increased conversion rates [3,4].

2.3 AI technologies enabling personalization

The rise of intelligent systems has revolutionized how businesses personalize customer experiences. Several cutting-edge technologies are at the core of this shift, helping companies deliver tailored content, product recommendations, and services to individual consumers. These technologies enhance decision-making processes by analyzing vast datasets, predicting preferences, and automating personalized interactions across digital platforms. By combining these technologies which are shown in the figure 1, companies can create seamless, relevant, and timely experiences that not only improve customer satisfaction but also drive conversion rates and long-term loyalty. As AI capabilities continue to evolve, so will the sophistication of personalization in the consumer journey.

- **Machine Learning (ML):** Machine learning is a critical enabler of personalization. By analyzing consumer data such as past purchases, browsing history, and engagement patterns, ML models identify trends and behaviors. These insights are then used to customize marketing messages, suggest products, or even

- **predict future needs.** Supervised learning (e.g., classification models) helps segment customers, while unsupervised learning (e.g., clustering) uncovers hidden patterns to create distinct user profiles. As the model continuously learns from new data, it refines its predictions, making personalization efforts more accurate over time.
- **Natural Language Processing (NLP):** NLP enables machines to understand and interpret human language. It plays a key role in personalizing communication by analyzing text inputs such as customer reviews, chat interactions, and social media posts. Businesses use NLP to power chatbots, virtual assistants, and sentiment analysis tools that deliver human-like interactions tailored to each consumer. Additionally, NLP helps in creating personalized email campaigns, generating custom responses in customer service, and even crafting product descriptions aligned with customer preferences and tone.
- **Recommendation Systems:** Recommendation engines are perhaps the most visible application of AI in personalization. These systems leverage algorithms to suggest products, services, or content based on user behavior and preferences. Two common approaches are collaborative filtering (recommending based on similarities between users) and content-based filtering (suggesting items similar to what a user has interacted with previously). Modern recommendation engines often combine these methods using hybrid models, providing highly accurate suggestions on e-commerce platforms, streaming services, and online marketplaces.
- **Predictive Analytics:** Predictive analytics uses historical and real-time data to forecast future behavior. By applying statistical techniques and AI models, businesses can anticipate customer needs and actions. For example, predictive models might forecast when a customer is likely to repurchase a product or churn, allowing companies to proactively tailor marketing messages or retention strategies.
- **Customer Data Platforms (CDPs):** CDPs collect data from multiple touchpoints (e.g., websites, social media, apps) to build a unified customer profile. When integrated with AI algorithms, these platforms enable hyper-personalized experiences across channels by delivering the right message, at the right time, to the right user. AI-enhanced CDPs are crucial for orchestrating omnichannel personalization efforts.

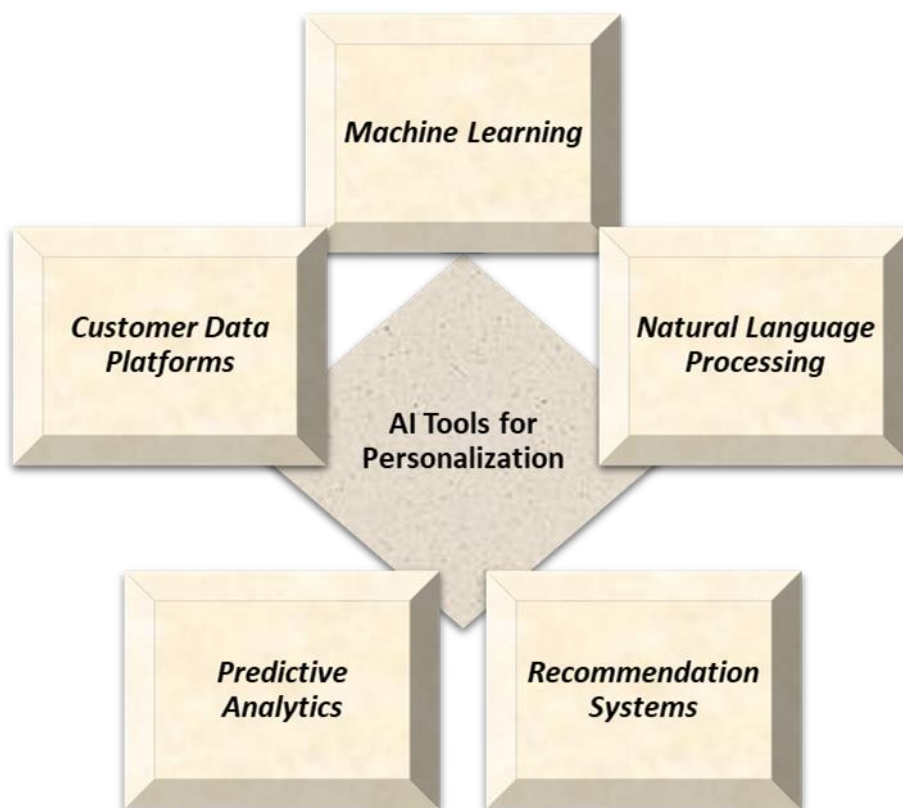


Figure 1: AI Tools for Personalization

3. AI-Driven Personalization Strategies

3.1 AI-powered recommendation engines

AI-powered recommendation engines are intelligent systems that personalize content, products, or service suggestions by analyzing user data and behavior patterns. These engines play a vital role in enhancing user experiences, driving engagement, and improving business outcomes across industries. By leveraging technologies like machine learning, deep learning, and data mining, recommendation engines can process large datasets and identify trends that are not immediately obvious to human analysts. The engines work by employing models such as collaborative filtering, content-based filtering, and hybrid approaches. Collaborative filtering suggests products or content based on the preferences of users with similar behaviors, while content-based filtering focuses on recommending items that share characteristics with those the user has previously shown interest in. Hybrid models combine both methods to provide more accurate and well-rounded recommendations. Industries such as e-commerce, entertainment, and media heavily rely on AI-powered recommendation engines. For instance, Amazon uses these systems to suggest products based on previous purchases and browsing behavior. Netflix and Spotify implement similar engines to recommend movies, shows, or music tailored to individual user tastes, leading to higher engagement and user satisfaction. In addition to improving user experience, recommendation engines also bring significant business benefits. They increase customer retention and loyalty by providing relevant, timely suggestions, which encourage repeat usage. The engines also contribute to higher conversion rates and sales as users are more likely to engage with content or products that align closely with their preferences. As artificial intelligence evolves, recommendation engines are becoming increasingly sophisticated, utilizing real-time data and predictive analytics to anticipate user needs before they are even explicitly expressed. This ability to deliver hyper-personalized experiences is shaping how companies interact with their audiences, creating more meaningful and lasting relationships between businesses and consumers [5,6].

3.2 Dynamic pricing and product customization

Dynamic pricing and product customization are two critical strategies empowered by artificial intelligence that significantly influence modern consumer behavior and business operations. Dynamic pricing refers to the use of AI algorithms to adjust prices of products or services in real time based on various factors such as demand fluctuations, competitor pricing, consumer behavior, inventory levels, and even external factors like seasonality or events. Unlike traditional fixed pricing models, dynamic pricing allows businesses to optimize revenue and profitability by constantly fine-tuning prices. E-commerce platforms, airline ticketing systems, ride-sharing services, and hospitality businesses often leverage dynamic pricing to maximize margins and stay competitive. AI systems process vast datasets to predict consumer willingness to pay and market trends, enabling businesses to automatically implement price adjustments that align with business goals and customer expectations. On the other hand, product customization is driven by AI technologies that enable companies to tailor products or services to individual customer preferences. AI-powered systems gather and analyze consumer data such as past purchases, browsing history, demographic information, and real-time feedback to offer personalized product configurations or recommendations. This customization can range from suggesting specific product features to creating entirely bespoke offerings, enhancing the perceived value and satisfaction of the customer. Industries such as fashion, automotive, and consumer electronics utilize AI to offer dynamic configurators that allow users to personalize products based on color, style, size, or functional components. Both dynamic pricing and product customization contribute to a highly personalized consumer journey, increasing engagement, loyalty, and sales conversions. AI's role in automating and optimizing these strategies ensures that businesses not only meet individual customer needs but also respond proactively to changing market conditions. The combination of adaptive pricing and tailored product offerings fosters a customer-centric approach that enhances competitiveness in increasingly crowded marketplaces [7,8].

3.3 Predictive analytics for consumer behavior modeling

Predictive analytics is essential for comprehending and anticipating consumer behavior by converting data into meaningful insights. Rather than responding to client activities post-occurrence, organizations may foresee future behaviors, preferences, and requirements. Predictive analytics use sophisticated algorithms and statistical models to analyze historical data, transaction records, internet interactions, and demographic

information in order to identify concealed trends and patterns. A primary application is customer segmentation, wherein predictive models categorize consumers according to their purchase behaviors, preferences, and engagement levels. This allows firms to provide precisely targeted and individualized marketing messages to distinct demographics, enhancing the probability of conversion and elevating client pleasure. By proactively engaging with customers with customized offers or retention techniques, firms can diminish customer attrition and bolster loyalty. Predictive analytics facilitates demand forecasting, enabling organizations to project future product needs based on historical purchase patterns, seasonality, and external market factors. This guarantees optimum inventory management, minimizing stockouts and extra inventory expenses. Predictive models improve digital advertising by identifying prospects most likely to engage with specific campaigns, improving ad placements, and enhancing return on investment. Organizations get advantages through enhanced targeting, optimized budget distribution, and fortified client relationships [9,10].

3.5 Hyper-personalization and real-time decision support

Hyper-personalization and real-time decision support represent the next frontier in customer experience, driven by the integration of advanced AI technologies. Hyper-personalization goes beyond traditional personalization by using real-time data, artificial intelligence, and predictive analytics to create highly individualized customer interactions across digital touchpoints. It considers not only past behaviors but also contextual and situational data, such as location, device usage, time of day, and current intent, to deliver dynamic, tailored experiences. Unlike basic personalization, which might involve simple recommendations based on previous purchases, hyper-personalization enables businesses to craft marketing messages, product suggestions, pricing, and service delivery to each individual user in the exact moment of interaction. For example, an online retailer can present customized promotions while a customer is actively browsing a site, or a streaming platform can dynamically adjust its content recommendations based on the user's current viewing habits. Real-time decision support complements hyper-personalization by empowering organizations to make swift, data-driven decisions as consumer behaviors unfold. AI models analyze live data streams to identify patterns, preferences, and anomalies, allowing businesses to adapt their offerings instantly. This could include adjusting pricing in response to competitor changes, rerouting customer service inquiries to the best-suited agents, or providing immediate product recommendations during online shopping. Together, these capabilities significantly enhance customer engagement and satisfaction, while also improving business efficiency and responsiveness. Hyper-personalization fosters stronger emotional connections between brands and consumers, as users feel understood and valued on an individual level. Meanwhile, real-time decision support ensures that companies can react promptly to market changes and evolving consumer expectations. In today's fast-paced digital environment, hyper-personalization combined with real-time decision-making has become essential for businesses seeking to stay competitive and deliver superior customer experiences across channels [11,12].

4. Factors Influencing Purchase Decisions

AI-driven customisation and instantaneous data analysis are transforming consumer purchasing decisions. By providing pertinent and tailored experiences, organizations improve engagement and satisfaction, diminish cognitive overload, and affect essential psychological characteristics like as trust, loyalty, and perceived value, so fostering more robust behavioral outcomes. Customized interactions foster enhanced consumer engagement by providing clients with individualized recommendations, offers, and communications that closely correspond to their interests and habits. This sense of relevance cultivates favorable emotional responses and promotes prolonged engagement with brands, thereby enhancing customer satisfaction. When consumers see that brands comprehend their specific demands, they are more likely to investigate, acquire, and return. AI alleviates the cognitive burden and choice fatigue frequently encountered by consumers in saturated markets. By eliminating extraneous choices and offering a refined selection informed by user data, AI streamlines the decision-making process. Consumers gain from simplified options, which conserves time and cognitive resources, rendering shopping experiences more efficient and pleasurable. The influence of AI on trust, loyalty, and perceived value is crucial. Customized experiences indicate that a brand is responsive and focused on the customer, hence enhancing trust. Consistent and pertinent suggestions and offers foster loyalty, as consumers gravitate towards brands that

consistently fulfill their expectations. Furthermore, AI-driven personalization enhances the perceived value of products and services by tailoring them to individual tastes. The cumulative influence of these characteristics substantially affects critical behavioral outcomes, including purchase intentions, conversion rates, and brand attachment. Customized, effective, and reliable experiences motivate consumers to navigate the sales funnel with greater assurance, hence enhancing the probability of conversion. This cultivates deeper emotional bonds with the brand, resulting in repeat purchases, increased customer lifetime value, and advocacy [13,14].

5. Managerial Consequences of AI-Driven Personalization

AI-driven personalization is essential in contemporary marketing and customer relationship management (CRM) tactics. Utilizing consumer data, AI empowers organizations to develop precisely tailored advertising and client experiences, enhancing engagement and loyalty. In marketing, tailored recommendations, predictive targeting, and dynamic content customisation enable firms to distinguish themselves in competitive markets. In CRM, AI facilitates customer segmentation, churn prediction, and lifetime value analysis, enabling firms to provide timely and pertinent interactions that improve customer happiness and retention. The execution of AI personalization presents some obstacles. Issues with data privacy, algorithmic bias, and transparency have emerged as significant impediments for enterprises. Regulatory frameworks like GDPR mandate that organizations gather and process customer data responsibly, but consumers increasingly seek control over the utilization of their information. Unaddressed bias in AI algorithms may result in the unjust targeting or exclusion of specific customer demographics, so eroding trust and compromising reputational integrity. Transparency concerns emerge when consumers are oblivious to the impact of AI systems on their decisions, thereby undermining trust in brand engagements. Creating effective AI-driven personalization campaigns necessitates a strategy and customer-focused methodology. Businesses must reconcile personalization with privacy, guaranteeing value is provided without infringing on customer limits. Developing campaigns that combine AI insights with human creativity results in more genuine and emotionally impactful messaging. Advertisements must be adaptable, consistently evaluated, and progressively refined in response to consumer input and evolving tastes. The successful integration of AI relies on organizational preparedness, encompassing the presence of competent personnel and enough infrastructure. Organizations must allocate resources towards enhancing their employees skills in utilizing AI tools, data analytics, and machine learning models [15]. Interdisciplinary coordination among IT, marketing, and data science teams is crucial to optimize the advantages of customization initiatives. Assessing the return on investment (ROI) and efficacy of AI-driven personalization is essential for validating its effectiveness. Key performance indicators (KPIs) including conversion rates, customer retention, click-through rates, and customer lifetime value facilitate the evaluation of AI efforts' effectiveness. Advanced analytics and A/B testing yield insights into the impact of customization methods on consumer behavior, enabling organizations to enhance their efforts for optimal outcomes.

Conclusion

Personalization powered by AI is changing how organizations interact with customers and influence decisions. Machine learning, natural language processing, recommendation engines, and predictive analytics are helping brands provide personalized and timely experiences. These tailored interactions boost consumer engagement, happiness, and trust while minimizing cognitive overload and decision fatigue. AI also boosts buy intents, conversion rates, and brand loyalty. Management must integrate AI personalization into marketing and CRM efforts to gain a competitive edge. To sustain consumer trust, firms must handle data privacy, algorithmic bias, and transparency issues arising from this shift. Technical skills, ethics, and consumer focus are needed for AI-driven customisation. Skills, cross-functional collaboration, and an AI-ready organisational culture are needed for successful adoption. Managers should prioritize ethical data practices, connect personalization with consumer expectations, and engage in continuous learning to improve marketing performance. Businesses should also create rigorous measures to analyze AI ROI, concentrating on financial and customer experience outcomes. This assessment covers AI's involvement in consumer decision-making, although it has limits. The rapid speed of AI breakthroughs and changing consumer expectations and regulatory settings may demand constant revisions to these insights. Marketing and CRM, but AI is also influencing supply chain management and customer service, which should be studied. AI will

continue to affect consumer behavior as technology advances and firms improve their customisation methods. Responsible and inventive AI adoption will help companies build meaningful, long-term consumer relationships and compete in a digital world.

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