Digital Consumer Behavior Study

The majority of today's consumers are actively personalizing their digital experiences and sampling niche content and video with increasing frequency. That was the key finding in our first annual **Avenue A | Razorfish Digital Consumer Behavior Study.**

Much has been said and written about how the Web 2.0 era has fundamentally changed the way consumers interact online. But to what degree is today's digital consumer really changing her online behavior?

A quick look at ComScore or Nielsen tells one story: millions of people are logging on to Facebook, Flickr, YouTube and MySpace and the numbers are growing. We wanted to know if it was simply the leading the way (and leading the hype), or has something more significant occurred?

Connected Consumers

In July 2007, Avenue A | Razorfish surveyed 475 U.S. consumers across all demographics and geographies to understand their desires, frustrations and digital consumption habits. Our design research team was most concerned with digital behavior rather then demographics. We wanted to know:

- How the broad populace of "connected consumers" discover things?
- How quickly do consumers adopt emerging technologies and user interface conventions (tag clouds, social media, etc.)?
- What drives consumers' desire to purchase (or not) online?
- How has video changed the digital landscape in recent years?
- Are mobile services being widely used (or not)?

Below is a detailed breakout of the situational questions we asked to consumers and their responses. As you will see, we focused on four key areas of digital consumer behavior: Web 2.0 adoption, entertainment habits and media consumption, eCommerce and mobile usage. Taken in sum, the responses paint an evolving picture of digital behavior that is far more personalized, distributed and niche than we had previously thought.

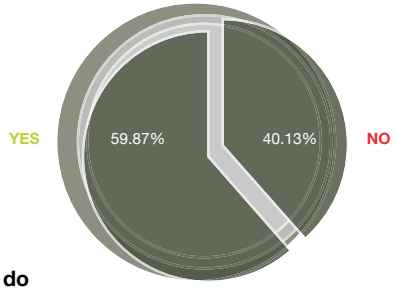
Personalization Hits the Mainstream

The answer, we've found, is that the majority of consumers are increasingly personalizing their digital experiences and sampling a wide range of digital niche content. From recommendation engines, to blogs, to customized start pages, today's *connected consumer* navigates a personal landscape that is much more niche than we ever expected.

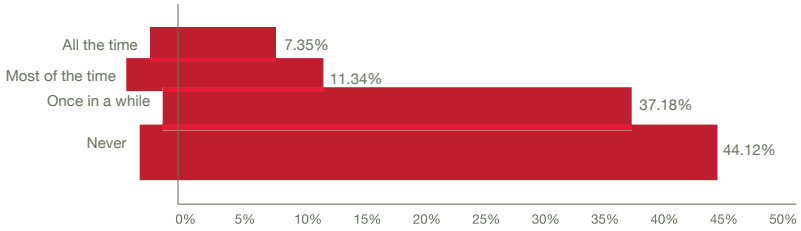
Our survey found that personalization has hit the mainstream. As illustrated in the graph above, the majority of consumers surveyed (60%) personalize their home/start pages. This far exceeds the smaller number of consumers that we previously believed to be such active participants.

Further, 56% use RSS (really simple syndication), a technology that enables users to subscribe to content feeds and read them via specialized readers or on their customized start pages. RSS enables consumers to keep up-to-date on news, sports or other information. Clearly this trend bodes well for the dominant portals and search engines such as Google (35%), Yahoo! (24%), AOL (10%) and MSN (9%) which account for the vast majority of consumers' start pages.

Have you customized your homepage with specific content feeds, scheduled updates or other features?



Please rate the frequency in which you do the following: Subscribe to RSS feeds



Survey Questions:

Have you customized your home page with specific content feeds, scheduled updates or other features?

40% No
60% Yes

Please rate the frequency in which you do the following: Share bookmarks with others e.g. del.icio.us.

6% All the time
11% Most of the time
47% Never
37% Once in a while

Please rate the frequency in which you do the following: Subscribe to RSS feeds.

7% All the time
11% Most of the time
44% Never
37% Once in a while

Please rate the frequency in which you do the following: Read most popular or most emailed links on websites.

13% All the time
26% Most of the time
18% Never
42% Once in a while

Web 2.0

Please rate the frequency in which you do the following: Use tag clouds.

4%	All the time
8%	Most of the time
65%	Never
23%	Once in a while

Please rate how helpful you find the following: Bookmarks that help you organize or share webpages.

41%	All the time
41%	Most of the time
9%	Never
10%	Once in a while

Please rate how helpful you find the following: RSS Feeds.

14%	All the time
38%	Most of the time
23%	Never
25%	Once in a while

Please rate how helpful you find the following: Most popular or most emailed links on websites.

21%	All the time
47%	Most of the time
15%	Never
18%	Once in a while

Please rate how helpful you find the following: Tag clouds.

7%	All the time
24%	Most of the time
39%	Never
29%	Once in a while

Media + Entertainment

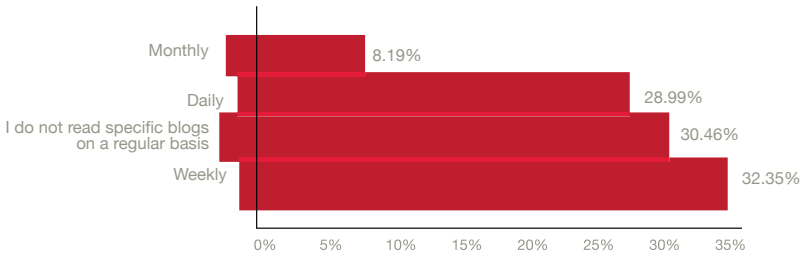
Media & Entertainment Habits Shift

The desire to personalize and sample niche content greatly impacts consumer's digital behavior across all industries and verticals. The effect on traditional media and entertainment consumption habits is stunning. According to our survey, nearly 70% of consumers read blogs on a routine basis, and 41% have their own blog or post frequently to blogs. In fact, 46% of consumers who responded to the survey read four or more blogs on a regular basis. All of that blog activity is significantly cutting into the reach of traditional media outlets (newspapers, TV, magazines, etc.).

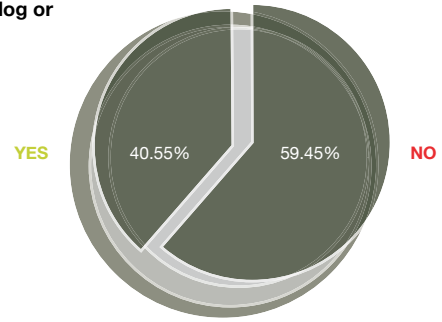
The trend toward niche content is similar for music and video consumption as well. 67% of consumers watch videos on YouTube or similar sites on a regular basis and 42% purchase music online. If anything, online video is not only becoming more pervasive but also affecting offline consumption in interesting ways. For example, 85% of consumers have watched a movie preview online before going to see the film at a theater. 58% of consumers have used a service to download (iTunes) or order (Netflix/ Blockbuster) films online, and 71% have watched a TV show online.

Most tellingly, 91% of consumers rely on the Web to get current news or information, vastly eclipsing more traditional outlets such as television. No wonder why broadcasters and newspaper publishers are struggling to adapt in today's digital realm.

How often do you read specific blogs?



Do you write your own blog or post to other blogs?



Survey Questions:

Which of the following describes your online entertainment behavior?

I regularly purchase music online e.g. ITunes etc.

58% No
42% Yes

I regularly watch video on YouTube etc.

33% No
67% Yes

I regularly use photosharing sites e.g. Flickr etc.

59% No
41% Yes

I rely on the web to get current news or information more than I do the television.

9% No
91% Yes

None of the above.

100% No

How often do you read specific blogs?

29% Daily
30% I do not read specific blogs on a regular basis
8% Monthly
32% Weekly

Which of the following best describes how many blogs you read regularly?

1	5%	7	1%
2	18%	8	0%
3	16%	9	0%
4	7%	10	1%
5	8%	More than 10	7%
6	5%	(blank)	30%

Do you write your own blog or post to other blogs?

59%	No
41%	Yes

How often do you contribute to blogs either your own or others?

0%	A couple times a year
9%	Daily
4%	Every couple of months
6%	Monthly
21%	Weekly
59%	(blank)

Are you concerned about privacy when you post to social networking sites or blogs?

45%	No
55%	Yes

Thinking back to the last three months, please rate how often you have done the following: Watched an online video.

30%	All the time
26%	Most of the time
5%	Never
39%	Once in a while

Thinking back to the last three months, please rate how often you have done the following: Uploaded an online video.

5%	All the time
8%	Most of the time
51%	Never
35%	Once in a while

Thinking back to the last three months, please rate how often you have done the following: Watched online previews before going to a movie.

18%	All the time
28%	Most of the time
15%	Never
39%	Once in a while

Thinking back to the last three months, please rate how often you have done the following: Watched a TV show online.

11%	All the time
16%	Most of the time
29%	Never
45%	Once in a while

Thinking back to the last three months, please rate how often you have done the following: Used an online service to download or order movies.

14%	All the time
14%	Most of the time
42%	Never
30%	Once in a while

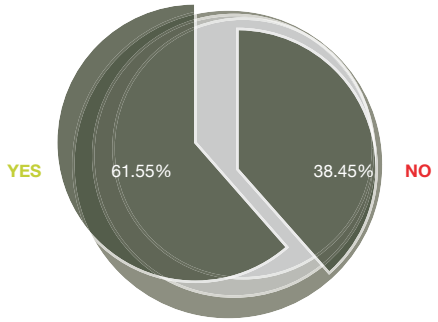
Retailers Face New Challenges

Personalization has had a similar effect on digital and multi-channel retailers, as well. Consumers react positively to recommendation engines and personalized services with their pocketbooks: 62% have made a purchase based on personalized recommendations (e.g. Amazon.com) and 72% find such services helpful.

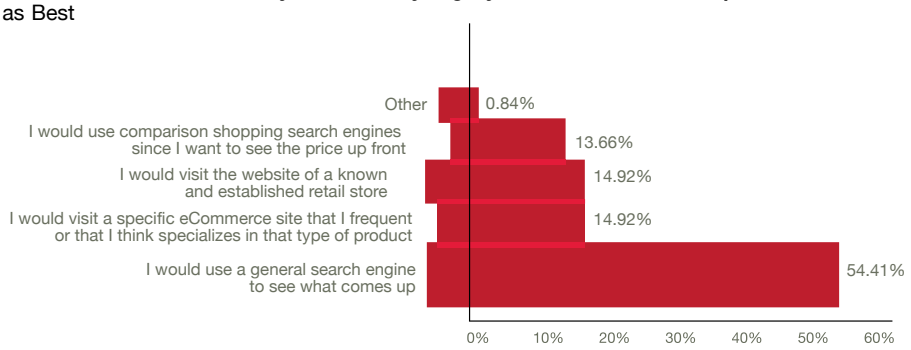
However, our research indicates that the biggest shift for retailers is yet to come, as their relationship with consumers appears to be increasingly disintermediated. 54% of today's connected consumers start their shopping experience at a general search engine, such as Google, versus 30% who either visit the Web site of an established retail store (e.g. Crate & Barrel) or a specific eCommerce site such as Amazon.com.

More surprisingly, 38% of consumers say that price is the most important criteria in deciding where to purchase online although 38% of consumers also indicate that a Web site that is known or respected helps sway them. Only 17% of consumers seek out a multi-channel retailer, such as Best Buy, that has a prominent brick and mortar outpost.

Have you ever purchased an item as a result of a personalized recommendation e.g. Amazon making a recommendation based on a past purchase?



Where would you most likely begin your Web search for this product?



Survey Questions:

When you are in the market for a product that costs $100.00 or less what determines if you will use the web to help make purchase decisions? Please select which answer best matches your behavior.

1%	I never use the web when making purchasing decisions for items less than $100
17%	I use the web if I think that prices will vary by retailer
18%	I use the web if I want to compare products and features
5%	I use the web if I want to locate retailers
20%	I use the web to read online reviews and ratings of products or brands
39%	I use the web to research products and features

Where would you most likely begin your web search for this product?

54%	I would use a general search engine to see what comes up
14%	I would use comparison shopping search engines since I want to see the price up front
15%	I would visit a specific eCommerce site that I frequent or that I think specializes in that type of product
15%	I would visit the website of a known and established retail store
1%	Other
1%	(blank)

When you are in the market for a product that costs $1000.00 or more what determines if you will use the web to help research or review that product? Please select which answer best matches your behavior.

8%	I never use the web when making purchasing decisions for items less than $1000
12%	I use the web if I think that prices will vary by retailer
17%	I use the web if I want to compare products and features
1%	I use the web if I want to locate retailers
23%	I use the web to read online reviews and ratings of products or brands
38%	I use the web to research products and features

Ecommerce

Where would you most likely begin your web search for this product?

45% I would use a general search engine to see what comes up
14% I would use comparison shopping search engines since I want to see the price up front
15% I would visit a specific eCommerce site that I frequent or that I think specializes in that type of product
15% I would visit the website of a known and established retail store
2% Other
8% (blank)

When you visit a specific eCommerce website do you usually go just to browse the specials, sales or new arrivals, or do you visit with a product in mind that you are interested in?

45% Both
24% I usually go just to browse specials, sales and new arrivals
31% I usually go to see a specific product

Which best describes how you browse a specific eCommerce site for a product?

37% All of the above
3% By bestsellers or most popular
6% By brand
0% By color
1% By new additions
12% By price
30% By product type
5% By sales items
5% Never browse, always use the search box

When you want to research a product on the web which of the following do you rely on most for information?

22% Comparison charts
21% Expert reviews
1% Shared shopping lists
55% User reviews

Once you have decided on a product which of the following criteria is the most important in making a purchase decision?

38% Best price available
7% Best shipping and return policy
17% Website that also has a offline store e.g. BestBuy.com
38% Website that is known and respected

Have you ever purchased an item as a result of a personalized recommendation e.g. Amazon making a recommendation based on past purchases?

38% No
62% Yes

Do you find these types of personalized recommendations helpful to you?

28% No
72% Yes

Are you concerned about privacy when receiving personal product recommendations?

66% No
34% Yes

Mobile

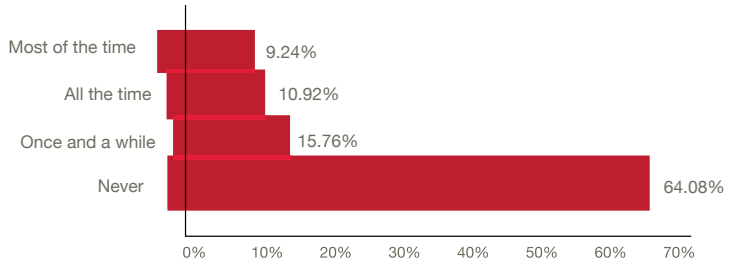
Mobile Usage Still Nascent

While the adoption of Web 2.0 features has clearly entered the mainstream, the usage of mobile data services certainly has not. Our survey, released on the heels of Apple's iPhone launch, finds the U.S. mobile data services market still nascent.

Photography-related activities are the bright spot for mobile services. 53% of consumers have taken and/or shared photos via mobile phones.

The outlook is not so bright, today, for other mobile multimedia usage. Only 32% have listened to music via their handset and 24% have watched videos. And 37% have used mobile web services to check weather, news or sports headlines.

Do you use your mobile phone to check weather, news or sports headlines?



Survey Questions:

Do you use your mobile phone to listen to music?

6% All the time
5% Most of the time
68% Never
20% Once in a while

Do you use your mobile phone to watch video?

4% All the time
3% Most of the time
76% Never
17% Once in a while

Do you use your mobile phone to check personal voicemail?

46% All the time
22% Most of the time
23% Never
10% Once in a while

Do you use your mobile phone to check email?

16% All the time
9% Most of the time
58% Never
17% Once in a while

Do you use your mobile phone to check weather, news or sports headlines?

11% All the time
9% Most of the time
64% Never
16% Once in a while

Do you use your mobile phone to take pictures and share them on the web?

12% All the time
12% Most of the time
47% Never
29% Once in a while

What To Do Now

Given the sweeping changes in online consumer behavior, we recommend that marketers and publishers take the following steps to create exceptional experiences for today's consumers:

1. Make Content Portable – Ride the personalization wave by making your content portable. RSS offers a great means for users to subscribe to your content and get frequent updates. Widgets enable consumers to have deeper and richer experiences with a Web site's features and functions anywhere.

2. Enable Consumer Ratings and Reviews – Ensure that consumers can contribute and access peer reviews. Retailers should enable consumers to rate and review products. Publishers should allow "commenting" whenever possible.

3. Invest in Online Video – Online video is the next great growth wave in the industry. Make sure all video assets become digitized and integrated with existing content and services. Look for near-term advances in video advertising to help monetize the effort.

4. Think Beyond the Web site – Your Web site plays a much less central role in today's consumer Web experience. Think about how search, advertising, social media sites and the blogsphere are related to your digital marketing efforts and invest appropriately.

5. Take Small Steps with Mobile – Mobile data usage is still nascent. Take a measured approach to investing and keep an eye on Apple's iPhone for near-term breakthroughs.

For the full Avenue A | Razorfish Digital Consumer Behavior Study please go to http://design.avenuea-razorfish.com to download the PDF.

Avenue A | Razorfish Study Methodology: In July of 2007 we surveyed 475 consumers in the United States. Respondents were screened based on broadband access, entertainment, social media and ecommerce habits. The selected consumers were then asked a series of "situational" questions about their Internet behavior.

SHOPPING FOR PRIVACY ONLINE: CONSUMER DECISION-MAKING STRATEGIES AND THE EMERGING MARKET FOR INFORMATION PRIVACY

*James P. Nehf**

I. INTRODUCTION

Privacy policies are seemingly everywhere. Banks, credit card issuers, insurers, hospitals, and other data collectors proclaim that they care about consumer privacy and then proceed to explain in copious rhetoric how their data collection, storage, and sharing are carried out. Curious Web surfers can click links to read the privacy policies of the sites they visit. Under U.S. law, businesses in several economic sectors—financial services,[1] health services,[2] cable television,[3] telecommunications,[4] children's online services,[5] and video rental[6]—are compelled to disclose their privacy practices. In other business sectors, disclosing information practices is largely voluntary, but disclosure is nearly as common.

Beyond legal mandates, several forces are driving the proliferation of privacy policies. Market pressures encourage many businesses to at least appear sensitive to customers' privacy concerns. Most businesses would like to avoid the perception or implication that they harvest and sell the personal data they obtain either openly or surreptitiously from

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* Professor of Law and Cleon H. Foust Fellow, Indiana University School of Law-Indianapolis. The author presented an earlier version of this paper at the Tenth International Consumer Law Conference in Lima, Peru, in May 2005. Special thanks to Dr. Brenda Cude and the Department of Housing and Consumer Economics at the University of Georgia for comments on an early draft and suggestions for social science resource materials.

1. Gramm-Leach-Bliley Act (GLBA), 15 U.S.C. §§ 6801–6809 (2000).
2. Health Insurance Portability and Accountability Act (HIPAA) of 1996, Pub. L. No. 104-191, 110 Stat. 1936 (codified as amended in scattered sections of 18, 26, 29, & 42 U.S.C.).
3. Cable Communications Policy Act (CCPA) of 1984, 47 U.S.C. § 551 (2000).
4. Telecommunications Act of 1996, 47 U.S.C. § 222 (2000).
5. Children's Online Privacy Protection Act (COPPA) of 1998, 15 U.S.C. § 6501 (2000).
6. Video Privacy Protection Act (VPPA) of 1988, 18 U.S.C. §§ 2710–2711 (2000).

their customers. Indeed, business consulting firms now routinely encourage the adoption and promotion of privacy policies as a way to present a positive client image.[7] Appearing concerned about customer privacy has become a standard marketing strategy.

Beginning in the mid-1990s, firms that collected information from European consumers began to publish privacy policies to comply with the European Union (E.U.) data protection directive.[8] For most other businesses, persuasive efforts of the Federal Trade Commission (FTC) played an influential role. During the late 1990s, the FTC conducted studies of consumer privacy preferences and business privacy practices.[9] The studies concluded that firms were collecting and selling a vast amount of personal information without consumer knowledge or consent and using it in ways that consumers did not approve.[10] The problem was most acute on the Internet, where personal information is easily obtained, collated, and distributed through a variety of technological means, many of which are hidden from consumers.[11] The disconnect between consumer privacy preferences and business data-handling practices was so severe that by the end of the decade, the FTC was calling for national legislation to mandate fair information policies on the Internet.[12]

Political winds shifted, however, and with additional studies and a change in FTC leadership in 2001, the agency tabled its push for privacy legislation in favor of industry self-regulation.[13] As an incentive, the FTC

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7. In October 2002, the American Institute for Certified Public Accountants (AICPA) formed a task force to promote the selling of privacy services by CPAs. *See* AICPA, Enterprise-Wide Privacy Solutions, http://www.aicpa.org/innovation/baas/ewp/homepage.htm (last visited Nov. 28, 2005). The task force developed strategies to position accountants as key players in the growing privacy protection industry. *Id.* The AICPA opined, "Good privacy practices can do far more than build customer confidence and protect the integrity of an organization's brand—they can also increase customer loyalty and add to the bottom line." *Id.*; *see also* Accenture, Business and Consumers See Privacy and Trust Differently (2003) [hereinafter Accenture Survey] (on file with JLTP) (survey of consumer privacy preferences by Accenture); *Businesses and Consumers See Privacy and Trust Differently*, ACCENTURE DIGITAL F., March 2004, http://digitalforum.accenture.com/DigitalForum/Italy/ViewByTopic/Privacy/Bsns_and_cons_see_differently.

8. *See* Council Directive 95/46, 1995 O.J. (L 281) 31 (EC) (concerning "the protection of individuals with regard to the processing of personal data and on the free movement of such data"); Council Directive 97/66, 1997 O.J. (L 24) 1 (EC) ("concerning the processing of personal data and the protection of privacy in the telecommunications sector"). In the United States, there are only a few state privacy laws that affect Internet commerce. *See, e.g.*, MINN. STAT. §§ 325M.01–.09 (2004) (privacy rules for Internet service providers).

9. In 2000, the FTC concluded that industry measures were far from adequate and that national privacy legislation was needed. *See* DIV. OF FIN. PRACTICES, FTC, PRIVACY ONLINE: FAIR INFORMATION PRACTICES IN THE ELECTRONIC MARKETPLACE 28–29 (2000) [hereinafter FTC, PRIVACY ONLINE], *available at* http://www.ftc.gov/reports/privacy2000/privacy2000.pdf.

10. *Id.* at 25.

11. *Id.* at i.

12. *Id.* at 36 ("The proposed legislation would set forth a basic level of privacy protection for all visitors to consumer-oriented commercial Web sites . . . .").

13. *See* Timothy J. Muris, Chairman, Fed. Trade Comm'n, Protecting Consumers' Privacy: 2002 and Beyond, Remarks at the Privacy 2001 Conference (Oct. 4, 2001) [hereinafter Muris, Protecting], *available at* http://www.ftc.gov/speeches/muris/privisp1002.htm; *see also Challenges Facing the Federal Trade Commission: Hearing Before the Subcomm. on Commerce, Trade, and Consumer Protection of*

kept alive its threat of regulatory action if Internet firms did not adopt fair information practices in due course.[14] The threat was serious for large e-retailers who had much to lose if government standards directed how they managed consumer information online. By the end of 2001, nearly all of the most frequently visited Web sites had implemented detailed information practices accompanied by published privacy policies, but data-collection techniques and sharing activities varied widely among firms, and the practices of many smaller firms were unknown.[15] Because the market for consumer purchasing, demographic, and Web-surfing information was in full swing with a seemingly unlimited future, firms with strong online presences overwhelmingly preferred self-regulation to mandatory privacy standards that might hinder further growth. It was therefore in the interest of the major online firms to encourage smaller firms to adopt privacy practices that satisfied the FTC.

To this end, several firms (IBM being the most notable) announced that they would no longer advertise or link to Web sites that did not publish privacy policies conforming to fair information practices.[16] The chain reaction was swift, as other firms announced similar plans, and many smaller Internet sites complied. This informal coordination among firms solved what might otherwise have been a classic free-rider problem.[17] Privacy policies cost money to develop, implement, and maintain, and they invite FTC and state enforcement actions if a firm does not follow them. An individual business, acting without market pressure, might be better off without a privacy policy so long as enough other businesses convinced the FTC that the problem did not justify broad-based government intervention. Market pressure assured that there would be no free riders in this lane of the information highway.

The FTC lauded the success of its market-driven solution.[18] Indeed, privacy policies can be seen everywhere today, and they give the impression that Web sites safeguard personal information that they collect. When the policies are read, however, there is often very little privacy protection being promised. Policies might disclose how data is collected and how it will be transferred, sold, or traded, but often the message is that information will be collected in whatever way the Web

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the H. Comm. on Energy and Commerce, 107th Cong. 10–12 (2001) (statement of Timothy J. Muris, Chairman, Federal Trade Commission) [hereinafter Muris, Challenges], *available at* http://energycommerce.house.gov/107/action/107-68.pdf.

14. *See* Muris, Challenges, *supra* note 13.

15. *See* Muris, Protecting, *supra* note 13.

16. Jon G. Auerbach, *To Get IBM Ad, Sites Must Post Privacy Policies*, WALL ST. J., Mar. 31, 1999, at B1.

17. *See* Steven Hetcher, *The* De Facto *Federal Privacy Commission*, 19 J. MARSHALL J. COMPUTER & INFO. L. 109, 118 (2000).

18. Muris, Protecting, *supra* note 13 ("One of the agency's successes has been encouraging Internet sites to post privacy notices."). Indeed, in 1998, only two percent of all Web sites had some form of privacy notices. *Id.* By 2000, virtually all of the most popular commercial Web sites had privacy notices. *Id.*

site can obtain it, and the site reserves the right to share or sell it with impunity.[19] References to information security or safeguards tend to be vague and noncommittal.[20] Thus, despite the proliferation of privacy policies online, consumers' privacy interests may in fact be no better protected today than they were ten years ago. The FTC placed its faith in market incentives to curb unfair privacy practices, but there may be little incentive for online businesses to adopt and adhere to strong privacy policies. It is the appearance of privacy that seems to matter most.

To be fair, the FTC's goal has not been to mandate strong, consumer-friendly information practices, only market-efficient ones. The agency is pursuing a policy of transparency, urging businesses to post their practices and honor their commitments.[21] The agency expects market forces to produce privacy terms that reflect an efficient balance of consumer and business preferences. This approach makes sense in light of the FTC's mission as it historically has been viewed. Through the decades, the agency has focused most of its resources on ensuring accurate disclosure, preventing deceptive practices, and developing open and competitive markets that encourage and reward informed consumer choice.[22] It has seldom imposed contract terms or acted as a protector of basic consumer rights.

In this Article, I argue that encouraging the posting of privacy policies without regulating their content is likely to result in suboptimal privacy practices—that is, privacy practices that give consumers

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19. For example, the privacy policy for the online Parisian department store begins with the words "JUST BETWEEN YOU AND US," but goes on to explain that personal information may be acquired in numerous ways and that Parisian

> may share this information about you with other members of our Saks Incorporated retail family of companies. . . . If you use your Parisian credit card, we will share information about you with other members of our retail family of companies.
>
> We and other members of our retail family of companies may occasionally share information about you (such as names and regular mail address) with responsible marketing organizations, outside of our retail family of companies, that offer products and services that we believe would be of interest to you.

Parisian, Privacy Policy, http://www.parisian.com/Default.aspx?PAGETYPE=PRIVACY_POLICY_POPUP (last visited Nov. 29, 2005).

20. The PGA Tour Web site is typical:

> The Site incorporates reasonable safeguards to protect the security, integrity, completeness, accuracy and privacy of the personal information that we may collect and we have put into place reasonable precautions to protect such information from loss, misuse and alteration. Your credit card number is encrypted via Secure Sockets Layer (SSL) and is stored behind a firewall. Only those employees who need access to your information in order to do their jobs are allowed access. Our security policies are reviewed periodically and revised as required.

PGATOUR.com, Privacy Policy: Security, http://www.pgatour.com/info/privacy#security (last visited Nov. 29, 2005).

21. The publication of privacy policies thus has important institutional effects regardless of the content of the privacy practices that are disclosed. The FTC and state attorneys general can prosecute deceptive practices if a site does not honor its published privacy policy. Several cease-and-desist orders have resulted from such enforcement actions. *See* FTC, Unfairness & Deception: Enforcement, http://www.ftc.gov/privacy/privacyinitiatives/promises_enf.html (last visited Nov. 29, 2005).

22. *See generally* FTC, PRIVACY ONLINE *supra* note 9, at 3–6 (describing the FTC's approach to online privacy).

substantially less information privacy than an efficient market would produce.[23] To support the argument, I examine research on consumer decision strategies and behavioral economics. I first describe rational choice theory in the context of a market for personal information online. I then explore whether the assumptions underlying the theory are supported by social science research concerning consumer behavior and decision-making patterns. The evidence is conflicting but, I believe, reconcilable, and troubling for those who put their faith in market solutions to privacy problems.

On the one hand, studies in behavioral economics suggest that online information privacy is important to consumers and that consumers desire more control over access to their personal information and subsequent use of the information after it is obtained.[24] These findings support a market-driven approach. If consumers are aware of their privacy concerns and deem privacy important, they are more likely to take steps to protect their own interests—for example, avoiding firms that might compromise their privacy interests and frequenting the ones that are more likely to protect them. Without prohibitively high transaction costs or impediments to understanding the varying privacy practices of competing firms, informed consumer choices should produce more efficient privacy practices online.

On the other hand, research on bounded rationality and consumer decision making suggests that in most circumstances consumers, acting rationally, do not factor privacy policies into their decision processes, even when they consider privacy important, because privacy concerns are seldom salient.[25] When rational consumers value privacy but do not factor privacy concerns into the decision-making process, the market may produce suboptimal privacy terms that benefit data collectors. Moreover, the research suggests that the problem is not solvable by reducing transaction costs and making information about privacy practices more visible or easily understood.

To the extent that this condition exists, it would seem to elicit three responses, which I explore in Part III of this Article. The first response is patience. We are still in the relatively early stages of an emerging market for information privacy. Over time, market influences such as advertising, personal experience, privacy signals (such as privacy trust marks), and technological developments may make privacy terms more

23. The argument is pertinent to unregulated market sectors as well as economic sectors in which privacy laws already exist because those laws rely primarily on disclosure of privacy policies and consumer choice rather than mandating the content of privacy practices. *See supra* text accompanying notes 1–6. For the laws to work effectively, consumers must police their own privacy interests by learning the content of a firm's privacy practices and then acting in their own best interests to limit information disclosure or opt out of information sharing. *See generally* James P. Nehf, *Recognizing the Societal Value in Information Privacy*, 78 WASH. L. REV. 1, 45–58 (2003) (discussing the protection of privacy in the private sector).

24. *See* discussion *infra* Part II.C.

25. *See* discussion *infra* Part II.D.1–.3.

salient.[26] Online firms may respond to a resulting shift in consumer decision strategies, and more efficient privacy policies may emerge in time.

A second response is government imposition of mandatory privacy terms drafted to ensure that privacy practices online coincide better with rational consumer preferences, as the FTC urged in the late 1990s. Regulatory or legislative privacy mandates have been imposed in various degrees and with varying success in several economic sectors in the United States and even more broadly in Europe. Experience with those laws and practical problems in drafting an efficient set of online privacy mandates, however, suggest that this alternative may be less desirable than the current but inadequate market-driven approach.[27]

A third response, and one I argue is best for the foreseeable future, is to encourage the evolution of more efficient privacy practices over time through more aggressive public and private enforcement actions. I urge the FTC and state consumer protection agencies to resurrect and flex their unfairness and deceptive practices authority, which thus far has been fairly weak in policing the market for injurious privacy practices.[28] Bringing enforcement actions only for the most blatantly deceptive privacy breaches or database security failures is not likely to strengthen the substance of privacy practices and align them better with consumer preferences. Expanding the reach of deception and unfairness adjudication has several advantages over legislative or rulemaking action, the most important of which is allowing norms to emerge and evolve incrementally over time. Although the FTC's unfairness and deception standards do not align well with many online privacy concerns, the standards can and should be revised and applied more aggressively if our market-regulating agency is serious about developing a more efficient privacy regime.

II. BOUNDED RATIONALITY AND THE MARKET FOR INFORMATION PRIVACY ONLINE

A. Legitimizing Private Law in Market Transactions Generally

Law seeks to control societal tendencies towards anarchy by directing, and at times punishing, the behavior of those who live within the legal regime and act beyond generally accepted societal norms. When a government exerts power to direct the behavior of its subjects, there are always questions of legitimacy—what justifies the imposition of law to restrict the freedom of individuals? In our constitutional system,

26. *See* discussion *infra* Part III.A.
27. *See* discussion *infra* Part III.B.
28. *See* discussion *infra* Part III.C.

the consent of the governed acting through their elected representatives legitimizes public law. Consent between individuals or groups legitimizes private law. Contract law, in particular, has long been viewed as a legitimate creation of private law because it results from voluntary undertakings that direct the behavior of two or more willing parties.[29] Similarly, the relationship between Web sites and their users is contractual in nature. Web sites offer content, products, and services in exchange for money and, in many cases, personal information.

Although the consent model of contract law is still taught in most law schools, it is widely viewed as an inadequate description and normative justification for modern contractual relationships.[30] Standard form contracts are consent-based on only the most basic terms. In most transactions, at least one party (and sometimes both) has little awareness of contract terms, and it is difficult to defend term legitimacy on consent grounds alone. This elicits three categories of response. One is to champion measures that may create an environment in which informed, subjective consent is more likely to occur.[31] Laws calling for conspicuous disclosure of terms, notice of contract rights, plain language, and mandatory rescission or cooling-off periods try to ensure that consumers make better informed and more voluntary decisions.

A second type of response is to acknowledge the absence of actual consent, accept it as an unavoidable condition of transacting business in the modern world, and argue that non-consensual private law is

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29. *See* JOHN RAWLS, A THEORY OF JUSTICE 343 (rev. ed. 1999); Randy E. Barnett, *Rational Bargaining Theory and Contract: Default Rules, Hypothetical Consent, the Duty to Disclose, and Fraud*, 15 HARV. J.L. & PUB. POL'Y 783, 801 (1992) ("A fundamental tenet of the liberal conception of justice is that resources rightfully belonging to another may not be taken without the manifested consent of the rights-holder.").

30. *See* William W. Bratton, Jr., *The "Nexus of Contracts" Corporation: A Critical Appraisal*, 74 CORNELL L. REV. 407, 458–59 (1989) ("Contract law literature contains commentary effectively challenging classical contract's conjunction of contract, consent, and freedom."); Duncan Kennedy, *The Stages of the Decline of the Public/Private Distinction*, 130 U. PA. L. REV. 1349, 1352 (1982) ("[T]he 'free' 'private' market is really an artifact of public violence."); Betty Mensch, *Freedom of Contract as Ideology*, 33 STAN. L. REV. 753, 764 (1981) ("Coercion, including legal coercion, lies at the heart of *every* bargain. Coercion is inherent in each party's legally protected threat to withhold what is owned. The right to withhold creates the right to force submission to one's own terms."). *See generally* Lawrence Kalevitch, *Gaps in Contracts: A Critique of Consent Theory*, 54 MONT. L. REV. 169, 188–95 (1993) (discussing the problems of consent and traditional contracts).

31. The point here is not whether a subjective or objective standard of consent should be used to assess the legitimacy of privacy policies. *See generally* Randy E. Barnett, *A Consent Theory of Contract*, 86 COLUM. L. REV. 269 (1986) (discussing subjective and objective theories for contract enforcement). Subjective consent to privacy policies is largely a fiction, and justifications for non-intervention therefore must come from elsewhere—rational choice being the justification adopted by the FTC (and many others) thus far. Objective consent is an oxymoron or at best a shorthand term for concluding that while there is no intentional consent, the undertaking should be enforced for other reasons. *See, e.g.*, RANDY E. BARNETT, PERSPECTIVES ON CONTRACT LAW 313 (1995). In other words, if a person did not actually consent to something, he can still be bound by the outcome because there is a normative justification for holding him to the terms. My point is, without subjective consent, the justification for government non-intervention in the making of private law is called into question. Rational choice is a popular theory that tries to fill the void (as a normative underpinning for private law in an objective consent scenario), but, for the reasons discussed below, it does not serve as a viable justification for privacy policies.

legitimized in other ways. Presently, the most widely accepted alternative is rational choice theory, often referred to in this context as the contract-as-product justification.[32] A non-consensual contract term is one of many non-negotiable, hidden aspects of a product or service being offered. Consumers purchase many products and services without knowing many of their physical, experiential, and legal attributes—good, bad, or otherwise. In the sale of a computer, for example, a typical buyer may be aware of some but not all software and hardware properties. Similarly, the buyer may be fully aware of a few contract terms (for example, a one-year warranty) but only vaguely aware of others. At the time of delivery, the computer comes as a bundled, packaged product, and the buyer must decide whether to buy the entire bundle, terms and all.[33]

Observing that contract terms are simply part of a package deal may describe contracting in today's world, but it does not necessarily legitimize the terms. Without a normative justification to legitimize private law created in the absence of informed, voluntary agreement, there is no reason why we should not ignore the adhesion contract terms and use default rules found in legislation, at common law, or in some other source. Absent a trade custom, a court likely would not enforce a secret term that one contracting party did not even disclose to the other. A disclosed but unread term—or privacy policy—also could be held unenforceable, unless there is a good reason to consider it binding.

One reason we might enforce a disclosed but unread term is essentially fault-based. If people choose, without coercion, to enter into a transaction without reading the terms, they take a risk and the law will not hear their complaint if harm later results. We might say that they waived their legitimacy claim by foregoing the opportunity to withhold consent if they thought the term was unfair. Fault-based justifications have normative appeal, but only when there is a societal consensus that a person is genuinely at fault. Through personal experience we know that in most form-contracting situations our failure to read is excusable and even expected. If someone insisted on reading, questioning, and even

32. *See generally* Margaret Jane Radin, *Humans, Computers, and Binding Commitment*, 75 IND. L.J. 1125 (2000) (discussing the contract-as-product model of contract with respect to online transactions).

33. Drafters of some adhesion contracts, particularly end-user license agreements for software, may attempt at least to give the appearance of negotiable terms (and thereby deflect potential unconscionability claims) by including a telephone number that the licensee can call if terms are not satisfactory or if additional rights are desired. *See, e.g.*, P22, End User Agreement, http://www.p22.com/support/license.html (last visited Nov. 29, 2005) (explaining the method for obtaining licensing rights beyond those granted in the standard agreement); Veer, End User License Agreement, http://www.veer.com/help/license.aspx?eula=VLI (last visited Nov. 29, 2005) ("Please be aware that we are serious about preserving the integrity of this License Agreement, and will take action to enforce it when necessary. At the same time, though, we will be pleased to make special arrangements to permit you to use an image or images in many ways that are excluded by this Agreement. Generally, this is a quick and easy process. Please call us at 1-888-708-8777 . . . .").

dickering over standard terms, others likely would find the behavior odd and pointless.

Those who argue for enforcing standard contract terms, therefore, seldom use fault-based justifications. Instead, they argue that if market participants behave rationally, market forces will ensure that contract-drafting parties include efficient terms, whether bargained for or not.[34] Market actors make choices in their own best interests, and the resulting equilibrium is then efficient. If efficiency is accepted as a morally legitimate end, then the regime is morally defensible.[35] As Judge Easterbrook wrote in *ProCD, Inc. v. Zeidenberg*,[36] "Competition among vendors, not judicial revision of a package's contents, is how consumers are protected in a market economy."[37]

A third response to the perceived legitimacy of non-bargained-for terms is to claim that they have no legitimacy and to call for mandatory terms imposed by government authority. Legitimacy is then reestablished by the democratic process. Indeed, broadly speaking, the evolution of law in many areas can be viewed as a movement away from unrealistic consent-based assumptions and inadequate disclosure-based market refinements and toward mandatory rules, whether creations of common law or statutory imperatives. Examples can be found in virtually all fields, including, to name just a few, employment (including exceptions to employment-at-will, numerous anti-discrimination laws, and mandatory accommodations for workers with disabilities); insurance (for instance, state-imposed insurance terms); competition (such as restrictions on anti-competitive mergers and product tie-ins); and

34. *See* Russell Korobkin, *Bounded Rationality, Standard Form Contracts, and Unconscionability*, 70 U. CHI. L. REV. 1203, 1206, 1210–11 (2003). *See generally* Richard Craswell, *Passing on the Costs of Legal Rules: Efficiency and Distribution in Buyer-Seller Relationships*, 43 STAN. L. REV. 361 (1991).

35. *See* Eve M. Caudill & Patrick E. Murphy, *Consumer Online Privacy: Legal and Ethical Issues*, 19 J. PUB. POL'Y & MARKETING 7, 14–15 (2000); Frank V. Cespedes & H. Jeff Smith, *Database Marketing: New Rules for Policy and Practice*, SLOAN MGMT. REV., Summer 1993, at 7–8. For purposes of this Article, I do not challenge the idea that economic efficiency is a valid norm for judging the effectiveness of online privacy policies. Privacy could be viewed as a fundamental right that should not be commodified or traded away at any price. Ontological justifications for privacy protection have a long history, and I do not review them here. *See, e.g.*, ALAN F. WESTIN, PRIVACY AND FREEDOM 31–32 (1968); Stanley I. Benn, *Privacy, Freedom, and Respect for Persons, in* PHILOSOPHICAL DIMENSIONS OF PRIVACY: AN ANTHOLOGY 223 (Ferdinand David Schoeman ed., 1984); Robert C. Post, *Three Concepts of Privacy*, 89 GEO. L.J. 2087, 2088, 2092–98 (2001) (connecting privacy to three distinct concepts: dignity, autonomy, and the creation of knowledge); Jeffrey H. Reiman, *Privacy, Intimacy, and Personhood*, *in* PHILOSOPHICAL DIMENSIONS OF PRIVACY, *supra*, at 300; Jeffrey Rosen, *The Purposes of Privacy: A Response*, 89 GEO. L.J. 2117, 2121 (2001). Market regulation of privacy practices is the predominant approach in the United States for now, at least in the private sector. Rightly or wrongly, information is seen as a tradable commodity. Those opposing government mandates usually argue economics in their favor, so it is important to explore the ramifications of efficiency claims for online privacy practices. Moreover, while economic arguments might not provide definitive normative justifications, they can at least be useful in informing decisions about the appropriate allocation of rights.

36. 86 F.3d 1447 (7th Cir. 1996) (challenging standard licensing terms within a software package).

37. *Id.* at 1453.

landlord-tenant relations (including court- or legislature-imposed habitability requirements, anti-discrimination laws, and eviction procedures). Statute books are replete with laws that impose terms in relationships that previously had been left to market forces and to the immediately affected parties to decide for themselves. Whether government-mandated terms are fairer or more efficient than terms produced by market exchange is continually questioned, but the practice of state interference with private relationships, as a means of legitimizing the law created therein, is commonplace.

Consumer law has certainly evolved along such a path. As new products and business practices develop, relationships between firms and consumers often are seen initially as consent-based because consumers usually enter into transactions of their own free will, and the rules governing those transactions are, to a large extent, created by the parties' express or tacit agreement. Common law doctrines of deceit and misrepresentation support the consent model because a person's consent is defective, and therefore less legitimate, if based upon erroneous information supplied by the other party. Much statutory consumer law fits the consent model as well. Disclosure laws (for example, truth-in-lending, credit reporting, and warranty disclosure laws) are premised on the idea that consent is more voluntary and markets work better when consumers are better informed. Even when consent remains imperfect, disclosed terms can ensure that market forces will protect collective consumer interests by driving out undesirable practices. Yet market failures abound even with full disclosure, and legislative limits on contractual freedom in consumer transactions are commonplace.[38]

Privacy policy in the United States is still in its relatively early stages and is discussed largely with the rhetoric of consent. The collection and trading of personal information is viewed as part of a voluntary undertaking and exchange between consumers who give businesses their personal information and businesses that use or sell the information.[39] The model is under increasing scrutiny, however. Many consumers feel wronged if a firm collects information without their express knowledge and agreement, if the firm sells or rents that information to a third party without permission, or if a consumer's desire to revoke consent is not

38. Debates about regulating the sub-prime lending market are a recent example. In some states, disclosure of sub-prime lending fees and corresponding annual percentage rates is regarded as sufficient to protect societal interests. In others, caps on fees or outright prohibition of certain lending practices, such as "payday" loans, have been legislated. *See generally* James P. Nehf, *Secured Consumer Credit and the Fringe Banking Industry*, *in* SECURED TRANSACTIONS UNDER THE UNIFORM COMMERCIAL CODE ch. 20A (J.B. McDonnell ed., 2005) (discussing state and federal laws governing traditional pawns, automobile title pawns, "payday" loans, tax refund anticipation loans, and rent-to-own transactions).

39. *See, e.g.*, Mary J. Culnan, *Protecting Privacy Online: Is Self-Regulation Working?*, 19 J. PUB. POL'Y & MARKETING 20, 21 (2000) (discussing the exchange of personal information for economic or social benefit and urging measures to enhance consumer choice).

heeded (for instance, if a consumer is not given the opportunity to remove personal information from the database or restrict its use).[40]

This is where privacy policies become relevant. To address the perception of surprise and betrayal, collectors of personal information disclose privacy policies by mail or, for online services, through Web site links. Consumers then have the opportunity to read and understand the terms before disclosing personal information.[41] Privacy policies essentially propose to transform an implicit exchange into an explicit, consensual one: the consumer gets the benefit of the product or service that the business offers (such as financial services, insurance, Web site content, health care, or video rentals), and the business gets (in addition to, perhaps, the consumer's money) some personal information, agreeing to treat the data in accordance with the stated terms in the policy.[42]

Research and everyday personal experience tell us that consumers seldom read privacy policies. In a study of adult Internet users who were asked to evaluate the credibility of Web sites, less than one percent of respondents even noticed privacy policies.[43] Still, privacy laws and the FTC's current approach to privacy online work within the consent and rational choice models by requiring or encouraging disclosure of privacy practices as the primary control mechanism.[44] If privacy policies are not widely read, the consent justification for allowing businesses to set their

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40. Joseph Phelps, Glenn Nowak & Elizabeth Ferrell, *Privacy Concerns and Consumer Willingness to Provide Personal Information*, 19 J. PUB. POL'Y & MARKETING 27, 28 (2000).

41. With cookies, Web bugs, GIF tags, and other technologies, however, some information likely has been transmitted already before the consumer has had an opportunity to read the Web site's privacy terms. *See* Viktor Mayer-Schonberger, *The Internet and Privacy Legislation: Cookies for a Treat?*, 1 W. VA. J.L. & TECH. 1.1 (1997), http://www.wvu.edu/~law/wvjolt/Arch/Mayer/Mayer.htm. *See generally* Robert O'Harrow, Jr., *Fearing a Plague of "Web Bugs,"* WASH. POST, Nov. 13, 1999, at E1.

42. In other transactions, the exchange is less obvious. A consumer may provide personal information to an Internet search engine (knowingly or not) in exchange for access to the search engine's content. The search engine collects the information and treats it in accordance with its information privacy policy. The exchange may not be expressly bargained for, but there is an exchange of value nonetheless.

43. B.J. FOGG, ET AL., CONSUMER REPORTS WEBWATCH, HOW DO PEOPLE EVALUATE A WEB SITE'S CREDIBILITY?: RESULTS FROM A LARGE STUDY 86 (2002), http://www.consumerwebwatch.org/pdfs/stanfordPTL.pdf.

44. The FTC's list of Fair Information Practices encourages but does not require disclosure, nor does it mandate any particular privacy terms. FTC, Fair Information Practice Principles, http://www.ftc.gov/reports/privacy3/fairinfo.htm (last visited Nov. 29, 2005). Recommended privacy practices include: notice or awareness (publishing privacy statements regarding storage, dissemination, manipulation, and security); choice or consent (providing either opt-out or opt-in alternatives); access or accuracy (allowing access to confirm accuracy); integrity or security (controlling against theft and tampering); and enforcement or redress (implementing some mechanism to ensure compliance). *Id.* Among the five recommendations, the FTC considers notice of privacy practices to be the most fundamental, but the law does not compel such notice or mandate the terms of the privacy policy. Kim Bartel Sheehan & Mariea Grubbs Hoy, *Dimensions of Privacy Concern Among Online Consumers*, 19 J. PUB. POL'Y & MARKETING 62, 69 (2000). This dovetails with the FTC's oversight responsibility under § 5 of the FTC Act, which prohibits unfair or deceptive practices. *See* 15 U.S.C. § 45(a)(1)–(2) (2000). If a business does not follow its stated privacy policy, it commits a deceptive act in violation of the FTC Act. The FTC has yet to hold, however, that failure to disclose one's privacy practices is unfair.

own privacy terms is doubtful. This leaves rational choice as the justifying theory.

The regime is not necessarily justified, however, under rational choice theory. When purchasing a product or using a service, consumers get many things that they explicitly bargain for plus many additional attributes that go unnoticed. These may include some beneficial and some detrimental product or service attributes as well as some beneficial or detrimental legal attributes. Market forces may be able to produce efficient terms on all of these attributes, including privacy terms, and therefore legitimize them even in the absence of true consent. Research in consumer behavioral sciences suggests, however, that market forces do not produce optimal privacy practices because privacy policies are seldom salient in the decision-making process.[45] The following discussion shows why.

B. The Market for Information Privacy Online

The rational choice model assumes that when faced with a decision, consumers will take into account the relevant attributes among competing alternatives and choose the one that yields the best net result. In its purest form, this is sometimes described as a weighted-adding strategy, whereby people cognitively assign an importance weight or value (positive or negative) to each attribute of the product or service about which they have a preference, total the weights, and choose the alternative with the highest total value.[46] For example, in the context of

45. This conclusion is one of the foundations of the E.U. approach to privacy protection, where several duties are imposed on data collectors by law. Caudill & Murphy, *supra* note 35, at 15. A duty of "fidelity" requires businesses to act in a forthright and honest manner and includes a duty to disclose privacy policies truthfully, conspicuously, and coherently and to redress injuries without delay. *Id.* A duty of "beneficence" imposes an obligation to do right by one's customers. *Id.* This requires more of an opt-in rather than an opt-out rights approach and permits the tracking of only those customers who knowingly participate in data collection. *Id.* A duty of "nonmalfeasance" is the duty not to injure others. *Id.* This requires the maintenance of security and accuracy with respect to the information stored and a commitment to keep the information from getting into the hands of those who could harm consumers. *Id.*

46. In the classic weighted-adding strategy, the decision maker considers one alternative at a time and examines each of its attributes, arriving at a certain value for each attribute. *See* James R. Bettman et al., *Constructive Consumer Choice Processes*, 25 J. CONSUMER RES. 187, 190 (1998). The decision maker then multiplies each attribute value by its weighted importance and chooses the alternative with the highest total value. *Id.* Because weighted-adding is extensive (evaluating all attributes of competing alternatives), compensatory (a good value on one attribute can compensate for a poor value on another), and requires explicit trade-offs, it is generally regarded as the most accurate process for determining individual preferences. *Id.*; Deborah Frisch & Robert T. Clemen, *Beyond Expected Utility: Rethinking Behavioral Decision Research*, 116 PSYCHOL. BULL. 46, 49 (1994). It places great demands on the decision maker's memory and computation abilities. Bettman et al., *supra*, at 190. Despite these obvious deficiencies, it is the method underlying much market research. *Id.* A simplified version of weighted-adding is the equal weight strategy, in which the decision maker considers all attributes of all alternatives, but processing is simplified by assigning the same weight to each attribute. *See* Robyn M. Dawes, *The Robust Beauty of Improper Linear Models in Decision Making*, 34 AM. PSYCHOLOGIST 571 (1979). Even in its simplified form, the strategy is cognitively intensive.

privacy and a consumer deciding between two news Web sites to frequent, one site might offer in-depth news content for free but collect and share registration and cookie data with third parties (a "weak" privacy provider). Another might offer more limited news content for free and enhanced coverage if the consumer pays $3.99 per month but keep any personal data secure and share it with no one (a "strong" privacy provider). If other attributes of the Web sites are equal, an informed consumer who wants extensive news coverage and also cares about privacy must decide whether her privacy is worth $3.99 per month.

When informed consumers use a weighted-adding strategy, market pressures should force businesses to produce efficient outcomes, and an efficient price point for personal information is reached.[47] If a very small number of customers think keeping their information private is worth $3.99, then the strong privacy provider will not gain many customers by offering privacy for that price. If it costs the strong privacy provider only two dollars per subscriber to provide good privacy protection (in added cost of security and lost marketing opportunities), the publisher may lower its price in an attempt to attract more customers and maximize its profits. If very few consumers are even willing to pay more than two dollars for strong privacy protection, then very few Web sites will provide it. From a societal perspective, this is still efficient because few consumers are willing to pay what it costs to honor their preferences.

For the model to produce efficient outcomes, consumers must shop their privacy preferences. Consumers must not only be aware of the content of privacy policies, but they also must incorporate that information into their decision whether to share personal information. In other words, privacy must be important enough to enter the decision-making calculus—to be a salient attribute in the consumer's decision process.[48] If privacy preferences are salient and consumers shop for privacy terms that meet their preferences, the market will produce efficient privacy policies, just as it does for other salient terms (price probably being the most common in purchasing transactions). If privacy is not salient, businesses offering weaker privacy terms than those that consumers prefer will capture a consumer surplus, i.e., get the benefit of personal information without paying or trading for it at the rate consumers would demand. The case for government intervention is then stronger.

47. The price need not be monetary for a privacy market to work. A site might offer greater download speeds, more striking graphics, special offers, more in-depth content, and other enticements to "purchase" users' personal information.

48. There is another assumption at work here. To shop effectively for privacy, consumers must be able to value their privacy interests. *See* Nehf, *supra* note 23, at 62–63. This is hugely problematic for a number of reasons. *Id.*

In many situations, consumers have privacy preferences, and, if forced to evaluate privacy terms, consumers would in fact give up some personal information in exchange for added value. We see this when consumers sign up for premium online services that offer video clips and other enhanced content in exchange for registration information or customer survey participation. Conversely, consumers sometimes pay more or give up discounts to have better privacy protection, as many refuse to use grocery store "convenience" cards because they do not want their purchasing habits tracked and traded.[49] When privacy terms are salient, the market can provide incentives for Web sites to provide strong privacy protection because doing so would attract new customers who value privacy above the cost of the Web site providing it, which would increase the site's profitability. When privacy terms are not salient, however, sites have less incentive to offer stronger privacy protections. They will not lose a significant number of customers by providing weak terms (or no privacy terms at all) because very few consumers will take notice. This creates a classic "lemons" problem in which most market participants offer weak, inefficient terms and pay no penalty for doing so.[50] Laws legitimately can be imposed to correct the imbalance.

C. Behavioral Studies Reveal Strong Consumer Privacy Preferences

The interactive nature of the Internet creates a unique environment for information gathering by Web site operators and thus increases consumer anxiety about privacy invasions.[51] Generally speaking, personal information can include both public and private data. Public data includes information that we either display regularly (such as a driver's tag number) or put on file in a public place (such as home mortgage information at the county recorder's office). Private data is information that we generally keep out of the public eye. As the Internet increases the ease with which data is collected, manipulated, and transferred, public information about us is growing as the private data

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49. Consumers Against Supermarket Privacy Invasion and Numbering (CASPIAN) urges the boycotting of stores that only give discounts to shoppers who use convenience cards. *See* Consumers Against Supermarket Privacy Invasion and Numbering, http://www.nocards.org (last visited Nov. 29, 2005).

50. Privacy terms may well be salient to some consumers, but to many others the terms are not salient. Inefficiencies still are present, however, even if some people shop for privacy. If a substantial number of consumers are in each group, we would expect some sites to offer strong privacy protections to attract the consumers for whom privacy is a salient attribute. Others would offer weak terms and be content to profit from customers for whom privacy is not so salient. Customers who shop for privacy terms will receive efficient terms by gravitating to the strong privacy sites. Those who do not shop for privacy will receive inefficient terms if, when forced to consider the issue, they would pay more than it costs a Web site to provide stronger privacy terms. If privacy is important but not salient for this group, sites with weak privacy protections reap a consumer surplus from them.

51. Sheehan & Hoy, *supra* note 44, at 62. *See* Pradeep K. Korgaonkar & Lori D. Wolin, *A Multivariate Analysis of Web Usage*, 39 J. ADVERTISING RES. 53, 57 (1999).

shrinks.[52] Social scientists have recognized this phenomenon and have studied how it affects consumer behavior online.

Research in behavioral economics suggests that consumers are concerned about information privacy. Unlike many standard terms in adhesion relationships, such as severability clauses, "time of the essence" language, or even arbitration clauses, consumers appear to have strong preferences when the subject of privacy is brought to their attention. In experimental settings, consumers are capable of acting rationally within the limits of the information to which they are exposed.[53] Numerous surveys and controlled experiments have found that consumers value privacy and generally want more privacy than they perceive they now have.[54] Researchers have asked consumers to make decisions that reveal their privacy preferences in a way that places the question firmly into the decision-making process.[55] When this happens, consumers profess to have strong privacy preferences.[56]

Several findings appear to be well supported. First, consumers generally are aware of privacy issues, and they are concerned about guarding their personal information.[57] Although not all consumers seem to care about online privacy, Internet users tend to cluster in three categories: "privacy guardians," who attach a relatively high value to information privacy; "information sellers," who have little regard for privacy and are willing to sell it for monetary rewards; and "convenience seekers," who prefer Web site convenience to information privacy safeguards.[58] When asked in surveys or controlled experiments, many

52. Caudill & Murphy, *supra* note 35, at 10. Even church Web sites post a great amount of personal information, including details about illnesses, church member addresses, personal vacation schedules, and names and locations of members serving as missionaries. *See* Mariea Grubbs Hoy & Joseph Phelps, *Consumer Privacy and Security Protection on Church Web Sites: Reasons for Concern*, 22 J. PUB. POL'Y & MARKETING 58, 66 (2003). In one study, less than 3% of these sites posted a privacy policy, and less than 25% posted a statement about privacy practices. *Id.* at 68.

53. David A. Sheluga et al., *Preference, Search, and Choice: An Integrative Approach*, 6 J. CONSUMER RES. 166, 175 (1979).

54. Phelps, Nowak & Ferrell, *supra* note 40, at 29. A caveat is in order here. Research on privacy in e-commerce is still in the nascent stage and always will lag behind the fast moving market for Internet services. *See id.* at 40. As soon as research findings are published about online commercial or consumer practices, they are soon outdated. *See id.* at 39–40. Consumer attitudes and marketing behavior are constantly changing, and there is a continual need for updating research on consumer beliefs, behaviors, and preferences. *Id.*

55. One fundamental concept of behavioral economics is the behavioral contingency, which posits a stimulus, a response, and the ensuing outcome of the response, which derives from Skinnerian behaviorism. Gordon R. Foxall, *The Behavior Analysis of Consumer Choice: An Introduction to the Special Issue*, 24 J. ECON. PSYCHOL. 581, 582–83 (2003). In the context of consumer privacy on the Internet, a behavioral theorist might posit that the stimulus of economic (or other) rewards for information will elicit a consumer response of more information released, and the outcome will be a satisfied consumer who feels better off after the exchange. Such a consumer therefore would be inclined to repeat the transaction.

56. Sheehan & Hoy, *supra* note 44, at 63.

57. *Id.*

58. IL-HORN HANN ET AL., AEI-BROOKINGS JOINT CTR. FOR REGULATORY STUDIES, THE VALUE OF ONLINE INFORMATION PRIVACY: AN EMPIRICAL INVESTIGATION 15 (2003), *available at* http://www.aei-brookings.org/admin/authorpdfs/page.php?id=297.

consumers fall into the first group and show great concern about database privacy.[59] In one study, online threats to privacy were a concern to more than three-quarters of Internet users.[60] All but a small minority of consumers were either very concerned or somewhat concerned about the ways companies use personal information.[61] Most did not think that marketing companies are sufficiently concerned about protecting privacy.[62] A majority believed that companies already know too much about them.[63] Two-thirds thought there should be limits on how much information businesses can collect about consumers.[64] The vast majority desire more control over how companies use information after they obtain it.[65] If consumers suspect that a business will use information beyond the original transaction, they become increasingly concerned.[66] Indeed, possible usage beyond the original purpose is the most important factor influencing consumer disclosure of information and is often viewed as an invasion of privacy and an illegitimate misappropriation of the information for commercial purposes.[67]

Second, although many consumers value their information, they also are willing to trade information for other benefits.[68] Consumers generally believe that they own their personal information and should have control over its collection and usage.[69] Conversely, marketers tend to believe that they own any information that they can obtain lawfully.[70] People are more willing to disclose information if they obtain something of value in exchange.[71] Consumers who are aware of the value of their information will ask for rewards in exchange for disclosure, suggesting that consumers can place a value on personal information and that data can be elicited through monetary and other trade-offs.[72]

Third, people who are aware of data-collection practices also tend to be aware that personal information likely will be used for profit and that

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59. *Id.*

60. Caudill & Murphy, *supra* note 35, at 7 (discussing a U.S. Department of Commerce study that found 81% of Internet users concerned about online threats to privacy). A survey by the Accenture firm in 2003 found that 97% of consumers were "concerned" about information privacy. *See* Accenture Survey, *supra* note 7, at 2.

61. Phelps, Nowak & Ferrell, *supra* note 40, at 33.

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

66. Sheehan & Hoy, *supra* note 44, at 63.

67. *Id.*; *see also* Cespedes & Smith, *supra* note 35, at 10.

68. Sheehan & Hoy, *supra* note 44, at 63.

69. *Id.* at 64.

70. *Id.*

71. Robert McKim, *Information: The Newest Currency*, TARGET MARKETING, Jul. 1999, at 36, 39; Sheehan & Hoy, *supra* note 44, at 68.

72. Little is known, however, about how the trade-offs will affect long-term interests. Nadia Olivero & Peter Lunt, *Privacy Versus Willingness to Disclose in E-commerce Exchanges: The Effect of Risk Awareness on the Relative Role of Trust and Control*, 25 J. ECON. PSYCHOL. 243, 245 (2004); Sheehan & Hoy, *supra* note 44, at 64.

it has exchange value.[73] They show a pragmatic attitude and account for the risk in two ways.[74] First, they may be willing to disclose but only if they are properly rewarded.[75] Rewards can be open and specific.[76] One study showed that, when informed about the extent of collection and use of personal information, consumers valued protection against errors, improper access, and secondary use at approximately $30–$45 per transaction.[77] Second, because they assume the information will be sold to third parties, informed consumers disclose only those bits of information that are not perceived to be particularly risky or too valuable to risk trading without high rewards in exchange.[78]

Fourth, educated, experienced, and knowledgeable consumers tend to be more concerned and take more precautions to protect their personal information. High levels of technical knowledge positively correlate with privacy concerns.[79] Better educated and more affluent computer users are more likely to refuse to share personal information online.[80] Consumers who had attended some college or vocational school but did not have a college degree showed the highest levels of privacy concern.[81] Frequent online users are most concerned that information

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73. Olivero & Lunt, *supra* note 72, at 257.

74. *Id.*

75. Caudill & Murphy, *supra* note 35, at 8.

76. One marketing company offered $40 in discount coupons for demographic data and information about the consumer's preferred supermarket. *Id.*

77. Based on a conservative figure of fifty-eight million purchases over the Internet annually, the benefits of privacy protection online could be valued at $1.77 to $2.59 billion per year. HANN ET AL., *supra* note 58, at 18. Studies also have shown, however, that promised rewards for information can be counterproductive as a way to elicit information from consumers. Olivero & Lunt, *supra* note 72, at 258. Awareness of the risks of sharing personal information increases the desire of individuals to control the information being collected and restrict how it is being used. *Id.* Thus, by offering discounts or other rewards, a business can raise consumer awareness of privacy issues, and as the business highlights the activity (and its value), resulting suspicions can reduce the degree of trust the consumer has in the data collector. *Id.* In behavioral economic terms, the stimulus (promised rewards) elicits an unfavorable response (greater awareness of risk). Therefore, it may be counterproductive for the data collector to offer rewards openly in exchange for information disclosure. Sheehan & Hoy, *supra* note 44, at 64. Compensating the consumer can turn a clandestine data-mining activity into an overt, and hostilely perceived, solicitation. *Id.*

78. Olivero & Lunt, *supra* note 72, at 250. Individual-specific data used for marketing purposes generally falls into one of five categories: demographic data; lifestyle interests (including media habits); shopping behavior; financial data (including credit data); and personal identifiers (social security number, names, addresses). *See* Phelps, Nowak & Ferrell, *supra* note 40, at 28. Consumers are most willing to share demographic data and lifestyle information and least willing to share financial data and personal identifiers. *Id.* at 33. Surveyed consumers were unwilling or not very willing to share annual household income, kinds of credit cards possessed, Social Security numbers, and most recent credit card purchases. *Id.* These consumers generally were willing to reveal favorite hobbies, age, marital status, occupation, and education level. *Id.*; Sheehan & Hoy, *supra* note 44, at 64.

79. Olivero & Lunt, *supra* note 72, at 250.

80. *See, e.g.*, George R. Milne & Andrew J. Rohm, *Consumer Privacy and Name Removal Across Direct Marketing Channels: Exploring Opt-In and Opt-Out Alternatives*, 19 J. PUB. POL'Y & MARKETING 238, 241 (2000).

81. Phelps, Nowak & Ferrell, *supra* note 40, at 36.

will be shared with third parties.[82] Consequently, savvy online consumers provide false information about themselves approximately one-fourth of the time.[83] Informed individuals demand more control over their information for two reasons: as a protection against misuse and as an extension of a perceived right of ownership in the information.[84] Being aware of the value of the information, consumers assert increased control both to protect their vulnerability and to prevent exploitation of their interests by others without just rewards.[85]

Fifth, perceived risk can be reduced, and more information shared, when consumers have developed a feeling of trust with the data collector.[86] When consumers are faced with uncertainty and risk, the reputation of the data collector becomes increasingly important.[87] People are more willing to disclose data when they have an established relationship with a data collector or when the collector is well known and has an image to maintain.[88] A data collector's desire to maintain its reputation is a perceived deterrent to data misuse.[89] If consumers have an established relationship with the data collector, they usually have fewer privacy concerns.[90] There is some evidence that consumers would be willing to disclose more information if they knew a trusted party (whether a business or governmental entity) was monitoring use and control of the information after disclosure.[91]

In sum, several factors appear to influence the level of consumer concern about sharing information with businesses: (1) the type of information requested, such as demographic, lifestyle interests, media habits, personal identifiers, or financial data[92]; (2) the amount of control the consumer has over the use of the information[93]; (3) the potential consequences and benefits of the exchange (for instance, increased volume of junk mail or risk of identity theft versus shopping savings or convenience)[94]; and (4) characteristics of the individual consumer,

82. George R. Milne, *Privacy and Ethical Issues in Database/Interactive Marketing and Public Policy: A Research Framework and Overview of the Special Issue*, 19 J. PUB. POL'Y & MARKETING 1, 4 (2000).

83. *Id.*

84. Olivero & Lunt, *supra* note 72, at 257.

85. *Id.*

86. Milne & Rohm, *supra* note 80, at 239.

87. Olivero & Lunt, *supra* note 72, at 259.

88. *Id.*; *see* David Knights et al., *Chasing Shadows: Control, Virtuality and the Production of Trust*, 22 ORG. STUD. 311, 321 (2001).

89. Olivero & Lunt, *supra* note 72, at 259.

90. Sheehan & Hoy, *supra* 44, at 68.

91. Olivero & Lunt, *supra* note 72, at 251, 255.

92. Phelps, Nowak & Ferrell, *supra* note 40, at 30.

93. *Id*. Perceived lack of control of information on the Internet has two dimensions: (1) an environmental dimension—information can be obtained through unauthorized access and data-mining activities (e.g., theft, fraud, cookies, or hacking); (2) the uncertainty of use by the data collector after mining the data—it may use the information for purposes not expected by the individual or it may sell the information to third parties. Olivero & Lunt, *supra* note 72, at 244.

94. Phelps, Nowak & Ferrell, *supra* note 40, at 30.

including demographic characteristics, prior experiences, technical knowledge, and shopping habits.[95] Controlled surveys and experimental studies show that people will (or will not) give up their personal information based upon the results of a "privacy calculus" that assesses whether their information will be used fairly and whether negative consequences might result in the future.[96]

To assist consumers in the calculus, several researchers have concluded that consumers must be able to control the amount and type of information collected and they must have knowledge about the manner in which the information will be used. Behavioral economists often conclude that consumer awareness of privacy options is key to the functioning of a self-regulatory system.[97] Many urge the adoption of fair information practices to assist the consumer in performing the calculus, so long as the practices are adequately disclosed and followed. In this way, fair information practices actually can be good for businesses that want to elicit more information from their customers.[98]

More important, these findings suggest that consumers have incentives and are motivated to shop for privacy terms and that firms have incentives to respond to consumer preferences. Consumers seem to care enough about privacy to seek information about privacy practices, so they may take those practices into account when deciding whether and with whom to share personal information. Indeed, there is some evidence that a market for information privacy is developing. Studies have shown that by adopting fair information practices a business can elicit more disclosure from consumers because the gesture builds trust.[99] Research also has shown that Web site disclosures regarding privacy practices and information security are positively related to the likelihood of online purchases.[100] All of this suggests that a market for information

95. *Id.*; *cf.* Sheehan & Hoy, *supra* note 44, at 64 (outlining three factors that influence the level of privacy concern: (1) how sensitive the person considers the particular information being disclosed; (2) how familiar the person is with the entity collecting the information; and (3) what the person is receiving in exchange for the information).

96. HANN ET AL., *supra* note 58, at 7.

97. Mary J. Culnan, *Consumer Awareness of Name Removal Procedures: Implications for Direct Marketing*, 9 J. DIRECT MARKETING 10, 18–19 (1995) (recommending that opt-out procedures explicitly be conveyed to consumers); Milne & Rohm, *supra* note 80, at 244, 248 (concluding that the least preferred opt-out method is a requirement that consumers call or write the business to remove or restrict use of the information and arguing for greater disclosure to promote awareness because only 34% of regular computer users were aware of data-collection practices and also aware that opt-out opportunities existed, and 70% of respondents wanted to be reminded of opt-out opportunities beyond the first transaction with the business).

98. Culnan, *supra* note 39, at 21. *See generally* Accenture Survey, *supra* note 7 (surveying consumer privacy preferences).

99. Mary J. Culnan & Pamela K. Armstrong, *Information Privacy Concerns, Procedural Fairness, and Impersonal Trust: An Empirical Investigation*, 10 ORG. SCI. 104, 112 (1999); Olivero & Lunt, *supra* note 72, at 244.

100. Anthony D. Miyazaki & Ana Fernandez, *Internet Privacy and Security: An Examination of Online Retailer Disclosures*, 19 J. PUB. POL'Y & MARKETING 54, 58 (2000) (finding only 17% of Web sites surveyed disclosed that they would not share personal information with third parties).

privacy may be emerging and that government intervention is not necessary to ensure efficient privacy practices online.

D. Decision-Making Theory and Research on Saliency

In controlled surveys, consumers value privacy and strive for accuracy in their decision making. Yet consumers seldom read privacy policies and seldom even cite them as a factor in deciding which business to use or Web sites to frequent. A study of 1500 adult Internet users concluded that less than one percent thought a Web site's privacy policy was relevant in determining the site's credibility.[101] In another study, which was designed specifically to demonstrate to corporate executives that consumers have a high concern for privacy, less than half of consumers said privacy was among the top three factors influencing consumer trust with a company.[102] If privacy is so important, why do consumers not bother to learn about the privacy practices of the firms with which they do business and share information?

The simplest answer may be that consumers seldom act rationally.[103] It is debatable whether rational behavior is the principal objective for highly structured organizational decision making; it is highly questionable whether individuals consistently pursue goals with rational thought processes. What applies to firms and other organizations may not apply in the same way or at all to an individual consumer.[104] In all likelihood, no person is capable of responding to outside stimuli in a strictly rational way.

If a privacy policy is to influence a consumer's rational choice, several cognitive steps must occur in sequence. A source (Web site) must transmit a stimulus (message) in order to reach a receiver (the consumer) for the purpose of achieving certain effects (such as Web site use or product purchase). The receiver then must render a series of responses or effects in response to the stimulus, perhaps ultimately resulting in some action being taken in consequence.[105] Specifically, for a stimulus (such as disclosure of privacy terms) to elicit a response, the

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101. FOGG ET AL., *supra* note 43, at 6, 86.

102. Accenture Survey, *supra* note 7, at 9.

103. Researchers have studied consumer decision processes and began questioning the rational choice model since at least the mid-1960s. *See* JOHN A. HOWARD & JAGDISH N. SHETH, THE THEORY OF BUYER BEHAVIOR 379 (1969); FRANCESCO M. NICOSIA, CONSUMER DECISION PROCESSES: MARKETING AND ADVERTISING IMPLICATIONS 39 (1966).

104. Jacob Jacoby, *Is it Rational to Assume Consumer Rationality? Some Consumer Psychological Perspectives on Rational Choice Theory*, 6 ROGER WILLIAMS U. L. REV. 81, at 102–03 (2000).

105. The model depicted here is a simplification. Many variations exist, with some depicting at least fifteen separate stages in the receiver's reaction to the incoming communication. *See generally* William J. McGuire, *Attitude Change: The Information-Processing Paradigm*, *in* EXPERIMENTAL SOC. PSYCHOL. 108, 119–20 (Charles Graham McClintock ed., 1972) (discussing behavioral steps in persuasion); William J. McGuire, *Some Internal Psychological Factors Influencing Consumer Choice*, 2 J. CONSUMER RES. 302 (1976) (providing a good overview).

target must first be exposed to the stimulus. The exposure must draw the attention and perception of the target, who must then process and comprehend the information.[106] Having comprehended it, the target must evaluate its relative importance in the decision-making process, use it in the calculus to make a choice, and finally engage in the chosen behavior. Only the very last effect takes the form of overt behavior, such as the choice to use one Web site over another or to reveal some personal information. Because the effects produced by a stimulus generally occur in sequential form, failure at one stage either eliminates or severely limits what happens at subsequent stages, which weakens or eliminates the effect of the stimulus on the receiver.

Viewing the decision-making process in several stages has important implications for rational choice theory. It is not enough that behavioral models show rational decision making in controlled experiments; the models also must describe behavior in realistic environments in which failures at each stage in the decision process can and often do occur.[107] People generally do not make decisions with a perfectly rational weighted-adding calculus. Nor, however, do they act randomly. Consumers make decisions under conditions of limited or bounded rationality because they have limited capacity for understanding and using information at each stage in the process.[108] Considerable research shows that most consumer behavior is predicated upon "low effort" or "low involvement" decision making using a limited number of stimuli in less than rational ways.[109] This does not necessarily mean that consumers are acting irrationally, but they may be pursuing other goals besides strict accuracy of the decision. It is therefore important to examine other goals that consumers pursue as they make decisions and how those goals may affect consumer decision making online.

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106. Much of the information that reaches consciousness has multiple meanings, with some of these meanings registering, through symbolism or metaphorical allusion, at less than conscious levels. Jacoby, *supra* note 104, at 104.

107. Christine Jolls et al., *A Behavioral Approach to Law and Economics*, 50 STAN. L. REV. 1471, 1500 (1998).

108. Theories of bounded rationality emerged in the 1950s. *See* Herbert A. Simon, *A Behavioral Model of Rational Choice*, 69 Q.J. ECON. 99, 99 (1955). Limitations include memory capacity and computational abilities. Bettman et al., *supra* note 46, at 187. Consumer behavior literature also provides numerous bases from which to argue that the consumer does not necessarily make her choice from a stable set of preferences. "For example, if preference sets remained stable, one might predict high levels of brand loyalty, approaching 100%. Yet, in a very large number of product categories, the rates of brand loyalty are below (sometimes appreciably below) 50% . . . ." Jacoby, *supra* note 104, at 106. In addition, consumers often exhibit strong exploratory or variety-seeking behavior. *Id.* "Though they may have a pre-existing set of option preferences, consumers also derive enjoyment in departing from this preference set." *Id.* *See* MICHAEL J. APTER, THE DANGEROUS EDGE: THE PSYCHOLOGY OF EXCITEMENT 63 (1992) (discussing the concept of "detachment frame").

109. *See generally* WAYNE D. HOYER & DEBORAH J. MACINNIS, CONSUMER BEHAVIOR 139–61 (1997) (discussing the cognitive bases of consumer attitudes).

1. Categories of Bounded Rational Decision Strategies

There are several broad categories of bounded rational decision making.[110] In the lexicographic strategy, the decision maker selects the alternative that has the best value on the most important attribute only (e.g., price).[111] The decision maker ignores other attributes.[112] This is the easiest strategy to apply because the decision maker compares only one attribute among alternatives, but it yields the least efficient result for the same reason.[113] An alternative may win because it was best on the most important attribute, but other alternatives may have been much better on other attributes and would have prevailed if those attributes had been brought into the calculus.[114]

In the conjunctive or satisficing strategy, the decision maker selects the first alternative that meets a minimum level of acceptability on all attributes, regardless of the amount by which the levels are exceeded.[115] Having made a satisfactory choice on this basis, the decision maker does not even evaluate other alternatives.[116] For example, having decided on a maximum price and a minimum level of acceptability on other factors, the decision maker chooses the first alternative that satisfies all threshold levels.[117] If no alternative meets the minimum level for all attributes, the levels are relaxed and the process repeated.[118] This strategy can be expedient but inefficient because while decision makers end up with a minimally satisfying choice, other choices might have been preferred if the decision maker had taken the time to evaluate them.[119]

The elimination-by-aspects strategy combines elements of the lexicographic and satisficing strategies.[120] The decision maker decides which attribute is most important and eliminates all alternatives that do not meet a minimum level of acceptability on that attribute.[121] If more than one alternative satisfies that inquiry, the decision maker then sets a

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110. Related concepts of bounded willpower and bounded self-interest also may be important here. *See* Jolls et al., *supra* note 107, at 1479–81. Bounded willpower becomes most relevant when decisions have consequences over time, for example, when benefits are immediate but costs are deferred. *Id.* People often make choices that they know conflict with their long-term interests. *Id.* For example, most smokers say they would be better off quitting, yet they continue to smoke because their will is overcome by chemical addiction or other influences. *Id*. Bounded self-interest refers to the fact that people often act as if they care about others, even strangers, when it is not in their self-interest to do so and when there will be no societal repercussions if they behave unfairly. *Id*. at 1479. For example, people usually leave tips in out-of-town restaurants that they likely will never visit again. *Id.* at 1493.

111. Bettman et al., *supra* note 46, at 190.

112. *Id.*

113. *Id.*

114. *Id.* at 190–91.

115. *Id.* at 190.

116. *Id.*

117. *Id.*

118. *Id.*

119. *See id.*

120. *Id.*

121. *Id.*

minimum value on the next most important attribute.[122] Several alternatives may satisfy the maximum price point, for example, so the decision maker moves to the next most important attribute (e.g., reliability) and eliminates alternatives that do not meet the acceptable level for that attribute, and so on until all but one alternative has been eliminated.[123] This strategy can result in inefficient choices because while the ultimate choice is the only one that meets a minimum level of acceptability on all attributes, other choices might have received a higher total value.[124] For example, if an alternative failed the minimum test on one attribute (color) but exceeded the levels on other attributes by a great amount, it might have netted a higher total value than the chosen alternative.

In the majority-of-confirming-dimensions or "playoff" strategy, alternatives are considered in pairs, with each attribute of the two alternatives facing off against each other (e.g., price of *A* versus price of *B*, reliability of *A* versus reliability of *B*, and so on).[125] Between the two alternatives, the one that wins more attribute contests then moves on to battle the next alternative, and this continues until only one survivor remains.[126] This strategy can be inefficient because in any particular playoff, one alternative could win the majority of attribute battles by small margins and lose the minority by big margins. Thus, the losing alternative actually might be the better choice if the decision maker had used a more complex strategy.

People often combine elements of different strategies and shift back and forth among them as they construct a decision process.[127] For the purpose of examining choices made online, the important point is that regardless of the strategy employed, consumers ignore information that they should consider if market incentives are to produce efficient outcomes. In all decision strategies, the critical question is which attributes are likely to be salient, and therefore evaluated, and which ones are not.[128] If privacy is seldom a salient attribute for consumers and there are rational reasons leading to this result, then market behavior is not likely to produce more efficient privacy practices.

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122. *Id.* at 191. *See generally* Amos Tversky, *Elimination by Aspects: A Theory of Choice*, 79 PSYCHOL. REV. 281 (1972) (discussing the covert elimination process involved in decision making).

123. Bettman et al., *supra* note 46, at 191.

124. *Id.* at 190–91.

125. *Id.*

126. *Id. See generally* J. Edward Russo & Barbara Anne Dosher, *Strategies for Multiattribute Binary Choice*, 9 J. EXPERIMENTAL PYSCHOL.: LEARNING, MEMORY, AND COGNITION 676 (1983) (exploring empirically the information-processing strategies used in multi-attribute binary choice).

127. Bettman et al., *supra* note 46, at 191.

128. *See id.* at 190–91.

2. *Rational Decision-Making Goals Besides Maximum Accuracy*

People have limited cognitive abilities and resources, and they use them judiciously.[129] They choose decision strategies that are a compromise between their desire for complete accuracy and their desire to achieve other goals.[130] Besides maximizing accuracy of the decision, another important goal is the minimization of cognitive effort.[131] When making decisions, people tend to expend only as much effort as is necessary to reach a satisfactory, rather than optimal, decision.[132] As circumstances require more cognitive effort to process available information, decision makers often choose decision methods that are easier to implement but less accurate.[133] Moreover, when consumers must exert more cognitive effort to evaluate a particular alternative, they often are less inclined to prefer it to alternatives that require less effort to evaluate, unless the alternative that required more effort was clearly superior.[134] In other words, exerting more cognitive effort results in a "negative affect" associated with that alternative and makes that alternative less appealing simply because it was harder to evaluate.[135]

Another important goal in consumer decision making is minimizing the negative emotional response that individuals experience when forced to make difficult trade-offs. People are emotional beings, and choices sometimes involve wrenching decisions, requiring that the decision maker give up something of value that she does not wish to lose.[136] People want to minimize the discomfort that arises from facing emotion-laden choices, and they tend to select decision strategies that further this goal.[137] This can reduce the accuracy of the decision because the individual will avoid certain parts of the calculus that require discomforting comparisons. When this occurs, individuals focus their attention elsewhere and choose strategies that allow them to avoid making the uncomfortable comparison.[138]

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129. Ellen C. Garbarino & Julie A. Edell, *Cognitive Effort, Affect, and Choice*, 24 J. CONSUMER RES. 147, 148 (1997); *see* John W. Payne, *Contingent Decision Behavior*, 92 PSYCHOL. BULL. 382, 382 (1982).

130. Garbarino & Edell, *supra* note 129, at 149.

131. Bettman et al., *supra* note 46, at 192.

132. Garbarino & Edell, *supra* note 129, at 148.

133. *Id*. at 149; Eric J. Johnson et al., *Information Displays and Preference Reversals*, 42 ORGANIZATIONAL BEHAV. & HUM. DECISION PROCESSES 1, 19 (1988); Denis A. Lussier & Richard W. Olshavsky, *Task Complexity and Contingent Processing in Brand Choice*, 6 J. CONSUMER RES. 154, 154 (1979).

134. Garbarino & Edell, *supra* note 129, at 152–53, 156.

135. *Id.*

136. *See* Bettman et al., *supra* note 46, at 193; Richard S. Lazarus, *Progress on a Cognitive-Motivational-Relational Theory of Emotion*, 46 AM. PSYCHOLOGIST 819, 819 (1991).

137. Mary Frances Luce, *Choosing to Avoid: Coping with Negatively Emotion-Laden Consumer Decisions*, 24 J. CONSUMER RES. 409, 409 (1998).

138. *Id.*; *see* Philip E. Tetlock, *The Impact of Accountability on Judgment and Choice: Toward a Social Contingency Model*, *in* 25 ADVANCES IN EXPERIMENTAL SOCIAL PSYCHOLOGY 331, 335 (Mark P. Zanna ed., 1992); Amos Tversky & Eldar Shafir, *Choice Under Conflict: The Dynamics of Deferred Decision*, 3 PSYCHOL. SCI. 358, 358 (1992).

Depending on the context, one or more of these goals—accuracy, cognitive ease, and emotional comfort—may be more prominent in the decision process. For example, when faced with an irreversible decision that will have profound effects on her life, the decision maker may care less about cognitive ease and emotional comfort and work harder to make the most accurate choice. The decision maker's ability to get feedback about her choice also influences the relative weight given to each goal. In general, feedback about cognitive effort and emotional comfort will be more immediate and less ambiguous than feedback about the accuracy of the choice.[139] When that occurs, the decision maker is more likely to give less weight to the accuracy goal and more weight to the two other goals.

3. Factors Influencing Consumer Choice

As consumers pursue the three decision-making goals, the likelihood that a consumer will process a stimulus, and thereby make it salient, is influenced by several factors that are relevant to online behavior.

Number of attributes. Research suggests that the number of attributes decision makers are capable of investigating and integrating into the decision process is as few as five, though the number will vary depending on the individual and the context.[140] For example, an automobile purchasing decision may involve a detailed comparison of several attributes of many competing models, or the consumer may simply choose to purchase the same model he bought the last time.[141]

Time available to make the decision. When time for making a decision is scarce, people switch to decision strategies that accelerate their information processing, such as lexicographic or elimination-by-aspects strategies. When time pressure is severe, quickly scanning several pieces of information is more effective than examining fewer in depth.[142] Moreover, when time pressure is present, consumers tend to weigh negative information more heavily than positive.[143]

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139. Bettman et al., *supra* note 46, at 193; *see also* Hillel J. Einhorn, *Learning from Experience and Suboptimal Rules in Decision Making*, *in* COGNITIVE PROCESSES IN CHOICE AND DECISION BEHAVIOR 1, 8 (Thomas S. Wallsten ed., 1980).

140. Lussier & Olshavsky, *supra* note 133, at 162; Richard W. Olshavsky, *Task Complexity and Contingent Processing in Decision Making: A Replication and Extension*, 24 ORGANIZATIONAL BEHAV. & HUM. PERFORMANCE 300, 314 (1979).

141. Bettman et al., *supra* note 46, at 189.

142. John W. Payne et al., *When Time Is Money: Decision Behavior Under Opportunity-Cost Time Pressure*, 66 ORGANIZATIONAL BEHAV. & HUM. DECISION PROCESSES 131, 145 (1996); Rik Pieters et al., *The Effect of Time Pressure and Task Motivation on Visual Attention to Brands*, *in* 24 ADVANCES IN CONSUMER RES. 281, 281 (Merrie Brucks & Deborah J. MacInnis eds., 1997); *see also* Bettman et al., *supra* note 46, at 200.

143. Peter Wright, *The Harassed Decision Maker: Time Pressures, Distractions, and the Use of Evidence*, 59 J. APPLIED PSYCHOL. 555, 555–56 (1974).

Perceptibility of the attribute. If people do not notice an attribute or stimulus, it cannot have an impact on their decision process.[144] People pay attention to attributes either voluntarily or involuntarily. Some attributes may be unavoidable and get noticed automatically. Stimuli that are surprising, novel, threatening, or otherwise perceptually striking can capture attention involuntarily.[145] Otherwise, a person must have some motivation that prompts her to seek the information voluntarily.

Importance of the attribute in attaining the consumer's objectives. For information that is not intrinsically noticeable, people voluntarily direct attention to (and actively seek information about) attributes that are particularly important to them, attributes that will help them reach their intended objective with the decision.[146]

Inferences. Even if the attribute is important, people may infer the missing value in one of two ways rather than investigate further. They may infer a value from the values they know from other alternatives, i.e., assume that the attribute is similar across brands (for example, all car warranties are similar). Or they may infer a value in line with the values they assigned to other attributes of the given option, i.e., assume that the value is comparable to other attributes for that option (for instance, because the engineering is first-rate, the warranty probably is as well).[147] With respect to "noncontractible" characteristics such as service quality, consumers often choose to use a firm's brand as a proxy for credibility rather than investigate the characteristic more completely.[148]

Framing effects. The form and manner in which information is provided will affect its saliency.[149] Consumers process information in a way that is congruent with the format of presentation; they process the information in the form presented without rearranging it.[150] This is

144. *See generally* B.J. Fogg, *Prominence-Interpretation Theory: Explaining How People Assess Credibility Online*, PROCEEDINGS OF ACM CHI 2003 CONFERENCE ON HUMAN FACTORS IN COMPUTING SYSTEMS 722 (2003), *available at* http://credibility.stanford.edu/pdf/PITheory.pdf (describing prominence-interpretation theory and the process of noticing and interpreting prominent elements).

145. Bettman et al., *supra* note 46, at 193.

146. *See id.*

147. Gary T. Ford & Ruth Ann Smith, *Inferential Beliefs in Consumer Evaluations: An Assessment of Alternative Processing Strategies*, 14 J. CONSUMER RES. 363, 370–71 (1987); Richard D. Johnson & Irwin P. Levin, *More than Meets the Eye: The Effect of Missing Information on Purchase Evaluations*, 12 J. CONSUMER RES. 169, 170 (1985).

148. Michael D. Smith & Erik Brynjolfsson, *Consumer Decision-Making at an Internet Shopbot: Brand Still Matters*, 49 J. INDUS. ECON. 541, 556 (2001), *available at* http://www.econ.jhu.edu/people/harrington/375/sb01.pdf; *see* Birger Wernerfelt, *Umbrella Branding as a Signal of New Product Quality: An Example of Signalling by Posting a Bond*, 19 RAND J. ECON. 458, 458–59 (1988).

149. *See, e.g.*, W. Kip Viscusi, *Individual Rationality, Hazard Warnings, and the Foundations of Tort Law*, 48 RUTGERS L. REV. 625, 630–36 (1996) [hereinafter Viscusi, *Individual Rationality*]; W. Kip Viscusi et al., *An Investigation of the Rationality of Consumer Valuations of Multiple Health Risks*, 18 RAND J. ECON. 465, 477–78 (1987) [hereinafter Viscusi, *An Investigation*].

150. *See* James R. Bettman & Michel A. Zins, *Information Format and Choice Task Effects in Decision Making*, 6 J. CONSUMER RES. 141, 142 (1979).

sometimes referred to as the "concreteness" principle.[151] The effect is most pronounced when consumers perceive the costs of accepting the given format (both the costs of delving deeper into the subject and the lost accuracy in accepting it as given) as low.[152] Only if costs of format acceptance are perceived to be high or the information is presented in a disorganized or confusing way will consumers discount the format as presented and seek additional information.[153] Advertisers are well aware of this, and when describing risks, they may describe them in the least frightening or most favorable way as possible. The announcer in a television advertisement for a prescription drug might describe adverse side effects in the same uplifting voice as he used to describe the drug's benefits, hoping to discount their negative effect. Research shows that labeling beef as 75% lean results in more favorable impressions than labeling it 25% fat.[154] People often choose between descriptions of options rather than the options themselves, accepting the description as accurate.[155]

Negative reaction to commodification. People feel conflicted when trying to compare attributes that are dissimilar, especially when the comparison asks people to put a price on something they intuitively believe should not be commodified or traded away.[156] The problem is most acute when people are asked to trade values they view as "sacred" or "protected" (namely, life, liberty, and justice).[157] Consequently, the

151. Paul Slovic, *From Shakespeare to Simon: Speculation—and Some Evidence—About Man's Ability to Process Information*, OR. RES. INST. RES. BULL. (Or. Res. Inst., Eugene, Or.), Apr. 1972, at 9, http://www.decisionresearch.org/pdf/dr36.pdf.

152. Eloise Coupey, *Restructuring: Constructive Processing of Information Displays in Consumer Choice*, 21 J. CONSUMER RES. 83, 96–99 (1994).

153. *Id.*

154. Irwin P. Levin & Gary J. Gaeth, *How Consumers Are Affected by the Framing of Attribute Information Before and After Consuming a Product*, 15 J. CONSUMER RES. 374, 377 (1988).

155. A related finding is that people tend to weigh potential losses more heavily than potential gains. Thus, framing consequences in terms of losses rather than gains may be more effective in changing behavior. For example, promoting screening tests for breast cancer is more effective if women are told of the harms that can result from not screening rather the benefits of screening. Jolls et al., *supra* note 107, at 1536–37. In addition, people tend to think of risks in terms of proportions rather than differences. People think it is more important to reduce a 15% risk to 5% than to reduce a 70% risk to 50%. *See* Jonathan Baron, *Confusion of Relative and Absolute Risk in Valuation*, 14 J. RISK & UNCERTAINTY 301, 301–03 (1997); Karen E. Jenni & George Loewenstein, *Explaining the "Identifiable Victim Effect,"* 14 J. RISK & UNCERTAINTY 235, 254 (1997).

156. Bettman et al., *supra* note 46, at 189; *see* James R. Bettman & Mita Sujan, *Effects of Framing on Evaluation of Comparable and Noncomparable Alternatives by Expert and Novice Consumers*, 14 J. CONSUMER RES. 141, 141 (1987).

157. *See* Jonathan Baron & Mark Spranca, *Protected Values*, 70 ORGANIZATIONAL BEHAV. & HUM. DECISION PROCESSES 1, 2 (1997); Philip E. Tetlock et al., *Revising the Value Pluralism Model: Incorporating Social Content and Context Postulates*, *in* 8 THE PSYCHOLOGY OF VALUES: THE ONTARIO SYMPOSIUM ON PERSONALITY AND SOCIAL PSYCHOLOGY 25 (Clive Seligman et al. eds., 1996).

more easily comparable attributes carry more weight in the decision process, and difficulties in comparing attributes are discounted.[158]

Likelihood of risk. People are not good at making probability estimates for low-probability risks. People either overestimate the probability and take excessive precautions, or they ignore the risk altogether. For low-probability risks, people tend to view them in black-or-white terms—safe or unsafe—and overestimate the likelihood of small probabilities occurring. For example, when asked about the risks of lung cancer to smokers, both smokers and nonsmokers generally overestimate the risk.[159] Low-stated probabilities, therefore, have more effect on consumer behavior than they should.[160] On the other hand, consumers are not willing to pay anything to reduce a risk that they perceive to be a very low or effectively non-existent probability.[161] People are more likely to consider risks (whether high or low probability) and assess them accurately if they have experience with that type of risk.[162]

Action vs. inaction. People are more concerned about the harms that result from actions than those resulting from omissions.[163] For example, people may resist vaccinations because of the side effects, even when the risk of not vaccinating is greater.[164] This phenomenon seems to result from a belief that actions cause the harm, and causality is important. Actions with direct harmful effects are considered worse than actions with indirect effects.[165] The law often incorporates a similar bias. Companies are more likely to be sued for actions they take (such as the side effects of a drug or the making of a false claim) but seldom for failure to produce a product or the omission of information that might be helpful in a decision-making process.

"Gut" feelings and affect cues. One common heuristic is the intangible or "gut" feeling one associates with a particular alternative. Consumers often base decisions upon feelings derived from their experiences with an alternative (affect cues) rather than a strict weighted-adding strategy. For example, consumers may purchase automobiles partly because of the feelings they have when test driving a

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158. Bettman et al., *supra* note 46, at 188; Stephen M. Nowlis & Itamar Simonson, *Attribute-Task Compatibility as a Determinant of Consumer Preference Reversals*, 34 J. MARKETING RES. 205, 205–06 (1997).

159. W. Kip Viscusi et al., *Smoking Risks in Spain: Part III—Determinants of Smoking Behavior*, 21 J. RISK & UNCERTAINTY 213, 214 (2000).

160. *See* Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decision Under Risk*, 47 ECONOMETRICA 263, 284–89 (1979).

161. Gary H. McClelland et al., *Insurance for Low Probability Hazards: A Bimodal Response to Unlikely Events*, 7 J. RISK & UNCERTAINTY 95 (1993).

162. Bettman et al., *supra* note 46, at 188.

163. *See generally* Mark Spranca et al., *Omission and Commission in Judgment and Choice*, 27 J. EXPERIMENTAL SOC. PSYCHOL. 76 (1991) (discussing the bias to favor harmful omissions rather than harmful commissions).

164. Jacqueline R. Meszaros et al., *Cognitive Processes and the Decisions of Some Parents to Forego Pertussis Vaccination for Their Children*, 49 J. CLINICAL EPIDEMIOLOGY 697, 702 (1996).

165. Edward B. Royzman & Jonathan Baron, *The Preference for Indirect Harm*, 15 SOC. JUST. RES. 165, 167 (2002).

vehicle. Advertising campaigns often explicitly seek to associate products with particular feelings. Literature shows that affect cues exert a stronger influence on choice when consumers have diminished ability to judge alternatives rationally (conditions of "low elaboration").[166] Thus, when consumers are not particularly motivated to make a correct decision under weighted-adding analysis, or when consumers find it difficult to process all the information necessary to make such a decision, affect cues become more pronounced.[167]

The availability heuristic. It is widely known that people overrespond to risks that are well known because of news coverage or immediacy. Such risks are "available" in people's minds, and they can therefore bring the information into the decision process more readily.[168] The availability heuristic becomes relevant when people base judgments on the probability of certain events happening. The familiarity of decision makers with instances of an event occurring often affect judgments about that event's probability. In environmental regulation, for example, this encourages the "pollutant of the month" syndrome, where regulation is driven by recent events, news stories, and public relations campaigns.[169] "Availability entrepreneurs" exploit the heuristic by focusing public attention on events to ensure that the event will be more available and more salient in the decision-making process.[170] The availability heuristic can work the other way as well. People may underestimate the likelihood of certain events because those events do not come to their attention often. When public policy is driven by the availability heuristic, regulation is often characterized by a patchwork of laws that tend to under- or over-regulate the targeted problem.[171]

4. Implications for Privacy Shopping Online

The decision strategies and goals and behavior patterns summarized above have important implications for the information privacy market in online commerce. If consumers are using decision strategies rationally to pursue other goals besides maximum accuracy of the decision, then gains in accuracy can be offset by losses in the pursuit of those other goals. One loss results from an increase in cognitive effort to evaluate privacy policies. When consumers exert more effort to evaluate a particular

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166. *See* Michel Tuan Pham, *Representativeness, Relevance, and the Use of Feelings in Decision Making*, 25 J. CONSUMER RES. 144, 144–46 (1998).

167. *See id.* at 158; Piotr Winkielman et al., *Subliminal Affective Priming Resists Attributional Interventions*, 11 COGNITION & EMOTION 433, 434–35 (1997). *See generally* ALICE H. EAGLY & SHELLY CHAIKEN, THE PSYCHOLOGY OF ATTITUDES (1993) (discussing social psychology research in the area of attitudes).

168. Timur Kuran & Cass R. Sunstein, *Availability Cascades and Risk Regulation*, 51 STAN. L. REV. 683, 686 (1999).

169. Jolls et al., *supra* note 107, at 1518.

170. *Id.* at 1519.

171. *Id.* at 1518–19.

alternative, they tend to have a more negative view of that alternative simply because it takes more effort to evaluate it. They are less inclined to prefer it to alternatives that require less effort, unless it ends up clearly superior. Thus, while it may be in a firm's interest to post a privacy policy on its Web site to give the impression that it cares about safeguarding user information, it may not be in the firm's interest to encourage or direct consumers to view privacy terms before entering into a transaction or even click an "I agree" button—even if the firm has a stronger privacy policy than its competitors. Requiring such a step could make the firm's Web site less attractive overall because it requires more cognitive effort to evaluate the choice. Unless the firm's Web site can demonstrate a substantially superior privacy practice, its efforts may be counterproductive.

The goal of minimizing emotional conflict is relevant as well. People want to minimize the discomfort that arises from facing emotion-laden choices or choices that make them uncomfortable. Comparing prices or warranties may not create much conflict because the attributes are roughly comparable and only monetary values are at stake. People may feel conflicted, however, when trying to compare attributes that are dissimilar, especially when the comparison asks people to put a price on something they intuitively believe should not be commodified or traded away. When this occurs, consumers may shift to decision strategies that focus attention elsewhere. They may struggle through the conflict only when the outcome is of fundamental importance—for example, when deciding whether to pay more for an automobile that has higher safety ratings. This is a difficult trade-off, but a person might work through the decision process because automobile safety is highly important.

With information privacy, there is a basic incomparability of competing values.[172] If consumers actively shop for privacy, they must make difficult and uncomfortable trade-offs. Consumers will seldom know what a Web site will do with their personal information and how it will affect them. One site may say that it does not keep or sell information of any kind, but a consumer will have difficulty comparing that claim with another site that seems better in other ways but does not make such a promise. Because of the basic incomparability of competing values, these are difficult trade-offs to evaluate emotionally and cognitively. The site may become less appealing simply because it is increasing emotional discomfort by bringing privacy issues into the decision process.

Moreover, if the relative weight given to the three competing goals is influenced by a person's ability to get feedback about those goals, any increase in the accuracy goal may be hard to discern. The more

172. *See generally* James P. Nehf, *Incomparability and the Passive Virtues of Ad Hoc Privacy Policy*, 76 U. COLO. L. REV. 1 (2005) (discussing the incomparability of the competing norms of free information advocates and privacy advocates).

immediate and concrete the feedback about a particular goal, the more emphasis one is likely to give it in making choices. This is important in the market for privacy protection because the accuracy of any decision about revealing personal information usually will not be apparent until long after the transaction has ended, if ever. Only rarely will a consumer be able to trace the spam, identity theft, consumer profiling, advertising campaign, junk mailings, and other trespasses to a particular Web site's weak privacy policy. Feedback on the accuracy of the decision may never occur. In contrast, feedback on cognitive effort and emotional conflict are likely to be more immediate because Web users experience them at the same time they are making decisions about sharing information or choosing which sites to frequent. As a result, those two goals will weigh more heavily in the decision strategy chosen, and the user is therefore less likely to search for and evaluate privacy practices.

Time constraints can also be important in online behavior. When time for making a decision is scarce, people abandon more complete strategies and gravitate to strategies that are easier and accelerate their information processing, such as the lexicographic strategy in which a person chooses the first option satisfying the most important goal. On the one hand, Web users usually have as much time as they like to review Web site information. Unless a user's computer time is limited (as it might be in an Internet café), a user can revisit the site many times and move through links at leisure. Moreover, depending on the reason for visiting a Web site, there may be no outside pressure to make a decision in a hurry. On the other hand, people use the Internet because it is a fast and convenient way to obtain information, communicate with others, and purchase goods and services. Thus, while there may be plenty of time to learn about the privacy practices of each Web site visited, to do so would substantially impair the principle benefit of going online. Unless privacy is a particularly important goal for a consumer interacting with a Web site, the consumer's desire to move quickly on the Internet will likely frustrate the desire to process the privacy practices of competing sites. Regardless of time constraints, if there are limits on the number of attributes consumers can effectively investigate when making choices—perhaps as few as five—for privacy to be salient in online decision making, it must be important enough to work into that top tier.[173]

Framing effects can also contribute to the decreased saliency of a site's privacy practices. Because consumers tend to process information in the form in which it is displayed to them without transforming it, a Web site may give the impression that it has a strong privacy policy when in fact it does not, knowing that most consumers will take them at their word without delving into the details. Unless consumers believe that the costs of accepting the given format are high (that is, they have suspicions about a strong privacy claim, and they believe they will pay a high cost if

173. *See supra* notes 140–41 and accompanying text.

they do not verify the claim), they will not be motivated to obtain additional information.

Inferences can also lead to erroneous assumptions about privacy practices. Consumers may assume that the privacy policies of similar retailers are roughly alike, or that brand-name retailers must have strong privacy policies because they are generally reliable and credible in other aspects of their business. Web sites must work hard to overcome such inferences if they want to distinguish themselves as "strong" privacy providers. If they do make efforts to draw attention to their privacy practices, however, they may increase the cognitive effort of users and force emotion-laden comparisons, which can make the sites less appealing to consumers in the decision-making process.

The availability heuristic also may influence consumers not to shop for privacy online. People may underestimate the effects of information disclosure and its potential costs if the adverse consequences of weak privacy practices come to their attention only infrequently. While there is increasingly more publicity about security leaks and unauthorized access to consumer databases, such as the highly publicized disclosure at ChoicePoint,[174] consumers seldom hear about the actual harms resulting from weak privacy practices. Hearing about security leaks raises a societal concern about privacy, but because consumers seldom know what information about them is collected and sold, tracing injury to particular data brokers is extremely difficult. Even in the ChoicePoint incident, affected consumers likely will not know if the security breach resulted in harm to them. If they suffer from identity theft at some future date, the source of the problem likely will never be known. Moreover, few consumers will learn how ChoicePoint built its database and who supplies its information. Without knowing the sources, consumers cannot avoid sharing information with them in the future. Thus, while publicity can increase the societal concern about information privacy, it does not necessarily raise the saliency of privacy in any particular decision-making process.

III. ALTERNATIVES TO THE MARKET APPROACH

When presented with the issue in controlled situations, consumers show strong privacy preferences. Yet for understandable reasons, privacy is seldom a salient attribute in online decision making. We can use these findings to draw a number of conclusions.

Privacy preferences only appear strong in controlled surveys when the question is put directly to consumers, but survey evidence can be misleading. Preferences may in fact be rather weak—or at least not

174. *See ChoicePoint: More ID Theft Warnings*, CNN/MONEY, Feb. 17, 2005, http://money.cnn.com/2005/02/17/technology/personaltech/choicepoint (describing unauthorized access by potential identity thieves into ChoicePoint's consumer databases).

strong enough to warrant a legal response. Survey questions about privacy concerns can distort or manipulate answers. Surveys showing a high level of concern for online privacy often group together different problems (such as, credit card theft, identity fraud, spam, and security), without identifying the particular risk that troubles consumers most. Moreover, surveys seldom develop a full picture of the trade-offs between increased privacy protection and its costs. Without asking consumers to decide how much they are willing to give up in exchange for increased privacy, surveys can distort the level of concern that consumers actually have.[175] It is easy to express concern about information privacy when nothing is at stake. The FTC's market approach might be working more efficiently than privacy surveys would lead us to believe. Consumer behavior in the market shows that we do not value privacy highly at all.

Moreover, even if the market for information privacy is not working efficiently, it is possible that the collective harm to consumers is negligible, and, therefore, any surplus enjoyed by online businesses is too small to merit concern. One of the main difficulties with analyzing privacy issues is demonstrating the harm that results from an invasion of consumer privacy.[176] Industry-sponsored studies show that consumers do not mind being tracked online if it results in more customized Web surfing and if they have an opportunity to opt out of certain data sharing practices.[177] The purportedly high level of consumer angst about privacy seems to have had little effect on online shopping behavior.[178] The perceived injuries may be too small to affect behavior in any noticeable way.

If, however, consumers do value information privacy highly, and their behavior in the market is explainable on rational decision-making grounds, then the consumer injury is not de minimis and some type of response might be justified. Three responses are explored below. First, we could remain patient while waiting for a more mature privacy market to develop. Second, we could impose mandatory privacy rules by legislative or regulatory action that better align with consumer privacy

175. JIM HARPER & SOLVEIG SINGLETON, COMPETITIVE ENTER. INST., WITH A GRAIN OF SALT: WHAT CONSUMER PRIVACY SURVEYS DON'T TELL US 3 (2001), *available at* http://www.cei.org/PDFs/with_a_grain_of_salt.pdf.

176. Phelps, Nowak & Ferrell, *supra* note 40, at 27–28. When personal information is used for unwanted marketing (such as mail, spam, or phone solicitations), consumers bear costs that can be placed into two broad categories: contact costs (including nuisance, disposal, and wasted time) and reliance costs (incurred when the consumer follows up on the solicitation for further consideration). Ross D. Petty, *Marketing Without Consent: Consumer Choice and Costs, Privacy, and Public Policy*, 19 J. PUB. POL'Y & MARKETING 42, 43 (2000). Because the marketer does not internalize these costs, the allocation of marketing resources is inefficient and results in over-marketing. *Id.* Over-marketing results in advertising clutter, which drives marketers to create new ways to get consumers' attention. *Id.* It also creates incentives for deceptive marketing practices that disguise the marketing message, which increases the costs imposed on consumers. *Id.*

177. Milne, *supra* note 82, at 4.

178. Phelps, Nowak & Ferrell, *supra* note 40, at 27.

preferences. Third, we could move incrementally toward stronger privacy practices by stepping up enforcement actions to punish market behavior that deviates from generally held consumer expectations about fair information practices.

A. Wait for the Privacy Market to Mature

Problems with privacy saliency may be causing market inefficiencies at the moment, but that could change in time. Concerns about information privacy in the digital age are still relatively new, and in time consumers may bring privacy concerns into the decision-making calculus more frequently. The saliency of privacy practices could be raised by a combination of several forces. Four are explored below: advertising, personal experience, market signals, and technological solutions.

1. Raising Saliency Through Advertising and Marketing

Advertising and marketing efforts could raise the saliency of privacy practices online. Business consulting firms already advise their clients to publicize good privacy practices as a part of their overall marketing plan.[179] Credit reporting agencies now sell privacy protection plans,[180] which not only raise the saliency of privacy issues but generate new revenues from consumers who are willing to place a monetary value on protecting their personal information through the purchase of privacy insurance.

As a general matter, advertising can draw attention to product and service attributes when they otherwise would not be incorporated into the decision process.[181] If a Web site has a competitive advantage with a strong privacy policy, it has an incentive to promote that policy to attract more users. A site may have invested in technical infrastructure to secure data, or its business plan might not involve data collecting or sharing. Some sites may have no ability to collect and store data, leaving them a strong privacy provider by default.

Advertising privacy practices can help consumers in two of the three decision-making goals mentioned above. To the extent that the advertising gives accurate information about important privacy practices, the decision-making calculus is more complete. Advertising can also

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179. *See* Andrew E. Fano et. al., *The Economic Value of Trust*, OUTLOOK J., October 2003, at 34, 40, *available at* http://www.accenture.com/NR/rdonlyres/22FD46BC-5091-46B9-8033-DA8A6E0FB557/0/technology.pdf.

180. *See* Equifax, Equifax Credit Watch™ Overview, https://www.econsumer.equifax.com/consumer/sitepage.ehtml?forward=cs_esn (last visited Nov. 30, 2005).

181. *See generally* ISSUES IN ADVERTISING: THE ECONOMICS OF PERSUASION (David G. Tuerck ed., 1978) (discussing the effects of advertising on consumer purchasing behavior); Phillip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729 (1974) (discussing how advertising provides information to the consumer); Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311 (1970) (discussing the effect of limited consumer information on the consumer goods market).

reduce the cognitive effort required to put the privacy attribute into the calculus. It can make privacy practices more noticeable and bring them to the involuntary attention of the user, thereby reducing the effort required to process the message.

There are reasons to be skeptical, however, about the potential for advertising to influence privacy shopping behavior. First, marketing efforts have costs, so firms must balance the benefits of promoting their competitive advantage on privacy against the costs of persuading users that they should respond to that message. They must ask how many users or how much information will be gained by the added marketing and what will be the cost of acquisition.

Second, opportunity costs must be weighed. Resources might be better spent promoting other attributes of the product or service where the gain is likely to be greater. Because consumers have limited abilities to process information, increasing the saliency of the privacy attribute may reduce the saliency of others in which the site also has a competitive advantage. Consumers will bring only a limited amount of attributes into the decision-making calculus.[182] The trade-off might not be worth the effort.

Third, advertising does little to further the third decision-making goal—minimization of emotional strain or conflict. In fact, it could impede that goal by highlighting a trade-off that consumers have difficulty making. Depending on how the message is conveyed, advertising privacy practices may cause some consumers to increase their concern about privacy. If a site is making a strong effort to promote its privacy practices over those of a competitor, consumers may feel uncomfortable with the proposed trade. By raising the saliency of privacy advantages, a business is asking its users to assess the value of their personal information. With some attributes, such as a product's price or a free phone with a mobile phone service, the value comparison is clear and the message is direct and unambiguous. When considering the value of increased privacy, however, consumers must ask themselves, "What is it worth?" This raises difficult valuation problems. Asking consumers to put privacy into the decision-making calculus may cause them to increase cognitive effort and emotional concern, which makes the decision process more taxing and may make the business appear less desirable than other alternatives.[183]

Fourth, for advertising to raise saliency, it cannot be misleading. Due to framing effects and other heuristics discussed above, advertising good privacy practices may not give consumers a more accurate understanding of how a firm actually uses and safeguards the personal information it collects. Without more aggressive law enforcement efforts to police misleading claims, as discussed above, the temptation to

182. *See supra* text accompanying notes 140–41.
183. *See* discussion *supra* Part II.D.2.

oversell one's concern for customer privacy is likely to continue for some time.[184]

2. Raising Saliency Through Personal Experience

Web sites that use inefficient privacy terms may reap a consumer surplus for a while, but through repeat transactions visitors may become dissatisfied with their experience and move to sites that have stronger privacy practices. If the long-term costs of having inefficient privacy terms exceed the short-term gains, then it is in a Web site's interest to move toward practices that better align with consumer preferences. This will occur, however, only if two conditions are present. First, terms that are not salient to Internet users initially become salient through their personal experiences and then to others whom they inform by word of mouth, through Web logs, via news reports, or otherwise. Second, Web sites desire the repeat business of users who care about privacy and will adjust their practices to attract them. There is reason to doubt whether these conditions exist now or will emerge in the future.

With respect to the first condition, if a Web site has weaker privacy policies than a user would prefer, it is not likely that any harm caused by the weak policy will come to the user's attention. Tracing privacy injuries to their source is extremely difficult in most cases.[185] Most harms caused by information disclosure go unnoticed, in which case consumers learn nothing from the experience.[186] Harms caused by consumer profiling are one example. People understand that profiling is common, but they seldom know precisely when it is occurring and whether they are benefiting from the practice or not.[187]

The most noticeable harms caused by the release of personal information—excessive spam, junk mail, or identity theft—may cause a consumer to raise concern about privacy generally, and if this occurs to a significant number of consumers, it might cause Web sites to provide stronger privacy protections. It is unlikely, however, that a consumer's privacy injuries can be traced back to any particular information disclosure. With data about us in so many databases, tracing a problem to a particular source is nearly impossible.[188] Without the ability to trace,

184. *See, e.g.*, *supra* note 19 and accompanying text.

185. *See, e.g.*, Andrew J. McClurg, *A Thousand Words Are Worth a Picture: A Privacy Tort Response to Consumer Data Profiling*, 98 NW. U. L. REV. 63, 65 (2003) (noting that nearly every transaction a consumer makes is tracked and that there are "[m]ore than 1000 data-mining companies").

186. Janet Dean Gertz, Comment, *The Purloined Personality: Consumer Profiling in Financial Services*, 39 SAN DIEGO L. REV. 943, 947–48 (2002).

187. *See* Jessica Litman, *Information Privacy/Information Property*, 52 STAN. L. REV. 1283, 1284–85 (2000); McClurg, *supra* note 185, at 65; Gertz, *supra* note 186, at 947–48.

188. For some attributes of a product or service, tracing an injury to its cause is straightforward. Consider a weak or short product warranty: consumers will know who the seller is and will learn in due course that the seller does not stand behind its products. When it is time for another purchasing decision, these consumers may decide to go somewhere else. With harms caused by disclosure of

there is little risk of accountability when a firm collects and shares data in a way that does not coincide with consumer preferences. With no accountability, there is little likelihood that a site will either lose users as a result of personal experience or change its privacy practices to avoid customer defections caused by their experience.

The second assumption—that Web sites want to attract privacy-concerned individuals—may be valid for some firms. But if privacy shoppers tend to be more tech-savvy and privacy-aware,[189] Web sites that expect to extract value from the personal information of their users might not wish to attract more of them. If a site is interested in collecting and using reliable data, it might not want to attract privacy-conscious individuals. Studies show that privacy-savvy shoppers are more inclined to use programs that preserve anonymity, keep dummy e-mail accounts, or provide false information to the database.[190] To the extent that this is true, there is an additional cost to attracting and keeping privacy-conscious users. The site may get more of them, but the information obtained from such users may be less valuable.

3. Raising Saliency Through Market Signals

Intermediaries can raise the saliency of privacy in a way that increases the accuracy of consumer decision making without increasing cognitive effort and emotional discomfort. Market-generated signals, such as the privacy seals of TRUSTe or BBBOnline, may attract the attention of Web users if the seals are conspicuously displayed on Web sites. Such signals can reduce cognitive effort and take advantage of framing effects and the concreteness principle—consumers will accept the information conveyed by the seal as displayed, without delving further into the details.[191] Standardizing information disclosure can convey information economically. For example, before Congress enacted the Truth-in-Lending Act in the late 1960s, lenders disclosed interest rates in a variety of different ways, requiring consumers to exert substantial effort (and perform complex computations) to make

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personal information, consumers generally may be aware that information leaks are causing them problems, but they have no reason to think that information was released by any source in particular. Literature on regret supports this conclusion. Research suggests that if a consumer actively agrees (i.e., consciously chooses) to interact with a site that presents threats to privacy and the consumer subsequently learns of a breach, the consumer will have greater regret than if his or her interaction with the site was inadvertent, unknowing, or passive. As the regret derived from the experience becomes more intense, it is more likely to affect future decision making. The key to learning the lesson well, however, is becoming aware of the breach and linking it to a decision consciously made at an earlier time. Without such a link, regret is less likely to result and future behavior is less likely to change. See Terry Connolly and Marcel Zeelenberg, *Regret in Decision Making*, 11 CURRENT DIRECTIONS IN PSYCHOL. SCI. 212 (2002); Thomas Gilovich and Victoria Husted Medvec, *The Experience of Regret: What, When, and Why*, 102 PSYCHOL. REV. 379, 380–81 (1995).

189. *See supra* text accompanying note 81.

190. *See supra* text accompanying note 83.

191. *See* Viscusi, *Individual Rationality*, *supra* note 149, at 630–36; Viscusi, *An Investigation, supra* note 149, at 477–78.

comparisons.[192] With mandatory, conspicuous disclosure of APR according to the actuarial method, consumers could compare rates by looking at simple numbers in bold font, presented in a uniform manner on all credit agreements.[193] This reduced the cognitive effort necessary to acquire as well as process the information. Standard, conspicuous disclosure of privacy information might be conveyed in a similar way.

Thus far, however, privacy seals have done little to further the accuracy goal, and they can be more misleading than helpful. Seals signify that the site has a privacy policy consistent with the seal sponsor's list of fair information practices, but those standards are neither uniform nor particularly strong. The most popular seal programs do little more than signify that the site has a privacy policy consistent with the seal standards and, to the extent the sponsor can audit subscribers, that the site generally follows its policy.[194] The seal says little about the content of the policy itself. A site with a privacy seal may collect copious amounts of personal information and sell it to third parties. A site without a privacy seal may collect and disclose nothing. Consumers who believe that a Web seal confirms a higher standard of privacy protection can be easily misled. Indeed, if a seal creates a misleading impression, it may induce more disclosure of information and patronage by consumers.[195] Thus, privacy seals may reduce cognitive effort, but they can lead to less accurate decision making if they do not convey information consistent with consumer assumptions about a particular privacy seal's meaning.

For seals to serve as accurate and meaningful signals of privacy practices, there must be incentives for a seal sponsor to set strong standards. To date, incentives have moved seal programs in the other direction.[196] To maximize the number of paying subscribers, it is better to have standards that look impressive to the casual observer but do not impede the ability of subscribers to collect and share personal information as they wish. What is needed is a market signal for the seals

192. Memorandum from OEO Legal Services Training Program (Apr. 1972), *reprinted in* JOHN A. SPANOGLE ET AL., CONSUMER LAW 108, 108–09 (2d ed. 1991).

193. John A. Marold, *Third Circuit's Decision in* Roberts v. Fleet Bank*: Thinking Outside of the "Schumer Box" or "Consumerism Gone Berserk"?*, 8 N.C. BANKING INST. 399, 403 (2004).

194. Paul M. Schwartz, *Beyond Lessig's* Code *for Internet Privacy: Cyberspace Filters, Privacy Control, and Fair Information Practices*, 2000 WIS. L. REV. 743, 767 ("[T]he existence of competing privacy seal programs permits forum shopping by Web sites that hope for weaker enforcement from one seal service rather than the other."); Tal Z. Zarsky, *Desperately Seeking Solutions: Using Implementation-Based Solutions for the Troubles of Information Privacy in the Age of Data Mining and the Internet Society*, 56 ME. L. REV. 13, 23 (2004); Jeremy Quittner, *Should You Pay for a Privacy Seal of Approval?*, BUSINESSWEEK ONLINE, Apr. 27, 1999, http://www.businessweek.com/smallbiz/news/date/9904/f990427.htm. For an in-depth analysis of the effectiveness of third-party privacy seals, see Ann Cavoukian & Malcolm Crompton, Web Seals: A Review of Online Privacy Programs, Presentation at the 22nd International Conference on Privacy and Personal Data Protection (September 2000), *available at* http://www.privacy.gov.au/publications/seals.html.

195. Anthony D. Miyazaki & Sandeep Krishnamurthy, *Internet Seals of Approval: Effects on Online Privacy Policies and Consumer Perception*, 36 J. CONSUMER AFF. 28, 30, 40–41 (2002).

196. Milne, *supra* note 82, at 3; Chet Dembeck, *Report Labels Internet Privacy Policies "A Joke,"* E-COMMERCE TIMES, Sept. 16, 1999, http://www.ecommercetimes.com/story/1243.html.

themselves, or standards imposed by law that would give greater meaning to privacy seals. A regulation might provide, for example, that a "five star" privacy site means the site complies with certain privacy standards, with fewer stars signaling less privacy protection. Absent such a change, seals will continue to give mixed signals at best.

4. Technological Solutions

Claims about harms caused by information collection and sharing are often met with arguments that the problem is temporary and emerging technologies will address legitimate concerns. More widespread use of cryptography can protect some types of privacy invasion, particularly in the telecommunications and Internet data transfer industries.[197] Knowledgeable consumers can install and employ a wide range of products that defend against surreptitious data mining. Products such as Anonymizer[198] allow users to retain anonymity while surfing the Internet.[199] More important for our purposes, computer software can be programmed to act like an "electronic lawyer," negotiating privacy policies with Internet sites.[200] P3P technology, which provides a standard language for Web sites to encode privacy policies, allows Web browsers to display privacy warnings to users, block cookies, and restrict access to Web sites that do not conform to the pre-set privacy preferences on the user's computer.[201] User-friendly technologies such as these could help enhance the saliency of privacy policies online.

While technology holds promise in this area, there are reasons to be skeptical. Privacy enhancing technologies have yet to be widely used. Economic incentives more often produce technologies that enhance data collection and sharing rather than restrict it.[202] Because personal

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197. BRUCE SCHNEIER & DAVID BANISAR, THE ELECTRONIC PRIVACY PAPERS 4 (1997).

198. For a more detailed product description, see Anonymizer, Anonymous Surfing, http://www.anonymizer.com (follow "Anonymous Surfing" hyperlink) (last visited Dec. 1, 2005).

199. *See* Eric Shih, *Putting Internet Privacy Laws Aside, What Technology Might Guard Your Privacy?*, 5 ELEC. BANKING L. & COM. REP. 12, 12–13 (2001).

200. A company called Lumeria took this idea one step further by offering to block transmission of subscribers' data to Web sites they visit, and then selling the subscribers' data in anonymous form to marketers and paying royalties to its subscribers. *The Coming Backlash in Privacy*, ECONOMIST, Dec. 9, 2000, at 4, 5.

201. Lorrie Cranor, et al., The Platform for Privacy Preferences 1.0 (P3P1.0) Specification: W3C Recommendation (Apr. 16, 2002), http://www.w3.org/TR/P3P. One such product is Privacy Bird, which was developed by AT&T. It purports to perform

> searches for privacy policies at every website you visit. You can tell the software about your privacy concerns, and it will tell you whether each site's policies match your personal privacy preferences. The software displays a green bird icon at Web sites that match, and a red bird icon at sites that do not.

Privacy Bird, http://www.privacybird.com (last visited Dec. 1, 2005). *See generally* Kimberly Rose Goldberg, *Platform for Privacy Preferences ("P3P"): Finding Consumer Assent to Electronic Privacy Policies*, 14 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 255 (2003) (discussing efforts to protect the privacy of personal data in online transactions).

202. *See* John MacDonnell, *Exporting Trust: Does E-Commerce Need a Canadian Privacy Seal of Approval?*, 39 ALTA L. REV. 346, 348–49 (2001); John Hanchette, *New Microsoft Software Raises Privacy Protection Concerns*, INDIANAPOLIS STAR, Aug. 26, 2001, at D1 (describing Microsoft's plans

information has become so valuable, technologies have developed that increase data collection and decrease our ability to monitor the data-collection process. This makes privacy protection more difficult for computer users who might be interested in curbing surreptitious data-collection practices.

If P3P or similar technologies are to gain widespread popularity, a large-scale educational effort would be needed and software would need to be developed that is difficult for data seekers to evade (without paying a price in the market) and relatively easy for consumers to use.[203] With respect to the first of these predicates, P3P in its current form gives Web sites the option whether to incorporate the protocol on their Web sites. If a Web site has relatively weak privacy practices, it has little incentive to incorporate the protocol. If few sites support P3P, consumers will have little incentive to use the technology, and its benefits will be marginal. In addition, although P3P provides a technical mechanism for assisting users who wish to be informed about privacy policies before they release personal information, it does not provide a mechanism for making sure sites act according to their stated policies. For this and other reasons, the European Union has not adopted P3P as a technical mechanism for enforcing its privacy laws.[204]

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to combine personal identification information with a powerful information distribution network). *See generally Oversight Hearing on Privacy and Electronic Commerce Before the Subcomm. on Courts and Intell. Prop. of the H. Comm. on the Judiciary*, 106th Cong. (2000) (statement of Joel R. Reidenberg, Professor of Law and Director of the Graduate Program, Fordham University School of Law), *available at* http://judiciary.house.gov/legacy/reid0518.htm. A version of the Microsoft Internet Explorer came equipped with default settings that enabled hidden surveillance of users, and a version of Netscape Communicator reported back to Netscape every time a user read e-mail. Joel R. Reidenberg, *E-Commerce and Trans-Atlantic Privacy*, 38 HOUS. L. REV. 717, 723 (2001).

203. *See Exposure in Cyberspace*, WALL ST. J., Mar. 21, 2001, at B1 (survey showing that almost 30% of computer users did not know about cookies and almost 40% had no idea how to deactivate them); *see also* SUSANNAH FOX, PEW INTERNET & AM. LIFE PROJECT, TRUST AND PRIVACY ONLINE: WHY AMERICANS WANT TO REWRITE THE RULES 5, 6 (2000), http://www.pewinternet.org/pdfs/PIP_Trust_Privacy_Report.pdf (discussing various methods currently being employed by data seekers that challenge Internet users' ability to protect personal information). *Time* ran a feature story on information privacy in July 2001 that recommended ten steps to protect privacy. The list includes changing browser preferences to delete a user's e-mail address and replacing it with a "false name and dummy e-mail account"; opting out of information sharing policies when given the choice; resetting browsers to reject cookies or install software such as "Cookie Crusher"; checking to make sure a Web site uses encrypted transfer software before giving sensitive information online; hiding your identity with an anonymizer program; and clearing your memory cache each time you surf the Internet. *See* Adam Cohen et al., *Internet Insecurity*, TIME, July 2, 2001, at 46, 50.

204. *See* Eur. Comm'n, Working Party on the Protection of Individuals with Regard to the Processing of Personal Data, *Opinion 1/98: Platform for Privacy Preferences (P3P) and the Open Profiling Standard (OPS)*, XV D/S032/98 WP 11 (June 16, 1998), *available at* http://europa.eu.int/comm/justice_home/fsj/privacy/docs/wpdocs/1998/wp11_en.pdf.

With respect to the second predicate, if a large proportion of Web sites adopted P3P, practical problems may weaken its usefulness. Even the most user-friendly P3P programs require users to set their initial privacy preferences if they want to vary the default settings. Studies show that consumers generally find changing default settings to be burdensome and confusing.[205] Consumer experience setting cookie preferences is a recent example.[206] Consumers who configure their browsers to notify them when they detect cookies often find that Web surfing is nearly impossible. A similar problem can inhibit widespread use of P3P. Concerned users will configure their computers to reflect high privacy preferences. When they attempt to access the majority of commercial Web sites, pop-up windows or other warnings will indicate that their privacy preferences are stronger than the privacy practices of the sites they wish to visit. Unless the user is willing to reject the site without further inquiry, the user will need to investigate further to see how serious the conflict is, and then compare the potential risks of going forward to the expected benefits gained by interacting with the Web site. Many consumers will find this calculus cognitively difficult and may respond by reverting to low P3P privacy protection configurations, as they do with cookie preferences now.

B. Mandatory Privacy Terms for the Internet

When consumer markets do not work efficiently, laws that punish practices deemed by government authorities to be unfair can constrain providers of goods and services. Indeed, laws are often enacted to punish unfair practices even when markets are efficient. Lenders may loan money at exorbitant interest rates to well-informed but desperate borrowers, and price-gouging suppliers may take advantage of scarce supplies after a natural disaster. Laws are imposed to curtail such behavior because lawmakers believe fairness norms can be violated even when the market is open and reasonably transparent. Behavioral analysis suggests that community judgments about fairness may explain why bans on voluntary transactions are enacted; such legislation is often difficult to explain by economic efficiency theories.[207] If data collectors

205. *See* ELEC. PRIVACY INFO. CTR., PRETTY POOR PRIVACY: AN ASSESSMENT OF P3P AND INTERNET PRIVACY (2000), http://www.epic.org/reports/prettypoorprivacy.html.

206. *See id.*

207. People care about being treated fairly and will reciprocate with fair treatment if they think others are behaving fairly towards them. Jolls et al., *supra* note 107, at 1479. Conversely, when the conduct of one actor has deviated substantially from a norm of fairness, the other actor may incur costs to "punish" the behavior even when no personal gain results from the punishment. *Id.* at 1494. Boycotts are one example. The "ultimatum game" is another: people refuse to trade for a commodity at a perceived unfair price even when they know that by not trading they will get nothing at all. *Id.* at 1489–90. The implications for privacy policy are evident. If a consumer believes that a Web site guards personal information consistent with a perceived norm of fairness, the consumer may reward the site with more information. If the perception is otherwise and the consumer suspects unfair

engage in information practices beyond the fairness norms governing online activity, mandatory privacy laws may be warranted.

The behavioral research discussed in this Article suggests that online privacy practices may exceed generally held fairness norms, supporting a call for mandatory privacy terms. Nevertheless, there are several practical and theoretic impediments to imposing privacy standards on Web site operators. A few are briefly described below.

1. First Amendment Concerns

Because Internet privacy laws would interfere with the exchange and free flow of information, First Amendment concerns arise. Broad-based privacy rules can run afoul of the *Central Hudson*[208] guidelines for regulating commercial speech.[209] The test looks at whether the government has a substantial interest in restricting the flow of information and whether there is a "reasonable fit" between the government's goal and the means chosen to achieve it.[210] While there is a strong public interest in protecting personal information online, Internet privacy regulation would need to be tailored narrowly enough to avoid a challenge that it prohibits more data collection and distribution than is reasonably necessary to address legitimate privacy concerns. Broad-based legislation that does not distinguish between different types of Web sites and different Web uses may not satisfy the reasonable fit standard.[211]

2. Political Drawbacks

Public choice theory and recent experience with privacy laws in other economic sectors suggest significant obstacles as well. Legislating privacy through the political process may result in a framework that entrenches the interests of the major Internet companies that can muster influence in Washington. Resulting laws could create barriers to entry that favor older, established companies that have invested heavily in the

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information practices, less information (or false information) will be revealed. *See also* Olivero & Lunt, *supra* note 72; Culnan & Armstrong, *supra* note 99, at 112–13.

208. Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n, 447 U.S. 557 (1980).

209. Caudill & Murphy, *supra* note 35, at 11.

210. *Cent. Hudson*, 447 U.S. at 564; *see also* Fla. Bar v. Went For It, Inc., 515 U.S. 618, 624 (1995).

211. Courts have recognized First Amendment limitations on regulating Internet privacy. See U.S. W., Inc. v. FCC, 182 F.3d 1224, 1239 (10th Cir. 1999); United Reporting Publ'g Corp. v. Cal. Highway Patrol, 146 F.3d 1133, 1140 (9th Cir. 1998), *rev'd sub nom.* L.A. Police Dep't v. United Reporting Publ'g Corp., 528 U.S. 32, 40 (1999). *See generally* Larry E. Ribstein & Bruce H. Kobayashi, *State Regulation of Electronic Commerce*, 51 EMORY L.J. 1 (2002) (discussing whether the regulation of electronic commerce should be at the state or federal level); Eugene Volokh, *Freedom of Speech and Information Privacy: The Troubling Implications of a Right to Stop People from Speaking About You*, 52 STAN. L. REV. 1049, 1080–87 (2000) (discussing the problems confronting arguments that Internet privacy laws are constitutional because they restrain only commercial speech).

current privacy regime.[212] With innovation stifled by mandatory laws, inefficiencies in the system could crystallize.

The Gramm-Leach-Bliley Act (GLBA)[213] is a good example of well-intentioned legislation gone awry. The primary purpose of the GLBA was to allow affiliations among companies in the financial services industry.[214] Some members of Congress recognized that these affiliations could create privacy risks, and privacy groups lobbied to include some privacy protection for individuals.[215] In the end, however, the GLBA's privacy protections were weak and sharing consumer information among affiliates and non-affiliated entities is commonplace.[216] The act does not even require covered entities to identify with any specificity what information is shared and the identity of those who may obtain it by sale, transfer, or otherwise.[217]

3. Institutional Inadequacies

Efficiency determinations are difficult to make legislatively. Even if current privacy practices are inefficient, new rules would interfere with the flow of some consumer information, which imposes costs. Some sites might go out of business as a result. Some consumers welcome collection and sale of information in exchange for benefits that they would no longer receive. The government would need to strike the appropriate balance in a way that is an improvement over the current market-driven allocation of rights and responsibilities.[218] Although the deliberative process allows for many factors to be considered, ex ante mandatory terms are difficult to tailor precisely to specific contextual situations. Legislative action is most appropriate when the specific contextual relationships between businesses and consumers are not particularly important—simple rules that apply to a large number of situations in which context does not matter much or rules that apply only to a narrow sphere of commercial activity.[219] Privacy practices and online interactions between consumers and firms are varied and complex. Recent

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212. *See* James B. Speta, *FCC Authority to Regulate the Internet: Creating It and Limiting It*, 35 LOY. U. CHI. L.J. 15, 30 (2003).

213. 15 U.S.C. §§ 6801–6809 (2000).

214. *See* Jolina C. Cuaresma, *The Gramm-Leach-Bliley Act,* 17 J. BERKELEY TECH. L.J. 497, 515–16 (2002); Chris Jay Hoofnagle, Guest Commentary, *Notice Is Not Enough!*, 5 CONS. FIN. SERV. L. REP., Feb. 13, 2002, at 19, 19 ("[A] group of six-year-olds could do a better job in crafting Gramm-Leach-Bliley Act privacy notices than the $400 per hour lawyers hired by the banking industry." (citing Massachusetts Representative Edward Markey)); Julia C. Schiller, Comment, *Informational Privacy v. The Commercial Speech Doctrine: Can the Gramm-Leach-Bliley Act Provide Adequate Privacy Protection?*, 11 COMMLAW. CONSPECTUS 349, 355 (2003).

215. Schiller, *supra* note 214, at 355; *see also* Hoofnagle, *supra* note 214, at 19.

216. Cuaresma, *supra* note 214, at 510–17; Schiller, *supra* note 214, at 358–63.

217. Cuaresma, *supra* note 214, at 510–11; Hoofnagle, *supra* note 214, at 19; Schiller, *supra* note 214, at 358–59.

218. *See* Cuaresma, *supra* note 214, at 515–17.

219. *See* Korobkin, *supra* note 34, at 1293–94 (2003) (arguing against legislative prohibitions of unfair contract terms).

experience in the financial and health sectors suggests that striking the right balance is not easy even when a specific economic area is targeted.[220] Mandatory terms covering the vast array of market interactions online could make consumers and businesses worse off.

C. Case-by-Case Evolution of Privacy Norms

Imposing standard privacy terms for all Web sites, regardless of the amount and types of information they collect and the purposes for which the information is used, may not result in net consumer benefit, yet market approaches have significant inefficiencies as well. A third approach is case-by-case enforcement of unfair or deceptive privacy practices, which may lead to more efficient privacy terms over time. The difficulty is deciding which privacy practices are so unfair or deceptive that they should be prohibited. The behavioral science research discussed in this paper can be helpful to enforcement agencies as they decide which information practices cross the line. The impact of this research on the FTC's unfairness and deceptive practices authority is discussed below.

1. Unfair Data-Collection Practices

Setting an appropriate standard for identifying "unfair" transactions has proved problematic in the United States. In the 1970s, the FTC began to use its unfairness authority aggressively to redress practices that it deemed contrary to general principles of morality and public policy. The result was a series of administrative adjudications and rulemakings that relied on general notions of morality and the inherent unfairness of one-sided business practices but lacked empirical support and were

220. After the passage of the GLBA, firms attempting to comply with this financial privacy legislation drafted privacy policies that require a reading skill (at least two years of college) considerably higher than the population's typical level. *See* Annie I. Antón et al., *The Lack of Clarity in Financial Privacy Policies and the Need for Standardization*, N.C. ST. U. COMPUTER SCI. TECHNICAL REP., NO. TR-2003-14, Aug. 1, 2003, at 1–2, 10, http://www.theprivacyplace.org/papers/glb_secPriv_tr.pdf. In the health field, personal information may be more susceptible to privacy breaches now than prior to enactment of the Health Insurance Portability and Accountability Act (HIPAA) of 1996, 42 U.S.C. §§ 1320d to d-8 (2000). Before HIPAA, privacy policies were fairly short, simple, and more uniform. Annie I. Antón et al., *An Analysis of Web Site Privacy Policy Evolution in the Presence of HIPAA*, N.C. ST. U. COMPUTER SCI. TECHNICAL REP., No. TR-2004-21, Jul. 24, 2004, at 7, http://www.theprivacyplace.org/papers/hipaa_7_24_submit.pdf. HIPAA prompted the drafting of firm-specific privacy policies by legions of lawyers, which tend to be lengthier (approximately twice as long) and more difficult to understand (an increase by almost a grade level in required reading skill). *Id.* at 3–7. Web sites of most health organizations now require at least two links—a privacy policy link and a legal disclaimer link—before a privacy policy can be read in its entirety. *Id.* at 6. Many have additional links with more privacy-related information. *Id.* at 6–7. Even when a consumer does navigate through the site, the meaning of the policy may be difficult to discern. For example, because HIPAA allows organizations to determine what a "reasonable effort" to protect data means, consumers have no way of knowing when data is being safeguarded. One online pharmacy stated that it "may disclose any content, records, or electronic communications of any kind . . . if such disclosure is necessary or appropriate to operate the site." *Id.* at 5 (quoting Drugstore.com's Terms of Use).

based largely on individual commissioners' personal values.[221] In the view of many in the business community, and more importantly in Congress, the FTC was asserting unbridled discretion to punish commercial practices that it deemed unwarranted when reasonable minds might conclude otherwise.[222] Under pressure from Congress, the FTC began to reevaluate its unfairness authority, beginning with a 1980 letter to Congress explaining a new unfairness approach[223] and continuing with more restrained application in several regulatory proceedings during the following decade.[224] The FTC replaced its old approach with a less subjective, more empirically verifiable cost-benefit test for unfairness that Congress codified in a 1994 amendment to the FTC Act.[225] The principal focus under the current standard is the maintenance of consumer choice and sovereignty, an economic approach that seeks to identify conduct harmful to consumers in its net effects.[226]

The standard proved difficult to satisfy initially, however, and the pendulum swung far in the opposite direction. In the 1990s, the FTC used its unfairness authority sparingly and seldom when the conduct in question could be challenged under its deception theory.[227] The threshold inquiry for unfairness is whether the conduct in question has

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221. The Supreme Court acquiesced in the FTC's approach. *See* FTC v. Sperry & Hutchinson Co., 405 U.S. 233, 244 (1972) (reversing the FTC but observing that the FTC, "like a court of equity, considers public values beyond simply those enshrined in the letter or encompassed in the spirit of the antitrust laws."). *See generally* Richard Craswell, *The Identification of Unfair Acts and Practices by the Federal Trade Commission*, 1981 WIS. L. REV. 107; David A. Rice, *Consumer Unfairness at the FTC: Misadventures in Law and Economics*, 52 GEO. WASH. L. REV. 1 (1983).

222. *See Sperry & Hutchinson Co.*, 405 U.S. at 244.

223. *See generally* Letter from the FTC to Hon. Wendell H. Ford & Hon. John C. Danforth, S. Comm. on Commerce, Sci., & Transp. (Dec. 17, 1980), *reprinted in In re* Int'l Harvester Co., 104 F.T.C. 949 app. at 1070–76 (1984).

224. *Compare In re* Orkin Exterminating Co., 108 F.T.C. 263 (1986), *and In re* Int'l Harvester Co., 104 F.T.C. 949, 1070–76, *with* Labeling and Advertising of Home Insulation, 44 Fed. Reg. 50,218, 50,218 (Aug. 27, 1979) (representing the old approach).

225. 15 U.S.C. § 45(n) (2000). The amendment provides:

> The Commission shall have no authority under this section or section 18 [15 USCS § 57a] to declare unlawful an act or practice on the grounds that such act or practice is unfair unless the act or practice causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition. In determining whether an act or practice is unfair, the Commission may consider established public policies as evidence to be considered with all other evidence. Such public policy considerations may not serve as a primary basis for such determination.

Id.

226. *Int'l Harvester*, 104 F.T.C. at 1061 n.47. For example, in adopting the Credit Practices Rule, the FTC considered and rejected a rule that would prohibit consumer credit contracts from containing a provision that required debtors to pay the creditor's attorneys' fees in debt collection actions. Credit Practices Rule, 49 Fed. Reg. 7740, 7784 (Mar. 1, 1984). The agency reasoned that creditors already have an incentive to minimize attorneys' fees because they usually are not reimbursed fully by defaulting debtors and must absorb the losses. *Id.* at 7785. Any benefit that an attorneys' fees ban would provide to debtors would be offset by losses to creditors for no net economic gain. *Id.* Furthermore, a ban might increase total legal costs by emboldening debtors to raise additional defenses and drag out litigation in hopes of a favorable settlement. *Id.* The cost of credit could increase as a result. *Id.*

227. J. Howard Beales III, *The Federal Trade Commission's Use of Unfairness Authority: Its Rise, Fall, and Resurrection*, 22 J. PUB. POL'Y & MARKETING 192, 192 (2003).

caused a "substantial consumer injury."[228] The injury can be economic harm or a threat to public health or safety, but the test is supposed to be objective and verifiable.[229] It can consist of small harm to a large number of consumers or significant harm to only a few.[230] The FTC has stated, however, that mere emotional discomfort or psychological distress ordinarily is insufficient to show substantial injury.[231]

The second inquiry is whether countervailing benefits to consumers or to competition resulting from the conduct in question outweighs the harm to consumers.[232] High prices, for example, are not necessarily unfair because they provide important market signals to consumers and other market participants that can help reallocate resources in ways that ultimately benefit consumers as a class.[233] In this balancing test, the costs of imposing a remedy also must be considered, as must any benefits that consumers enjoy as a result of the challenged practice, such as added consumer convenience.[234] Credit card fraud, for example, could be reduced if merchants were required to check photo or biometric identification before each use, but the impact of such a rule on consumer convenience, particularly in mail order, telephone, and Internet sales, likely would outweigh the benefits.[235]

The third and final inquiry focuses on consumer avoidance.[236] The FTC will declare a practice unfair only if the injury is not one that consumers can reasonably avoid.[237] The FTC views its role as promoting consumer choice, not second-guessing those choices.[238] It will not change market outcomes when the injury can be avoided by consumers taking reasonable actions themselves.[239]

Each of the three inquiries can be problematic in an FTC challenge to Internet privacy practices. There is some precedent, however, suggesting that the problems are not insurmountable.

a. Substantial Consumer Injury

Does the collection and sale of personal information online without consumer consent constitute a substantial injury? According to the FTC's 1980 policy statement, substantial injury requires more than mere

228. *Id.* at 195.
229. *Id.*
230. *Id.*
231. *Int'l Harvester*, 104 F.T.C. at 1073 ("Emotional impact and other more subjective types of harm . . . will not ordinarily make a practice unfair.").
232. Beales III, *supra* note 227, at 195.
233. *Id.*
234. *Id.*
235. *Id.* at 198.
236. *Id*. at 195.
237. *Id*.
238. *Id*. at 196.
239. *Id.*

trivial or speculative harm.[240] In most cases, the injury must be economic or monetary or an increased health or safety risk. Emotional impact generally is regarded as insufficient.[241] The collection and sale of information online increases the risk that the information will be used in unauthorized ways, identity theft being the most economically injurious. The difficulty, however, comes in establishing that the risk is more real than speculative in the context of a specific Web site's practices. Most privacy or security breaches, even when detected, do not result in immediate economic harm to anyone. There may be potential harm from future use of the information, but until the use occurs and is traced to the specific privacy breach, any harm is largely psychological, emotional, and speculative.

In prior actions, however, the FTC has indicated that unfair privacy invasions can result in injury that is more than trivial or speculative even without an immediate economic injury. In *Touch Tone*,[242] a majority of FTC commissioners believed that a broker who obtained consumer financial information from banks created a likelihood of substantial injury, even though there was no evidence that the information was used to harm anyone.[243] The possibility of harm, including the possibility of identity theft, was deemed sufficient to sustain an enforcement action.[244] The case is not the strongest precedent for reviewing online data practices because the broker deceived the bank to obtain the information,[245] but the FTC said the conduct could be challenged under either its deception or unfairness authority, indicating that the deceptive nature of the conduct was not its only vice.[246]

The FTC also has recognized that relatively minor annoyances can constitute substantial injury when aggregated among a large number of consumers. In *Pereira*,[247] the agency challenged "pagejacking" and "mousetrapping" practices that lured Web surfers to pornographic sites,

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240. S. REP. NO. 103-130, at 13 (1994), *reprinted in* 1994 U.S.C.C.A.N. 1776, 1788.

241. *Id.*

242. FTC v. Rapp (*Touch Tone*), No. 99-WM-783, 2000 U.S. Dist. LEXIS 20627 (D. Colo. June 27, 2000), *available at* http://www.ftc.gov/os/2000/06/touchtoneorder.htm. The defendants did business as Touch Tone Information, Inc., and FTC statements refer to the case in that manner. *Id.* at *1; *see* FTC, Dissenting Statement of Commissioner Orson Swindle In the Matter of *Touch Tone Information*, File No. 982-3619 [hereinafter Swindle Dissent], *available at* http://www.ftc.gov/os/2000/06/touchtoneswindle.htm (last visited Dec. 1, 2005); *see also* Complaint for Injunction and Other Equitable Relief, FTC v. Rapp, No. 99-WM-783, 1999 FTC LEXIS 112, at *2–3 (Fed. Trade Comm'n April 22, 1999) [hereinafter Touch Tone Complaint].

243. *See* Swindle Dissent, *supra* note 242; *see also* Touch Tone Complaint, *supra* note 242, at *3–4.

244. Swindle Dissent, *supra* note 242 at n.4.; *see also* Touch Tone Complaint, *supra* note 242, at *8 (statement of Chairman Pitofsky and Comm'rs Anthony and Thompson).

245. Swindle Dissent, *supra* note 242.

246. Touch Tone Complaint, *supra* note 242, at *5–6; *see id.* Swindle Dissent, *supra* note 242.

247. FTC v. Pereira, No. 99-1367-A (E.D. Va. Sept. 21, 1999) (order granting preliminary injunction), *available at* http://www.ftc.gov/os/caselist/9923264/990922prelim9923264.htm; *see also* Complaint for Permanent Injunction and Other Equitable Relief, FTC v. Pereira, No. 99-1367-A (E.D. Va. Sept. 21, 1999) [hereinafter Pereira Complaint], *available at* http://www.ftc.gov/os/caselist/9923264/990922comp9923264.htm.

including one site that appeared to be a good copy of the Harvard Law Review home page.[248] Consumers suffered no monetary harm.[249] Potential harms included waste of time, frustration, risk of possible embarrassment, potential employer discipline to consumers who were directed to pornographic sites while at work, and risk of exposure to children of pornographic material.[250] These harms are more emotional and psychological than economic, yet the practices clearly were unfair and the FTC was right to prosecute them as such.[251]

ReverseAuction.com involved the use of personal information for unauthorized purposes, where the information was given voluntarily for other purposes.[252] ReverseAuction.com joined eBay as a customer but then obtained other eBay members' e-mail addresses and sent them solicitations to join its competing auction site.[253] A divided FTC thought that consumer injury was substantial because consumers had given eBay their e-mail addresses thinking that the information would not be used in this way.[254] Although the information was obtained through deceptive means, the injury is not materially different when any Web site sells e-mail or home addresses to a third party that intends to use the information to send spam, junk mail, or other commercial solicitations without the users' express permission.[255] As in *Touch Tone*, ReverseAuction.com's acquisition of the information may have been more objectionable because it involved false pretenses, but the injury to consumers essentially was the same.[256] Consumers voluntarily gave information thinking it would be used for one purpose, and it was then used for a different and objectionable purpose without their consent.[257]

b. Countervailing Benefits to Consumers or to Competition

The second inquiry in the unfairness test is whether benefits to consumers or to competition outweigh the consumer injury.[258] In the

248. Press Release, FTC, FTC Halts Internet Hijacking Scam (Sept. 22, 1999), *available at* http://www.ftc.gov/opa/1999/09/atariz.htm.

249. *See id.* The FTC did not allege that consumers had suffered monetary harm. *See* Pereira Complaint, *supra* note 247.

250. *See* Pereira Complaint, *supra* note 247.

251. The working rule at the FTC was to avoid pleading unfairness if at all possible. *See* Beales III, *supra* note 227, at n.12.

252. *See* FTC v. ReverseAuction.com, Inc., No. 00 0032, 2000 U.S. Dist. LEXIS 20761 (D.D.C. Jan. 10, 2000); Complaint for Permanent Injunction and Other Equitable Relief, FTC v. ReverseAuction.com, Inc., No. 00 0032 (D.D.C. Jan. 12, 2000) [hereinafter ReverseAuction.com Complaint], *available at* http://www.ftc.gov/os/2000/01/reversecmp.htm.

253. ReverseAuction.com Complaint, *supra* note 252.

254. *See* Statement of Commissioners Orson Swindle and Thomas B. Leary Concurring in Part and Dissenting in Part in *ReverseAuction.com, Inc.*, File No. 0023046, *available at* http://www.ftc.gov/os/2000/01/reverses1.htm (last visited Dec. 1, 2005).

255. *See* ReverseAuction.com Complaint, *supra* note 252.

256. *Id.*; Touch Tone Complaint, *supra* note 242, at *3–6.

257. *See* ReverseAuction.com Complaint, *supra* note 252.

258. Beales III, *supra* note 227, at 195.

context of online collection and sale of information, the question is whether consumers benefit from surreptitious data collection in ways that outweigh any consumer injury.[259] This inquiry is likely to be the most troubling when challenging online information practices because there are several benefits that a Web site might argue outweigh any injury. A site may be able to offer better quality of services, quicker downloads, better graphics, or lower prices because it is profiting from the collection and sale of information. If privacy policies became salient, more consumers would not share personal information, profits would be reduced, and either services would suffer or users would pay more for them. In addition, if privacy practices became salient, firms likely would need to adopt systems to honor more opt-in and opt-out requests and employ additional security measures to see that consumers' privacy preferences were honored, all at additional cost.

Another arguable benefit to undisclosed or non-salient privacy practices is consumer convenience. To make privacy practices salient, the Web site would need to take steps to bring the policy to the attention of users. Drawing attention to even a short summary of a firm's information sharing practices likely would be seen as a nuisance by many Web site users. If a site required users to visit and assent to its privacy policy, even with a quick mouse click, the inconvenience would be noticed.

The basic analytical problem with this part of the unfairness test is that it requires the FTC to compare incomparable values. It is difficult to quantify a consumer injury resulting from unwanted information collection and use.[260] Some harms can be individual and identifiable—identity theft costs might be quantified, for example, by examining the money lost by consumers and credit grantors due to theft. Other harms, such as increased spam, e-mail, junk mail, and pop-up ads, are difficult to reduce to monetary or other economic terms. Societal harms resulting from consumer profiling and manipulation of consumer preferences are even harder to quantify.[261] In a cost-benefit calculation to determine whether the harms outweigh the benefits, it may be easier for businesses to demonstrate the costs of a required change in information practices and the monetary benefits that result from widespread data collection and sale.[262] Given the basic incomparability of consequences, both good and bad, deciding whether harms of data practices outweigh countervailing benefits is bound to be subjective and difficult to support empirically in many cases.

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259. *See* Nehf, *supra* note 172, at 31–32.

260. *See id.* (stating that calculating a value for personal information is almost impossible).

261. *See id.* at 8.

262. *See* Robert W. Hahn & Anne Layne-Farrar, *The Benefits and Costs of Online Privacy Legislation*, 54 ADMIN. L. REV. 85, 157, 169–71 (2002) (estimating the costs of various privacy-enhancing proposals but conceding that valuing the benefits of privacy protection is extremely difficult).

To overcome these difficulties, the FTC would need to expand its view of cognizable consumer injury to include societal harms and harms that are somewhat speculative and not easily quantifiable. For example, the sale of information to a third party that allows the purchaser to personally identify consumers without their express consent should be viewed as a more cognizable harm than the disclosure of non-identifiable data, even if there is no evidence that the disclosure resulted in identity theft or other economic injury. A significant risk of harm should be sufficient, as the FTC found in *Touch Tone*.[263] On the other side of the balancing test, the agency should closely scrutinize claims by online firms that they are bestowing benefits on consumers by using their personal information in ways that many consumers would find offensive, or at least insist on proof that the benefits are real.

c. Reasonable Avoidance

The consumer avoidance part of the unfairness test is less problematic when privacy terms are not salient. People have a reasonable opportunity to avoid a privacy injury only if the firm's practices are incorporated into the decision process. If there are rational reasons why a posted privacy policy is not salient to the vast majority of consumers, then consumers cannot reasonably avoid unfair information practices simply by reading the policy and taking steps to withhold personal information. In the past, the FTC has brought actions against firms that take advantage of poorly informed decision making. In *International Harvester*, a firm manufactured tractors that were subject to fuel geysering, or the rapid expulsion of hot fuel from gas tanks when a user loosened the gas cap.[264] Discussing whether farmers reasonably could have expected and avoided injury, the FTC concluded that farmers may have known that loosening the fuel cap on a hot engine was a poor practice, but they could not be expected to comprehend the full consequences that might result.[265]

The FTC has found this part of the unfairness test satisfied even when consumers had been given the information in writing that put them on notice that their rights were being violated. In *Orkin*, a pest exterminating company offered "lifetime" contracts at fixed rates in written contracts. Over the years, the contracts became unprofitable, and Orkin raised its rates.[266] Some consumers read their original contracts, noticed the promise of fixed rates, and complained.[267] Orkin

263. *See* FTC v. Rapp (*Touch Tone*), No. 99-WM-783, 2000 U.S. Dist. LEXIS 20627 (D. Colo. June 27, 2000), *available at* http://www.ftc.gov/os/2000/06/touchtoneorder.htm; Swindle Dissent, *supra* note 242.

264. *In re* Int'l Harvester Co., 104 F.T.C. 949, 950 (1984).

265. *Id.* at 1066.

266. *In re* Orkin Exterminating Co., 108 F.T.C. 263, 264 (1986), *aff'd*, 849 F.2d 1354 (11th Cir. 1988).

267. Orkin Exterminating Co. v. FTC, 849 F.2d 1354, 1358 (11th Cir. 1988).

reduced the rates of complaining customers, but continued to charge higher rates to customers who did not re-read their contracts and complain.[268] The FTC said this was unfair, concluding that it was not reasonable to require consumers to find the contract, notice the fixed-rate commitment, and complain about the increases.[269] A similar position could be taken with privacy policies. In most instances, expecting consumers to read privacy policies, understand their import, and take protective action will be unreasonable.

2. Deceptive Data-Collection Practices

To determine if conduct is deceptive, the FTC asks whether there was a material statement or omission that is likely to mislead consumers acting reasonably under the circumstances.[270] Deception is easy to prove when a firm does not follow its published privacy practices, and on several occasions the agency has brought actions against firms that stated privacy practices but did not adhere to them.[271] More difficult are cases in which no privacy policy is stated or when a policy is followed but it is weaker than consumers ordinarily would expect.

Historically, the FTC has offered little protection for pure omissions of relevant information. Omissions can be deceptive only under circumstances in which silence constitutes an implied but false representation.[272] For example, by offering goods for sale, a merchant makes an implied representation that the goods are reasonably fit for their intended uses and free of safety hazards.[273] Applying this precedent to privacy practices, the FTC could conclude that if a Web site does not post a privacy policy, its privacy practices are deceptive if disclosure of the site's information practices would be necessary to correct a basic assumption upon which users are reasonably relying.[274] The FTC could bring such an action against a firm whose information collection and sharing practices far exceed generally held consumer expectations. Studies show, however, that Internet users are increasingly aware of the potential for data collection online.[275] Thus, the basic assumption of a growing number of consumers today is that data is being collected and sold all the time. As this assumption becomes more widespread among

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268. *Id.* at 1359.

269. *Id.*

270. *See In re* Cliffdale Assocs., 103 F.T.C. 110, 153 (1984); Patricia P. Bailey & Michael Pertschuk, *The Law of Deception: The Past as Prologue*, 33 AM. U. L. REV. 849, 850 (1984).

271. *See, e.g.*, Complaint, *In re* Gateway Learning Corp., No. C-4120 (Sept. 10, 2004), *available at* http://www.ftc.gov/os/caselist/0423047/040917comp0423047.pdf. *See also, e.g.*, FTC, Unfairness & Deception: Enforcement, http://www.ftc.gov/privacy/privacyinitiatives/promises_enf.html (last visited Dec. 14, 2005).

272. *In re* Int'l Harvester Co., 104 F.T.C. 949, 1058 (1984).

273. *In re* Figgie Int'l, Inc., 107 F.T.C. 313, 379 n.17 (1986).

274. *See* Thomas J. Holdych, *Standards for Establishing Deceptive Conduct Under State Deceptive Trade Practices Statutes That Impose Punitive Remedies*, 73 OR. L. REV. 235, 294 (1994).

275. *See supra* text accompanying notes 57–67.

Internet users, it will be more difficult to establish a deception case if a firm chooses not to publish its information practices.

If a Web site mentions a privacy policy, however, an allegation of deception should be sustained even if the site does not technically breach its stated terms. If a Web site makes statements that would lead a reasonable consumer to believe that the site's privacy practices are strong—a practice that is not uncommon—it is deceptive if those practices are in fact weak. Stating "we care about your privacy" in the lead sentence of a privacy policy could be deceptive if the policy allows for the wholesale collection and distribution of information to third parties. The conduct could be deceptive even if subsequent paragraphs or links explained the practices accurately. As behavioral research shows, consumers acting rationally are not likely to read and understand the details of the privacy policy.[276] They will rely on heuristics and other decision-making strategies to form conclusions about a site's privacy practices, taking the site at its word that its practices are strong.[277]

More than thirty years ago, the FTC brought an action against Metromedia, which had sent consumers a form letter and questionnaire inviting them to answer several questions, submit the form, and become eligible for prizes.[278] In fact, Metromedia had requested the information to generate direct mail solicitation lists.[279] The FTC complaint charged Metromedia with deceptive conduct by implying that the questionnaires were sent for purposes different from their intended use, even though the questionnaires did not explicitly state the purpose for which Metromedia would use the information.[280] The complaint acknowledged a significant consumer interest in keeping personal information private, noting, "A substantial portion of the purchasing public has a preference that their names not appear on mailing lists."[281] The action resulted in a consent order, and the FTC never had to prove its case, but the proceeding indicates that the agency believed the challenged conduct was deceptive.[282] The practices of many Web sites are not functionally different. If a site gives the impression that it cares about consumer privacy and collects information that consumers reasonably believe they are providing only for a limited purpose, it is deceptive to use the information for other purposes, even if the site discloses its information sharing practices in a published policy.

276. Coupey, *supra* note 152, at 83.
277. *See supra* text accompanying notes 149–55.
278. *In re* Metromedia, Inc., 78 F.T.C. 331, 333 (1971).
279. *Id.* at 337.
280. *Id.*
281. *Id.*
282. *Id.* at 338–40.

3. *Effective Use of Limited FTC Resources*

Of course, the FTC has limited resources and cannot afford to prosecute every Web site that engages in deceptive or unfair privacy practices. This does not mean that the FTC cannot bring more privacy cases, however, especially if the agency selects cases that set important precedents without expending substantial resources. Highly publicized FTC actions likely would have a deterrent effect, and online firms would be well advised to follow FTC policy statements and precedents rather than risk the publicity and expense of a regulatory confrontation. One commentator has observed, "Companies do heed the words of the FTC and do respond to problems the FTC identifies through its enforcement actions."[283]

Although the FTC has retreated from its earlier call for federal privacy legislation,[284] its chairman has indicated that the resources dedicated to enforcing existing rules should be increased by as much as fifty percent.[285] When the FTC has initiated privacy enforcement actions, they generally have settled quickly, limiting the investments needed to obtain results.[286] The FTC also could engage consumer advocacy groups to review the privacy practices of Internet firms, working with industry trade associations in a cooperative venture to encourage voluntary reform.[287] Partnering with the private sector would allow the FTC to devote its resources to prosecuting the most serious offenders, aided by industry watchdog groups that could help identify such offenders.[288]

IV. CONCLUSION

Creating a law of online information privacy that results in an efficient balance of interests may be an impossible task. Web site operators come in all shapes and sizes, and they use personal information in a wide variety of ways, some good and others harmful. Consumers are not a monolithic force, and they show varying levels of concern about perceived misuses of their personal information. They also want the benefits that information sharing can bring. Given the vast array of commercial interests and consumer privacy preferences involved in

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283. Devin Gensch, *Putting Enforcement First*, THE RECORDER, Nov. 7, 2001, at 5 (commenting that being subject to a FTC § 5 action is "like facing a nuclear bomb in a food fight"); *see also* Julia Gladstone, *The U.S. Privacy Balance and the European Privacy Directive: Reflections on the United States Privacy Policy*, 7 WILLAMETTE J. INT'L L. & DISP. RESO. 10, 28 (2000) ("Upon the recommendation of the FTC many web sites now publish their privacy policies . . . .").

284. *See supra* text accompanying note 13.

285. Muris, Protecting, *supra* note 13.

286. *See* Robert R. Schriver, *You Cheated, You Lied: The Safe Harbor Agreement and Its Enforcement by the Federal Trade Commission*, 70 FORDHAM L. REV. 2777, 2813 (2002).

287. *See* Tom Valuck, *Keeping Dietary Supplement Regulations Slim and Fit: Finding a Healthy Balance Between Paternalism and Consumer Choice*, 2 GEO. J.L. & PUB. POL'Y 285, 313 (2004).

288. *Id.* (recommending public-private partnerships to assist the FTC in policing the dietary supplement industry).

online activity, it is no wonder that the FTC and other market regulators, for the most part, have chosen to let market forces decide the outcome.

Studies in consumer decision making, however, reveal important and perhaps intractable difficulties in consumers' ability to shop for privacy. Until privacy becomes a salient attribute influencing consumer choice, Web site operators will continue to take and share more personal information than consumers would choose to provide in a more transparent exchange. Market regulators can allow the inefficiencies to persist, hoping that consumers will be better able to police their interests in time, but a passive approach has a price, and it is not insubstantial. While regulators wait for market mechanisms to evolve to the point at which a more efficient balance is achieved, the privacy interests of countless consumers will be compromised in ways that could have been prevented with more aggressive action. In addition, inaction allows data-collection practices to crystallize and powerful interests to become entrenched, making it more difficult to initiate change in the future.

During this period of evolving consumer attitudes and business responses to concerns about information privacy, the FTC can set the boundaries for acceptable methods of data collection and sharing. A sensible path between regulatory passivity and legislative mandates is more aggressive prosecution of unfair and deceptive privacy practices on a case-by-case basis. Much as common law principles have evolved over time, common themes about fair information practices are likely to emerge through individual enforcement actions. Compared to a broad-based legislative approach, the ebb and flow of an incremental, evolutionary process is less likely to set inefficient norms in stone, and adjustments can be made over time as businesses obtain and manipulate personal information in increasingly sophisticated ways. In accepting this challenge, the FTC must consider the cognitive limitations on consumers' abilities to protect their interests online and hold firms accountable when they unfairly take advantage of these limitations to the detriment of privacy interests. With a better understanding of the methods by which consumers make decisions online, the agency can bring actions to ensure that market-based approaches to privacy concerns have a legitimate chance of success.

The 2010 digital marketer:

Benchmark and trend report

Consumer insight • Digital advertising • Email marketing • Mobile marketing • Multichannel customer experience • Online communities and social media • Search marketing

Experian℠
Marketing Services

Foreword

When I meet a new client, I usually start our discussion by asking a series of simple questions: How well do you know your customers? Who are they? How do they behave? What motivates them to buy your product or service?

On its face, it seems the answers to these very basic questions would be obvious. Yet if you get to the bottom of understanding your customer in today's digitally enabled world, you'll most likely find that your target's behaviors and characteristics are constantly evolving, becoming more elusive every day.

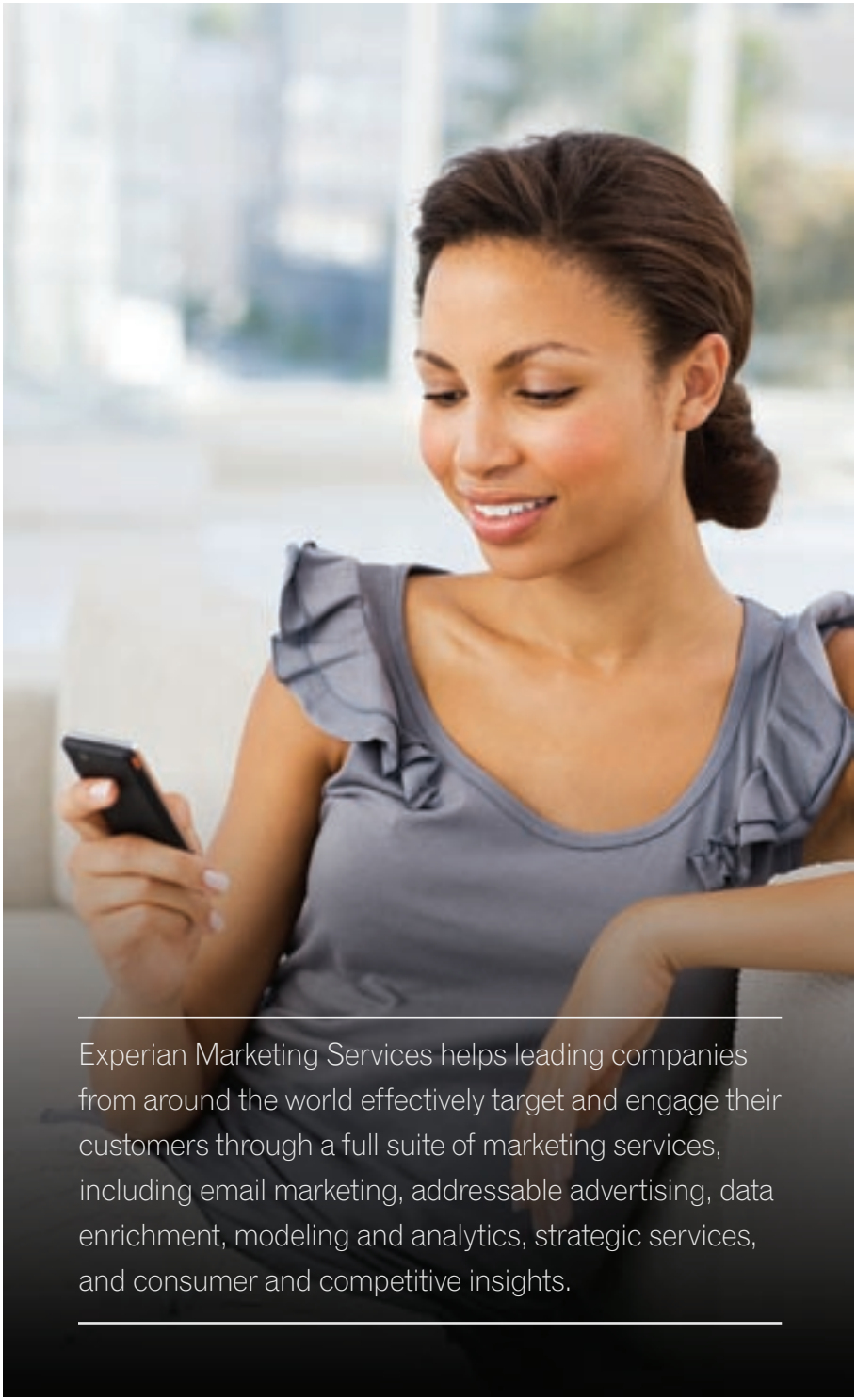
With the current economic environment and the increasing pressure to improve the return on marketing spend, it's imperative that you arm yourself with as much data as possible to understand the evolution of the digital consumer.

At Experian Marketing Services,® we look at consumers from many perspectives to provide a complete picture of their online and offline activities — including the observed online behavior of more than 10 million U.S. Internet users who comprise our Experian® Hitwise® panel; our consumer behavior studies at Experian Simmons℠ covering 60,000-plus variables; and our rich demographic data, compiling information from more than 3,200 sources covering more than 215 million households. We help marketers to distill this information into effective customer segments with our analytical and consulting services and combine it with digital marketing platforms like Experian CheetahMail,® our best-in-class email marketing service, providing actionable consumer and customer data across channels. In this report, we've highlighted some key points to provide you with an understanding of today's digital consumer and how best to reach them.

Before you continue on, ask yourself this basic question: How well do I know my customer — or, more specifically, what assumptions have I made about marketing to my prospects and customers?

I am confident that with these questions in mind, the following pages will provide some confirmation but also some surprising and actionable insights.

Bill Tancer
General Manager, Global Research, Experian
Author of *Click: What Millions of People Are Doing Online and Why It Matters*



Experian Marketing Services helps leading companies from around the world effectively target and engage their customers through a full suite of marketing services, including email marketing, addressable advertising, data enrichment, modeling and analytics, strategic services, and consumer and competitive insights.

Table of contents

Executive summary

Digital marketing has proved its value and effectiveness to the point where it is an essential part of any marketing mix. As leading companies worldwide continue to shift dollars and resources to digital channels at a faster pace, marketers are challenged to develop and execute customer engagement strategies that take full advantage of this critically important medium.

Taking into account data-driven benchmarks and trends, it looks like 2010 will be a year of growth for marketers, but the weak job market will continue to make consumers cautious. In 2009, year-end sales showed improvement in many key sectors, and data suggests that marketers can anticipate better results in the near future. For example, based on an early look at Experian's email data, transactions were up 2.8 percent for the peak of the 2009 holiday season, and overall sales increased 15.2 percent. Looking at the longer period encompassing all of December, email-driven sales were up 11 percent, indicating a strong finish for 2009. These trends highlight the effectiveness and importance of digital marketing even in the face of a challenging economy.

With marketing effectiveness and accountability on the top of the list for 2010, the following report contains trend information; predictive benchmark data; and analytical insight necessary for business leaders to maximize digital marketing opportunities and return on investment (ROI), including:

A quantifiable analysis on all facets of the digital landscape. It should come as no surprise that the Internet is the most important digital media channel and email is the most preferred messaging channel for consumers, but how can marketers use data to strategically leverage these channels? When it comes to email, nine or more of the top 25 keywords utilized in subject lines indicated a sale or an offer through words such as *free*, *sale* and *% off* across almost all industries last year. In search marketing, most searches tend to be comprised of only one to two keywords.

Benchmark information pertaining to the latest emerging digital channels. Digital advertising is poised to return to double-digit annual growth, increasing 17 percent annually to become a $55 billion industry by 2014. In addition, smartphone usage is quickly on the rise, with more than 30 percent of consumers using their mobile devices for personal email, maintaining their calendars and accessing the Internet. How can marketers capitalize on these trends? One idea is through the use of location-based services, which have doubled in use in the past year.

Insight on the multichannel attitudes and behaviors of consumers today. More than 40 percent of 18- to 24-year-olds see their mobile phones as the primary entertainment device in the future. However, there is a huge generation gap for media choice, with consumers 50 and older preferring to use email and the Internet as main sources of information and entertainment.

Customer data statistics and tips for digital marketers. Only half of businesses said that they have good levels of trust in their data in terms of it being clean, accurate and up-to-date, according to recent surveys. Those who dedicate more time and resources to leveraging high-quality data can see great gains. The use of data modeling has been shown to produce significant increases in email performance metrics, with lifts in transactions as high as 8 percent.

Introduction

There is no better way to engage today's consumer than by using precise, data-driven strategies that present the most relevant offers across channels. Some of the most valuable and efficient digital channels for marketers include email, digital advertising, mobile, search, online communities and social media. Infusing these interactive mediums with deep consumer insight helps marketers create relevant and engaging multichannel customer experiences that will lead to competitive advantage in 2010 and beyond. The following report contains benchmark data and recommendations based on anticipated future trends and expert analysis.

Consumer insight

Consumer insight

At an even faster pace than last year, consumers' behaviors and preferences are shifting in favor of digital experiences and constant connectivity. Social networks, GPS-enabled communication devices and interactive video games are all a large part of consumers' lives. They are doing more on the Internet than ever before — from banking and booking travel to gambling and sending greeting cards, saturating the online channel more every minute while still using traditional channels at will.

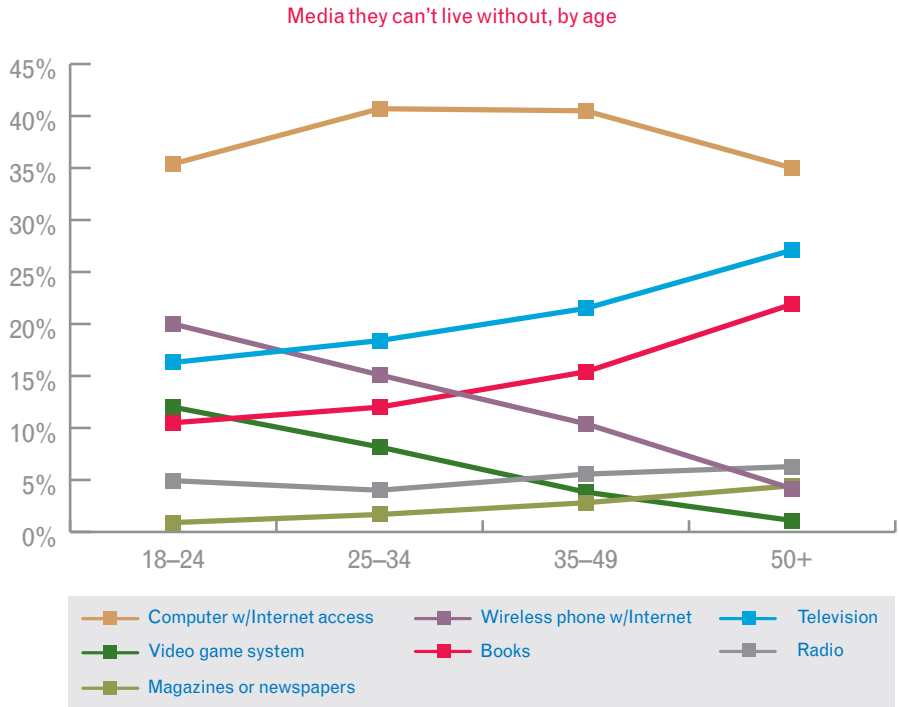
Recognizing consumers' behaviors and understanding their attitudes about digital mediums is important for any marketer hoping to target their messages better and deepen customer engagement.

Key findings

- The Internet is the most important digital media channel, and email is the most preferred messaging channel across all age groups
- Online shopping has become a mainstream activity for adults ages 25 to 49
- Adults ages 18 to 34 prefer instant messaging, text messaging, mobile phones and social sites as main sources of information and entertainment; however, there is a huge generation gap for media choice, with consumers 50 and older preferring the Internet to their mobile phones
- Adults over age 50 tend to engage in online activities like researching financial and medical information, while those ages 25 to 49 spend more Internet time managing their daily lives with activities such as online banking and reading news

Media they can't live without

While consumers' reliance on certain media varies with age, the Internet is the most important medium across all age groups. For secondary channels, older groups continue to look to traditional media like television and books while young consumers rely on their mobile phones.



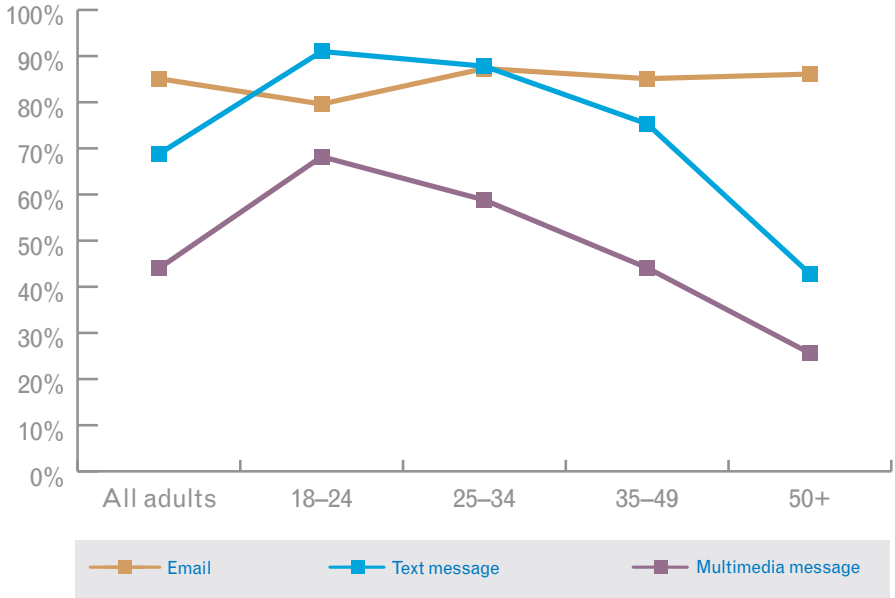
Source: Experian Simmons Spring 2009 New Media study

Tip: Consider a mix of mobile marketing for the younger market and targeted television advertising for more mature segments.

Most popular digital messaging channels

Email is still the most preferred electronic messaging channel among all adults; however, there is a significant difference by age group. Young adults utilize all messaging channels, with text messaging being the most popular. Contrasted to that are adults ages 50 and older who clearly prefer email messaging over all others.

Sent or received in the last 30 days, by age

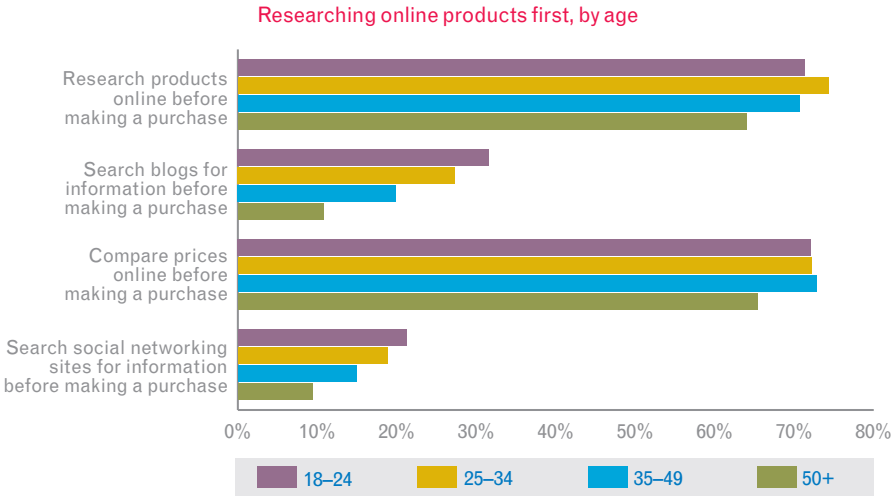


Source: Experian Simmons Spring 2009 New Media study

Trend spotting: Companies should focus on improving customer measurement programs in 2010. In a recent Experian survey of marketing technology executives, 42 percent of respondents indicated that they do not measure or have customer metrics in place to measure campaign response or marketing return on investment.

Researching before making a purchase

Researching products and comparing prices online before making a purchase is nearly ubiquitous for all age groups. Younger consumers tend to use blogs and social networking sites for product research more than older consumers.



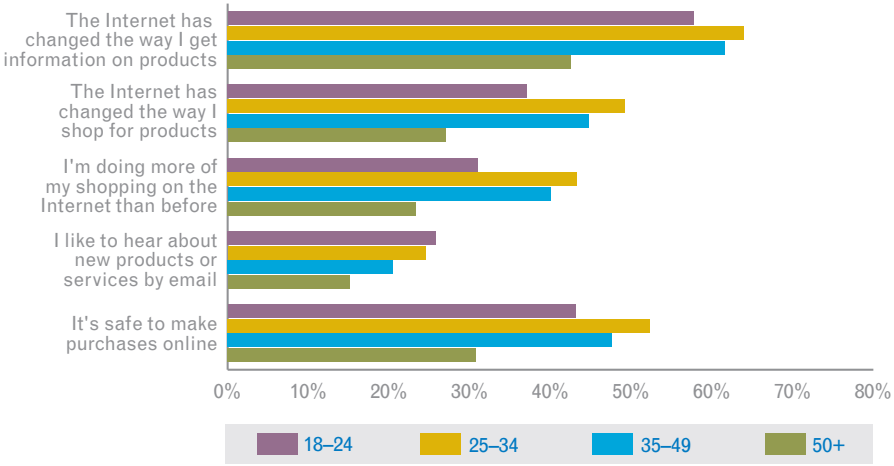
Source: Experian Simmons Spring 2009 New Media study

Tip: Considering that most consumers are using the Internet to do their homework before making a purchase, a focus on search optimization, comparison shopping sites and banner ads can prove extremely valuable for today's marketers.

Attitudes toward online shopping

Online shopping has become a mainstream activity for adults 25 to 49. Compared to all other age groups, they are most comfortable shopping online and indicate that the Internet has changed the way they shop, as they use it throughout the purchase cycle. Younger consumers appreciate emails about new products and services more than older consumers.

Attitudes toward online shopping and the Internet, by age

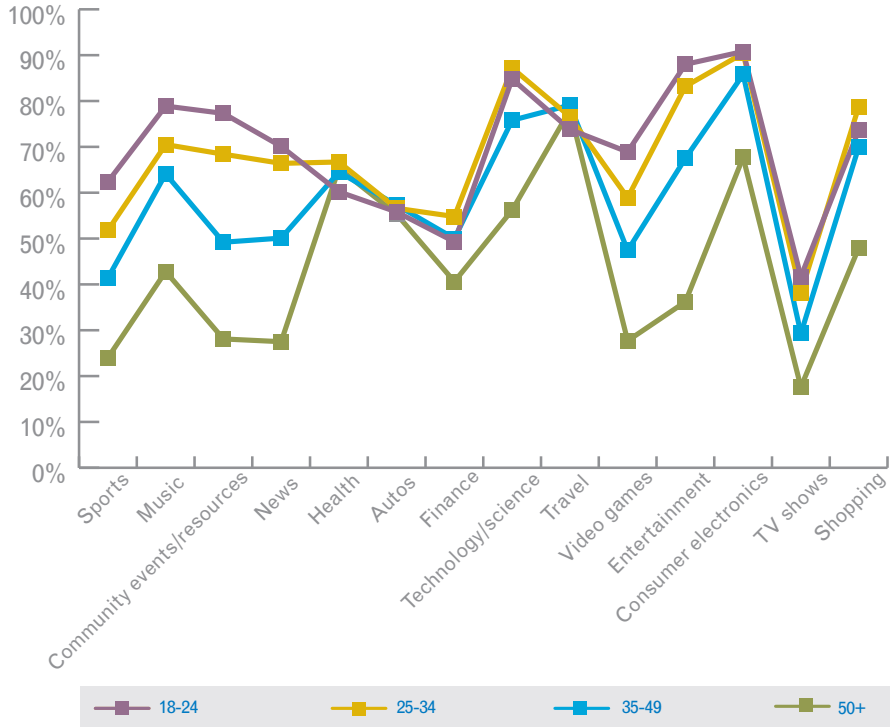


Source: Experian Simmons Summer 2009 National Consumer Study

First place people go for information

While the Internet is important to all age groups, how consumers view it as the primary resource for information by product category varies by age. Consistent patterns across all age groups indicate that the Internet is the source for health, automotive and travel information. Younger consumers tend to use the Internet first for everyday activities like news, entertainment and shopping for consumer electronics.

Percent of adults who go to the Internet first when looking for information

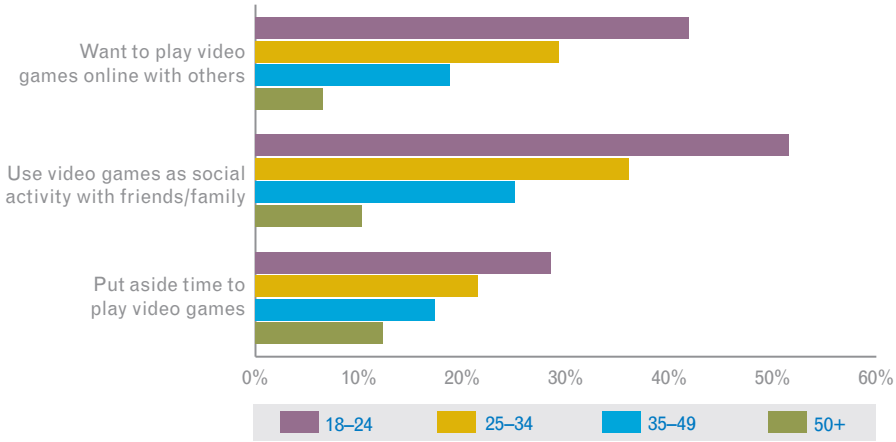


Source: Experian Simmons Spring 2009 New Media study

Role of video games in social lives

Consumers ages 18 to 24 view video games as an important part of their social lives with friends and family. The social aspect of video gaming extends beyond the home for this age group, as they seek to play video games online with others. In fact, a majority of younger consumers in the 18- to 24-year-old age bracket say video games are a way to connect with others. Older consumers tend to not view video games as an important activity.

Attitudes towards video games, by age

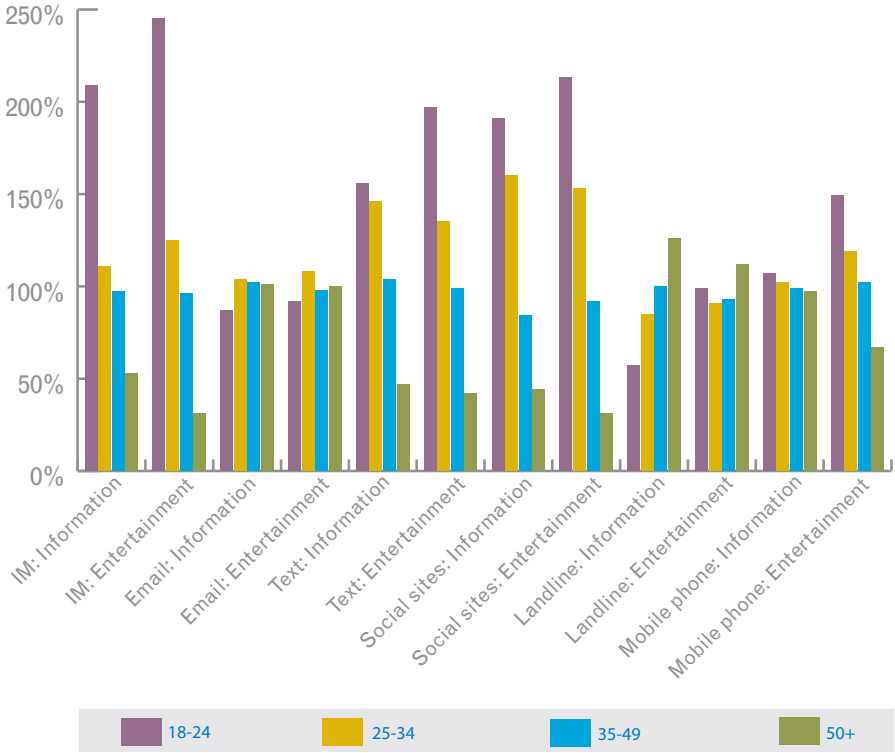


Source: Experian Simmons Spring 2009 New Media study

New media choices for information and entertainment

The importance that adults ages 18 to 34 place on instant messaging, text messaging, mobile phones and social sites points to the interconnectedness of information and entertainment for these consumers. This always-on/always-available media mash-up correlates to how important mobile phones are to consumers of these age groups. However, there is a huge generation gap for media choice, with consumers 50 and older preferring to use email and the Internet while connected via landline.

Importance of select media as source of information and entertainment

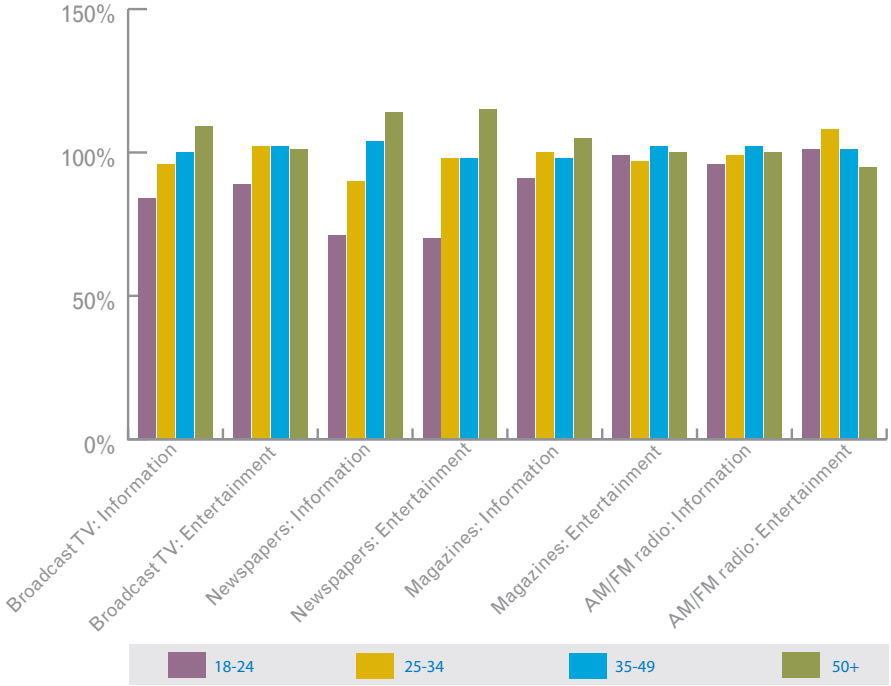


Source: Experian Simmons Spring 2009 New Media study

Traditional media choices for information or entertainment

Most age groups place similar levels of importance on radio and magazines as forms of information and entertainment. However, older adults tend to place greater importance on newspapers and television to fulfill these needs.

Importance of select media as source of information and entertainment



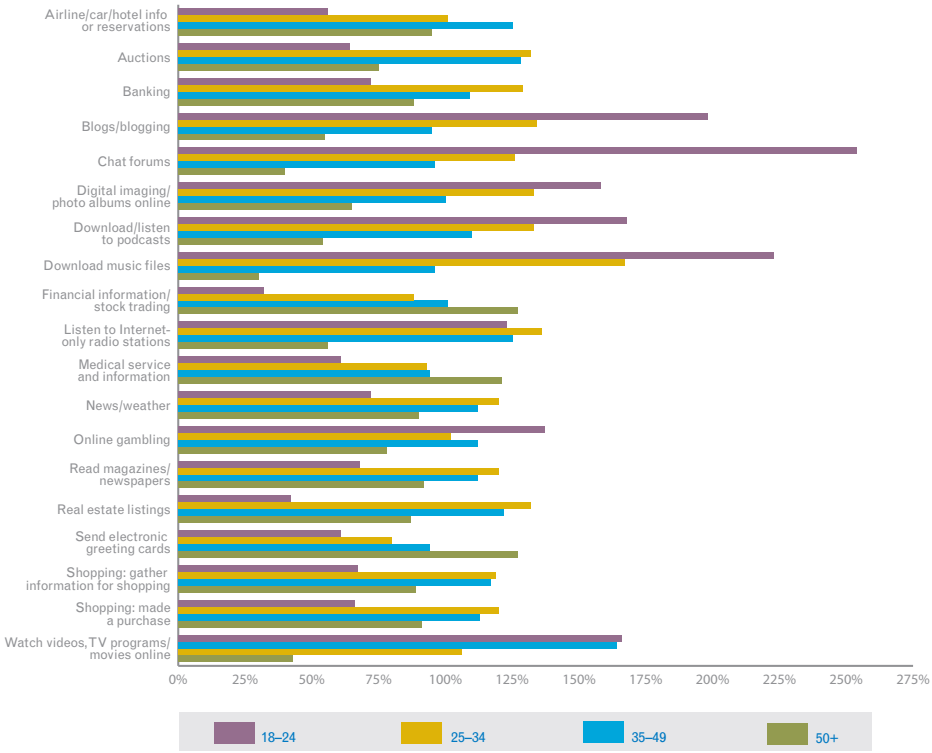
Source: Experian Simmons Spring 2009 New Media study

Trend spotting: Traditional media continues to play a significant role, making it increasingly important for marketers to integrate their online and offline messaging and offers.

Popular online activities

As the Internet has matured, it has become a mirror of the primary activities that dominate the lives of different age groups. Adults over the age of 50 engage in activities like managing their finances and researching medical inquiries. They also devote time to sending electronic greeting cards to friends and loved ones. Adults 25 to 49 tend to spend time managing their daily lives online, engaging in online banking, shopping, reading news and booking travel. Meanwhile, younger adults under the age of 25 spend time online focused on entertainment and socializing.

Online activities, by age



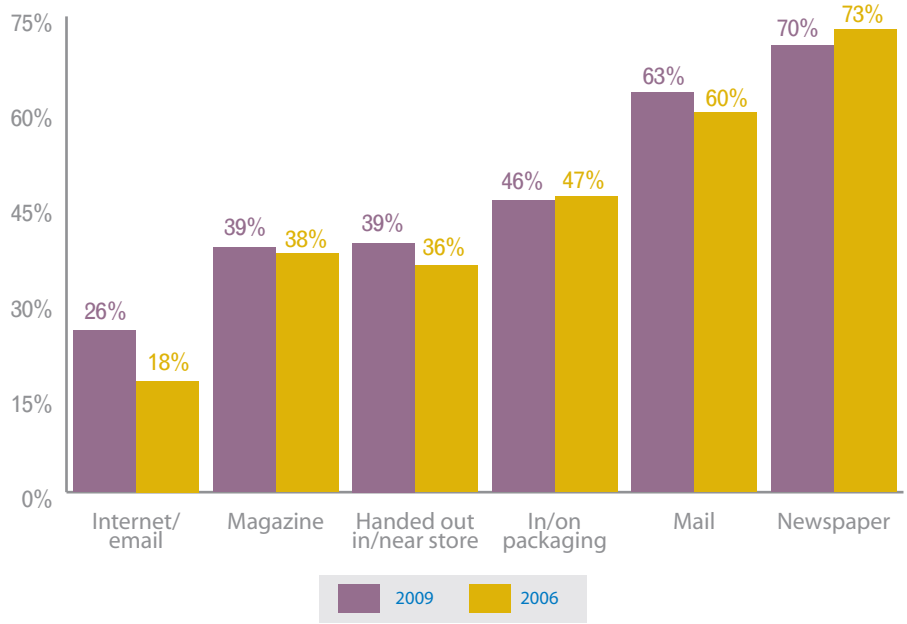
Source: Experian Simmons Summer 2009 National Consumer Study

Tip: Reach your customers by using advanced segmentation. A study conducted by Experian revealed that 75 percent of businesses use "clustering" techniques to understand customers and prospects versus using only basic demographic data.

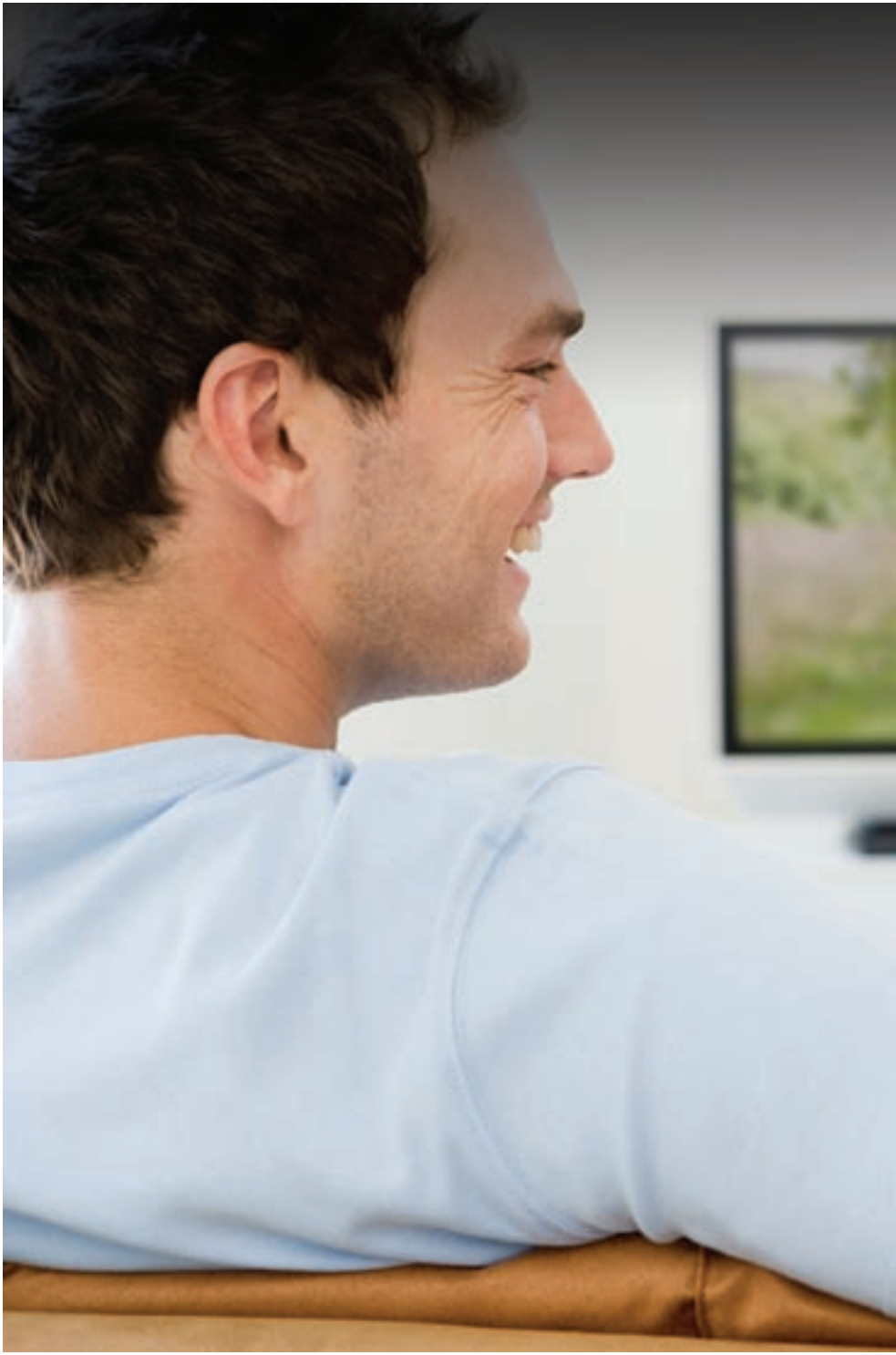
Cost-saving through digital channels

Two-thirds of American households (67 percent) use coupons. Although newspapers are still the number-one coupon source, a quarter of American households get coupons online today, up 46 percent over the last three years.

Percent of coupon-using households that get coupons from select sources



Source: Experian Simmons National Consumer Study, Spring 2006 and Spring 2009 Full Year



Digital advertising

Digital advertising

The economic downturn of 2009 caused the total measure of U.S. advertising expenditures to decrease by 14.7 percent, but digital advertising expenditures actually grew 7 percent during that same period, representing roughly 12 percent of all U.S. advertising expenditures.[1] Given the exceptional degree of accuracy, targeting sophistication and accountability that digital advertising offers compared to traditional advertising, it is no wonder that marketers are increasingly turning to digital advertising as a means of connecting with customers.

Rapid advances in targeting technology and measurability motivate major advertisers to reallocate their marketing dollars toward digital advertising.

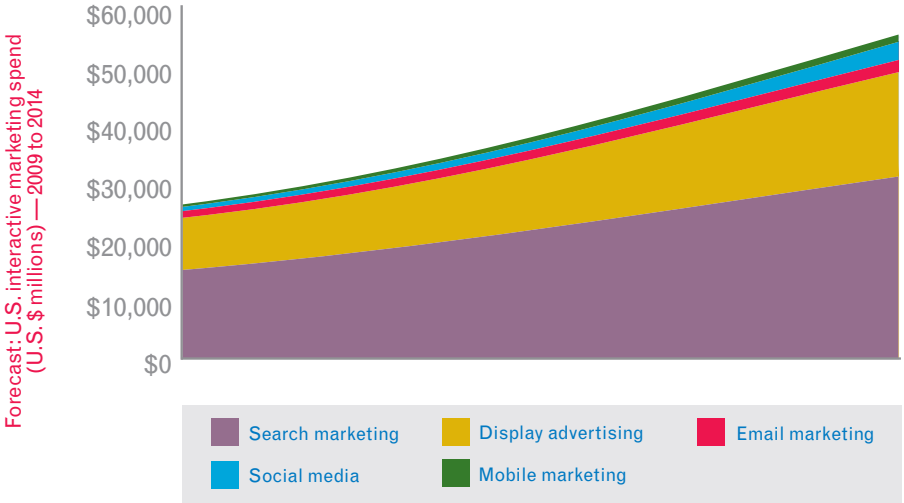
Key findings

- 2010 will see the continued shift of advertising dollars from offline to online, growing 13 percent to almost $30 billion
- Digital advertising is poised to return to double digit annual growth, increasing 17 percent annually to become a $55 billion industry by 2014
- A recent telecommunications trial study found that digital addressable advertising delivered to targeted households improved media efficiency by 56 percent, based on the per-spot costs of addressable vs. non-addressable ads
- Digital advertising technology utilized to instantaneously connect anonymous web users to custom segments has increased clicks and conversions by 30 percent and 25 percent, respectively

[1] *TNS Media Intelligence, Jan-Sept 2009 vs. Jan-Sept 2008*

Market opportunity

With the economic recovery already underway, 2010 will see the continued shift of advertising dollars from offline to online, growing 13 percent from more than $25 billion in 2009 to almost $30 billion this year. In fact, after the single-digit growth year in 2009, digital advertising is poised to return to double-digit annual growth, increasing 17 percent annually to become a $55 billion industry by 2014.[2]



	2009	2010	2011	2012	2013	2014	CAGR
Mobile marketing	$391	$561	$748	$950	$1,131	$1,274	27%
Social media	$716	$935	$1,217	$1,649	$2,254	$3,113	34%
Email marketing	$1,248	$1,355	$1,504	$1,676	$1,867	$2,081	11%
Display advertising	$7,829	$8,395	$9,846	$11,732	$14,339	$16,900	17%
Search marketing	$15,393	$17,765	$20,763	$24,299	$27,786	$31,588	15%
Total	$25,577	$29,012	$34,077	$40,306	$47,378	$54,956	17%
Percent of all ad spend	12%	13%	15%	17%	19%	21%	

Source: Forrester's Interactive Advertising Models, 4|09 and 10|08 (US only)

[2] *"US Interactive Marketing Forecast, 2009 to 2014," Forrester Research, Inc., July 2009*

Trend spotting: Going forward in 2010 and beyond, there will be increased emphasis on media accountability, advanced analytics, audience addressability and stronger attention to customer data privacy.

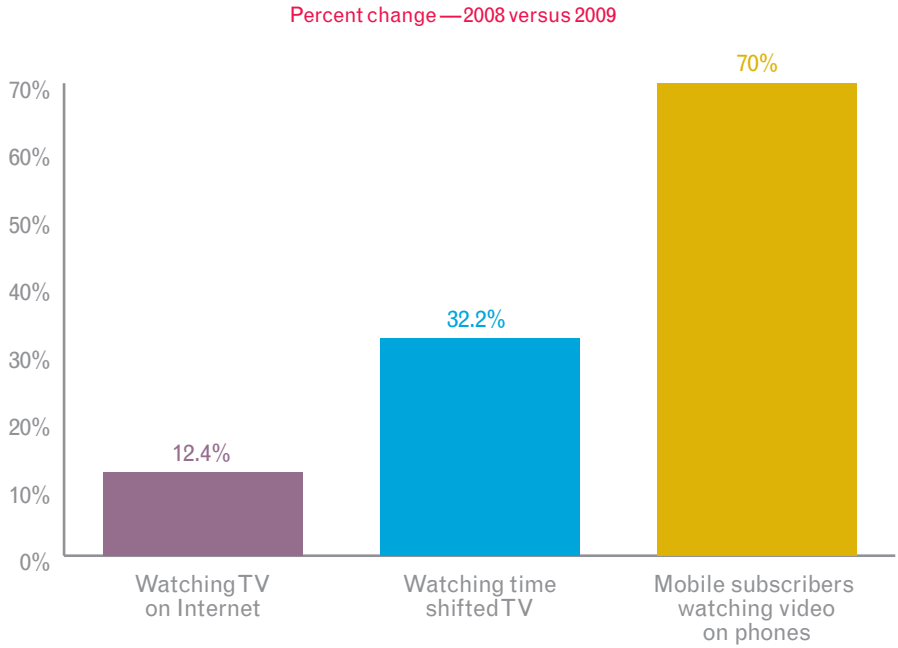
Addressable advertising

Addressable advertising is the ability to tailor advertisements to audiences composed of people sharing similar characteristics. This powerful marketing tactic allows advertisers to send highly relevant and data-driven messages to specific audience segments across online, television and mobile channels. For example, addressable advertising technology could allow an automobile manufacturer to serve an advertisement for a luxury model (rather than a base model) to only those households within a particular geographic region known to have higher average household incomes than other nearby areas.

Though relatively new, digital addressable advertising helps solve a key problem that has plagued marketers since the dawn of mass-media — namely, how to identify and target consumers within a particular segment but with enough scale and reach to make it cost-effective.

Advertising on digital devices

Today's consumers have more ways to access, consume and interact with digital content and media than ever before. The growth of the smartphone and digital video recorder (DVR) are two key indicators of consumers' preferences shifting toward content and media consumption to fit their individual lifestyles. Given this trend, it is becoming increasingly critical for marketers to understand the linkages between digital devices to help pinpoint when, where and how to reach their target audience.



People watching TV and using the Internet simultaneously at least once per month — June 2009	
Percent of people using TV/Internet simultaneously	56.9%
Estimated number of people using TV/Internet simultaneously (000)	128,047
Time spent simultaneously using TV/Internet per person in hours:minutes	2:39
Average percent of TV time panelists spent also using the Internet	2.7%
Average percent of Internet time panelists spent also watching TV	27.9%

Source: The Nielsen Company, A2|M2 Three Screen Report, Volume 5: 2nd Quarter 2009
Figures are from the Nielson's TV|Internet convergence panel, a sample of 1000 homes and approximately 2800 people (age 2+)

Case study: Addressable television advertising

Challenge/objective:

Comcast Spotlight, the advertising sales division of Comcast Cable, and leading media agency network, Starcom MediaVest Group (SMG), were looking to test the effectiveness of addressable advertising. The goal was to deliver different ads within the same commercial break to different household groupings, based on demographics and advertiser segments (but not personally identifiable information), in the interest of increasing ad relevance and resonance with the target audience.

Solution:

Comcast's data services partner, Experian Marketing Services, assisted Comcast in segmenting the market and matching relevant messages to groupings of households. During the trial, SMG received reports and analysis based on aggregated, anonymized viewership information from Comcast and its research partner, TNS Media Research.

Results:

The trial revealed that viewers who saw advertisements directed at their particular segment were less likely to change channels. Comcast and SMG found that, overall, homes receiving addressable advertising tuned away 38 percent less of the time available than homes that received non-addressable advertising. The trial also demonstrated a 56 percent greater efficiency from sending ads only to relevant groupings.

Sending ads only to relevant groupings offered the following result

Efficiency:	56 percent greater

"Across the board, we — like all marketers — have increasingly demanded more accountability in our marketing efforts. In a world with increased digital resources, converging technologies and greater need for fine-tuned consumer focus, there is no reason not to demand this accountability from TV advertising. We believe that this effort by Comcast in partnership with Starcom MediaVest Group is a momentous step towards the future."

Betsy Lazar
Executive Director of Advertising and Media Operations, General Motors

Case study: Online addressability

Challenge/objective:

One of the five largest credit card businesses in the world wanted to increase online card member acquisitions by targeting product offers to anonymous Website visitors.

Solution:

To reach this goal, Experian's lifestyle segmentation tool, Mosaic®, was used to build a custom product propensity model. Mosaic is a geo-demographic segmentation system developed by Experian including nearly one-quarter million block groups classified into 60 segments on the basis of a wide range of demographic characteristics.

Results:

Once the propensity model was developed, Experian's digital advertising platform was utilized to instantaneously assign anonymous Web users to one of the custom segments. The creative display and card offers most relevant to each segment were then displayed, increasing clicks and conversions by 30 percent and 25 percent, respectively.

Creative display and card offers displayed to custom segments offered these results

Clicks:	30 percent greater
Conversions:	25 percent greater

Email marketing

Email marketing

Email marketing continues to prosper in the digital landscape as consumers and marketers alike look to their inboxes for everything from shopping deals and daily news to personal greeting cards and social networking updates. The advancement of mobile device technology and prevalence of Internet-enabled devices has also amplified customer engagement and revenue generation opportunities presented by the email channel.

Key findings:

- Fifty-three percent of online adults say they are either very likely or likely to open an email that contains promotions or coupons
- In 2009, emails promoting in-store visits increased by 50 percent over 2008
- The percent of online adults who say they are either very likely or likely to forward emails containing promotions or discounts on to others rose to 30 percent in 2009 from 28 percent in 2008
- On average, shopping and classifieds received the highest share of traffic referred from Web-based email compared to other industries, with 9 percent, followed by news and media, from December 2008 through November 2009
- There was an increase in email volume from the business-to-business vertical on Cyber Monday in 2009, which was much higher than most Mondays in November
- Holiday email volume rose significantly in 2009, indicated by the 15 percent increase in mid-November 2009 until year-end over the same time period in 2008
- Across nearly all industries, except travel, nine or more of the top 25 keywords utilized in subject lines indicated a sale or an offer through words such as *free*, *sale* and *% off*
- The use of the terms *Black Friday* and *Cyber Monday* in subject lines increased by more than 100 percent each from 2008 to 2009
- Although point-of-sale (POS) email data capture yields high acquisition rates, the average bounce rate on initial registration confirmation emails is significantly higher than industry bounce rates

Email offers

Consumers are increasingly focused on getting deals in their inbox. Fifty-three percent of online adults[3] say they are either very likely or likely to open an email that contains promotions or coupons. A year ago, only 47 percent of online adults said they were likely to open emails sent to them that contained promotions or coupons.

Trend spotting: In 2009, emails promoting in-store visits increased by 50 percent over 2008, highlighting the increased usage of email for cross-channel marketing.

Likewise, consumers are increasingly likely to pass those deals on. The share of online adults who say that they are either likely or very likely to forward emails containing promotions or discounts on to others rose to 30 percent in 2009 from 28 percent in 2008.

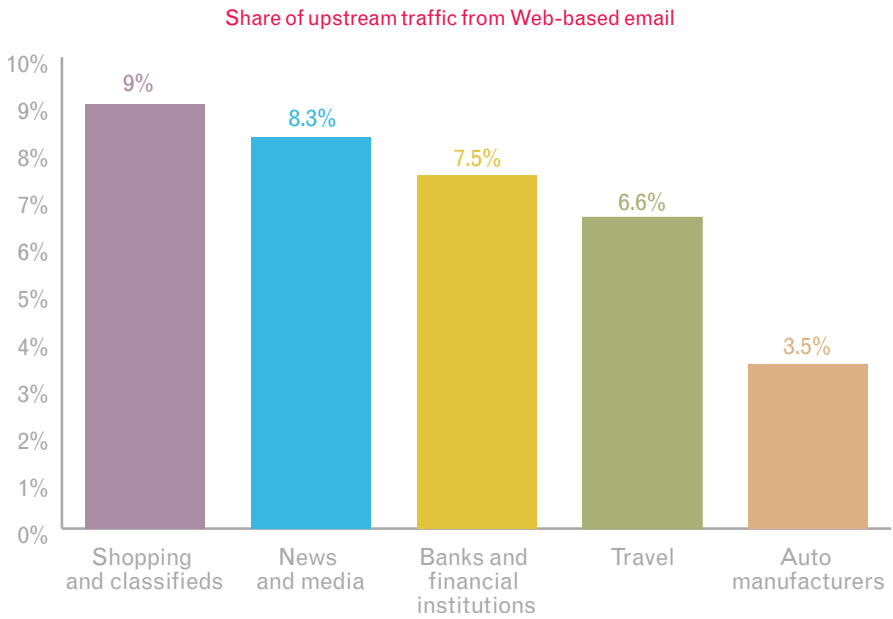
Share of upstream traffic from Web-based email

Email continues to be a critical tool for marketers to communicate with consumers online. Based on a 12-month average of the share of traffic referred from Web-based email services (e.g., Gmail, Yahoo! Mail and Windows Live Mail) to select key industries online, shopping and classifieds received the highest share with 9 percent, followed by news and media, then banks and financial institutions.

For most retailers, email messages are an important driver for return visits to their Websites. For example, in November 2009, 11 percent of the traffic to Overstock.com was referred from email, and 62 percent were returning visitors who had not visited the Website in the past 30 days.

Conversely, auto manufacturer corporate and brand sites received the lowest share of email-referred traffic with only 3.5 percent and accounted for a much smaller portion of the marketing mix. In November 2009, the Websites for both Ford Vehicles and General Motors received approximately 4 percent of traffic from email, with 83 percent and 81 percent coming from new visitors, respectively. This analysis does not reflect email-referred traffic driven to auto dealer sites where email is commonly used as a customer acquisition tool.

[3] *Defined by Experian Hitwise as adults who spend at least an hour online in a week doing something other than email*



Source: Experian Hitwise, based upon a 12 month average for Dec 2008 through Nov 2009

Year-end email trends by industry

Many companies from across industries bring in nearly half or more of their annual goals during the last three months of the year. This year was no exception, as email marketers started their holiday campaigns earlier in the 2009 season and promoted them heavily throughout the last quarter. In fact, mid-November through year-end had a 15 percent increase in volume in 2009 over 2008, and the last 12 days of the year had 28 percent higher volume in 2009.

Catalogers

Catalogers mailed more on nearly every day of November 2009 than in 2008. In the past, catalogers started mentioning the holidays in mid-November and had high volumes on Black Friday and Cyber Monday. However, the largest increase in mailing volume came in the first two weeks of December 2009. Catalogers increased volumes on Black Friday and Cyber Monday by 4 percent, but the days leading up to them had increases as high as 33 percent over 2008.

Multichannel retailers

Multichannel retailers also increased volumes on Black Friday and Cyber Monday by 4 percent and 11 percent, respectively. Every day but one (Nov. 2) saw more mailings in 2009 than in 2008, with the largest percent increases occurring on the weekends. Weekend mailings increased throughout the month of November, with Sunday, Nov. 22, coming in with the highest increase of 63 percent compared to 2008.

Cost cutter:

If you are utilizing remarketing campaigns to re-engage Website visitors who have abandoned their online shopping carts, do not feel compelled to include a discount offer. Campaigns without an offer tend to garner higher unique open and click rates (15 percent and 12 percent, respectively).

Business-to-business

Interestingly, there was an increase in business-to-business email on Cyber Monday in 2009, which was much higher than most Mondays in November. It is evident that business-to-business brands took advantage of the high rate of email usage during the holidays by sending end-of-year specials and clearance emails as well as messages thanking customers for their business.

Consumer products and services

Consumer products and services mailed slightly more on Black Friday and Cyber Monday (4 percent and 2 percent, respectively) and had a larger, 20 percent increase in the Christmas to New Year week. Like business-to-business marketers, it can be concluded that businesses in the consumer products and services industry capitalized on the holiday season by providing a context for using their products during this often retail-centric time period (for example, recipes for parties or food storage tips for consumers).

Tip: During the winter holiday season or other retail-centric periods, businesses that do not sell products directly to consumers can leverage the use of editorial content in email marketing to provide information about products and services from their areas of expertise.

Travel and entertainment

Businesses in the travel and entertainment industries actually mailed less during Thanksgiving week of 2009, but the volume increased during the beginning (Sunday through Wednesday) of the second and third week of November.

Top words in subject lines

The most popular terms utilized in subject lines are extremely indicative of the latest marketing trends. They can also provide insight into the most effective triggers for customer response.

The most popular keywords used in email subject lines continue to indicate a sale or an offer. Across nearly all verticals, except travel, nine or more of the top 25 keywords utilized in subject lines indicated a sale or an offer through words such as *free*, *sale*, *% off*, *save*, *$*, *off* and *offer*. Of particular note, the use of the terms *Black Friday* and *Cyber Monday* in subject lines increased by more than 100 percent each from 2008 to 2009.

Top 25 subject line terms

All industry	November 2008 percent of usage	November 2009 percent of usage
you/your	17.2%	20.9%
free	16.9%	12.4%
% off	14.2%	9.4%
$	7.7%	9.2%
ship	12.6%	9.1%
off	10.6%	8.8%
get	6.8%	8.0%
save	7.1%	7.8%
welcome	4.8%	6.5%
gift	4.7%	6.0%
thank	7.0%	5.7%
only	5.0%	5.2%
sale	3.8%	4.6%
shop	5.4%	4.6%
holiday	7.1%	4.2%
new	5.5%	4.2%
now	3.7%	3.8%
offer	3.9%	3.8%
20%	4.2%	3.6%
today	2.1%	3.5%
special	3.3%	3.3%
last	3.5%	3.2%
days	2.3%	3.1%
season	3.3%	2.8%
remind	2.3%	2.3%

Percentages in grey represent an increase

- The increase in usage of the term *you/your* illustrates increased emphasis on businesses building more personal relationships with customers by addressing them directly
- *Free* and *ship* remain important subject line terms but appear less frequently. One reason for this trend is the increase in customer expectations for free shipping offers
- Offers and sales were major subject line topics in both years
- *Get* is in the top 25 terms for all verticals, but *give* did not make the list, scoring just 0.7 percent
- *Today*, *special*, *last*, *days* and *remind* all remain popular terms as they work to create a sense of urgency amongst consumers

November 2009 top 25 subject line terms

Business products and services		Catalogers		Consumer products and services		Multichannel retail		Travel and entertainment	
you/your	19.4%	free	26.7%	you/your	20.3%	you/your	16.4%	you/your	19.6%
free	15.1%	ship	24.1%	free	7.0%	save	12.0%	$	16.7%
save	7.6%	you/your	24.0%	$	6.5%	off	11.8%	welcome	9.9%
get	6.5%	% off	22.0%	get	5.6%	% off	11.8%	free	5.9%
% off	6.0%	off	20.1%	welcome	5.1%	welcome	10.4%	save	5.1%
ship	5.7%	get	16.0%	gift	3.8%	$	9.6%	get	4.9%
today	5.5%	$	14.6%	ship	3.4%	free	9.5%	new	4.7%
thank	5.1%	save	10.0%	now	3.3%	only	8.4%	last	4.6%
only	4.6%	shop	9.5%	new	3.2%	gift	8.4%	time	4.5%
holiday	4.6%	20%	8.8%	save	3.2%	ship	8.2%	today	4.4%
$	4.6%	gift	8.6%	thank	3.0%	sale	8.1%	now	3.5%
sale	4.5%	thank	8.0%	% off	2.6%	thank	6.9%	sale	3.5%
new	4.1%	only	7.5%	birthday	2.6%	days	6.2%	final	2.8%
now	4.0%	last	7.2%	special	2.5%	offer	5.7%	holiday	2.5%
off	3.7%	welcome	5.8%	today	2.5%	shop	5.6%	thank	2.3%
offer	3.3%	deliver	5.4%	off	2.4%	get	5.4%	only	2.0%
30%	3.2%	holiday	5.4%	holiday	2.0%	special	5.1%	win	1.9%
20%	2.9%	30%	4.9%	last	1.8%	holiday	5.0%	birthday	1.9%
special	2.5%	clearance	4.5%	shop	1.7%	new	4.3%	special	1.8%
last	2.4%	sale	4.4%	only	1.7%	20%	4.2%	offer	1.6%
time	2.4%	offer	4.3%	offer	1.6%	season	4.0%	what	1.6%
$50	2.4%	remind	4.2%	season	1.6%	now	3.9%	exclusive	1.4%
best	2.3%	season	3.7%	time	1.6%	today	3.7%	rate	1.3%
rate	2.1%	days	3.6%	sale	1.5%	store	3.3%	ship	1.1%
season	2.1%	our	3.3%	10%	1.3%	$10	3.0%	off	1.0%

- The business products and services sector utilized a wide variety of offer-based terms, with *30%*, *$50*, *best* and *rate* making it into the top 25

- *Free*, *ship* and *deliver* are clearly major offers for catalogers. *Save* and *clearance* were being used more by catalogers in the height of the holiday season

- The top term — *you/your* — indicates a clear connection between consumer product and service businesses and their individual customers. The percentages of any "top" word are lower given the wide mix of businesses and product types in this vertical

- The top term — *you/your* — is lowest for multichannel retailers when compared to all other industries. There is a great deal of emphasis on offers. Coming in at number 24, the term *store* made the list for this vertical due to the high volume of multichannel businesses using email to promote in-store sales

Email address verification

For the many businesses that utilize email as a core marketing channel, it is imperative to increase the number of correct addresses being captured through the implementation of email address verification practices. Wrong addresses in a database represent a loss in potential revenue from future marketing campaigns. Below are five steps to help ensure email address quality, both at the point of entry and on the back end.

The five layers of email address verification:

1. **Look for syntax errors**
   The most common form of email validation: Is there an "@" sign? Are there forbidden characters such as a space or an asterisk? Does the address contain the necessary number of characters, e.g., not a@b.c?

2. **Check for spelling mistakes**
   Online forms will often request users to enter their email a second time to "confirm email address" and check if both addresses match. It should come as no surprise, however, that many people simply copy and paste into this field, leaving high potential for erroneous entries.

3. **Ensure domain validity**
   Many domains do not accept or transmit email. For some, this is overtly defined, while for others — such as recently purchased domains — the necessary functionality may just not have been turned on.

4. **Compare against a list of known spammers**
   This little-known tactic can help weed out illegitimate registrations and defend the quality of your data. Some providers of email verification services have master lists of known spammers and fake email addresses, such as test@test.com.

5. **Check the user name**
   Many email servers are configured to allow the existence of an email account to be verified without a fully formed email address actually being sent or received. This is done, often through a third-party vendor, by sending an email to that particular server and waiting for a response. Enforcing this layer, in combination with the four layers on the previous page, should enable marketers to ensure the receipt of a deliverable email address when requested.

Point-of-sale (POS) email address capture

Looking at 45 million emails from a subset of 12 companies that acquire data at their brick-and-mortar POS locations, Experian CheetahMail Strategic Services found that POS data capture yields high acquisition rates. However, the average bounce rate of initial registration confirmation emails is significantly higher than industry bounce rates, as well as other organic acquisition sources, such as online checkout and email signup. For example, welcome emails tend to see bounce rates of around 5 percent, which is higher than the overall industry benchmark of 3.7 percent.

Trend spotting: Acquisition is only part of most marketers' plans. An Experian QAS survey from March 2008 found that 85 percent of businesses are focused on some form of retention to drive business growth.

Mobile marketing

Mobile marketing

While the recession slowed the adoption of mobile marketing in 2009, the percentage of U.S. consumers with a mobile phone rose, making this important channel a sure bet for continued investment by marketers. Text-message-based marketing continues to dominate; however, as smartphone penetration grows, the success of Apple's iPhone and the RIM Blackberry coupled with investments in 3G mobile broadband by AT&T and Verizon, the nation's largest wireless carriers, have put the Internet into the pocket of millions of consumers. The tidal wave of new smartphones entering the market is expected to dramatically increase the number of mobile Web users, making display advertising and mobile search viable options for marketers wanting to reach the U.S. population.

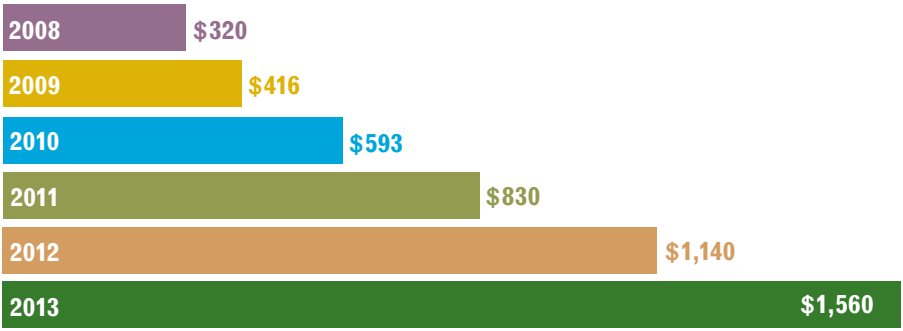
Key findings:

- The number of mobile phones in the United States is now at 276.6 million, nearly 90 percent of the U.S. population
- Smartphone usage is quickly on the rise, with more than 30 percent of consumers using their mobile phones for personal email, maintaining their calendars and accessing the Internet
- Use of GPS-based services has doubled in the past year, driven by smartphone applications
- More than 40 percent of 18- to 24-year-olds see their mobile phones as the primary entertainment device in the future

Marketing opportunity

Predictions for mobile marketing's breakout took a back seat to the recession over the past year. eMarketer has estimated that the market for mobile advertising will exceed $500 million in 2010 as marketers continue to test various mobile strategies and is expected to reach $1.5 billion in 2013. While marketers have yet to scale up their mobile marketing efforts, mobile phone adoption has reached maturity, ensuring that growth in mobile advertising is sure to follow. Current reports indicate that the number of mobile phones in the United States is now at 276.6 million — nearly 90 percent of the U.S. population.[4] In addition, Experian Simmons research has found that the future of telephony is mobile, with more than 75 percent of 18- to 24-year-olds using their mobile phones as the primary device to make and receive phone calls.

U.S. mobile advertising spending, 2008–2013 (millions)



Source: eMarketer, Mobile Advertising and Usage, April 2009

Prior to the introduction of the iPhone in 2007, the vast majority of mobile phones only supported text-based messaging (SMS), and the majority of mobile users continue to take full advantage of SMS, with more than 70 percent of consumers using their mobile phones for text messaging. Catering to the communication preferences of this SMS-savvy audience, mobile marketing programs such as click-to-call, mobile coupons and sponsored news alerts currently dominate most mobile marketing strategies. However, with the introduction of more smartphones and the expansion of 3G networks, mobile Internet marketing methods of display and search advertising are each projected to overtake text-based ads by 2013.

[4] *ctia.org, Wireless Quick Facts, CTIA 2009*

U.S. mobile advertising spending by format— 2008–2013 (millions)

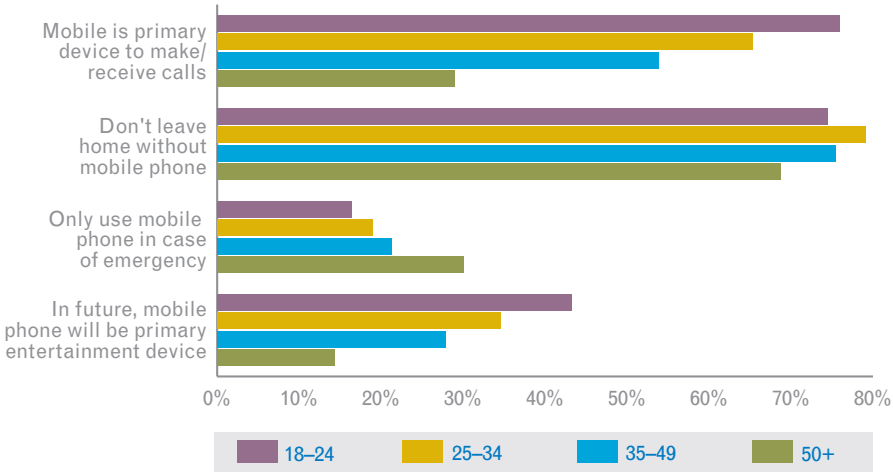
	2008	2009	2010	2011	2012	2013	CAGR
Messaging	$192.0	$228.8	$284.6	$340.3	$387.6	$436.8	17.9%
Display	$70.4	$104.0	$166.0	$257.3	$376.2	$546.0	50.6%
Search	$57.6	$83.2	$142.3	$232.4	$376.2	$577.2	58.6%
Total	$320.0	$416.0	$593.0	$830.0	$1,140.0	$1,560.0	37.3%

Note: numbers may not add up to total due to rounding.
Source: eMarketer, September 2009

Consumers' behaviors and attitudes towards mobile devices

While there is significant divergence among different age groups and their attitudes about their mobile phones, one thing is for sure: Consumers always carry their mobile phones. More than 70 percent of mobile phone owners across all age groups report that they don't leave home without their mobile phones. This should come as no surprise, given the evolution of how people use their mobile devices.

Importance of mobile phone, by age
(among mobile phone owners)

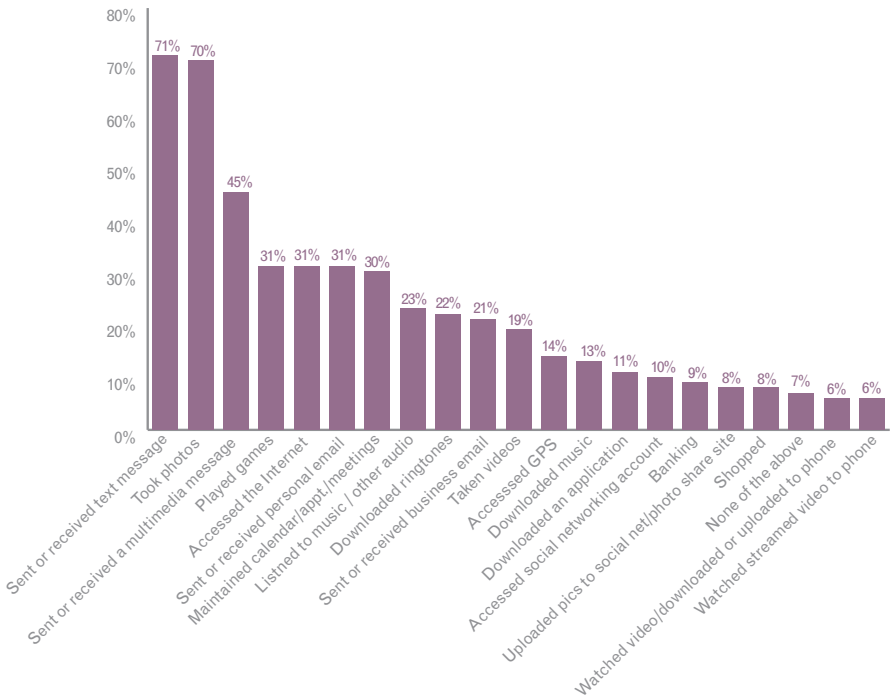


Apple's iPhone, as well as the Apple iTouch, have undeniably changed the way consumers think about their mobile phones. eMarketer reports that these two devices represented 57.6 percent of mobile Web usage in August 2009. Blackberry was a distant second at 16.9 percent.

The utility of smartphones is represented in the following chart identifying mobile phone activities engaged in the last 30 days, based on information from the Experian Simmons Spring 2009 New Media Study. The 30 percent of mobile phone users who have played games, sent or received personal email, and maintained calendars or appointments represent a strong adoption of standard personal digital assistant (PDA) features. At the same time, the engagement power of smartphone features is evident in the 30 percent who accessed the Internet, the 13 percent who downloaded music, the 10 percent who accessed their social network account and the 8 percent who shopped with their phone.

Trend spotting: With the recent introduction of the Apple iPhone 3Gs, Palm Pre, HTC Droid and Google's Nexus One, consumers will have more access to mobile Web applications in 2010, providing more advertising opportunities for marketers.

Mobile phone activities engaged in last 30 days



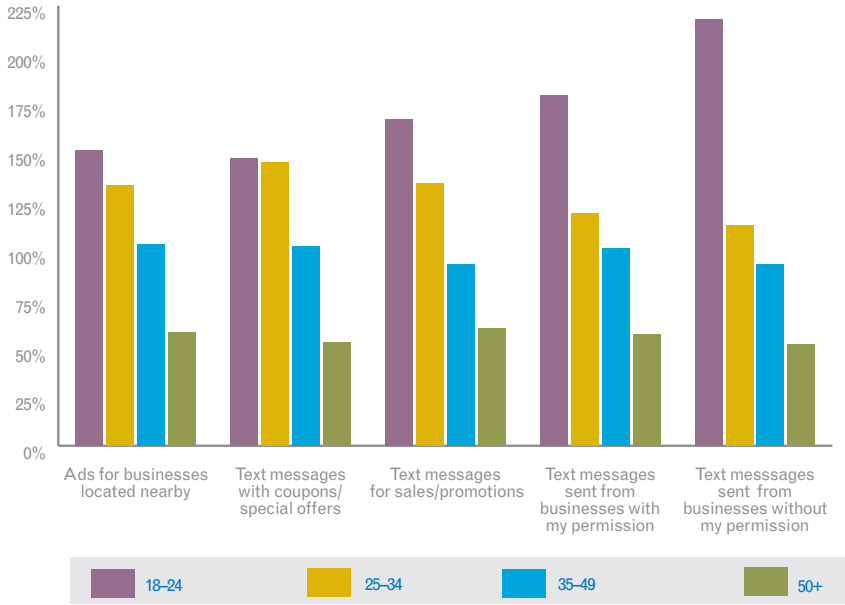
Source: Spring 2009 Experian Simmons New media Study
Base population: adults who spent one hour or more online per week doing something other than email

Trend spotting: Mobile advertising, including mobile search, social networks and location-specific services, will become more viable marketing strategies as consumers continue to adopt smartphone technology.

Consumer response to mobile advertising

The mounting utilization of mobile technology combined with the concurrent expansion of mobile services creates a powerful new channel through which marketing messages can be effectively delivered to individuals. Consumers respond differently to text-based ads, especially by age group. In general, older consumers don't find text-based ads useful, while younger consumers ages 18 to 24 find all text-based advertising useful. Interestingly, there is very little difference in the way consumers view the usefulness of advertising received from companies that have permission to send them messages as opposed to those that do not.

Usefulness of certain ads on mobile phones, by age
(among mobile phone owners)



Tip: Consider offering coupons or special offers that can be redeemed locally when planning incentive-based mobile marketing programs.

Case study: Mobile couponing

Challenge:

EZ Lube, a privately held fast oil change company with 80 locations in Southern California, wanted to acquire new customers and deliver coupons for EZ Lube car care services via the mobile channel. The goal was to build a network of clients who were open to receiving loyalty and retention messages via their mobile phones.

Solution:

The address of each EZ Lube location was matched with the SmartReply Mobile Network publisher coverage. Leveraging requested subscription-based text message alerts, EZ Lube delivered 500,000 sponsored text messages in six weeks via the network.

EZ Lube executed an A/B Split in creative for the following two variations:

- "Win 1 Year Free Oil Changes. Reply EZ"
- "Oil change? SAVE @ EZ Lube now! Rply EZ1"

	Consumer response rate	30-day ROI
Responders	1.4%	210%
Mobile Club	21%	N/A

Results:

EZ Lube converted approximately 0.3 percent of impressions as opt-ins to a mobile network. They expect to build a network of more than 1,700 mobile numbers that can be reached at any time. Consumers are being acquired at a cost of less than $6 each.

ROI: Assuming 5 percent of responders redeem offer at EZ Lube and 15 percent of EZ Mobile Club Marketing members redeem offer at EZ Lube

Multichannel customer experience

Multichannel customer experience

While digital channels are extremely efficient mediums for many businesses, most companies are still experiencing true gains from traditional channels such as direct mail. Furthermore, foundational marketing elements such as data quality and hygiene are vital to marketing efforts through all channels. Understanding the trends in traditional marketing channels and utilizing best practices pertaining to data acquisition, cleansing and storage can prove valuable for even the most digitally attuned businesses.

Key findings:

- Only half of businesses said that they trust their data in terms of it being clean, accurate and up-to-date, according to a recent survey conducted by Experian QAS
- In 2008, about 17.3 billion catalogs were mailed (down significantly from 2007). In 2009, that number looks to be even lower
- According to a USPS® study, consumers who received a catalog spent 28 percent more on the retailer's site than those who did not receive a catalog
- The use of data modeling has been shown to produce significant increases in email performance metrics, with lifts in transactions as high as 8 percent

Data quality

The quality of a business's data can have a significant and direct impact on its digital efforts. For example, targeted marketing programs can be completely ineffective if external data, such as demographic or lifestyle information, is incorrect. Duplicate customer entries within a customer file can also negatively skew customer engagement initiatives and lead to missed opportunities for marketers. If a business has confidence in its data, its marketers can be confident that the offers they create from analysis of that data results in effective and relevant marketing that compels customers to act.

Data quality today

Data quality problems cost most companies about 10 percent of their annual revenue.[5] Despite this known fact, a recent survey conducted by Experian QAS revealed that only half of businesses trust their data to be clean, accurate and up-to-date. Furthermore, only 45 percent of organizations surveyed had a documented data-quality strategy, and 50 percent of them update their database less than once a quarter. The three main reasons for these situations were insufficient internal resources, lack of budget and lack of data strategy. The strong disconnect between what organizations hope to get out of their data and how much they actually take care of it shows the need for an overall data-quality strategy.[6]

Case study: Data hygiene

Using Experian's proprietary tools to fix incorrect addresses (for example, correcting the address "19786" to "19786 NW 62nd Ave" or "136 Way" to "3260 SW 136th Way") and link the same individual to multiple geographic addresses, one organization was able to identify nearly 20 percent more duplicate entries in its customer file.

Results:

These entries were projected to affect more than $5 billion of total sales, dramatically improving how this company marketed to its best and most loyal customers.

Trend spotting: Technology which enables organizations to understand their customers and target them more effectively is predicted to continue to attract investment.

[5] *Data Quality, The Field Guide, by Thomas Redman*

[6] *Contact data management: the wise investor. March 2009. Experian QAS. Research performed by Dynamic Markets.*

Case study: Real-time address verification

Challenge:

Incorrect addresses compromised drugstore.com's ability to fulfill customer orders within desired service times. As a solution, drugstore.com installed real-time address verification at the point of entry.

Solution:

Using real-time address verification software from Experian QAS, drugstore.com was able to significantly reduce costs associated with incorrect addresses by more than two-thirds and increase the number of packages delivered on time, both of which led to improved customer satisfaction levels.

"We have the potential to realize even greater savings. But we've chosen to take a less intrusive approach that allows us to use the software to correct a significant number of addresses, yet limits the burden placed on our customer, preserving the overall experience – a philosophy that works well with our business model."

Ron Kelly
VP of Customer and Pharmacy Services, drugstore.com

Tip: To improve data quality, verify information before it enters a database — correcting contact information is always easier when the customer is engaged. Use verification tools that prompt either the staff representative or audience member to complete missing contact details and comply with formatting standards.

Direct mail

Over the last two years, marketers have significantly trended away from using direct mail to engage their customers. In 2007, about 19.5 billion catalogs were mailed. That number dropped to 17.3 billion in 2008, and it appears to have dropped even lower in 2009. According to the USPS, approximately 215 billion direct mail pieces (overall) were mailed in 2007. In 2008, that number dropped to 203 billion pieces, and, in 2009, the amount of direct mail sent was even lower — coming in at just over 170 billion pieces total.[7]

Trend spotting: The United States Postal Service is projecting a volume of 166 billion pieces for 2010.

Change in volumes by mail class
(indicated by the United States Postal Service)

First Class Mail	-8.6% in FY09	-7.9% projected in FY10
Standard Mail	-16.5% in FY09	-4.6% projected in FY10
Periodicals	-7.6% in FY09	-5.9% projected in FY10
Total	-12.7% in FY09	-6.2% projected in FY10

Despite these trends, reducing direct mail volumes may not be in the best interest of a company's bottom line. According to a USPS study, consumers who received a catalog spent 28 percent more on the retailer's site than those who did not get a catalog.[8]

Trend spotting: Regardless of the movement of advertising dollars from printed mail to digital mediums, feedback from a number of Experian Marketing Services' clients indicates that many businesses are going to slightly increase their use of printed mail this year.

[7] *The Journal of Postal Commerce, PostCom Bulletin, Dec. 4, 2009*
[8] *The Wall Street Journal, "In Digital Era, Marketers Still Prefer a Paper Trail," Oct. 16, 2009*

Cost cutter

Instead of mailing a catalog for each mail event, consider sending out First-Class Mail® postcards with a discount or special offer to drive recipients to your Website or online catalog. The cost of doing this is much lower, and the positive impact can be just as strong.

Case study: Driving dynamic content with data modeling

To model the propensity for customers to match a given persona for more targeted marketing, 1-800-FLOWERS utilizes customer data collected organically in-store and online as well as information from third-party sources such as Experian's INSOURCE℠ database. INSOURCE includes up-to-date information on approximately 215 million individuals and 110 million living units across the United States. Combining INSOURCE information with collected customer information allowed 1-800-FLOWERS to anticipate future behaviors and buying trends, cross-sell more effectively, develop new products and services and modify customer contact strategies.

Results:

There were significant increases in performance metrics after the inclusion of modeled content in 1-800-FLOWERS' marketing programs. In tests, modeled dynamic content lifted transactions by as much as 8 percent. In addition, emails utilizing modeled dynamic content had higher initial total opens and clicks than standard emails without modeled content.

Online communities and social media

Online communities and social media

Online communities and social media Websites have started one of the most remarkable social evolutions of our time. As today's businesses seek new ways to create networks that cater to consumers' ever-changing needs and interests, the networks of today are just the beginning in finding ways to connect and share.

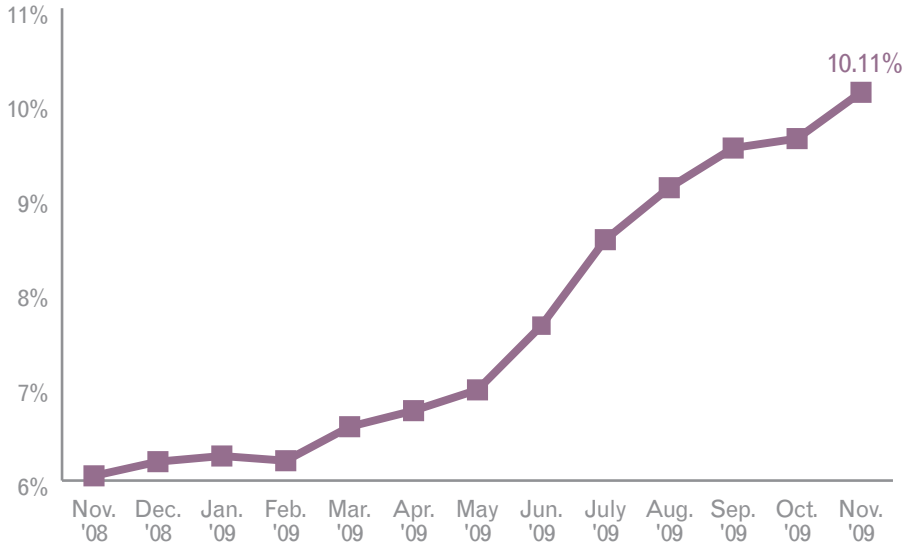
Key findings:

- There are currently more than 5,580 social networks beyond top sites, such as Facebook, MySpace and Twitter
- Social networking has continued to be one of the most popular activities online, with the number of users nearly equal to those utilizing online search
- The average visit time for social networking Websites was 17 minutes and three seconds in November 2009
- The social networking audience is increasingly shifting toward an older demographic
- Facebook captured 64 percent of visits to the social networking category in November 2009, and visits increased 172 percent when compared to 2008
- Facebook was the top-searched term overall in 2009 and moved up from the 10th spot in 2008
- Although Twitter is fourth in social networking site popularity, its share of the category and visits grew 585 percent from 2008 to 2009

Social networking industry snapshot

Today, there are more than 5,580 social networks beyond top sites, such as Facebook, MySpace and Twitter. Social networking has continued to be one of the most popular activities online, with the number of users nearly equal to those utilizing online search. The social networking category has experienced a resurgence of growth as Websites like Facebook and Twitter have increased in popularity. Visits to a custom category of 155 social networking Websites increased 67 percent in November 2009 when compared to August of 2008 and represent one in 10 of all Internet visits. Furthermore, the average visit time for social networking Websites was 17 minutes and 3 seconds in November 2009.

Monthly market share of visits to social networking Websites



Monthly market share in "All categories," measured by visits, based on U.S. usage.
Created: 12|18|2009. © 1998–2009 Hitwise Pty. Ltd.

Trend spotting: Many of today's consumers now recognize social networking brand logos for most sites, and this intrinsic identification is becoming more prominent with time.

Tip: Consider adding social networking site logos to your email creative. It is recommended that images be sliced and coded so that both the width and height are greater than 50 pixels.

Age of visitors to social networks

More than half of the visits to social networks continue to be from Internet users under the age of 34, but the audience is increasingly shifting toward an older demographic. For the 12 weeks ending Nov. 28, 2009, visitors 55 and over to the social networking category increased 77 percent to represent 12 percent of total visits, up from 7 percent the previous year. The aging of the social networking category has attracted a large number of marketers who hope to reach an audience that is beginning to mirror the general population both online and offline.

Trend spotting: Successful social media strategies will offer more relevant content and meaningful interactions that cater to specific age groups and interests.

Age of visitors to social networking

Age	Visits November 28, 2009	Visits November 29, 2008	Representation
55+	12.32%	6.94%	178
35-44	22.9%	20.76%	110
45-54	17.69%	16.60%	107
25-34	24.78%	23.47%	106
18-24	22.31%	32.24%	69

Most popular social networking websites

Facebook captured 64 percent of visits to the social networking category in November 2009, and visits increased 172 percent when compared to November 2008. In addition, Facebook was the top-searched term overall in 2009 — moving up from the 10th spot in 2008. Twitter also captured a higher share of the category, and visits grew 585 percent from the previous year. It is important to note that the growth for both Facebook and Twitter only includes visits to the Websites, so the inclusion of mobile applications would likely provide higher growth for each of the networks.

Most popular Websites in social networking

	November 2009	November 2008	YoY% Change
Facebook	64.00%	23.50%	172%
MySpace	26.46%	62.85%	-58%
Tagged	2.12%	2.25%	-6%
Twitter	1.44%	0.21%	585%
myYearbook	0.90%	1.76%	-49%

Search marketing

Search marketing

Search is the online navigation tool of choice for today's consumer, with paid search still dominating as one of the top online marketing channels. Businesses can achieve major lifts in revenue, grow market share and significantly strengthen brand integrity by gaining a deep understanding of the terms that drive paid and organic traffic to competitor Websites. This knowledge will provide an added advantage when planning, monitoring and measuring search marketing campaigns.

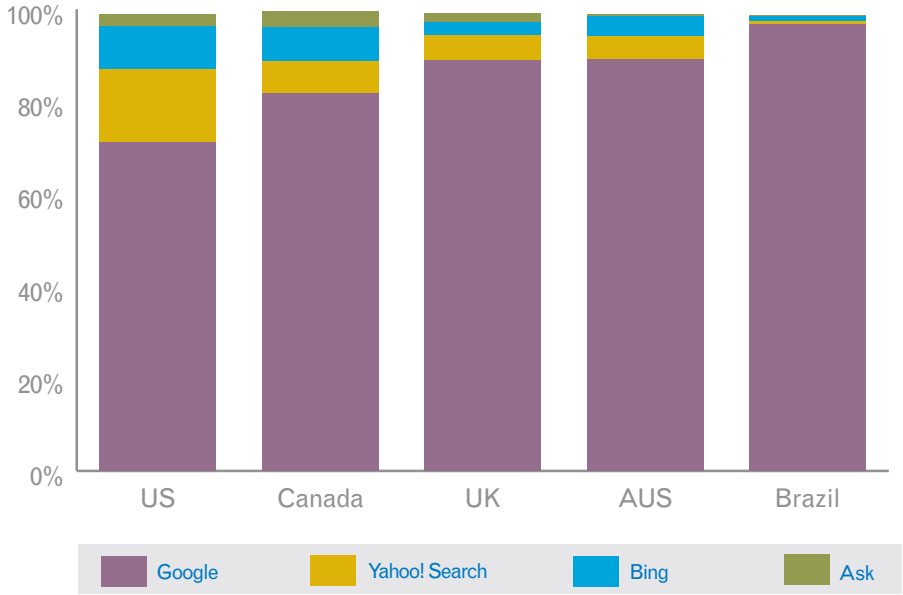
Key findings:

- The majority of searches continue to take place on Google, followed by Yahoo! Search and Bing
- Many searches tend to be branded or navigational and comprised of only one to two keywords
- Consumers continue to start offline shopping trips while online at home, with the searches for the portfolios of terms related to printable coupons and store locators increasing 61 percent and 77 percent, respectively, year over year

State of the global search market

In the United States, visits to search engines represented 10.24 percent of all Internet visits in November 2009, with the majority of searches taking place on Google. Across five countries, Google captured the highest share of searches among major search engines for the 12 weeks ending November 28, 2009. Brazil was the market leader, with the highest share of Google searches coming in at nearly 97 percent during that time frame, followed by Australia and the United Kingdom with 82 percent.

Share of searches by search engine,
12 weeks ending November 28, 2009



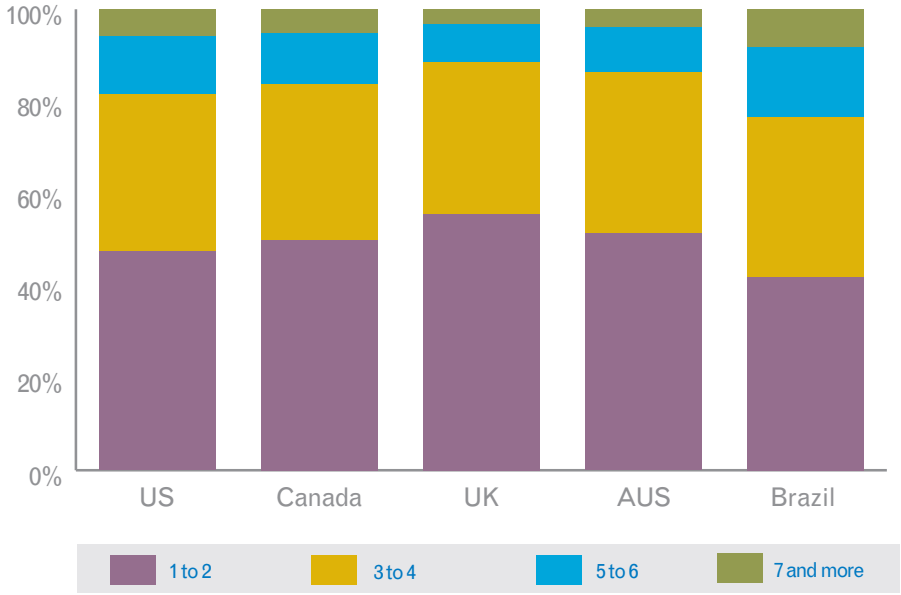
	US	Canada	UK	AUS	Brazil
Google	71.1%	81.7%	89.0%	89.2%	96.8%
Yahoo! Search	15.9%	7.1%	5.4%	4.9%	0.5%
Bing	9.3%	7.3%	2.8%	4.5%	1.3%
Ask	2.6%	3.5%	1.9%	0.3%	0.2%

Source: Experian Hitwise, 12 rolling weeks ending November 28, 2009

Search keyword trends

Many searches tend to be branded or navigational and comprised of only one to two keywords. This holds particularly true in the United Kingdom and Australia, where the share of searches that contain one to two keywords represent 56 percent and 51 percent, respectively, of all searches during the 12 weeks ending Nov. 28, 2009. The longest search queries took place in Brazil and the United States, where 23 percent and 18 percent of searches contained five or more keywords, respectively.

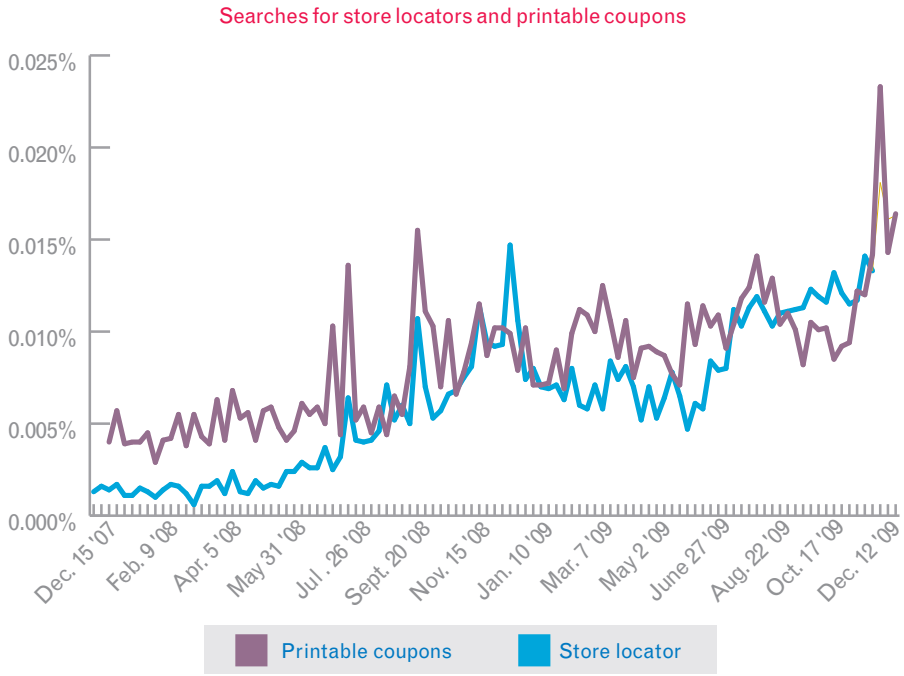
Share of searches by number of keywords,
12 weeks ending November 28, 2009



Source: Experian Hitwise, 12 Rolling Weeks ending November 28, 2009

Searches influencing offline purchases

Consumers continue to start offline shopping trips while online at home. Searches for store locators and printable coupons reached the second highest peak since the week of Thanksgiving and Black Friday during the week ending Dec. 12, 2009. Searches for the portfolios of terms related to printable coupons and store locators increased 61 percent and 77 percent, respectively, year over year.



Weekly share of traffic from each portfolio to "All categories," based on US usage.
Created 12|16|2009. ©1998–2009 Hitwise Pty. Ltd.
Source: Experian Hitwise, based weekly data for the weeks ending Dec. 15, 2007 through Dec. 12, 2009

Searches for 'walmart store locator' were the most popular among the portfolio of store locator terms during the 2009 holiday season and received 4.6 times more clicks than the second-ranked term, "marshalls store locator." Staples, Target and Toys"R"Us followed in terms of the top five store locators being searched for during the week ending Dec. 12, 2009.

Search terms in store locator,
week ending December 12, 2009

Search terms	Clicks
walmart store locator	23.88%
marshalls store locator	5.20%
staples store locator	3.65%
target store locator	2.84%
toys r us store locator	2.70%
hallmark store locator	2.69%
big lots store locator	2.52%
apple store locator	2.47%
kroger store locator	2.46%
best buy store locator	2.35%

Searches for the generic term 'printable coupon' were the most common among the search terms in the printable coupon portfolio and were primarily driving traffic to coupon aggregator websites like Coupons.com and Coupon Cabin.

Search terms in printable coupons,
week ending December 12, 2009

Search terms	Clicks
printable coupons	16.93%
kohls printable coupons	4.14%
old navy printable coupons	3.55%
toys r us printable coupons	3.43%
bath and body works printable coupons	2.36%
printable grocery coupons	2.25%
free printable grocery coupons	2.22%
free printable coupons	2.07%
ac moore printable coupon	1.82%
printable victoria's secret coupons	1.77%

Conclusion

Understanding the digital landscape as it exists today and combining this knowledge with consumer insight and data-driven best practices is key to marketing success. Businesses continue to advance their marketing strategies as consumers engage with new technologies and competition stiffens across the industry. Those marketers who strategically incorporate data analysis and key trends into their marketing strategies will deepen customer engagement and increase ROI now and into the future.

For more information, please call Experian Marketing Services at 1 888 404 6911 or visit us online at www.experianmarketingservices.com.

Experian Marketing Services helps leading companies from around the world effectively target and engage their customers through a full suite of marketing services, including email marketing, addressable advertising, data enrichment, modeling and analytics, strategic services, and consumer and competitive insights.

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02/10

Consumer buying behavior on the Internet: Findings from panel data

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Monday, August 23, 1999

Consumer buying behavior on the Internet: Findings from panel data

Online retailing became big business in late 1998, as millions of people placed orders for holiday gifts online and retailers scrambled to upgrade their distribution networks to cope with the growth. (Cyberatlas.com, 1999). Companies planning for the growth of online retailing need reliable estimates of the growth of online shopping. Data about online consumer purchasing behavior is also needed to help companies define their online retail strategies for Web site design, online advertising, market segmentation, product variety, and inventory holding and distribution. Reliable forecasts are more likely to be based on the behavior of online consumers, rather than consumers' stated intentions, or worse, the guesses offered by many Web marketing "experts."

Started in November of 1997, the Wharton Virtual Test Market[1], is both an ongoing survey of Internet Users concentrating on electronic commerce and a online-laboratory that can help gauge customer reactions to new strategies and products (see Mandel and Johnson, 1999 for an example). It offers an inexpensive and efficient way estimates of the size and composition of the online consumer population a means to gain feedback on new products and approaches. Because the WVTM is also providing one of the few sources of panel data measuring changes in the behavior of online consumers over time, it is as we will argue later, particularly useful for understanding trends.

This paper reports the findings from the second year in which the WVTM was surveyed, and therefore, the first opportunity to examine how individual panel members have changed over time. We first summarize the advantages and disadvantages of using panels to collect data, and then describe the techniques used to create an online panel (the WVTM) to collect data about

consumer purchasing behavior on the Internet. Our major contribution is the report of the results of the second survey of WVTM panelists (referred to from now on as the WVTM2)—in particular the changes over time within individuals that only a panel such as the WVTM can reveal. We then close by modeling changes over time within individuals to forecast total on-line spending for the year 2000 using a Monte Carlo simulation.

Panel data

Panels are used widely in market research to study consumer purchase patterns, test new products, and evaluate promotional campaigns. Panel surveys use longitudinal data comprising responses to the same or similar questions by the same participants over more than one time period.

Dynamic panels rotate panel members to maintain a representative sample of the population and to reduce testing effects or panel conditioning (dynamic panels provide the audience estimates for TV ratings). In contrast, static panels only retain the original panel members and, apart from unavoidable attrition, do not change over time (e.g., a study of the careers of people who graduated from high school in 1972).

The advantages and disadvantages of panel data are listed in Table 1. Panel data have three major disadvantages, or unique sources of bias: attrition bias, panel selection bias, and conditioning effects. *Panel attrition* is the loss of panel members over time, which can result in a final panel that is unrepresentative of the population. Panel attrition can be very large. On average, 50% of panel members will drop out by the second survey (Sudman and Ferber, 1979). While incentives can be used to reduce attrition, attrition is rarely random. Incentives can also be used to minimize *panel selection bias*, which can happen when the people who participate in a

longitudinal panel survey are very different from the population. *Conditioning effect*s happen when the process of conducting the panel survey affects its findings. For example, consumers asked regularly whether they intend to purchase a product may come to the conclusion that they should develop such an intention (Kinnear and Taylor, 1996) and such questions have been shown to actually change subsequent purchases (Morwitz, Johnson and Schmittlein, 1993). For dynamic panels, recruiting new panel members can reduce conditioning effects as well as biases resulting from differential attrition across market segments in the panel with a loss of continuity. One problem with using a dynamic panel is the assumption that the "average" panelist is very similar across time periods even though the individuals in each time period are different. Multiple sources of variance are held constant when the same individual is tested (the major advantage of panel data) and this benefit is sacrificed to some extent when a dynamic panel is used (Golany, Phillips, & Rousseau 1991). All of these sources of bias can be summarized under the heading of *non-response bias*. Non-response bias will threaten the conclusions of any study when it is plausible that the average member of the population being studied is more likely to be represented by the people who are *not* in a sample, rather than those who are. Assessing the extent of non-response bias requires a statistical comparison of the *reporting* sample to the population being studied. Adequate total sample size, in and of itself, is not sufficient to prevent selection bias. Each variable of interest that could affect the conclusions of the study must be adequately represented within the sample.

More recent research suggests another advantage of panel research (Menon, 1997). The report of one's last expenditure on the net, asked twice over the course of a year, is more accurate than asking for spending for both last year, and the year before.

Most surveys about Internet usage reported in the popular press use cross-sectional data, for example, surveys by Ernst & Young (1999), Forrester Research (Morrisette, Bluestein & Maraganore, 1999), GVU (Kehoe, Pitkow, & Rogers, 1998), Jupiter Communications (1999), and the Pew Research Center (1998). We believe that panels highlight important changes in individual behavior over time (e.g., "dropouts" and sensitivity to privacy issues on the Web). This is particularly important in the dynamic Internet community that is constantly changing as more people go online for the first time, and those people who are already online become more acclimatized to the World Wide Web. For example, we find that sensitivity to security/privacy is a function of time online.

Insert Table 1 about here

WVTM1

The first Wharton Virtual Test Market survey panel (WVTM1) closely matches the United States online population (Bellman, Lohse and Johnson, 1999). Responses from 9,738 panelists provide a basis for identifying factors that predict whether a person bought goods or services online, and if they did buy online, how much they spent. Based on logit and regression analysis of these data, two major categories of variables predicted online buying and spending: "*time starvation*" and a "*wired" lifestyle*. Online buyers worked many of hours each week (e.g., a single person working over 50 hours per week or a married couple working over 100 hours per week). Because such "time starved" panelists had fewer hours available for leisure we believe they made purchases on the Internet to save time. People who buy online also use the Internet more than other people online—they lead a more "wired" lifestyle. They use email to keep in touch with family and friends. They have been on the Internet for years as compared to months for

non-buyers. And, finally, they use the Internet regularly at work and believe it has improved their productivity.

Demographics (e.g., gender, age, income, race, etc.) did not predict differences in online buying, although males spent slightly more than female online shoppers. However, both the WVTM1 and other studies (Kehoe, Pitkow, and Rogers 1998; Kraut et al. 1997) have found that demographics were an important indicator of who is on the Internet in the first place. Based on the spending data reported by panelists during this first time period (WVTM1), we forecasted $23.7 billion of online sales in the USA and Canada for the year 2000. Data from one year later (WVTM2) provide an opportunity to test the veracity of these findings as well as to identify trends that would be more difficult to examine using cross-sectional data.

Methods

In 1997, 8,174 people from the WVTM1 panel of 9738 respondents agreed to participate in further surveys. In November 1998, those 8,174 people were recontacted by email and asked to participate in a second round of questions that included replicates of questions they had answered in 1997. Of those 8,174 people, 1,891 people (23%) had either unsubscribed from the WVTM1 mailing list or had “dead” email addresses. (An email address could be “dead” for a number of reasons: the person may have changed email address, had their mailbox closed by their service provider, they may have typed their email address incorrectly or deliberately provided a false email address). Of the maximum possible sample that could be obtained from the original panel (6,283: those people who had both agreed to remain in the WVTM and had a functioning email address) we received 2,549 valid responses, a completion rate of 41%.

In addition, WVTM2 recruited other panel members from around the world. The procedures used to populate the original WVTM1 were duplicated for WVTM2. People were attracted to the survey site by a banner advertising campaign designed to target specific segments of World Wide Web users as well as links provided by members' sites, and by word of mouth. All answers to survey questions are self-reports. Each panelist completed a survey that asked a maximum of 82 questions about their online behavior and attitudes to Internet communication and privacy issues, as well as seven routine demographic questions, a total of 89 questions altogether. Average time to complete the online survey was 7 minutes. Our analysis of the questionnaire data describes the factors associated with buying online, and the amounts of money online buyers spend.

Results

The population frame for the Wharton Virtual Test Market panel is the total population online now as it evolves. A measure of how accurately the responses of this panel mirror the responses of the online population is a function of selection bias in the panel. To explore potential non-response bias problems, due either to attrition or conditioning, we divided the 9,738 WVTM1 panelists into two groups: (1) the 2,549 (26%) respondents who stayed in the panel and completed the WVTM2 survey, and (2) the 7,189 (74%) non-respondents who dropped out of the panel, for whatever reason. Table 2 compares the values for these two groups to the twelve predictor variables for buying and spending behavior identified in the WVTM1 (Bellman, Lohse, and Johnson, 1999). There was no significant difference between respondents and non-respondents in either the percentage of panelists that chose to buy online or mean annual online expenditures. This is important since these are the two primary dependent measures in the panel. In addition there were no other statistical difference between respondents and non-respondents

among most of the other variables reported in Table 2. However, there were two differences in variables used to predict buying and spending behavior. WVTM2 respondents were more likely to have ordered from a catalog in the last six months as compared to WVTM2 non-respondents ($t(4162) = 2.51$, $p<.050$). There were slightly more females responding to the WVTM2 survey than males ($t(4162) = 6.74$), $p<.0001$). Since this analysis found no differences between respondents and non-respondents in their online buying or spending behavior, we did not correct subsequent analyses of online buying and spending for non-response bias.

Insert Table 2 about here

We compare our online sample to the USA Census data for Internet usage (Table No. 917: www.census.gov/statab/freq/98s0917.txt) to explore whether the panel data is representative of all online Internet users in the USA. Although the WVTM1 was fairly representative of the US online population in 1997 (Bellman, Lohse, & Johnson 1999), it may not have been representative of the US online population in 1998. Table 3 shows data for the *Internet user population* (people with any online Internet usage), and the *panel data*. Except for population size, all data in Table 3 are percentages.

There were no differences between the WVTM2 panel and the Internet user population in either age, gender, marital status, education, or occupation, although both the panel and the Internet user population are younger, more likely to be male, more likely to have graduated college, and more likely to have a professional occupation compared to the general population of the United States. However, the mean household income is significantly lower for the panel than the income for the Internet user population although it is still higher than the general population ($\chi^2_{3df} = 11.95$, $p < .01$).

Insert Table 3 about here

Who is buying online?

We examined who was and who was not buying on line in three ways: First we took advantage of the panel structure of the WVTM survey to look at four segments defined by their year-to-year purchase patterns. Second, we similarly examined the effect of time on the internet on purchasing. Finally, we describe the results of a logistic regression that attempts to predict who will buy.

Buying Segments. Since we have observed the WVTM panelists at two points in time, instead of just once as would be the case with cross-sectional data, we categorized buyer behavior into four segments: (1) "never buy," (2) "drop outs," (3) "newbies," and (4) "steadfast buyers" (Table 4). A Multivariate Analysis of Variance (MANOVA) for 21 independent measures shown in Table 5 simultaneously controlled for the multiple measures and showed that there are significant differences between these four buyer segments (Wilk's λ=.8264, $F(51,6056)= 7.85$, $p<.0001$).

Panelists characterized as "**Never buy**" have not made a purchase on the Internet in both time periods. This segment represents 14% of the panelists. Panelists that made an online purchase in 1997 (WVTM1) but did not purchase online in 1998 (WVTM2) are labeled as "**Drop outs**" (15% of respondents). **"Newbies"** (31% of respondents) did not make a purchase in 1997 (WVTM1) but did make a purchase in 1998 (WVTM2). **"Steadfast buyers"** (40% of respondents) made a purchase online in 1997 (WVTM1) and again in 1998 (WVTM2).

Compared to those segments that made an online purchase in 1998 (Newbies and Steadfast buyers)**,** Never-buy panelists and Drop outs have a lower income ($42,800 and $44,618 versus $55,447 and $52,968), work fewer hours per week (40.2 and 43.0 versus 47.7 and 49.7), have

been on the Internet for a shorter time (26.4 and 27.1 months versus 32.3 and 34.2 months), and spend fewer hours per week on the Internet (11.9 and 12.3 versus 14.1 and 15.4). Never buys and Drop outs are also slightly more concerned about their privacy online.

Insert Table 4 about here

Insert Table 5 about here

Interestingly, Never buys have not made an online purchase despite increasing their number of hours online each week from 10.7 to 11.9. Drop outs have experienced a decrease in hours online each week (14.7 to 12.3) as well as a decrease in the number of daily email messages. Compared to the other three groups in Table 4, they have the highest percentage of spam (junk email), have increased their paper-based catalog orders by 20% and have decreased their usage of the Internet for completing their work by 16%. Newbies had an 18% decrease in paper-based catalog orders, received 12 more email messages per day in 1998 compared to 1997, and increased their total hours online per week from 10.2 to 14.1. Steadfast buyers had a 6% decrease in paper-based catalog orders, received 7 more email messages per day in 1998 compared to 1997, and increased their total hours online per week from 13.9 to 15.4.

The Effect of Internet Usage. One additional finding worth noting is that the percentage of panelists making a purchase on the Internet increases as a function of time spent online. The longer the amount of time spent online, the greater the chance of making a purchase online (Figure 1). In 1997, 34% of the respondents who had been online for one month had also made an online purchase. In 1998, 84% of the respondents who had been online for five years made a purchase. More importantly, this trend increased when we compare the two years: There was an

across the board increase in the rate of adopting online buying. Thus forecasts based upon the a static one-shot study may underestimate the growing size of the internet marketplace.

Insert Figure 1 about here

Predicting who will buy. The factors that predicted purchasing online were analyzed using logistic regression (Table 6). We combined the returning WVTM panelists with new entrants to the panel and split the WVTM randomly into halves to produce separate calibration and holdout samples. Using the calibration sample, candidate variables were added to a logistic regression equation predicting buying online versus not buying online. The final regression equation for the calibration sample was then used to predict whether members of the holdout sample would or would not buy online. This process was repeated, using the original holdout sample to calibrate the regression, and then cross-validating this regression equation in the original calibration sample. The final regression equation, which contains only those variables that were significant in both runs of this double cross-validation procedure, explains 24.8% of buying versus not buying [χ^2=431.478 with 9 DF ($p<0.0001$)].

Insert Table 6 about here

Figure 2 shows these significant predictor variables. We calculated the impact of each factor by multiplying each variable's range by its parameter in the cross-validated logit. Not surprisingly, the degree of Internet usage to search for product information explained the most variation in whether someone would make an online purchase. The number of email messages per day had the next largest effect on buying behavior. Receiving more email messages is associated with a higher proclivity to buy online. In addition, ordering from a catalog in the last six months is an indicator of buying online (in other words, people who buy from catalogs are likely to also buy

online). Also, the longer someone has been using the Internet, the more likely they are to make an online purchase. Using the Internet for travel information, finance information, or news and current events are also associated with buying goods and services online.

For these diverse uses of the Internet, there has been a dramatic increase over the past year (Figure 3) that demonstrates that in 1998 the "wired lifestyle" was more pervasive. Finally, according to these WVTM2 data, males had a slightly higher proclivity to buy online than females, although the effect size is relatively small.

Insert Figure 2 about here

Insert Figure 3 about here

How much are they spending?

WVTM2 panelists who purchased online were asked how many online transactions they had made over the last six months, and the value of their latest online transaction. In 1997, the median purchase was $49.53 whereas in 1998 the median purchase was $86.31. The top five categories ranked by median purchase are shown in Figure 4. From 1997 to 1998, Buyers increased their average number of online purchases from 4.3 transactions per year to 7.4. The 74% increase in spending per transaction coupled with a 72% increase in the number of transactions translates into a 300% increase in annual expenditures on the Internet from $213 to $639.

Insert Figure 4 about here

A regression model examined factors predicting variance in annual online spending. Annual online spending equals two times the number of transactions over the last six months multiplied by the amount spent on the most recent online purchase. We applied a log transformation to the

dependent measure - annual spending data. A log transformation is justified because the variances within categories of the dependent increase in proportion to the mean of the category. Again, the sub-sample of online buyers was split in half randomly, and double cross-validation was used. The final regression equation explained 23% of the variance in annual value and was significant ($F(13,5208)=57.63$, $p<0.0001$). Table 7 shows the regression analysis. In addition to the variables noted in the logistic regression to predict buying behavior, another demographic variable (household income) explains a significant portion of the variance in annual online spending. While income did not determine whether someone would make an online purchase, it does influence how much they will spend. Annual household income explains an additional 0.44% of the variance in annual online spending. The greater the annual household income, the more that is spent online (approximately $1.10 a year for every additional $10,000 in household income). Other new variables in this equation that explain differences in spending but not differences in buying versus not buying are the positive influence of downloading software (explains an additional 0.19%), number of hours worked per week (positive, 0.24%), and hours per week online (positive, 0.29%). Sex (coded as 1 for males and 0 for females) explains about 1% of the variance in annual online spending. The positive coefficient indicates that males purchase more online (although only about $3.15 annually) than females.

According to these results, "time starvation" (number of hours worked) and a "wired" lifestyle are still major determinants of the amount of online spending a person does, although time starvation does not seem to influence whether a person buys at all from an online store. One of the unique insights that panel data such as the WVTM1-2 can offer is that individuals achieve a more "wired" lifestyle the more they become acclimatized to the World Wide Web. Although demographics such as gender and income are significant explanatory factors, a person's

proclivity to buy and spend on the Internet is not fixed but can change rapidly over time alongside changes in online behavior.

Insert Table 7 about here

Total USA Online spending projections

Table 8 shows forecasts for total USA online spending (business to consumer) from five Industry sources. Forecasts for the year 2000 range from $17 - $33 billion. Forecasting online business to consumer sales depends upon the number of people online (maximum is total USA population), the average likelihood of buying, and average annual online spending per person. According to the WVTM2, the longer someone has been using the Internet the more likely they are to buy (Figure 1) and the more they spend (Figure 5). In 1998, for example, buyers that had been using the Internet for 12 months had a median annual purchase amount of $180 whereas buyers that had been using the Internet for 60 months had a median annual purchase of $300. Assuming the number of online Internet users was 55 million in July 1998, we applied our likelihood to buy data (Figure 1) and spending data (Figure 5) to forecast total online retail sales in the USA. Estimates for the growth of Internet usage in the United States average 2.5% per month (e.g., Broersma 1998; Court 1997; Emmerce, 1998). Accordingly, we assumed that the growth of new Internet users was 2.5% per month. Using Monte Carlo simulation, growth in Internet usage (and therefore, the size of the Internet population) is the most critical factor affecting estimates of online retail sales. If more conservative estimates are used, the final figure drops from $29.1 billion for the generally expected growth rate of 2.5% to $23.6 billion for a growth rate of 1%. In addition, we assumed 15% of online buyers would not purchase from the Web the next year (Table 4). Figure 6 shows the USA business-to-consumer Internet sales forecast derived from the WVTM data. Existing online buyers account for all online sales today

but new consumers that have never used the Internet will determine the growth of online sales. Assuming their spending matches that of existing online buyers, we predict sales to new buyers will exceed old buyers by the year 2001.

Insert Figure 5 about here

Insert Figure 6 about here

Discussion

The strength of panel data is its ability to provide information about changes in behavior over time for individual consumers. Using the WVTM, we found that over a 12-month period online consumers doubled the number of items bought online and spent nearly three quarters more on each purchase, two facts that together resulted in a tripling of the value of the average online consumer over time. The size of online retail market will be driven not only by an increase in the number of people who go online for the first time in the next few years, but also by increases (and, interestingly, decreases) in online shopping by individual consumers already online.

The results of the WVTM2 show that the Internet population is already starting to look more and more like the general population, at least in the United States. Companies will have to plan their Web site design for an audience that is less Web savvy, less educated, and earning less, and, that is, possibly, less tolerant of new technology. According to our projections, most of the money earned by online retailers in two years time will come from people who have yet to connect to the Internet. However, this research also shows that differences between new online consumers and more experienced online consumers are erased over time by the rapid acclimatization of consumers to this new medium of consumption.

The opportunity to observe differences over time within subjects has also revealed some of the reasons why people change their online shopping behavior. Those people who bought online last year but "dropped out" of online shopping this year seem to have had some bad experiences with online retailers. These people are getting more spam than other people online. Online retailers will have to provide significant incentives to win these people back to trying online buying again (news of stockouts and bogus companies will not help). In the meantime, these Dropouts are returning to paper-based catalogs for convenient shopping from home. The people who have never bought are increasing the amount of time they are spending online, and may in time make at least one online purchase.

The WVTM2 offers the chance to observe changes in time over two periods. With two observation points, it's possible to extrapolate a straight line with which to forecast the future. But the growth in Internet shopping seems so dynamic that it is hardly likely to be a simple linear phenomenon. To gauge whether changes over time within individuals are linear, or curvilinear (for example, a tripling each year of the annual value of each individual), we will need to observe at least three points in time. Even more periods may allow estimates of the limits of this growth, which can not be infinite, whereas linear and simple curvilinear projections have no asymptotes. With this in mind, the Wharton Forum on Electronic Commerce will commence collecting data for a third year from the WVTM in late 1999.

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Advantages	**Disadvantages**
Additional measurement precision by matching responses from one time period to another	Panel "conditioning" may bias responses (also called "testing effect") in that panel members become atypical as a result of being on the panel
Observe changes in *individual* behavior over time as well as monitor behavior of particular cohorts over time	Panel attrition may cause response bias although incentives can reduce this
Panel data are generally more accurate than cross-sectional data	Panel selection bias - respondents are not representative of the underlying population (e.g., exclude very rich or very poor or transitory)
Although expensive to establish initially, the costs of panels can be lower over the long term.	
More information can be collected since existing background information need not be repeated each time period.	

Table 1 Advantages and disadvantages of panel data for survey research

WVTM variable	WVTM2 non-respondent n=7,189	WVTM2 respondent n=2,549	Prob>|T|
Buy	0.5430 (0.4982)	0.5500 (0.4975)	n.s.
Spend (dollars)	$219.98 ($957.58)	$235.35 ($1054.63)	n.s.
Months on Internet	20.8 (17.2)	20.6 (17.2)	n.s.
Hours online per week	12.3 (9.29)	12.5 (9.27)	n.s.
Ordered catalog 6 months	0.36 (0.48)	0.34 (0.47)	< 0.050
Number of email per day	11.6 (18.6)	11.6 (18.5)	n.s.
Use Internet for news	0.219 (0.414)	0.230 (0.421)	n.s.
Use Internet for finance	0.024 (0.154)	0.027 (0.163)	n.s.
Internet for entertainment	0.130 (0.336)	0.125 (0.330)	n.s.
Use Internet for travel	0.004 (0.066)	0.003 (0.056)	n.s.
Sex (0=female; 1=male)	0.580 (0.494)	0.500 (0.500)	< .0001
Income (dollars)	$51,896 ($56,175)	$49,978 ($44,862)	n.s.

Table 2 **Comparison of non-respondent bias of WVTM1 participants that did or did not participate in WVTM2 [mean (std) and t-test]**

No. 917. June 17, 1998 Internet Access and Usage, and Online Service Usage www.census.gov/statab/freq/98s0917.txt	**Any Online/ Internet Usage (Adults 18+)**	**WVTM2**
	44,873,000	**N=2,549**
	23% USA pop.	
Age:		
18 to 34 years old	42.6	54.5
35 to 54 years old	48.8	39.5
55 years old and over	8.6	6.0
		$c^2_{2df} = 2.90$ *(n.s.)*
Sex:		
Male	53.9	49.5
Female	46.1	50.5
		$c^2_{1df} = 0.39$ *(n.s.)*
Marital status:		
Single	29.3	36.7
Married	61.4	47.8
Other	9.3	15.5
		$c^2_{2df} = 4.07$ *(n.s.)*
Education:		
Graduated college plus	46.9	42.2
Attended college	33.9	36.8
Did not attend college	19.2	21.0
		$c^2_{2df} = 0.45$ *(n.s.)*
Occupation:		
Professional	23.4	22.5
Exec./manager/administrator	19.1	11.0
Clerical/sales/technical	27.3	25.4
		$c^2_{2df} = 1.35$ *(n.s.)*
Household income:		
Less than $50,000	31.8	55.3
$50,000 to $74,000	28.2	22.0
$75,000 to $149,000	32.5	19.4
$150,000 or more	7.5	3.4
		$c^2_{3df} = 11.34$ *($p<0.01$)*

Table 3 Chi Square test comparing demographics of WVTM2 sample data with USA Census Data for Internet Users

	WVTM1 Not Buy	**WVTM1 Buy**
WVTM2 Not Buy	Never By 14%	Drop Outs 14%
WVTM2 Buy	Newbies 31%	Steadfast Buyers 41%

Table 4 Classification of 2,524 online buyers based upon online purchase behavior.

	Never Buy	Drop Outs	Newbies	Steadfast
Months using the Internet	26.4 [a]	27.1 [a]	32.3 [b]	34.2 [b]
Product Information	1.46 [a]	1.48 [a]	1.80 [b]	1.81 [b]
No catalog order in last 6 months	0.48 [a]	0.47 [a]	0.22 [b]	0.22 [b]
Click on banner advertisement	91% [a]	90% [a]	96% [b]	97% [b]
Online transactions in last 6 months	0 [a]	0 [a]	5.3 [b]	5.4 [b]
Dollar amount of last purchase	0 [a]	0 [a]	$89.62 [b]	$86.22 [b]
Number of email messages per day	11.9 [a]	12.9 [a]	19.9 [b]	22.4 [b]
Percent of email that is spam	14.4% [a]	18.5% [b]	15.5% [a]	15.4% [a]
Hours per week on the Internet	11.9 [a]	12.3 [a]	14.1 [b]	15.4 [b]
Use of Internet for work	57% [a]	64% [b]	70% [bc]	73% [c]
Use of Internet for news	73% [a]	76% [a]	87% [b]	87% [b]
Use of Internet for entertainment	84% [b]	80% [a]	87% [b]	87% [b]
Use of Internet to download software	60% [a]	57% [a]	70% [b]	71% [b]
Use of Internet for finance	20% [a]	25% [a]	40% [b]	41% [b]
Use of Internet for travel	29% [a]	32% [a]	46% [b]	48% [b]
Hours worked per week	40.2 [a]	43.0 [ab]	47.7 [bc]	49.7 [c]
Household income	$42,800 [a]	$44,618 [a]	$55,447 [b]	$52,968 [b]
Sex (0=female; 1=male)	.38 [a]	.47 [a]	.49 [b]	.53 [b]
Age	33.8 [a]	34.6 [ab]	35.2 [ab]	36.3 [b]
Concerned about online monitoring	2.87 [a]	2.80 [a]	2.59 [b]	2.51 [b]
Would give phone number online?	0.45 [a]	0.41 [a]	0.54 [b]	0.57 [b]

Table 5 Univariate ANOVA and comparison of the means using Tukey's Test (means with different letters within a row are significantly different at a=0.05)

Variable	DF	Parameter Estimate	Standard Error	Wald Chi-Square	Pr >Chi-Square	Standardized Estimate
Intercept	1	-1.0920	0.1861	34.4	0.0001	
Months on Internet	1	0.0111	0.0031	12.8	0.0004	0.1057
Use Internet for product information	1	0.6446	0.0837	59.4	0.0001	0.2030
Catalog order in last 6 months	1	1.0172	0.1028	98.0	0.0001	-0.2546
Gender (1=male)	1	0.2623	0.1040	6.4	0.0116	0.0723
Emails per day	1	0.0145	0.0027	30.0	0.0001	0.1878
In last 6 months, use Internet for news?	1	0.4648	0.1274	13.3	0.0003	0.0942
In last 6 months, use Internet for finance?	1	0.5489	0.1160	22.4	0.0001	0.1448
In last 6 months, use Internet for health?	1	-0.3004	0.1144	6.9	0.0086	-0.0785
In last 6 months, use Internet for travel?	1	0.4472	0.1078	17.2	0.0001	0.1219

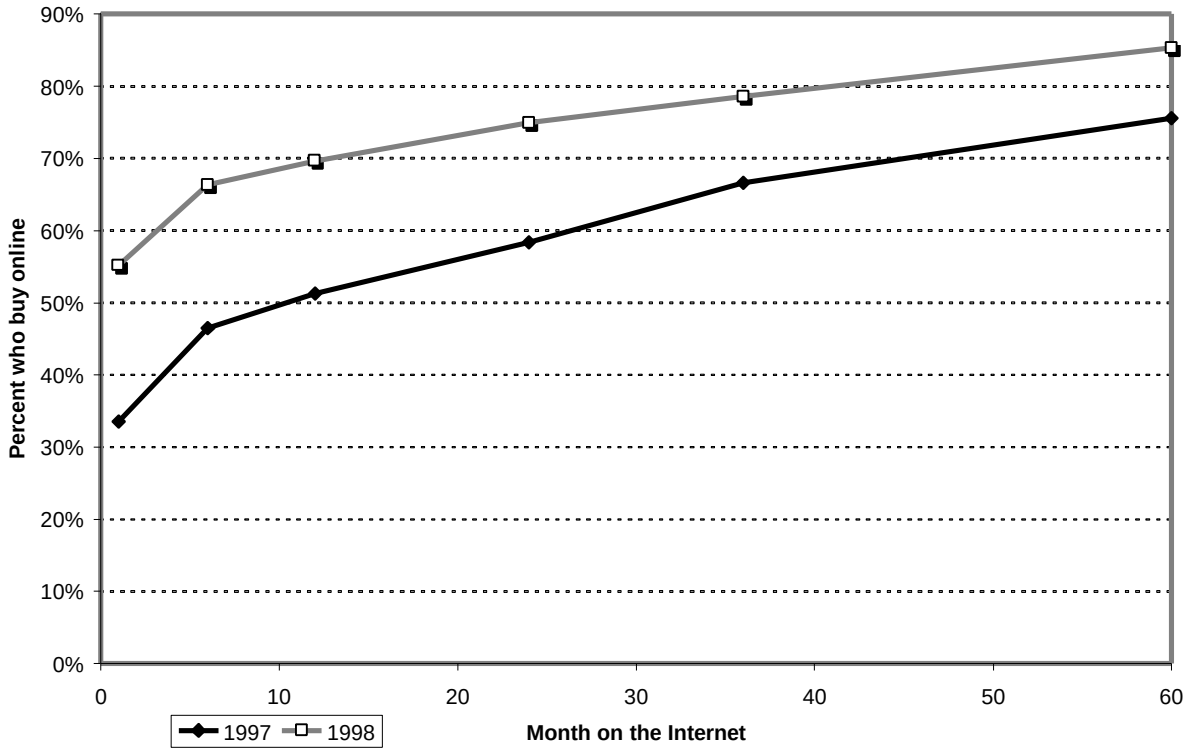
Table 6 Results from logistic regression analysis predicting online buying

Variable	DF	Parameter	Standard Error	T for H_0: Parameter=0	Prob >|T|	R^2
Intercept	1	0.5851	0.2188	2.67	0.0075	
Months on Internet	1	0.0098	0.0032	3.10	0.0020	0.0062
Use Internet for product information	1	0.8701	0.0932	9.33	0.0001	0.0831
Catalog order in last 6 months	1	1.2195	0.1150	-10.61	0.0001	0.0485
Hours worked / week	1	0.0042	0.0017	2.43	0.0153	0.0024
Household income	1	0.000004	0.000001	3.24	0.0012	0.0044
Emails per day	1	0.0162	0.0023	6.92	0.0001	0.0250
Hours online per week	1	0.0131	0.0055	2.38	0.0174	0.0029
In last 6 months, use Internet for news?	1	0.3357	0.1453	2.31	0.0210	0.0014
In last 6 months, use Internet for software?	1	0.2718	0.1174	2.32	0.0207	0.0019
In last 6 months, use Internet for finance?	1	0.7169	0.1153	6.22	0.0001	0.0328
In last 6 months, use Internet for health?		-0.4077	0.1183	-3.45	0.0006	0.0029
In last 6 months, use Internet for travel?	1	0.5249	0.1102	4.76	0.0001	0.0078
Gender (1=male)	1	0.4982	0.1095	4.55	0.0001	0.0128

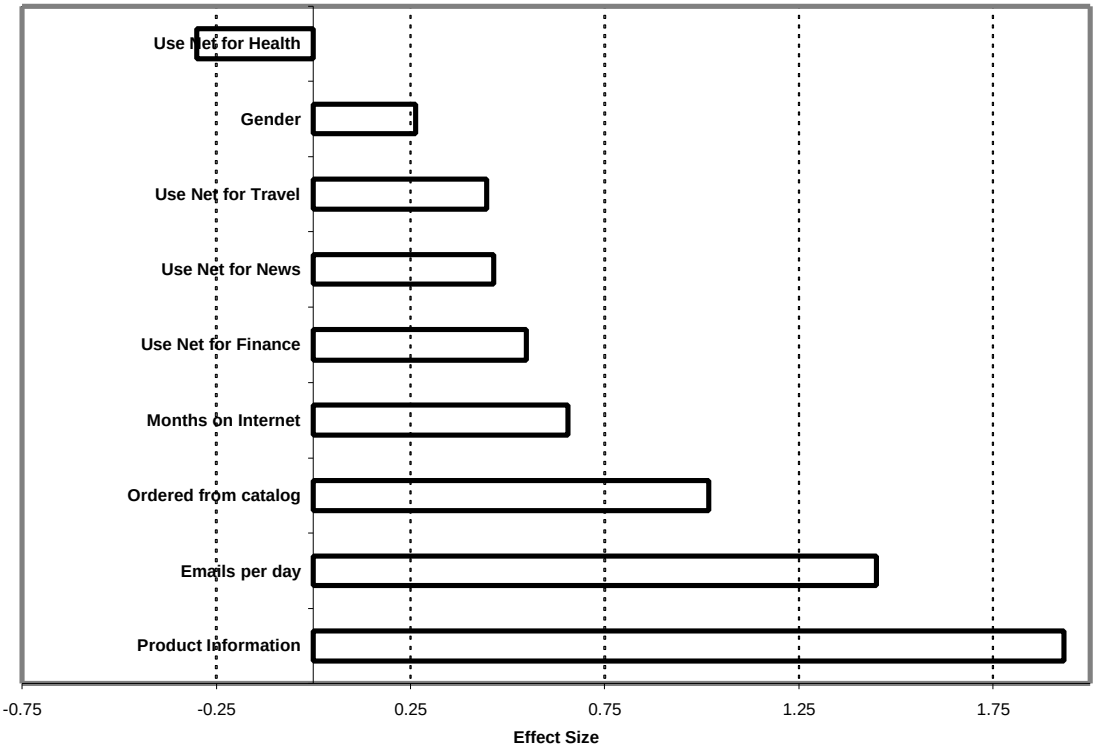
Table 7 Results from regression analysis predicting online spending

Date	Mar-99	May-97	Oct-98	Jan-99	Jul-99	Jul-99
Source	DMA	Morgan Stanley	Jupiter	Forrester	eMarketer	WVTM
1997	0.7	2.3	3			
1998	1.7	5.9	7	7.8	4.5	
1999	3.4	9.5		18.1		18.8
2000		17.1	17	33.0		29.2
2001				52.2		46.2
2002			41	76.3	26.0	70.5
2003	19.2			108.0		97.0

Table 8 **USA business to consumer online spending (in billions) from five sources**

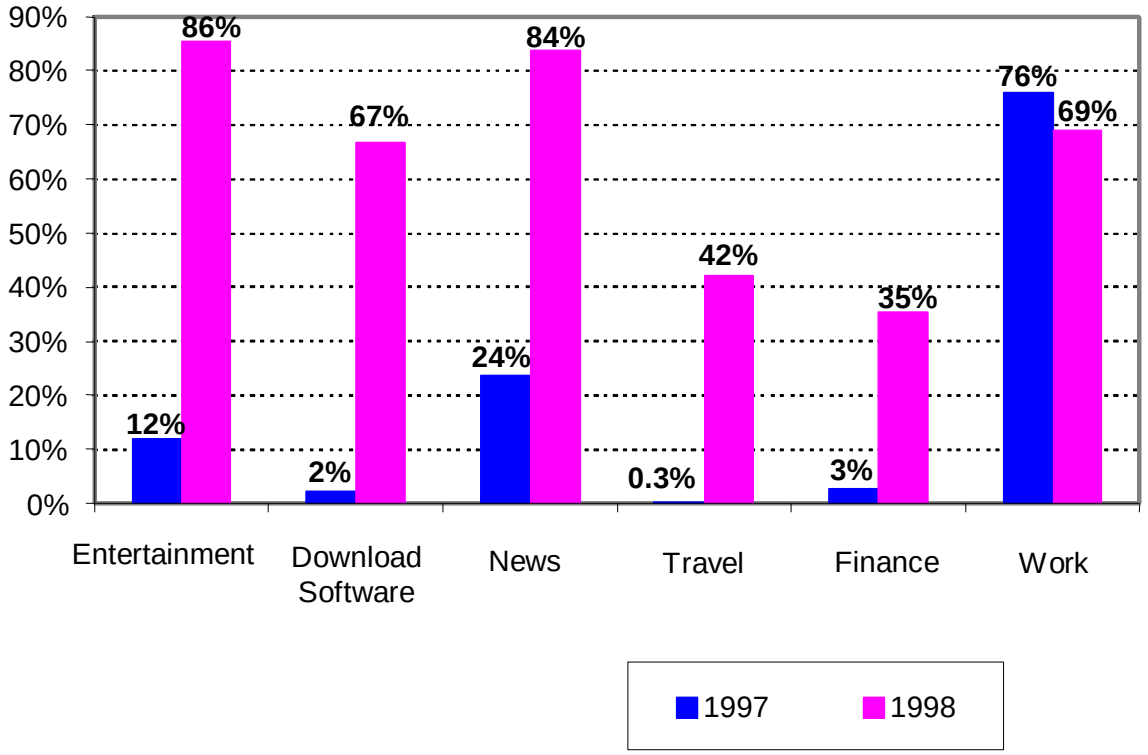


<u>Figure 1</u> Percentage of respondents who make a purchase on the Internet as a function of the number of months spent online.



<u>Figure 2</u> Predictors of buying versus not buying online, in increasing order of influence.

D:\research\Electronic Commerce Forum\Papers\Interactive_Marketing\WVTM2a_Figures.xls



<u>Figure 3</u> Change in Internet usage from 1997 to 1998 for selected categories.

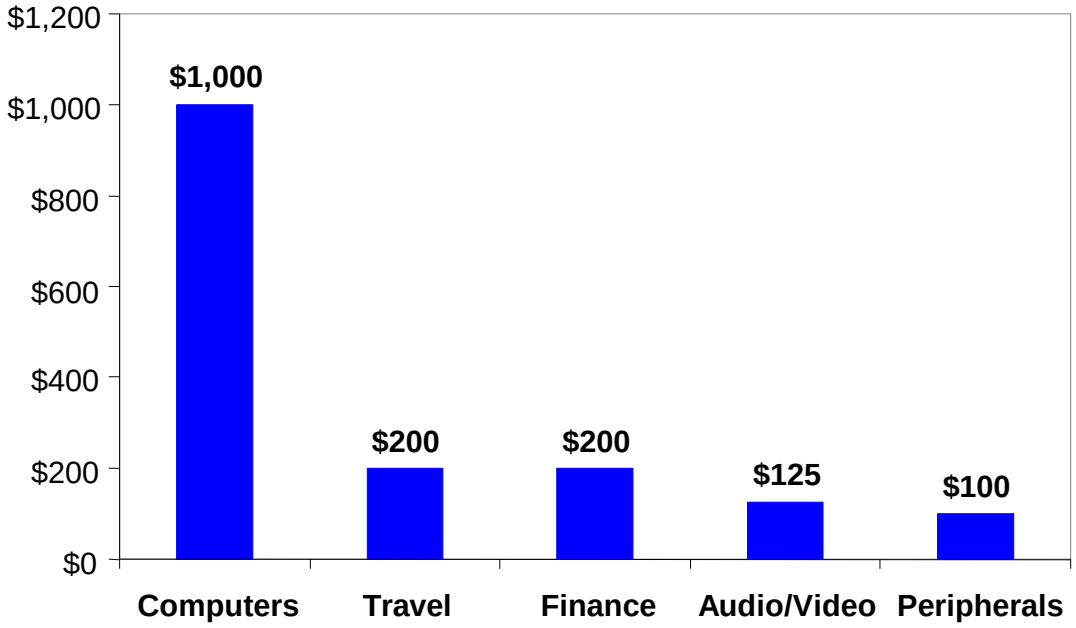
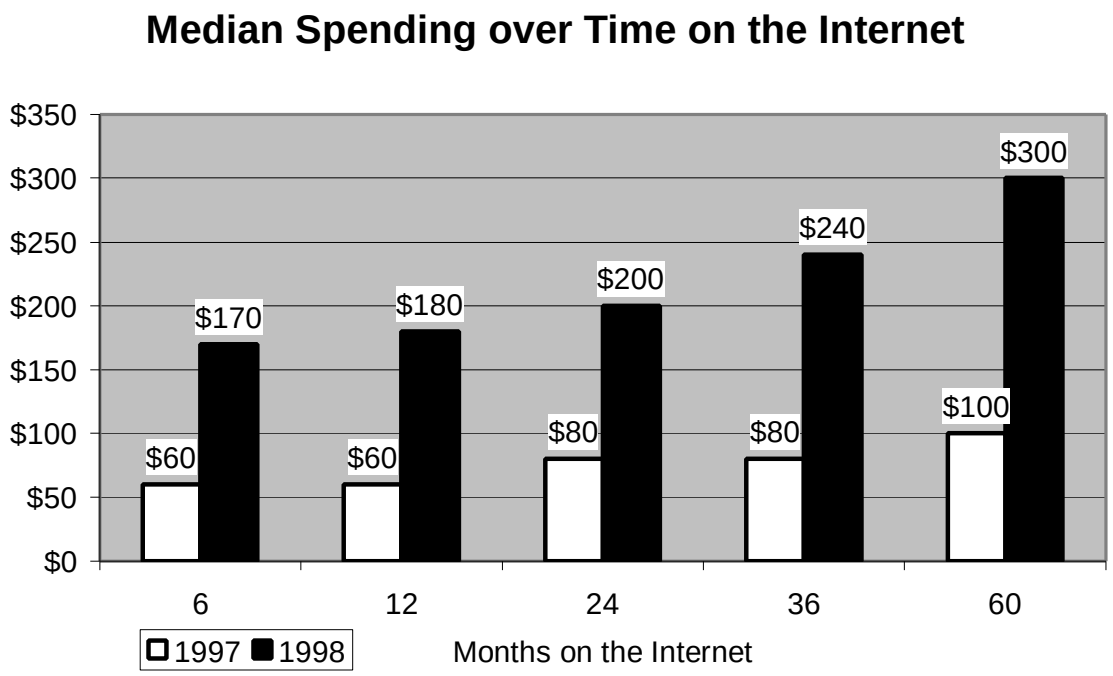
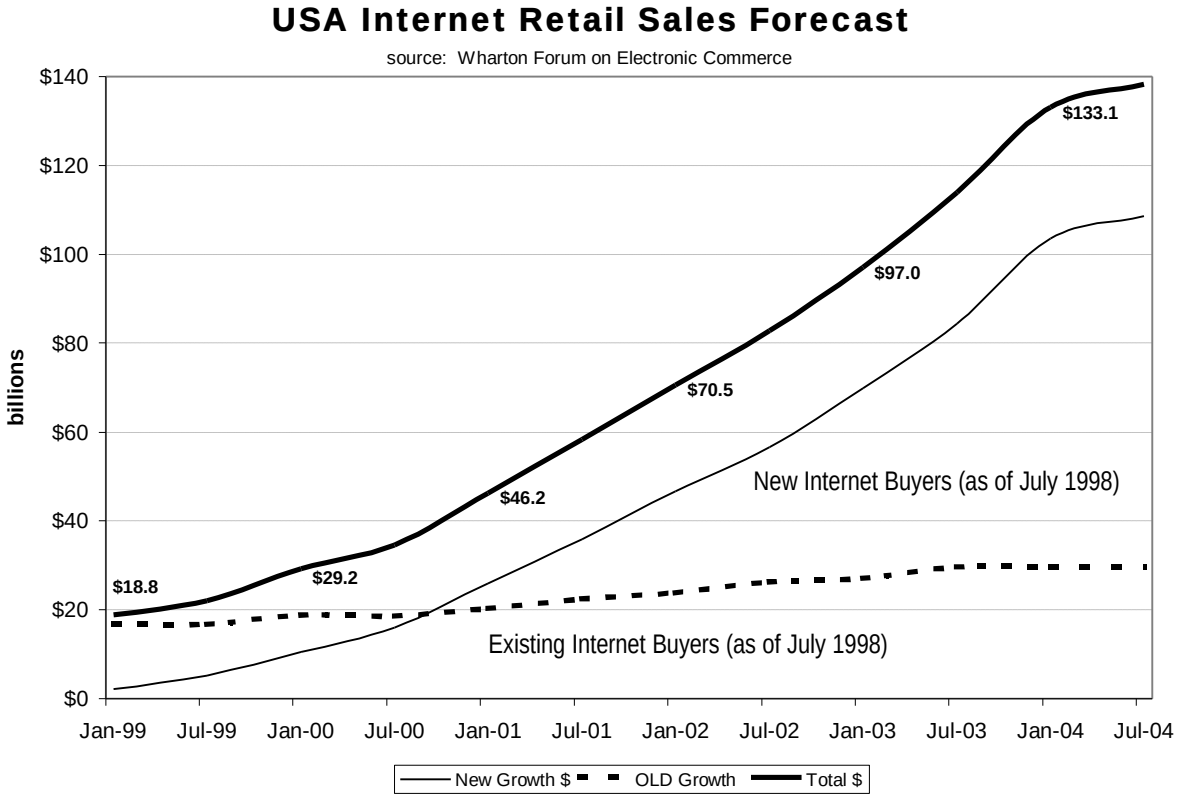


Figure 4 **Median dollar amount of last purchase on the Web (top 5 categories).**



<u>Figure 5</u> Median annual purchases as a function of the total number of months spent on the Internet.



<u>Figure 6</u> USA business to consumer Internet sales forecast

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[1] The Wharton Virtual Test Market (the WVTM) is a panel that examines online consumer spending behavior. It is one of the major research projects sponsored by the Wharton Forum on Electronic Commerce, a research group funded entirely by corporate sponsors to identify and explore critical topics for research in eCommerce.

ONLINE CONSUMER BEHAVIOUR - EUROPE

Catherine Borrel, Head of Research, IAB Europe

MC DC
Marketers & Consumers
Digital & Connected

MARKET DEVELOPMENT OVERVIEW

Catherine Borrel

IAB Europe

19th May 2010

EUROPEANS ON THE WEB – A GOLDMINE

- Wealth of information on European consumers online
- Engagement, activities and attitudes
- An online survey of 32,000 internet users
- Covers 16 European countries
- Data available by country and by demographic
- Produced with our research partner, InSites Consulting

COUNTRIES INCLUDED IN MCDC:

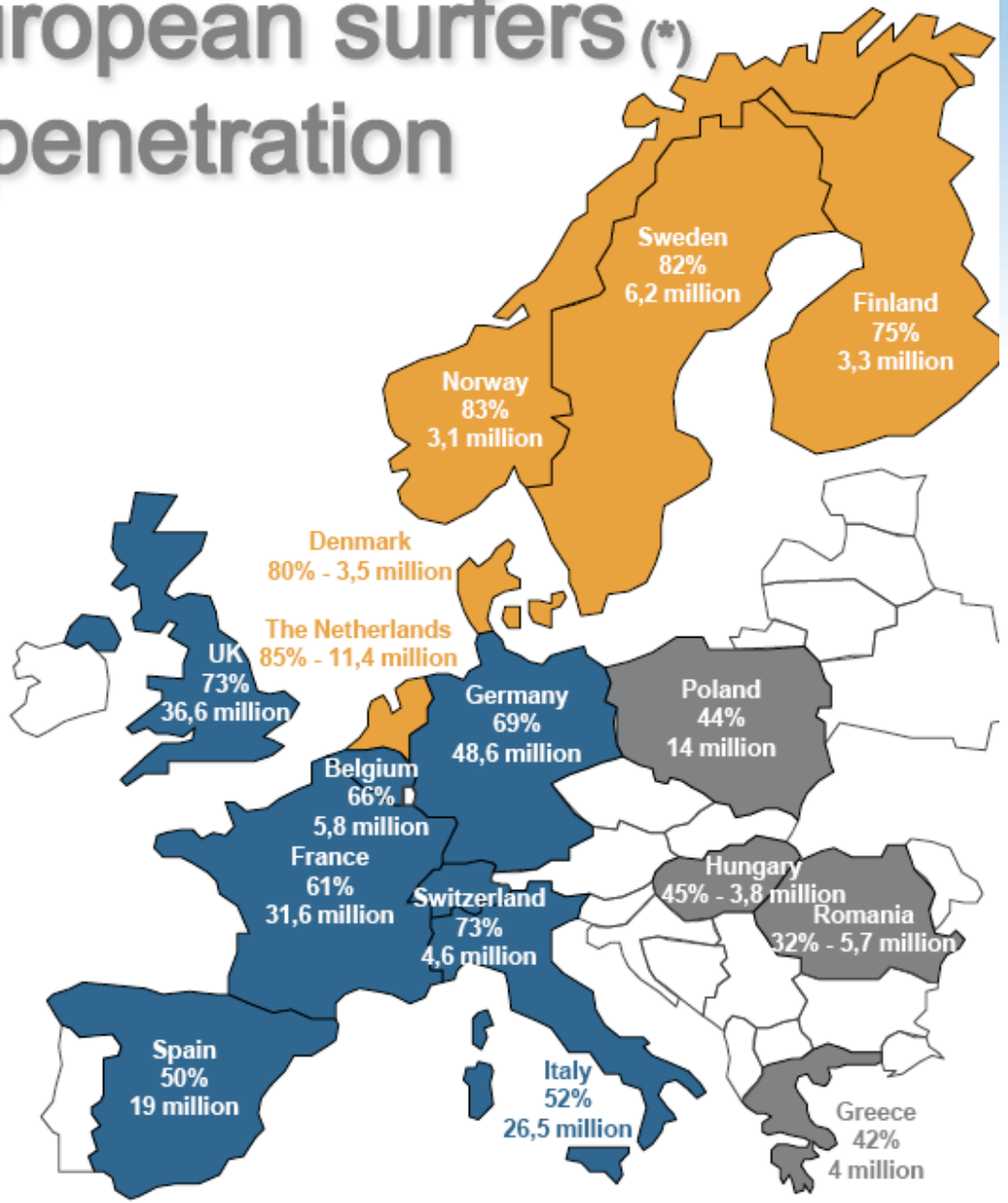
- Northern Europe
  - Denmark
  - Finland
  - Norway
  - Sweden
- Eastern Europe
  - Hungary
  - Poland
  - Romania
- Southern Europe
  - Greece
  - Italy
  - Spain
- Western Europe
  - Belgium
  - France
  - Germany
  - Netherlands
  - Switzerland
  - UK

TODAY

- Who is online and how are they accessing?
- What are they going online for?
- What do they look for in online advertising?
- Overview of key facts and figures across Europe
- Comparing trends in ‘new’ and ‘established’ markets

Overview of European Internet Usage

228 million European surfers (*)
60% Internet penetration



Internet penetration > 75%

Internet penetration 50 - 75%

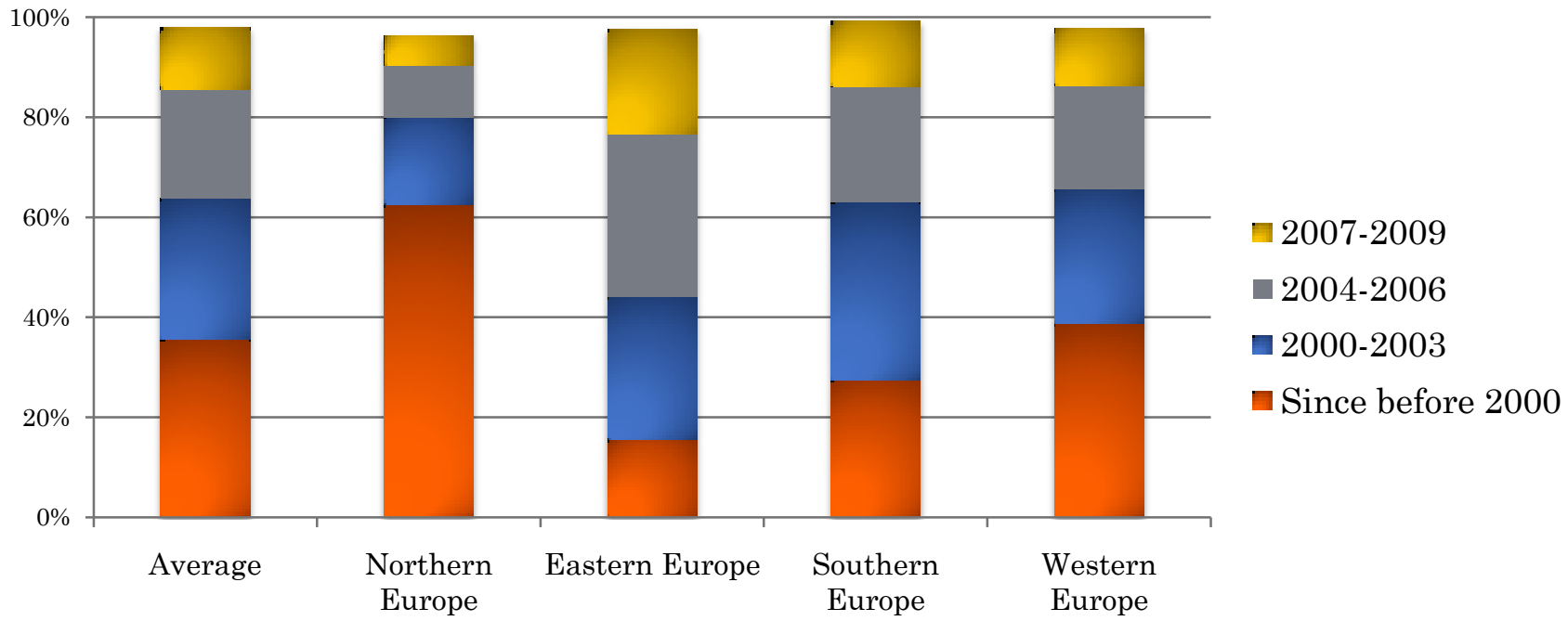
Internet penetration < 50%

(*) Countries measured in MC DC 2009

Source: MC DC 2009 CATI research and Forrester data

ESTABLISHED IN THE MEDIA MIX

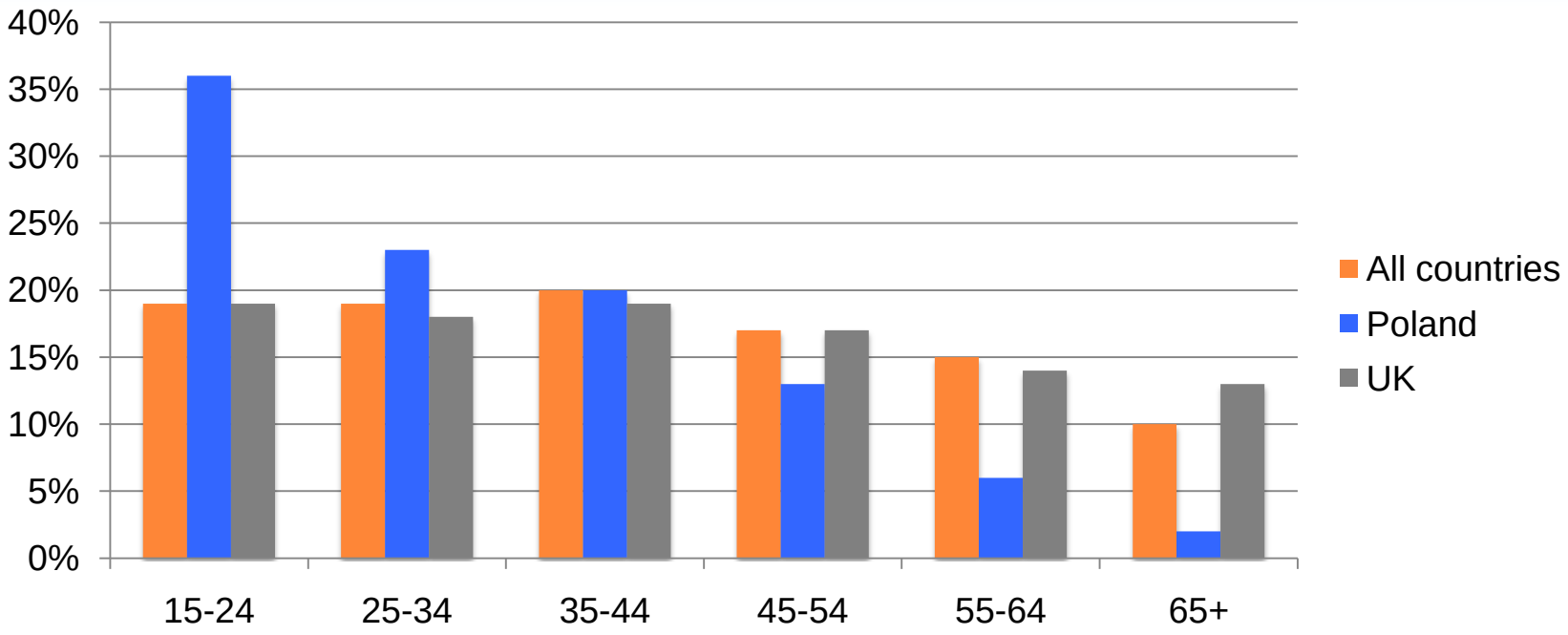
Internet use is established throughout Europe, with 85% of internet users having been active since 2006 or earlier



How long have you been active on the internet?

IMPACT ON AGE DISTRIBUTION

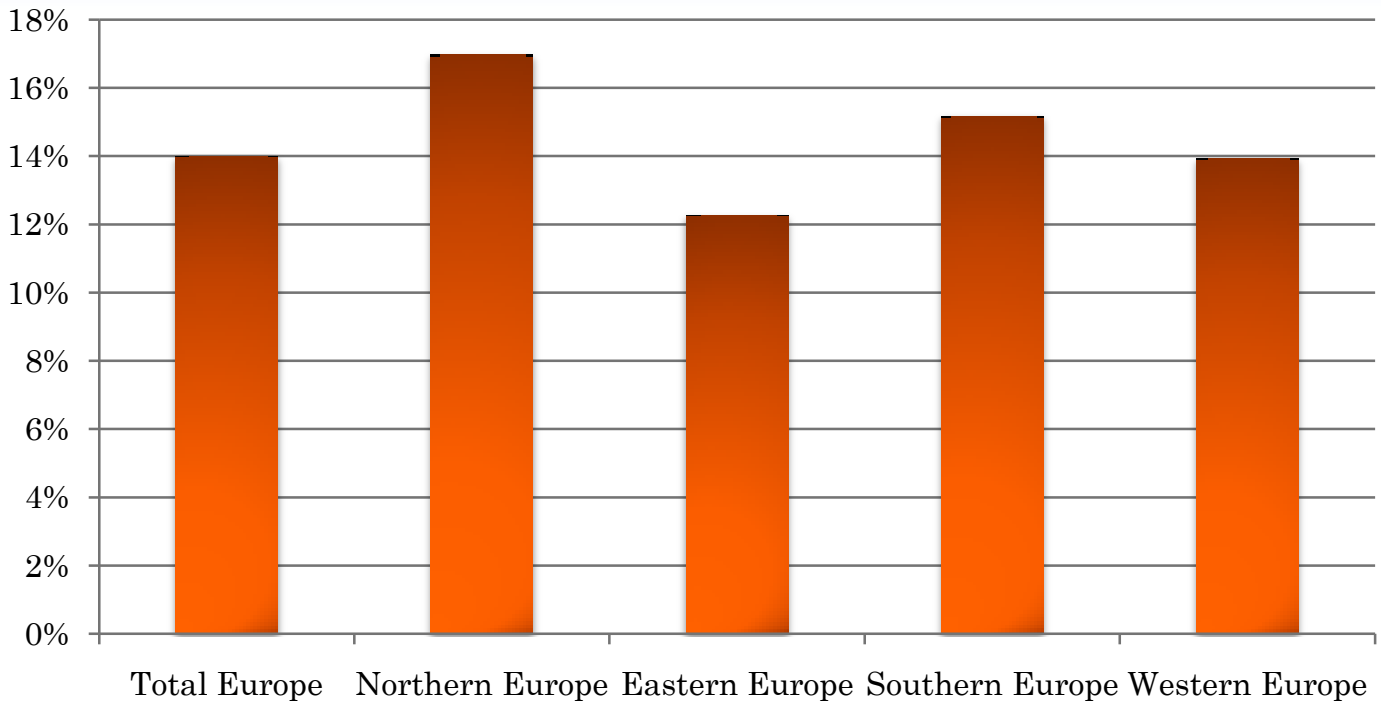
Mature markets have mature internet users!



How long have you been active on the internet?

TECH SPEC – SMARTPHONE/PDA

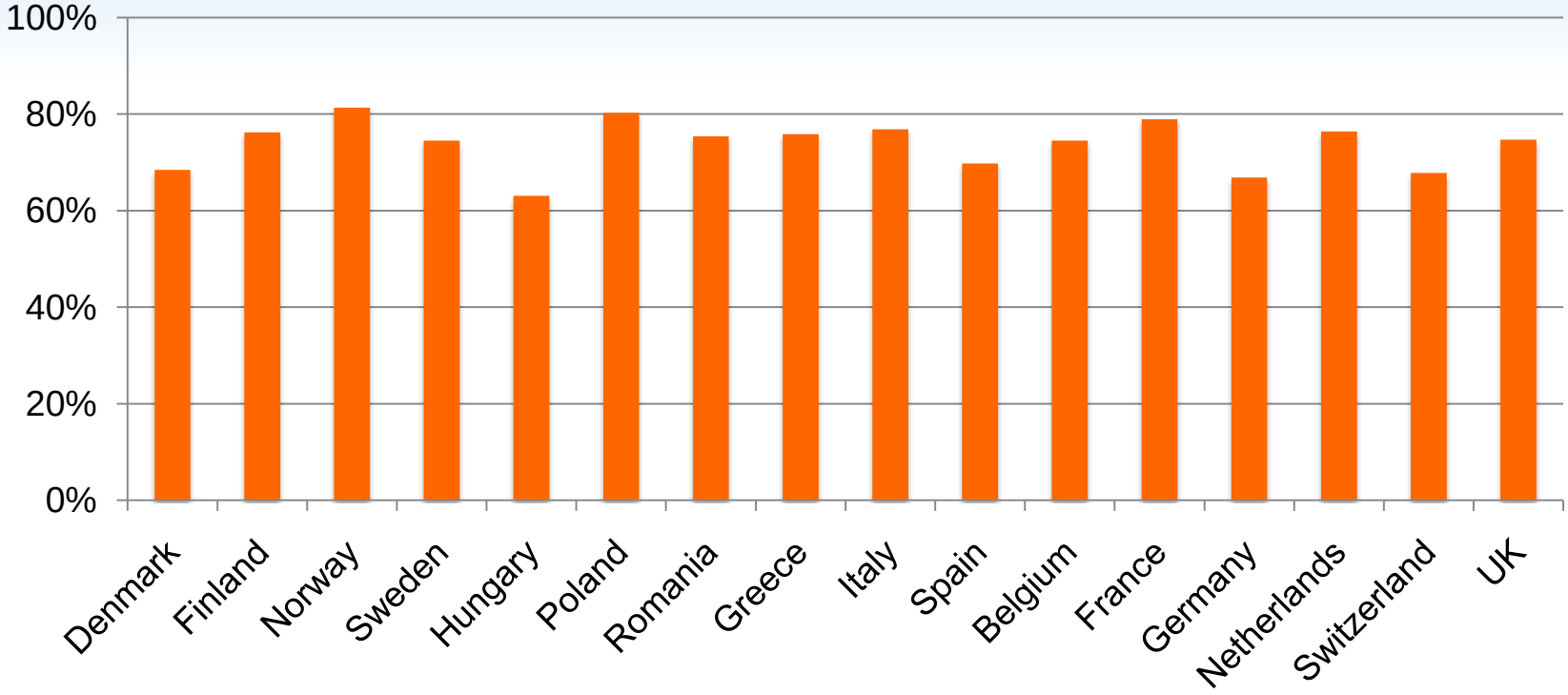
20% of European males and 8% of European females own smartphone



Do you own a smartphone or pda (a mobile phone with advanced functionalities, eg iPhone, BlackBerry, HTC Touch…..)

Activities Online

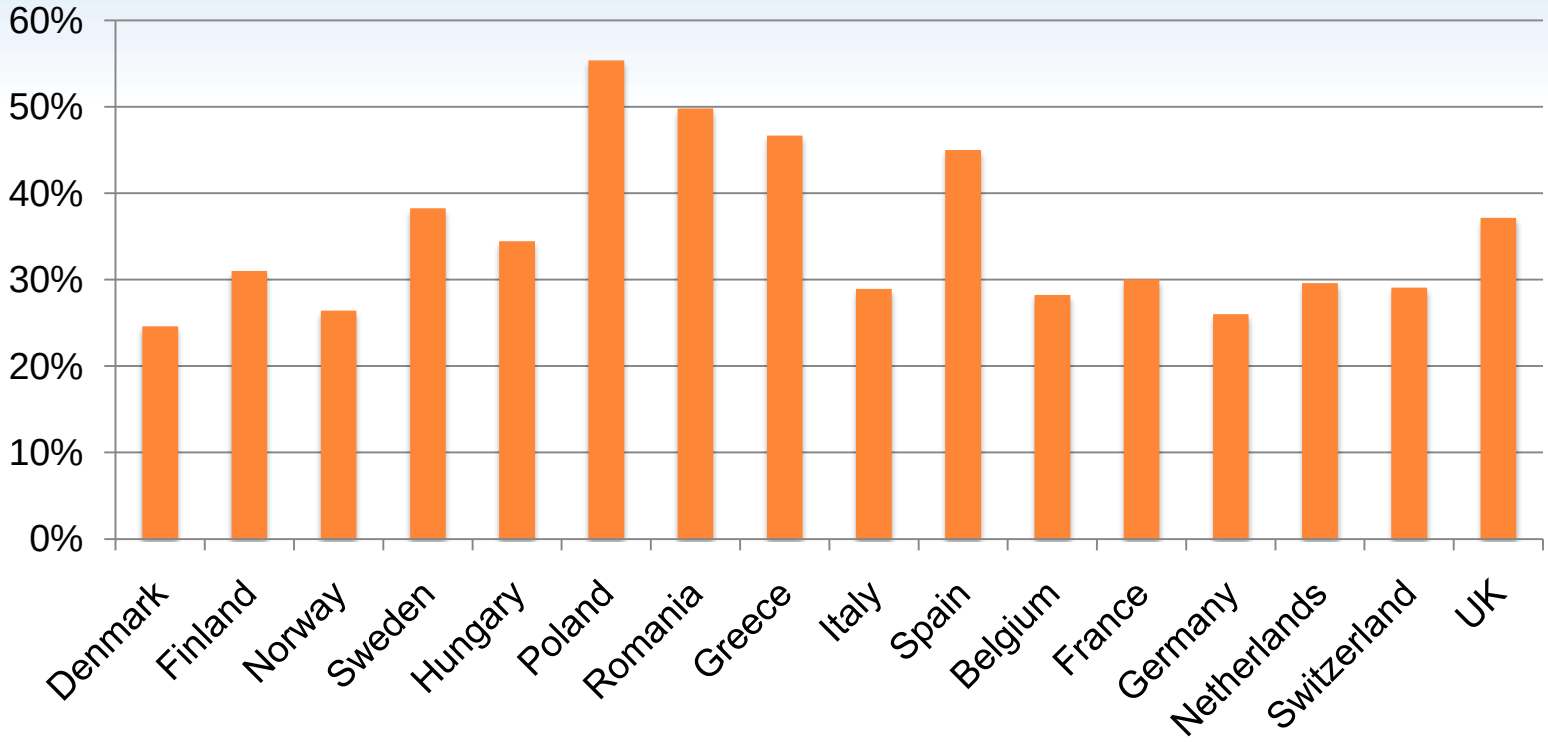
FINDING INFO ON PRODUCTS AND SERVICES



How often do you use the internet for the following activities?

At least weekly

WATCHING MOVIES, VIDEOS, TV SERIES ONLINE

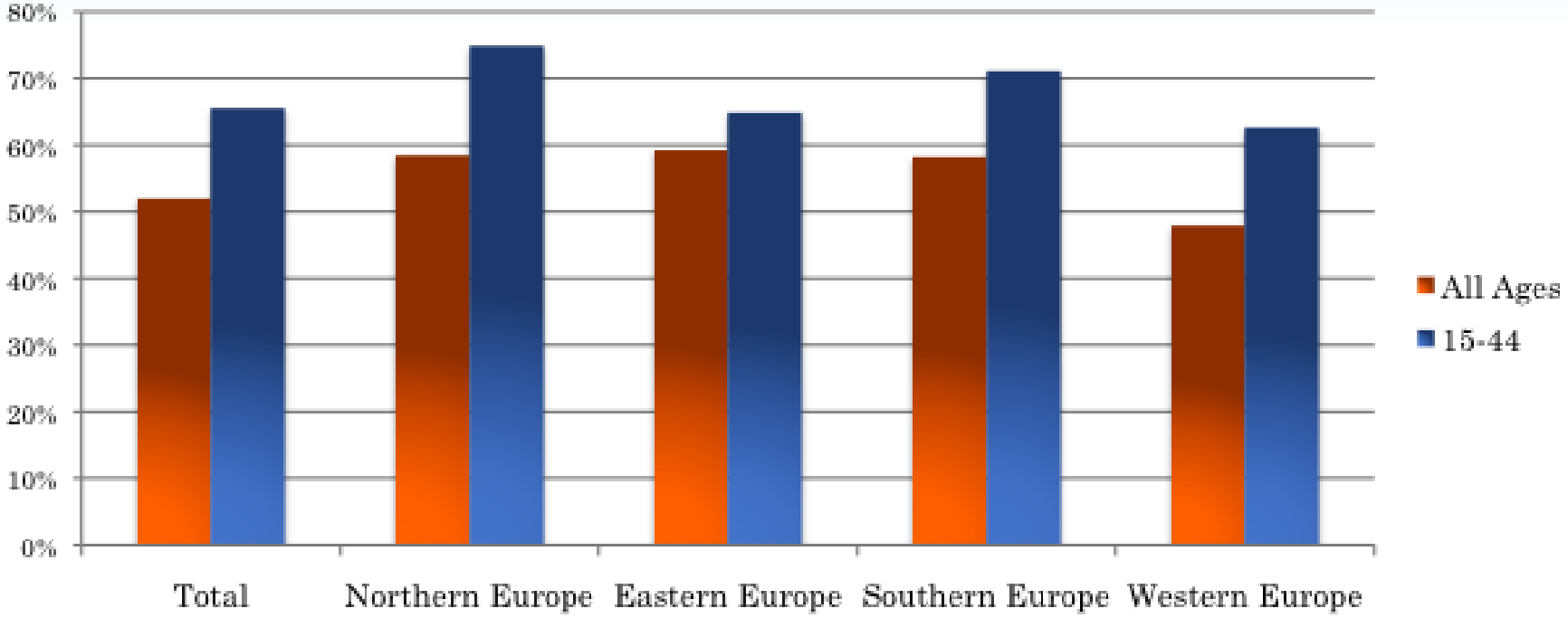


How often do you use the internet for the following activities?

At least weekly

SOCIAL NETWORKING ACROSS EUROPE

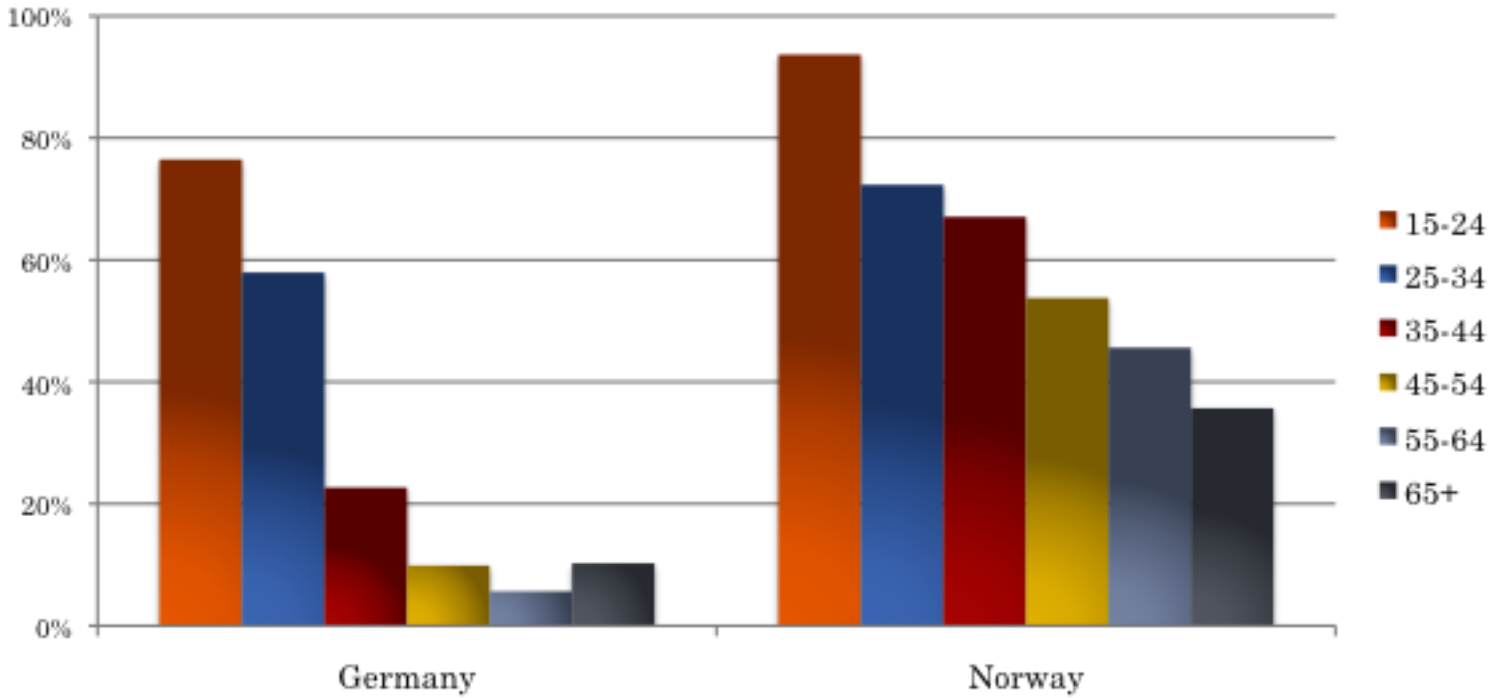
Over half of internet users across Europe regularly use social networks



How often do you update a profile on a social network or check other people's profiles on a social network?

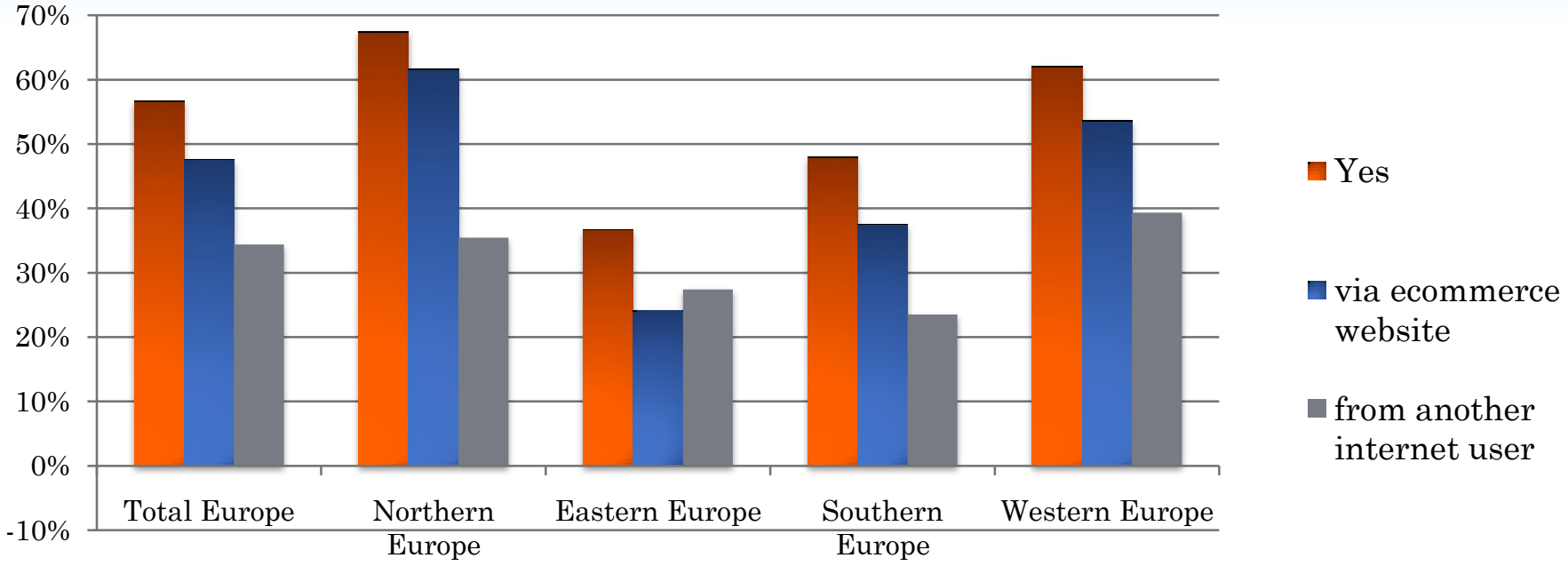
SOCIAL NETWORKING BY AGE GROUP - SPOTLIGHT

The patterns of social networking by age vary significantly across regions



Are you a member of an online social network?

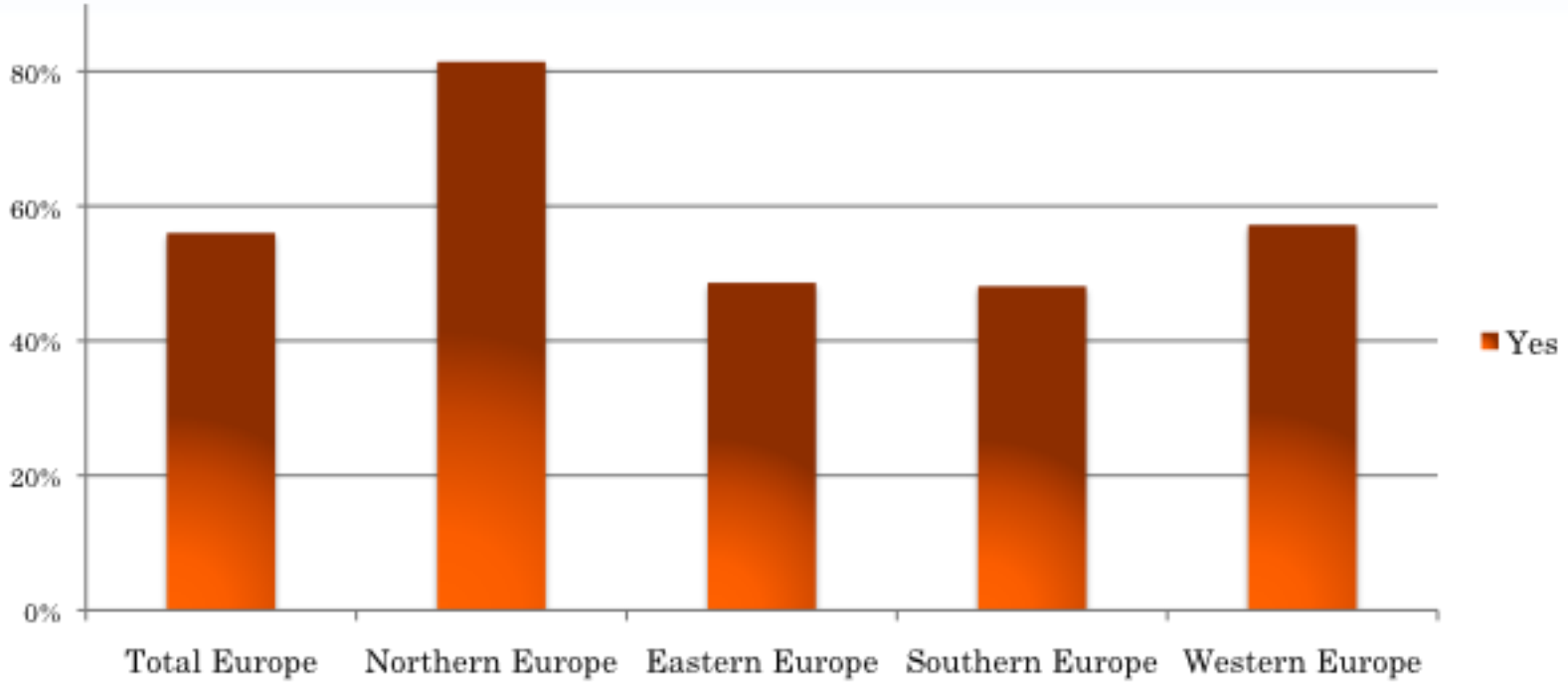
E COMMERCE BY REGION



% of respondents who have ever purchased a product or service on the internet

ONLINE BANKING

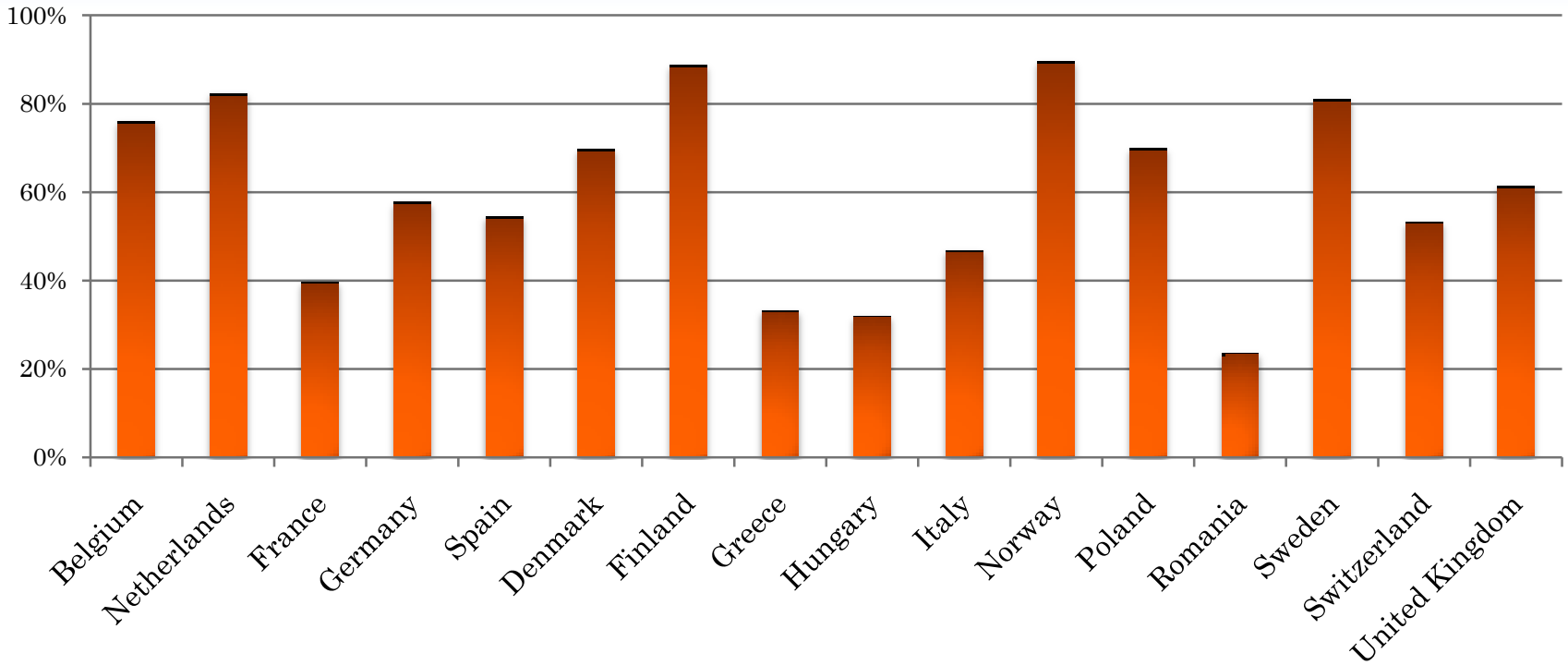
56% of Europe's internet users perform banking transactions online



Do you use online banking applications?

ONLINE BANKING

Use of online banking services is dependent on provision of tailored services – only worthwhile once internet use is widespread

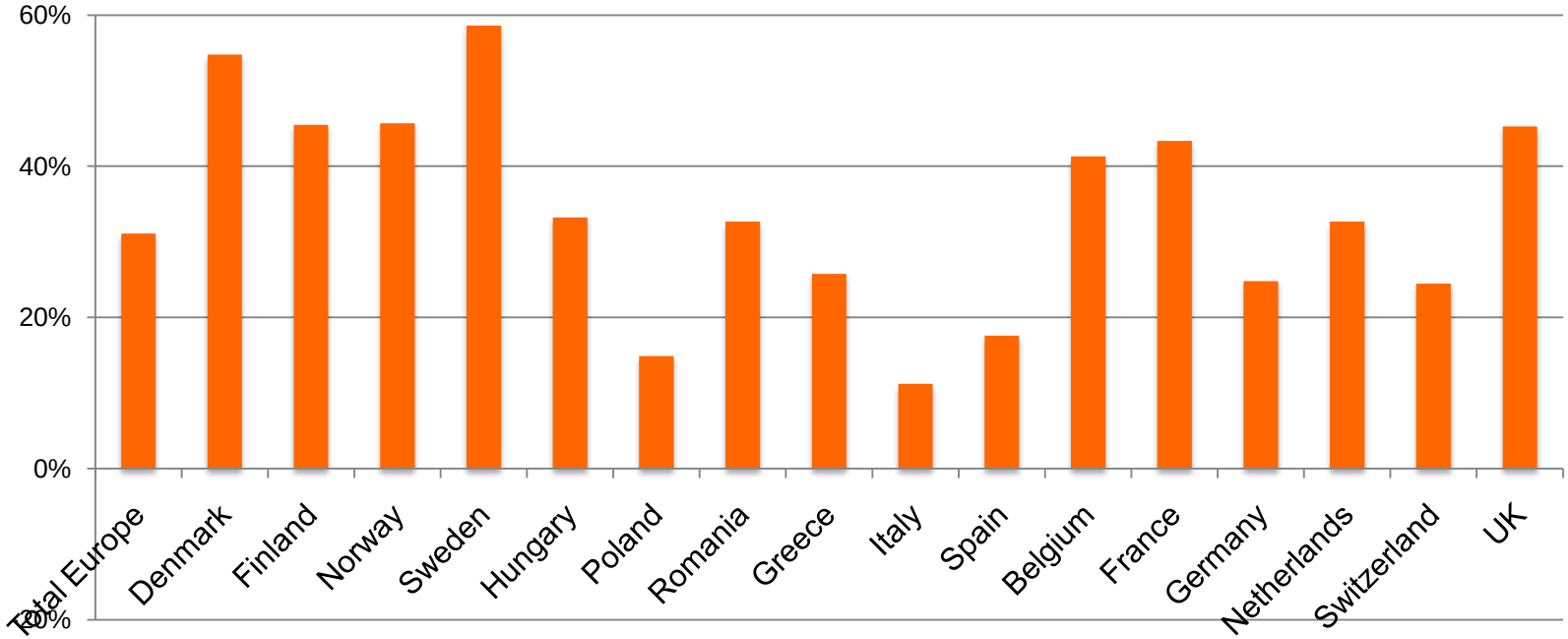


Do you use online banking applications?

Good Online Advertising

GOOD ONLINE ADVERTISING

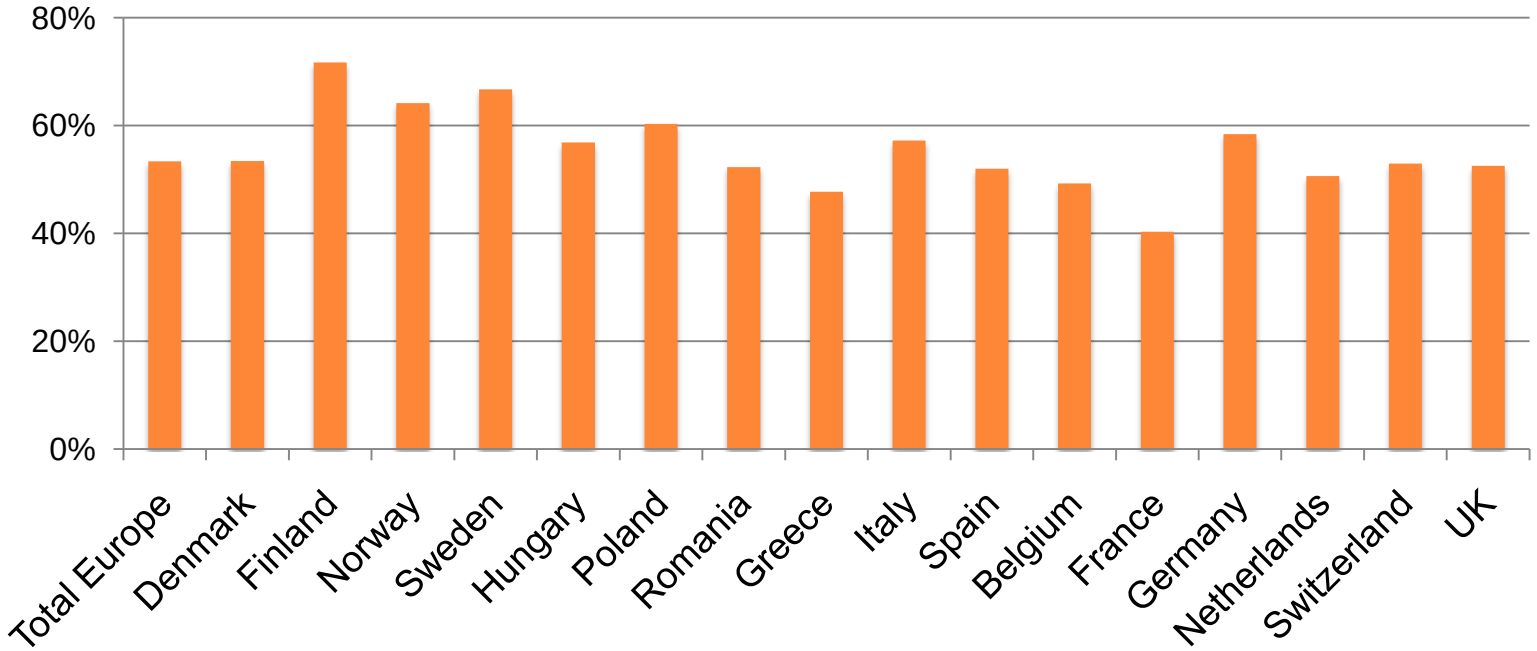
‘Relevant to me’



According to you, what are the 3 main characteristics of good online advertising? ‘Relevant to me’

GOOD ONLINE ADVERTISING

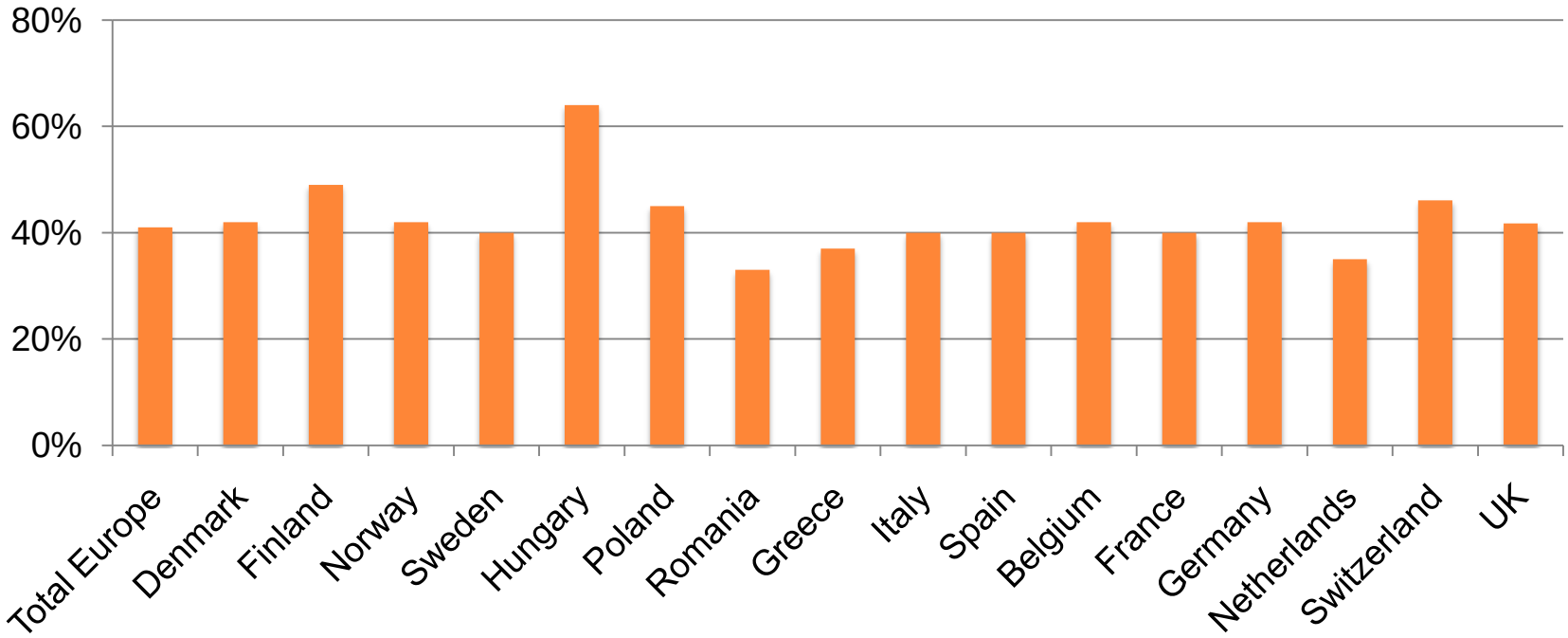
'Provides interesting info about the product'



According to you, what are the 3 main characteristics of good online advertising? '

GOOD ONLINE ADVERTISING

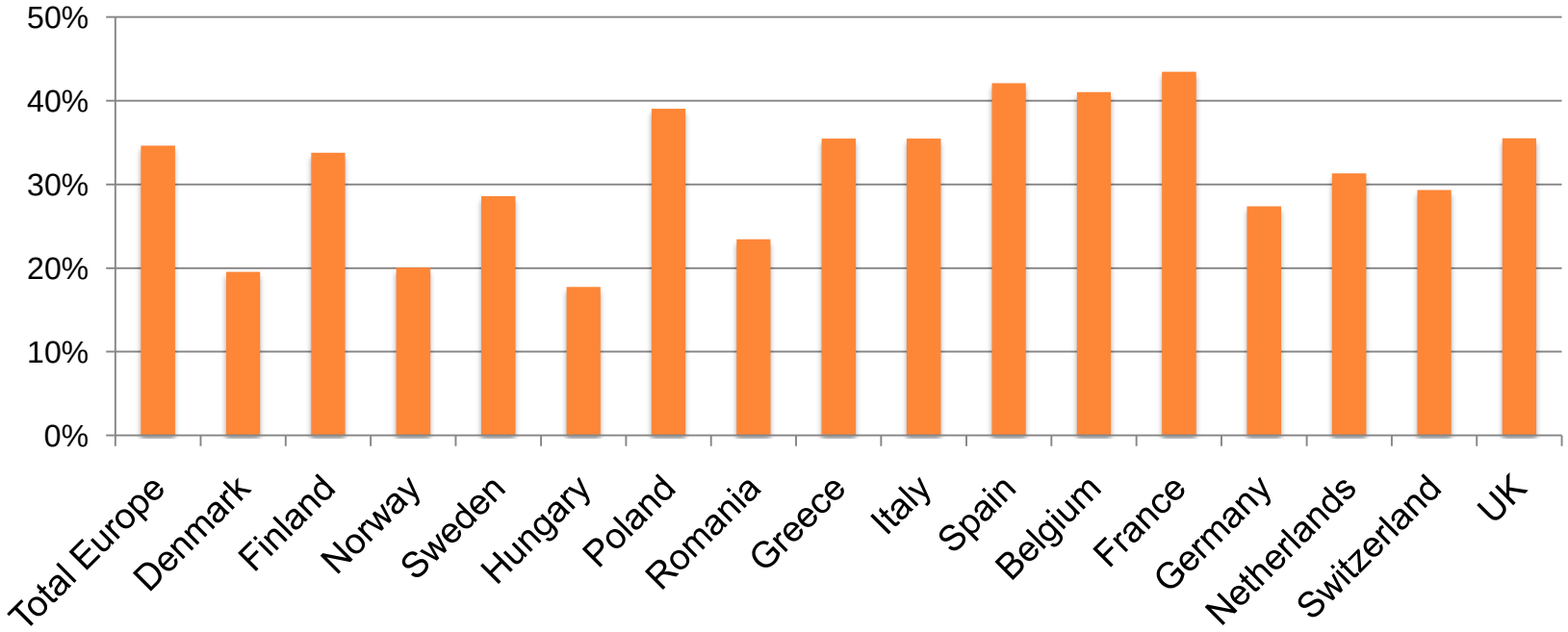
'Entertaining/Fun'



According to you, what are the 3 main characteristics of good online advertising?

GOOD ONLINE ADVERTISING

'Offers a discount'



According to you, what are the 3 main characteristics of good online advertising?

EUROPE ONLINE

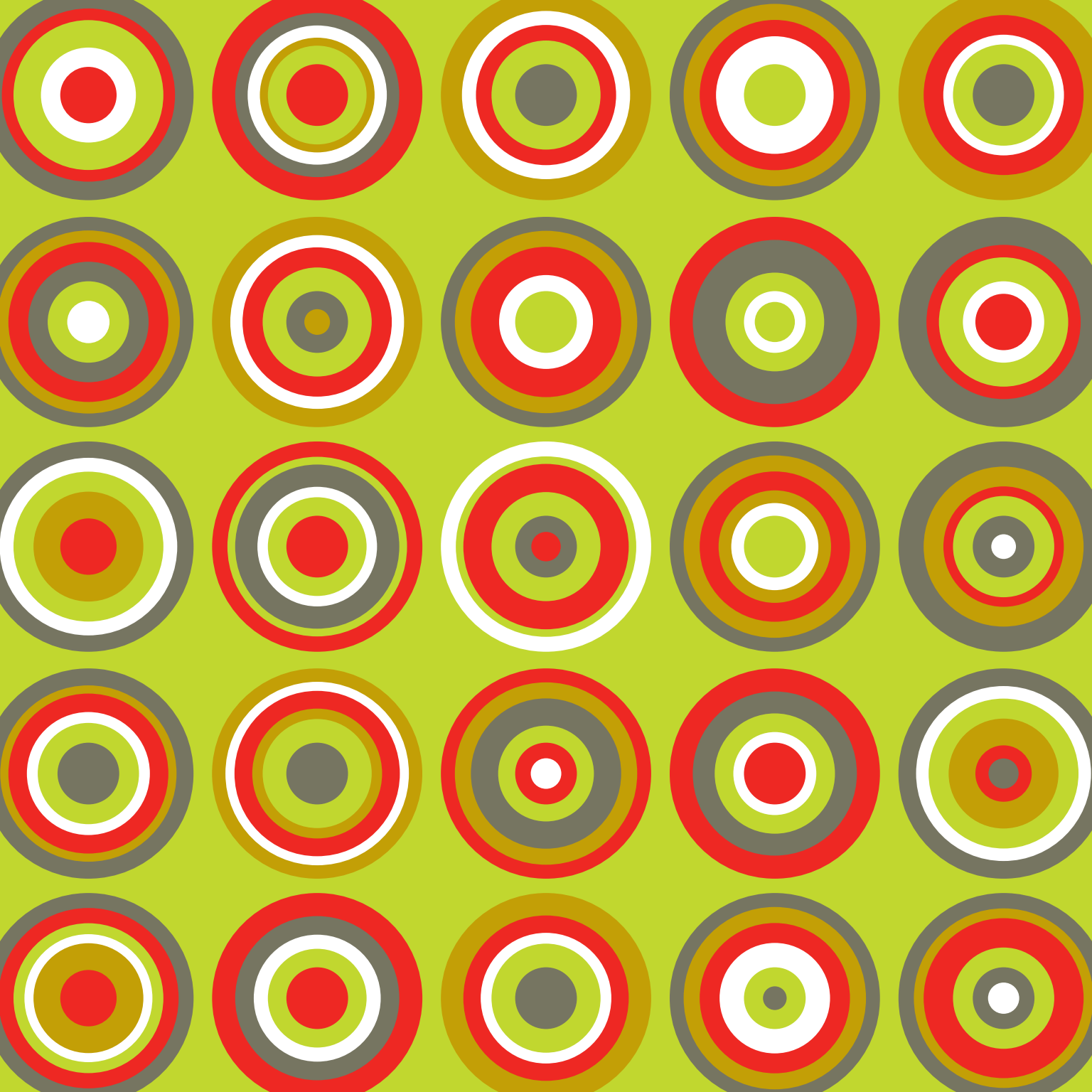
- Developing markets ≠ developing users
- Variations are subtle
- You need to know your markets!

CONTACTS FOR IAB MEMBERS

- For a log in to the MCDC tool (free for IAB members) or for information on the full InSites report available to purchase
  - Gianni Cooreman, Digital Research Manager at InSites Consulting
  - Gianni.Cooreman@InSites.eu
- For information on other European research products
  - Catherine Borrel, IAB Europe Research manager
  - research@IABEurope.eu
  - www.IABEurope.eu

avenue a razorfish

2008 digital outlook report



:: making meaningful connections with customers in a digital world is increasingly complex

It's not easy building a meaningful relationship with your customer in the digital world.

And it's going to get harder.

Many consider 2007 to be the year digital settled into the marketing mainstream. If that's the case, it's a confused and misguided mainstream. Too many web sites make the user experience a secondary priority. Too few advertising campaigns deliver personal and relevant messages. The brands that have made meaningful digital connections with their customers are few and far between.

For many consumers, an engaging advertisement still powerfully influences their decision-making. But even more powerful, are the opinions they share with each other through trusted blogs and social networks. A mother in Topeka, Kansas, or a teen in a London flat can become trusted authorities, influencing more decisions than the best formulated professional branding campaign that an advertising agency can offer. Consumers are turning to a seemingly endless source of specialized media – so much so that commonly accepted best digital best practices have very short shelf lives. Yesterday's solutions simply aren't adequate to solve today's problems. Is it any wonder that most businesses are coming to the hard realization that they aren't organized effectively to respond to change?

For all of the angst that marks this environment, we know that it doesn't matter how unpredictable and unsettling the digital world is – marketers still need to figure out how to invest their digital spend wisely.

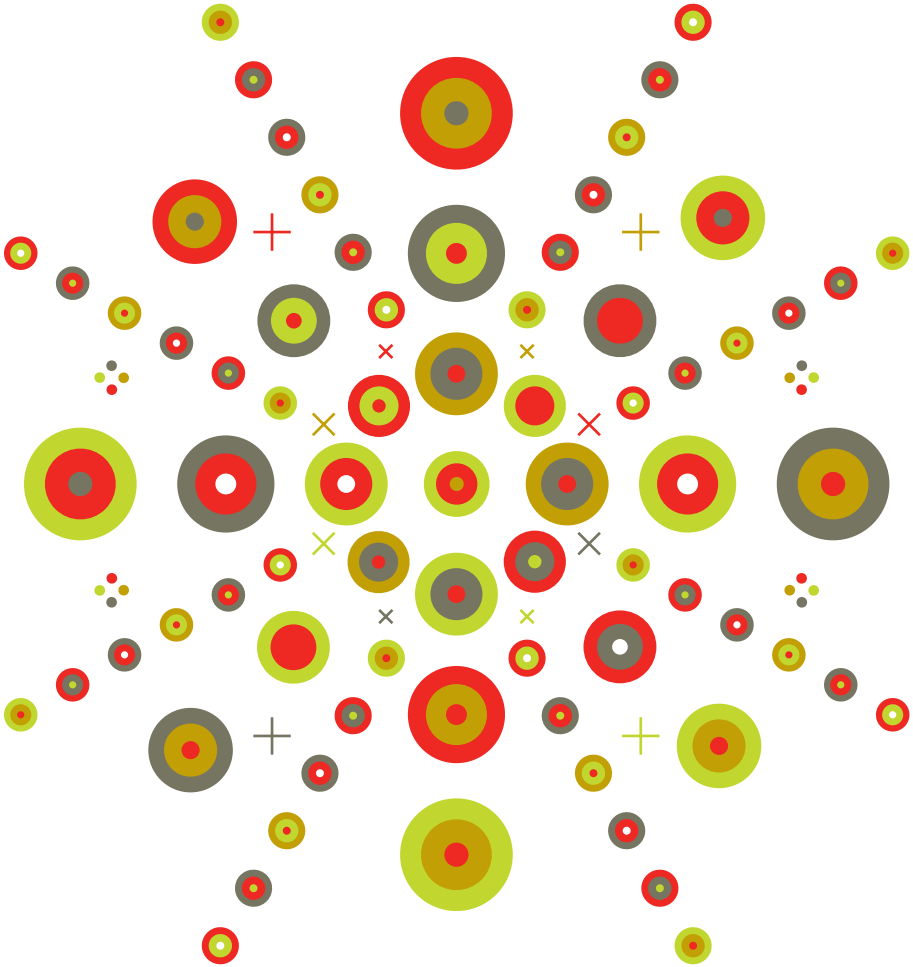
Avenue A | Razorfish's 2008 Digital Outlook Report examines where that digital spend is going. We provide direction on how marketers can align their organization to respond to the new digital environment, as well as a framework for effectively managing emerging channels and social media. And we give you some interesting new insights into consumer behavior.

It's your digital future. Embrace it now.

Jeff Lanctot, Senior Vice President
jefflanctot.com

contents

The following report contains statements that are forward-looking, including expectations and predictions regarding future industry trends and developments. Actual results may differ materially from our expectations or projections. This report also contains opinions, estimates, and forward-looking statements by industry leaders. Such statements are the personal opinions of the individuals quoted and should not be attributed to any other entity or individual. Readers are cautioned not to place undue reliance upon forward-looking statements, which speak only as to the date of this document. Except as required by law, neither Avenue A | Razorfish LLC nor any of its affiliated entities undertake any obligation to update any forward-looking or other statements in this document, whether as a result of new information, future events or otherwise.



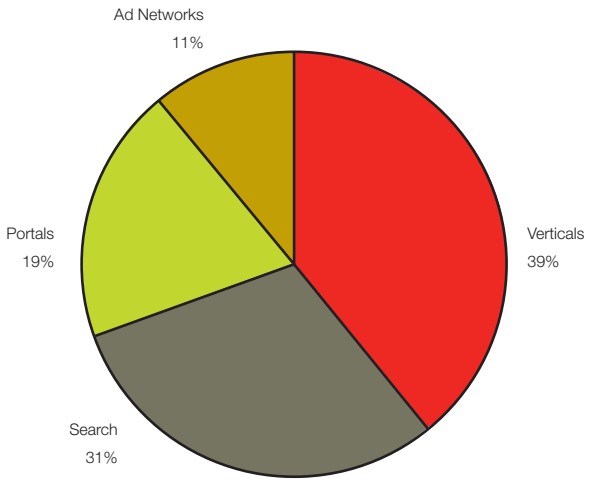
the year in media

2007 media billings in review

AVENUE A | RAZORFISH'S 2007 MEDIA BILLINGS totaled $735 million, up 36% from 2006. This spend was distributed across 1,832 Web sites—more than double the 863 properties on which the agency purchased media in 2006. A closer look at the distribution of billings reveals several emerging trends, including:

- A shift in spending away from portals to vertical properties and search engines
- Growth in spending on entertainment Web sites, including those focused on video sharing, gaming, and music and entertainment news, as well as community-focused properties such as social networks
- Consolidation of spending in the ad network category

2007 Media Billings
$735,000,000

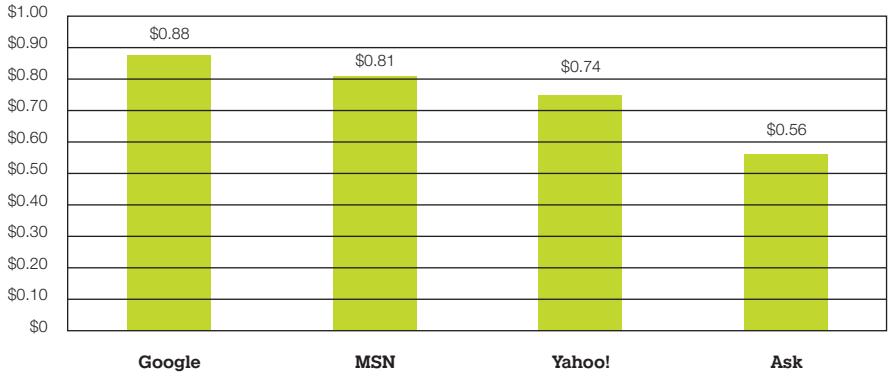


Vertical content properties and paid search were the biggest beneficiaries of the increase in spending. Verticals grew from a 37% share in 2006 to 39% in 2007. Increasingly, advertisers are showing a desire to work with a broader range of partners, as evidenced by the expansion of the number of sites the agency used in 2007. The majority of that expansion has occurred in the vertical category.

Spend in search rose from 28% to 31% of total billings year over year. The growth in search marketing can be partially attributed to the strides made by Yahoo!'s Panama and Microsoft's AdCenter. Each system's capabilities provide improved flexibility for testing, ad targeting, and campaign management. Search managers are better able to optimize their campaigns and extract more efficiency out of the channel, which led to a larger share of budget in 2007.

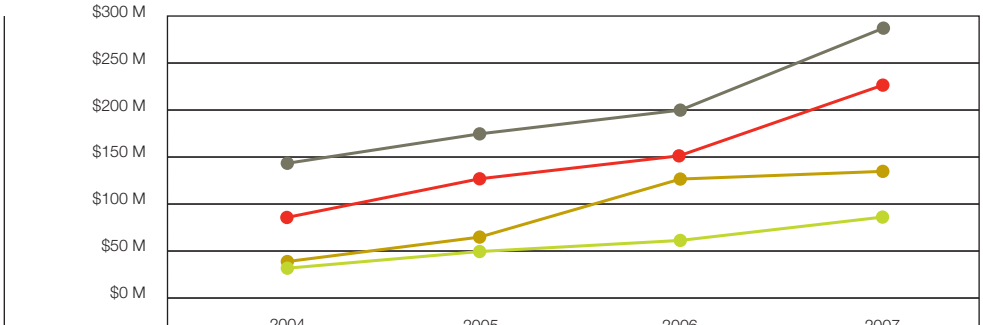
While Microsoft Live continues to lag behind in query share, AdCenter is a strong platform that performs very well for advertisers. Cost-per-click (CPC) data drawn from Avenue A | Razorfish's client base shows that Microsoft is doing an excellent job of monetizing queries, trailing only Google in average CPC.

U.S. Cost-per-Click by Search Engine, 2007



With Panama, Yahoo! took an approach similar to Google, factoring click rate (or ad relevance) into an ad's overall rank. For search engines, this model has been shown to drive more revenue. For advertisers, it allows more effective ads to rise to the top of paid search results at relatively discounted costs, for more efficient search spend. Additionally, with the launch of Panama, Yahoo! moved to improve its click traffic quality, reducing payouts to poorly performing syndication partners and giving advertisers more visibility and control over ad distribution. From an advertiser perspective, Panama has been a significant leap forward.

Billings by Category, 2004-2007



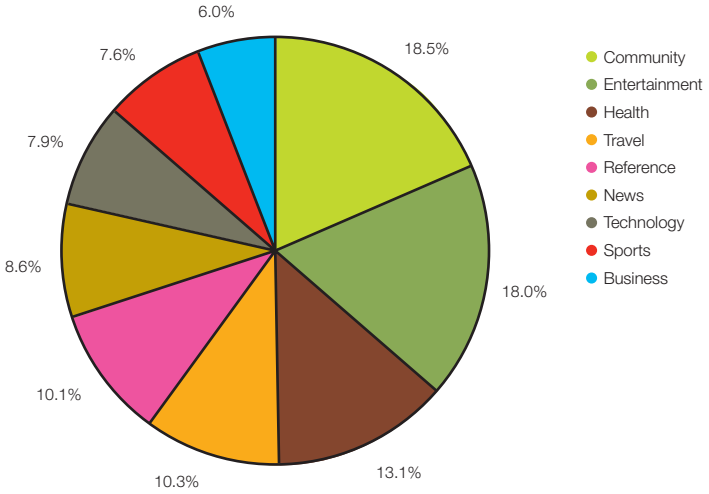
	2004	2005	2006	2007
Verticals	$146,640,000	$175,560,000	$200,540,000	$286,650,000
Search	$87,360,000	$129,580,000	$151,760,000	$227,850,000
Portals	$40,560,000	$62,700,000	$130,080,000	$139,650,000
Ad Networks	$37,440,000	$50,160,000	$59,620,000	$80,850,000

The success of vertical and search categories came at the expense of portals, which slid to 19% of billings in 2007, down from 24% in 2006.

After being in high demand for several years, portals showed signs of weakness in 2007. With an ever-increasing number of quality advertising options, marketers have been moving aggressively to broaden their online buying. With more choices and more inventory available to advertisers, it has become increasingly difficult for large, established publishers to increase their share of budget.

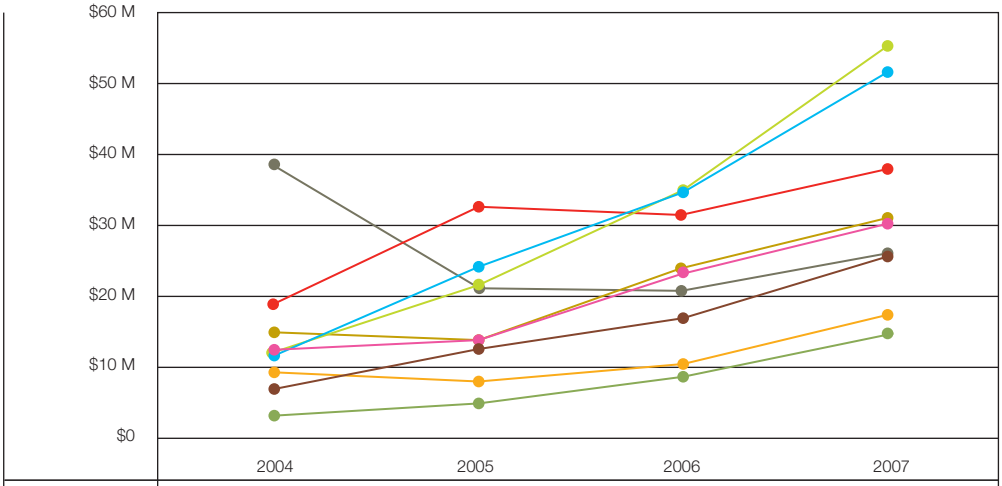
Another result of increased choice was slower growth in cost-per-thousand impressions (CPMs). In a year when average CPMs rose nearly 20%, prices on portals increased only 7%. In contrast, CPMs on vertical properties were more than 30% higher.

Vertical Spending, 2007



Community and Entertainment verticals continued to show very strong growth, each increasing more than 50% year over year. Over the past four years, the rise in billings in these two verticals has easily outpaced total billings growth. Social networks (in Community) and video sharing sites (in Entertainment) both have relatively immature advertising models. If ad models and industry standards solidify in these types of businesses, healthy increases in these two verticals are likely to continue over the next several years.

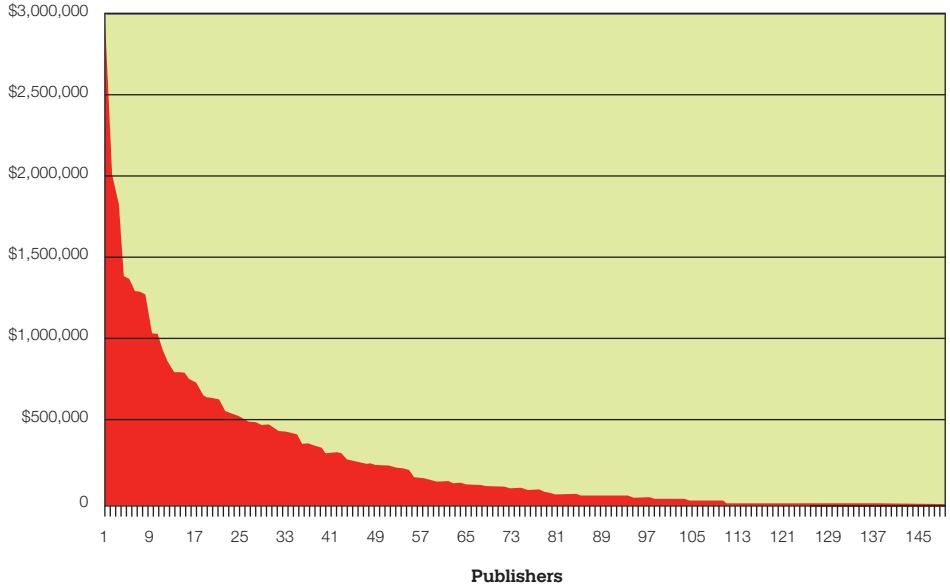
Billings by Vertical, 2004-2007



	2004	2005	2006	2007
Travel	$38,937,600	$20,482,105	$20,448,187	$25,517,805
Health	$18,252,020	$32,186,549	$30,843,594	$37,542,062
Reference	$14,601,600	$13,167,000	$23,545,033	$30,944,644
Community	$10,951,355	$20,482,788	$34,600,000	$55,017,416
Entertainment	$10,897,200	$23,408,200	$34,071,410	$51,584,513
News	$10,951,209	$13,167,032	$22,609,207	$29,545,934
Tech	$8,517,600	$7,315,100	$9,746,535	$16,639,870
Sports	$6,084,065	$11,704,125	$16,243,833	$25,780,128
Business	$2,433,608	$4,389,213	$7,929,394	$14,194,838

It's notable that spend in Entertainment is spread across a breadth of publishers, unlike most verticals, where the majority of media billings are captured by a small group of leaders. In Entertainment, spend is distributed more broadly, with 34 properties earning more than $400,000 in media spend from Avenue A | Razorfish over the course of the year.

Entertainment Vertical Spend Distribution, 2007

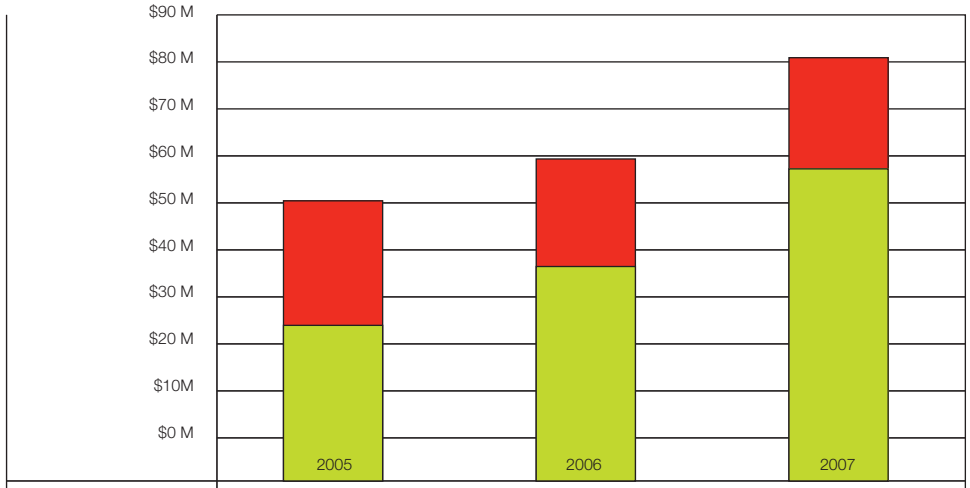


In the ad network category, we continued to consolidate spending with the biggest players, a trend that has been growing over the past two years. In 2007, Avenue A | Razorfish billings with ad networks grew 34% year over year, with nearly all of this increase in spending directed toward the top five networks. The top five saw an increase of more than 50% over 2006, while total billings for all other networks were flat. The top five ad networks, by spend, represented 49% of all Avenue A | Razorfish ad network billings in 2005. That jumped to 63% in 2006 and now to 71% in 2007.

Additionally, improved targeting solutions are allowing top networks to command higher CPMs; prices increased by 18% from 2006 on the top five ad networks.

The strong growth of ad networks caused the top online media players to take notice in 2007, with most making significant acquisitions—Yahoo! bought Right Media and Blue Lithium, Microsoft acquired DrivePM as part of its buyout of Avenue A | Razorfish parent aQuantive, and AOL purchased Tacoda and Quigo. These acquisitions should position Yahoo!, Microsoft, and AOL to take advantage of the dollars flowing to top-tier ad networks.

Ad Network Spend Consolidation, 2005-2007



	2005	2006	2007
All Other Networks	$25,631,760	$22,059,400	$23,147,843
Top 5 Networks	$24,528,240	$37,560,600	$57,702,157

publishers of the year 2007

Microsoft, ABC.com, and Weather.com are clearly very different properties, but they shared several traits over the course of 2007 that helped them stand out. Each brought our clients creative, on-brand marketing solutions that delivered results. They focused on partnership, listened to our requests and feedback, and really pushed themselves to over-deliver and to think of new ways to combine their brands with our clients'. They placed a premium on client service and were excellent partners for the agency.

Greg Pomaro, VP, Media, Seattle

The Avenue A | Razorfish U.S. media team anonymously voted on the publishers with the best combination of audience, service, performance, and creativity. These publishers stood out above all others:

Publisher of the Year
East

Publisher of the Year
West

Microsoft® Digital Advertising Solutions

Publisher of the Year
Central

ten digital media issues to watch in 2008

By Sarah Baehr, VP, Media, New York
and Alyson Hyder, Director, Media, San Francisco

WITH CONTINUED CHANGES IN CONSUMER BEHAVIOR, a shift of media budgets to digital channels, and an active merger and acquisition market going into 2008, this year is sure to be another one of rapid change. For digital marketers in the United States, here are ten important issues to watch as the year unfolds.

1.
The move beyond media buying

The digital media business is no longer simply about buying ad space. It's a discipline focused on distributing experiences—through social networks, videos, widgets and applications, branded content, and, yes, ad placements. Make no mistake, the traditional practice of media buying is still a critical component of online marketing. However, to view ads as the only way to promote a brand or product is to ensure that the brand is seen as stiff, commercial, and inward-looking.

2.
The impact of a recession on online advertising

In difficult economic conditions, the most accountable marketing channels will be best insulated from cuts in spending. This clearly bodes well for online advertising relative to other channels. However, there will be an impact, even in the most efficient digital channel—search marketing. Search has become a powerful tool for shoppers, and in a recessionary environment, consumers will search, shop, and buy less frequently.

Revenue derived from the cost-per-click ad model is driven by the volume of clicks and the cost a marketer is willing to pay for each of those clicks. While a marketer may keep the same cost-per-click during a recession, it's quite likely that a difficult economic environment will lead to fewer commerce-driven searches, which leads to fewer clicks. The end result is less money being spent in search.

3.
The redefinition of online media measurement

The long-accepted notion of the "last click" or "last view" of an ad receiving all of the credit for a subsequent sale or conversion is now dated. While this methodology was sufficient during the first decade of online advertising, it ignores ad exposures that occurred prior to the last view. Avenue A | Razorfish clients have found that custom attribution research (attributing value to several ad exposures, not just the last one) improves performance significantly. One of our clients implemented custom attribution methodologies and found that awareness-building display media had been undervalued using the old last-view measurement. Based on the new attribution data, the client doubled its spend on awareness-building media, and subsequently saw a 23% increase in conversions. Importantly, the cost-per-acquisition dropped 6%.

As marketers start to see these kinds of results, settling for the old, familiar last-view methodology simply won't do.

4.
A limited increase in average CPMs

With an ever-increasing number of advertising choices, it will be difficult for publishers to raise advertising rates substantially. In a January survey of 75 of our media planners, 37% forecasted a pricing increase of 1% to 5% in 2008, while 38% expected a rise of 5% to 10%. Nearly 20% of the media staff felt prices would fall year over year.

5.
The fallacy of the "digital upfront"

Despite regular calls for a digital version of the annual television upfront, there is little interest in such an event from the buying community. While advertisers regularly commit in advance (9 to 12 months out) for valuable advertising,

these commitments represent a small minority of overall online media spend. Marketers and agencies have come to realize that digital media can and should be constantly analyzed and optimized. They also know online audiences can be reached in a seemingly endless number of places, not just on a select few major properties.

6.
The slowing of ad network acquisitions

With spending on ad networks increasingly concentrated with the largest players, it will become increasingly difficult for small ad networks to break through. Ad network efficiency is largely a matter of matching the right advertiser to the right placement, and the likelihood of being able to do so increases as a network increases its ad inventory and number of advertisers. This means the largest players should be able to best monetize ad space for publishers (and provide the most relevant inventory for advertisers). The bigger and more efficient the large networks get, the more ad dollars will be directed to them. It will become more difficult for second-tier players to earn ad budgets, and therefore less necessary for the larger players to acquire them.

One related area to watch closely is the growth of vertical ad networks. Martha Stewart Living's lifestyle network and Forbes' Audience Network are two recent examples of strong brands extending their reach by building out ad networks. It's a reasonable extension for brands and helps the smaller sites and blogs within a vertical network gain needed exposure with large advertisers. Look for more vertical ad networks in the year ahead.

7.
A breakout year for mobile—but not for mobile advertising

The mobile industry is poised for tremendous growth. Mobile search and location-based services are growing in importance. Apple is opening the iPhone to third-party developers. Carriers are becoming more flexible—maybe. With all of these developments, mobile advertising is sure to gain momentum in 2008, but we are still a year away from seeing it break out and become a staple for marketers.

8.
Nokia's emergence as a key player in the digital marketing industry

Nokia made two important moves in 2007 that will impact digital marketing in the coming year. It acquired both Enpocket, a leading mobile advertising and marketing services firm, and Navteq, a leader in navigation data and systems software. While there have been no formal announcements from Nokia about how its assets will fit together, it is clearly going to be a company to watch in the coming year. Nokia appears to be vying to expand its own business outside of consumer mobile devices and into the software and services that consumers are able to use on those devices.

Nokia now has assets that may accelerate the use of smart devices that use location-based services that know where we are. The potential benefit for marketers is the ability to deliver relevant, geographically contextual advertising opportunities to customers. Accomplishing this feat in the U.S. today, while not impossible, often involves orchestrating a small army of carriers, devices, marketing services providers, and agencies whose interests are not always aligned.

9.
The continuing lack of video ad standards

2008 should be a year in which significant progress is made in video ad standards but the industry is still at least a year away from having a mature, established video advertising marketplace. For several years, discussion around video ad standards was almost completely focused on pre-roll ads; in retrospect, that singular focus was misguided.

With YouTube's 2007 introduction of interactive overlay advertising, the Web's largest video destination eschewed pre-roll ads. Overlay ads in video were not as interruptive and presented less of an obstacle for users accessing content. Advertisers were still offered value in terms of impressions and interactivity. And it's not an unfamiliar format for traditional television advertisers—many broadcast TV networks have been making great use of overlay advertising in programming for some time, though without the interactive features available online. On popular cable TV networks such as TNT, Spike TV, and MTV, overlay ads are a near-constant presence on the bottom of the screen, which has not resulted in an exodus of cable customers annoyed by the overlays. The challenge online becomes how to value the overlays in the one-to-one environment.

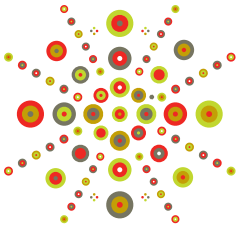
Beyond overlay ads and pre- and post-roll clips, there are other prominent video ad units. Companies like ScanScout take standard overlays one step further, offering contextually targeted ads based on the content of the accompanying video. Vibrant Media offers in-page, keyword-targeted video ads. And advertising "skins" that surround video clips (such as those offered by Heavy.com) have proven to be attractive placements for advertisers.

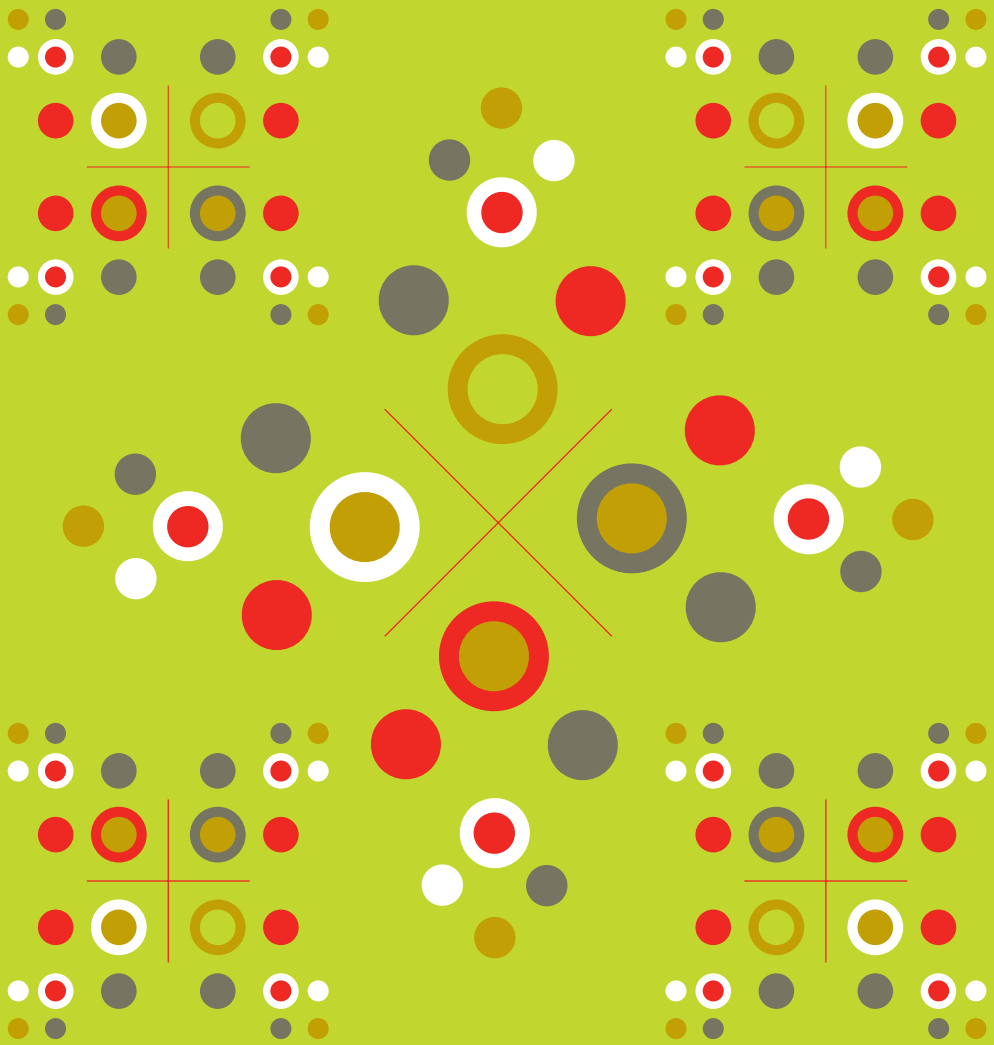
There will continue to be interest and investment in video advertising in 2008, and justifiably so. In the end, as with many new-media advertising channels, the consumer will vote with attention, engagement, and traffic—and will ultimately determine whether overlay advertising on broadband video will become the next great revenue stream for platform or producers, or if it is simply the next step in the transition away from 30-second commercials.

10.
The Internet's impact on the 2008 presidential election

The Web will be the most impactful and influential medium in the 2008 presidential race, not only for presidential hopefuls but for voter self-education and self-expression. Much like radio for Roosevelt and TV for JFK, the 2008 race for the White House will be determined by candidates' abilities to connect with and galvanize supporters online. The Internet has changed the political environment.

Despite the importance of digital channels in the elections, online ad spending by campaigns will continue to lag well behind television spending. The importance of digital in the 2008 elections is rooted in connecting with and motivating communities, but online advertising is likely to play a secondary role in doing so.





building for digital excellence

the client of the future

Agencies aren't the only organizations that need to change

By Clark Kokich, CEO, Avenue A | Razorfish

AT THREE INDUSTRY EVENTS over the past two years, I've participated on panels focused on "The Agency of the Future." Typically, these panels include a client, a representative from a traditional agency, and a representative from a digital agency.

Not surprisingly, there is little agreement among the panelists, except on one thing: All three inevitably agree that agencies need to fundamentally change their operating model in order to respond to the dramatic shifts in consumer media and shopping habits driven by the rise of the digital channel. Of course, nobody can agree on *how* agencies need to change. That's probably one of the reasons these panels are so popular—they usually lead to some heated and memorable discussions.

Recently, however, I've begun to wonder why there aren't any panels on "The Client of the Future." There should be. I'm not sure if it's a topic that's just been overlooked, or if people are afraid to speak directly about one of the biggest challenges facing the digital revolution. Regardless of the reason, the time to engage in this discussion is right now.

Here's the argument for creating the Client of the Future that I would lay out if I were to appear on such a panel:

Client organizations—including the functions of marketing, sales, brand advertising, promotion, direct marketing, IT, and general management—have all settled into a comfortable and familiar structure. These functions were built to support a stable world of marketing that remained virtually unchanged for 50 years, starting with the explosion of television in the 1950s and proceeding unchanged until the advent of the Internet at the turn of the millennium.

These organizations were built to optimize results through a linear consumer purchase funnel, starting with awareness and ending with the eventual sale. At the top, clients built their brands, typically with television and possibly augmented by magazines, radio, or outdoor. Next, they created trial with promotions and offers, normally delivered through newspapers or direct mail. Then they created a shopping experience that delivered sales. Finally, they continued to market to their best customers using the only means available—direct mail or personal telephone calls.

Consumers no longer move neatly from one touchpoint to next, from branding to promotion to sales.

Because this model has been so stable, client organizations have became highly specialized within rigid silos. Sales people don't get involved in marketing (other than to complain about it). The direct marketing team doesn't know anything about brand marketing (and doesn't want to). The advertising department really doesn't know anything about how to run a store. And most importantly, the IT group tries to stay away from anything that has to do with marketing.

This highly specialized model worked fine until the Internet came along. All of a sudden, companies were faced with a single channel that is a strong brand advertising medium, a powerful promotional vehicle, a direct sales channel, and a proven customer retention tool. What makes it even more confounding is that technology is a critical element of all these components.

And with the proliferation of new digital touchpoints over the past few years, the entire concept of a linear purchase funnel has been called into question. Now, we're faced with a complex digital ecosystem that encompasses online advertising, search, mobile, gaming, IPTV, video on demand, desktop applications, blogs, viral, and podcasting—all amplified by the rise of user-generated content and social media.

Consumers no longer move neatly from one touchpoint to the next, from branding to promotion to sales. Instead, they snack on digital content delivered through a dizzying array of devices. They share ideas about products, companies, and brands, with their brand awareness and purchase consideration formed just as much by trolling a few niche-oriented blogs or peer-generated odes to the product on YouTube as by a national branding campaign. They research online and buy in stores. They shop in stores and buy online. The Internet has shattered the entire concept of a linear purchase funnel.

How can companies organized along traditional lines succeed in this environment? They can't. Even if they find an agency that has successfully managed the transition, to whom does that agency pitch ideas? The IT department? The direct marketing specialists? The marketing director?

None of these silos has the expertise to judge a truly transformational digital business concept, because such concepts bridge every traditional marketing discipline—and more. Transformational business concepts start with an *idea* and are expressed across every appropriate digital touchpoint. Transformational ideas integrate elements of brand building, shopping, promotion, and customer retention marketing. These concepts include a heavy underpinning of technology, probably requiring integration into legacy systems.

Let's look at an example. A financial services company might have a goal of attracting more Gen Y customers. An agency might respond to the challenge by developing a transformational idea that encompasses online rich media advertising, search, a social media Web site, a downloadable account management widget, mobile alerts for current customers, an incentive rewards program, and an in-branch kiosk—all tied to legacy account management systems. So, who within the client's company is empowered to buy this integrated idea?

Right now, in most companies, there isn't one.

Would such an idea find a natural champion in today's client organizations? Or would it die a slow death while each siloed discipline figured out where it fit into its plans? How high up would the decision need to go in order to bridge all of these silos? The unfortunate answer is that in virtually every modern company, the only person who can say "yes" to such an idea is the CEO.

So the questions remain: How should clients organize in order to respond to the gut-wrenching change being driven by the Internet? What has to change so that clients can quickly respond to, and act on, game-changing digital ideas? And most importantly, which client will gain a competitive advantage by being the first to step up?

If someone wants to schedule a panel on the Client of the Future at an upcoming event, I would be happy to moderate.

the new! improved! black box

Four questions that should keep creative people up at night

By Joseph Crump, Executive Creative Director, New York

THERE'S A SEA CHANGE OCCURRING in creative circles these days—or maybe it could be called an identity crisis. What does it mean when the star-studded Golden Globes ceremony gets cancelled because the Writers Guild of America wants a share of Internet revenue? When one of the top TV spots of 2007 was filmed by an amateur for $27.00? When an obscure Colorado blender company—Blendtec—can create a viral sensation without even hiring an ad agency?

It means the role of agency creatives is in transition and that their carefully guarded Black Box of creative tricks and tools has to be rethought. And that's a good thing.

On one hand, the power of design in creating memorable and successful product or brand experiences is stronger than ever before. Usability—once fetishized—is now merely the price of entry, like seat belts in a car. Desirability is the new Holy Grail of switched-on brands, from airlines to banks to T-shirt makers. The bar is getting raised every day for the way an object or an experience looks and feels, its tone of voice, its personality. This is the territory of copywriters and designers—the creative professionals—and we should feel more empowered than ever before.

On the other hand, creatives must become vastly more sophisticated in the ways they exercise that power, and more nimble and less precious in their communication and collaborations with their colleagues, their clients, and the end-user.

Four powerful creative trends are afoot here:

1. **Old-school design methods are failing.** The pace of change among consumers and competitors has grown so fast that using a conventional process to hatch a marketing campaign, a Web site, or a new product virtually dooms it to being obsolete by the time it's complete.

2. **Innovation is the new currency.** The days of a whopping marketing budget or a pretty design equaling success are over, as Blendtec has so well proved. If you're not creating something that's genuinely new—as well as useful and delightful—you are screwed.

3. **Everyone is a creative.** Your next-door neighbor can make a YouTube video or design a MySpace page that sits on an equal media playing field with anything we produce here at Avenue A | Razorfish.

4. **Narrative is the experience.** As the Web becomes the preferred destination for brand exploration, digital experiences must become richer, deeper, and more able to tell compelling stories. If your brand experience depends entirely on pages and clicks, it's time to wonder, "What is my story?"

So as creative folk, what are we to do about these seismic changes?

A modest proposal: Before a project starts, the creative team needs to go into a room—their literal Black Box—and close the door. They need to write these four questions up on a whiteboard and then do some soul-searching. If "no" is the answer to any, they should put the brakes on, and everyone—the account team, the client, and project management—should head back to the drawing board. Here are those scary questions:

1. **Are we aiming high enough?** What is truly new-to-the-world about what we're doing? Is the thing we're about to advertise or design truly meeting a customer's unmet need, or are we just designing an "also-ran" or putting lipstick on a pig?

2. **Are the right people in the game?** Is our concepting team genuinely multidisciplinary? Does it include profound input from industry experts, brand strategists, consumer insight specialists, technology wizards, information architects, and copywriters?

3. **Are we willing to fail—quickly?** Are we prepared to be wrong a few times before we are right? To be really, really uncomfortable? Are we willing to throw out our tried-and-true process and all of our favorite creative tricks—even though they work—in order to create a real breakthrough?

4. **Is there a story here?** Are we designing a page or an experience? What is the beginning, the middle, and the end of the brand story we are creating? Does it move—and are people moved by it?

Creative people will always represent something of a Black Box within their agency or for their clients, because management is overwhelmingly left-brained, analytical, and linear in its approach to problems. And creatives are, well, the opposite. This is not a bad thing, but it goes a long way toward explaining some of the blank stares that both sides give one another when they are talking to each other.

The point—now more than ever before—is not that creatives have to be more assimilated, or learn how to use a spreadsheet, or care less about perfection. It's just that it might be time to put some new furniture in the Black Box and then invite people to come inside for a visit.

does the home page still matter?

Why distribution trumps destination for publishers and advertisers

By Garrick Schmitt, VP, User Experience, San Francisco

ONLY A FEW YEARS AGO, a Web site's home page was the most prime piece of digital real estate a publisher could offer. Not so much today, however. The relevance of the home page as a media buy is on the wane. Search, social networks, blogs, and RSS (among a host of other online sources) are driving more and more users deep into today's Web properties. Now, the majority of consumers bypass a site's home page completely. In fact, according to Avenue A | Razorfish research, many top Web properties see 50% to 75% or more of their traffic originate somewhere other than the home page. And for some sites, that's on the conservative side.

The fall of the pay wall

The impact this is having on the online ad industry is profound. For example, *The New York Times* dismantled its relatively successful paid service, *Times* Select, in 2007 to focus on getting ad revenue from the massive amount of traffic driven by search and blogosphere linkage to *Times* Select content. That meant walking away from at least $10 million in subscription revenue per year, according to paidContent.org. And that's hardly a paltry sum for a newspaper publisher today.

All video is viral

The effect of this change is being felt even more strongly by the broadcast and cable networks, such as ABC, NBC, CBS, and FOX, which are now wrestling with a host of different online distribution models for their programming—few of which involve driving traffic to their Web sites…or home pages, for that matter. CBS is the most ambitious of the lot. In 2007, the company created the CBS Audience Network, a broad-based digital distribution platform, to syndicate its entertainment, news, and sports to as much of the Web as possible. In doing so, the company inked full-episode distribution deals and community partnerships with nearly 50 companies, including MSN, AOL, Comcast, YouTube, Joost, and VideoEgg among others. So far, revenue has been more of a trickle than a stream according to *Adweek*, but CBS's strategy is still strong recognition of the fact that content is moving to a new, distributed environment, residing wherever users are on the Web.

Despite the confusion about how this will ultimately shake out, one thing is clear: There's no sign that the home page will regain its former prominence anytime soon, if ever. Today's consumers increasingly expect to imbibe content wherever and whenever they choose. According to the "Avenue A | Razorfish Digital Consumer Behavior Study,"* 56% of consumers use RSS feeds, 70% or more use a search engine or portal to start their Web experiences, and 60% actively customize their start pages. All of which means we can expect the venerable home page to continue to fall on hard times in the year ahead.

There's no place like beyond the home page

Despite all of these changes, the waning power of the home page is not a doom-and-gloom scenario for the industry. Here's how publishers and marketers need to adjust:

1. **Adopt "traffic distribution" as a key site metric.** To ensure that your digital content and Web properties are fully optimized for this new distributed ecosystem, make sure that you add traffic distribution as a key performance benchmark. Traffic distribution is comprised of all traffic driven to your Web property (either directly, referring, or through search engines) and the distribution of that traffic beyond the home page throughout the rest of the site. Our recommendation is that the total number of page views for the home page during any given time period should not exceed 35% of the total number of page views for the property. In other words, approximately 65% of a property's traffic should originate from somewhere other than the home page. In addition, make sure that traffic from referring sites and search engines combined exceeds direct traffic to the property.

2. **Treat every page like a home page.** Every page is now a home page, each of which will have a wider reach, a lasting shelf life, and the ability to attract a new audience like never before. To capitalize on this, ensure that every page has a strong, clear global navigation scheme and related content that is visibly promoted. And don't forget to make sure that display advertising gets prominent, above-the-fold, home-page-like treatment (300x250 rectangles and 728x90 leaderboards). Remember, every page can be accessed in any conceivable manner and in any conceivable order—you can't design properties to control user flow anymore.

* Visit **digitaldesignblog.com** for a copy of the "Avenue A | Razorfish Digital Consumer Behavior Study."

3. **Distribute content widely and freely.** Distribute content through syndication partners, promotion on social networks, linkage from blogs, and other viral techniques. Every page should sport a “Web 2.0 toolbar” that enables consumers to share freely via applications such as Digg, Reddit, and del.icio.us. If you have video, post and distribute it through all major platforms, including YouTube, Veoh, MySpace, and Facebook. Cast your net as widely and freely as possible to ensure maximum reach for your content.

4. **Track performance across all digital touchpoints.** Success of Web properties now needs to be measured both on-site and off. Detailed tracking of content syndication efforts, RSS feeds, e-mail subscriptions, widget downloads, podcast downloads, search engine performance (paid and organic), blogsophere linkage, and video consumption gives the most holistic measurement of Web property performance. You need to start thinking about the entire channel to measure success and not just the Web site itself.

Ultimately, we believe that publishers, advertisers, and consumers will all prosper in this new distributed environment—the industry just needs to adapt, again, as consumers continue to travel the Web in ways that circumvent “home.”

For more thoughts on this topic, visit **digitaldesignblog.com**.

developing a digital blueprint

By Jonathan Rosoff, VP, Strategy and Insights, Seattle

IT'S NOT NEWS THAT DIGITAL HAS BECOME MAINSTREAM: Digital has become the darling of the media and advertising worlds, marketing budgets continue to shift toward interactive channels, and business innovation is increasingly founded on digital technologies. There is a proliferation of new marketing and media opportunities, from gaming to feeds, widgets to gadgets, mobile marketing campaigns to new ad models, as well as sponsorship options in user-generated content. However, what seemed fresh a year or two ago is now stale with advances in rich media and online interaction models, and the fate of brands is often determined in the ubiquitous, fragmented landscape of social media.

Why are so many companies failing to leverage digital effectively to drive business results and innovation?

The problem for many is that they haven't designed a digital blueprint that integrates their business priorities, the capabilities of their IT infrastructure, the online strategies of their competitors, and their ability to finance it in a way that will move them forward. Thus, too many companies go to market with fragmented or misguided efforts. They know they need to reach and engage consumers in digital channels and hear a lot about the power of Web 2.0, but aren't sure about what to do or how to do it.

Digital has evolved from being the domain of the kid down the hall who managed the Web site a decade ago into a means to drive change and reinvent business today. It's time for this organizational inertia to stop. It's time for digital blueprints to be part of every organization's business initiatives.

Three steps to sketching a digital blueprint

The digital blueprint is a focused, strategic plan that aligns the organization with a digital vision and clearly articulates how to create value for customers, channel partners, key internal constituencies, and the company's businesses and brands. This plan should guide the company's investment decisions and lay out how digital enables the company to implement innovative business ideas and immersive customer experiences. It should be driven by customer insights and a keen understanding of how the marketplace is evolving, and be grounded in business and operational realities to ensure it can be implemented.

The digital blueprint typically has three parts:

1. **Current and future assessment.** This assessment has external and internal components. The external, or marketplace analysis, gathers holistic insights on how customers behave, examining how those behaviors impact their attitudes and decisions. It also examines the client's entire business universe, including partners (such as vendors and resellers), competitors, the general business environment, and how emerging technologies are influencing the company's business.

   The internal review defines priorities in terms of both business goals and the ability of the company to invest in digital initiatives. It looks at how the organization is set up—in terms of employee skills, operational capabilities, and infrastructure—to implement digital strategy. The assessment is guided by a set of questions, such as "What do customers really want from us online versus our competitors?" and "Why is our share of online transactions lower than the industry average?"

2. **Strategic recommendations and phased road map.** Based on insights from the assessment phase, recommendations are developed under key themes, such as "broadening the partner ecosystem" and "driving commerce activities." For each theme, specific recommendations are developed for products and services, platform features and tools, brand experiences distributed across the Web, partnerships, and media. These initiatives can then be prioritized based on business economics, customer needs, the needs of internal constituencies and operational readiness. Finally, initiatives are phased over time and aligned with broader marketing and IT plans to ensure that priorities and timelines are shared.

3. **Experimental agenda for digital alternatives.** Even as the core initiatives are built out, companies should set aside budget specifically for looking at emerging technologies, in a continuing education initiative that will inform the digital blueprint going forward. This is where brands can experiment and learn from trends such as viral ideas in social media or prototypes for new interaction designs, all without creating distractions from the core digital business. Some marketers set up separate digital innovation labs to explore new products and approaches to market. Others focus on ways new technologies can lead to better campaign optimization. Whatever the focus, the key is having the discipline to set aside funds, develop a learning agenda that focuses on business or marketing questions, and set up a robust test plan with the right set of metrics and measurements on the back end.

What does a digital blueprint do for organizations?

A digital blueprint galvanizes the organization. It provides companies with the vision to develop better customer experiences and effectively implement fully built-out digital solutions. Because initiatives are defined holistically and aligned with target customer segments, there is less fragmentation and fewer one-off technology builds and isolated media buys. Resources are focused on realizing the blueprint.

Once the blueprint is in place, it becomes a guide and grounding point for discussion. As initiatives move forward and people become focused on day-to-day work, they often lose track of the bigger picture. With a documented digital strategy, there is always a reference and reminder for why the work is meaningful and how it explicitly contributes to the strategic goals of the organization. When there are debates over funding or the importance of delivering specific projects, the blueprint provides objective priorities that guide the organization to smart, dispassionate outcomes.

This does not mean that a digital blueprint is static. It needs to be reviewed and refreshed regularly to reflect changes in the external and internal environments. In general, the executive responsible for the digital strategy should lead this initiative through a review process with other key staff on the digital team.

How does the digital blueprint align with other planning efforts?

The digital blueprint lives at the intersection between the company's business strategy, marketing strategy, and technology road map. Overarching business strategies and goals are key to developing digital strategies in each layer of the organization. Unless a company lives entirely in the digital realm, this is usually a one-way flow of inputs. With marketing and technology planning efforts, there is a two-way dialogue. The digital strategy integrates elements such as major campaign themes and brand guidelines with planned upgrades to back-end systems that enable digital operations. It also provides important information to other stakeholders in the organization that could cause them to evolve their plans.

The key is to uncover, discuss, and resolve all issues that can affect the digital strategy to ensure alignment throughout the organization—even if the outcome is that certain digital initiatives are not feasible in the short-term. If the discovery process is not thorough, companies risk moving down a path only to realize that a critical component—such as enabling integration of customer data for personalization—won't work.

How is the digital blueprint implemented?

Going from strategy to implementation is a major challenge and requires a collaborative, fast-moving engagement model. First, the strategic development process needs broad representation from key internal constituencies and buy-in from senior executives. Having representatives in the room from business groups, marketing, IT, and digital functions will ensure not only that they sign off on the strategy but also give operational support when it comes to implementing the blueprint. Senior executives should provide the focus and decision making authority to propel the process forward and ensure that barriers to adoption and implementation are quickly addressed.

Second, teams working on the digital strategy need a mix of participants who can develop pragmatic strategies and tactics: both generalists who understand digital business models, marketing and media, and emerging trends in the category, and the specialists responsible for implementing the plan. As teams generate insights during the assessment phase, generalists will understand how to prioritize investments and develop business models, feature sets, and programs. Strong user experience professionals, technologists, and creative designers will understand how to translate those insights into experiences, interaction models, workable concepts, and campaign ideas.

Third, there needs to be a balance between rigor and speed. If too much time is spent in the planning phase, organizations lose momentum and it becomes harder to drive to implementation. Wherever possible, teams should look for the existing sources of data and research that usually exist in large organizations. There are also myriad ways to get customer or prospect insights quickly through online data and tools, such as blog searches, buzz tracking, and live Q&A. In the hands of a good account planner, these methods can provide robust insights and may make it unnecessary for more traditional and time-intensive primary research.

Though implementation will differ by the type of organization and the complexity of the work, teams are normally structured into “tiers,” with different roles and responsibilities to ensure the right inputs at the right points in time. Teams should be in place at the start of the engagement and will continue in their roles after the initial phase is complete to guide the work and engage in ongoing planning cycles. There are usually at least three teams:

1. **Core digital strategy development group.** This group does the work, sets the agenda, and aligns the rest of the organization around the initiative. It includes generalists, digital experts, the head of digital strategy, and other key people who are part of defining and developing the strategy.

2. **Cross-disciplinary group.** This group, which incorporates people from across business units and disciplines, provides input into the strategy development process, including its business requirements and goals. Participants bring external and internal perspectives and help drive implementation in future phases of work. This group is often used as a review committee for interim presentations and acts as a sounding board for recommendations.

3. **Executive steering committee.** This group of senior executives makes the key decisions, helps drive outcomes across the organization, and removes barriers for the core team. Ideally, it includes the CEO, CMO, CTO, and heads of the business groups.

How does the blueprint come together in practice?

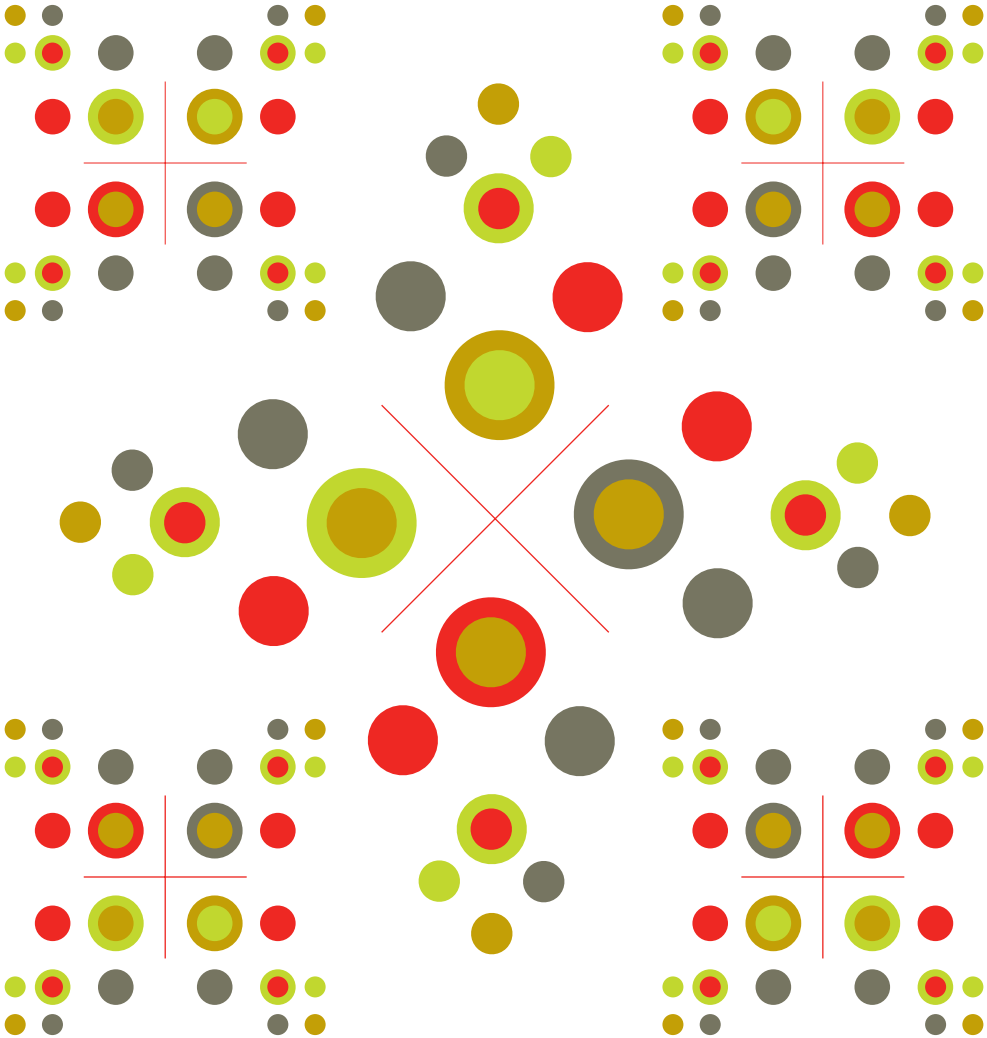
A good illustration of how this works is a recent Avenue A | Razorfish engagement for a financial services client. This client had limited brand awareness and was struggling to develop a direct-to-consumer channel without alienating its agents. In collaboration with a large, cross-functional team, Avenue A | Razorfish developed and continues to implement the company's digital strategy.

In the initial assessment phase, contextual research provided insights into consumer behaviors in the category and areas of frustration for agents. For example, while consumers often stated that they compare prices and brands and spend time getting deeper product information, they in fact go directly to brand sites and start shopping immediately. In separate interviews and focus groups, agents indicated frustration at losing business to direct channels because they did not have the time, resources, or sophistication to develop digital capabilities themselves.

After quantifying the economic opportunity in capturing digital market share, Avenue A | Razorfish defined a broad list of prioritized investments under a series of themes, such as "taking agents with us," "creating engaging, quick shopping experiences," and "borrowing brand and traffic" to compete with larger, better-funded players. Under each of these themes, we developed specific site tools and features, distributed experiences, affiliate models, and marketing programs (aimed at evolving both sales and servicing channels), and tied them together in ways that were mutually reinforcing. We also created a series of initiatives such as customer segment and issue-specific microsites to generate buzz and organic search engine results, and courses and tools for agents to help them "go digital." Finally, we developed a series of tests to evaluate the return on investment and consumer response to initiatives aimed at selling them other products and building their loyalty. The results of these tests were then used to identify the value in building out customer relationship management capabilities and site features.

The resulting three-year road map provided a strong blueprint for the digital future of the client, and the strategy became a unifying force and a vehicle for change within the organization. Blessed by the CEO and board of directors, it brought disparate internal groups with responsibility for digital platforms, campaigns, and products together and gave them a sense of how their initiatives fit in the scheme of business priorities. It also led to a restructuring of roles, responsibilities and incentives to roll out the road map across the organization. In addition, it catalyzed changes in the company's IT road map to better support digital priorities.

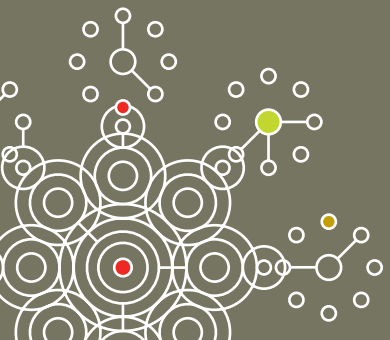
While developing a digital blueprint requires energy and commitment, the payoff can be dramatic. By elevating digital within the organization, a robust blueprint can help the companies better engage consumers, drive business results, and differentiate themselves from the competition.



conversations with the connected class

a window into user behavior

By Brandon Geary, VP Account Planning, Seattle



TO BETTER UNDERSTAND how user behavior is evolving, Avenue A | Razorfish conducted in-depth interviews with 25 people between the ages of 18 and 34 who exhibit a high propensity for using a variety of digital platforms. We call this segment of the population the Connected Class and believe they represent a bellwether for predicting digital behavior.

The proliferation of the digital you

What do we mean by the digital you? Much has been written about consumer empowerment, the power of self-expression, digital conversation, user-generated content (UGC), and the rise of social behavior. Indeed, *Time* magazine made "You" their Person of the Year over a year ago. The digital you is how you express your individuality using all of these channels

But in our research, we found connected users are beginning to do more to build their digital you than we could have imagined. They aren't just using the new technology, social, and communication platforms—they're using them to express different sides of themselves in both obvious and nuanced ways.

People have always shown different sides of themselves—the person you are at work is perhaps different from the one that rides a Harley-Davidson on weekends. The punk rock fan may never have dropped into a half pipe. But today, digital platforms are rapidly perpetuating the phenomenon of the multi-dimensional self.

Users are leveraging every digital tool at their disposal to show these different sides of themselves—who they are, where they fit, what they think, and what they think of others—and the digital context plays a critical part in determining which part of themselves they show. They display these different aspects of their personalities through the devices they use, games they play, and conversations they have. And while that may sound merely interesting, we believe it has significant implications for both marketers and communicators in 2008 and beyond.

The proliferation of the profile

Social networking is not a zero-sum game

Much of the discussion around social networking aims to pick a winner in the space. Will Facebook eventually eclipse MySpace? Will users tire of requests to join specialized and company-sponsored communities? Will users look to aggregate their various profiles onto a single site?

We found users surprisingly willing to maintain a presence on multiple social networking platforms—so long as a critical mass of people remains. More importantly, we found users actively expressing different sides of themselves on different communities and even managing multiple profiles on a single platform: “I have both a party profile and a business profile on MySpace.” (Tory, 26)

Alternatives to Facebook and MySpace, like Yelp, 43 Things, and Bebo, are recognized as having their own sort of relevant culture and place in the digital world: “People on Yelp are really into the Yelp scene.” (Sarah, 25)

Despite the emergence of two social networking titans, there may still be room for more—or different. And for marketers bent on leveraging social media, it’s critical to use the appropriate platform for the appropriate purpose. That is, identify a specific purpose for a gaming social platform like XBOX Live, another for Facebook, and perhaps another for MySpace.

The proliferation of the platform

Every device has a self-expressive purpose

Despite user requests for a single mobile, PC, or gaming device to do everything, we found users increasingly willing to embrace multiple devices—even when those devices possess overlapping capabilities. For instance, a Nintendo Wii for the whimsical side of their gaming lives and an XBOX 360 for competition. A laptop for managing the business of life and another littered with stickers for fun. A smart phone for e-mail and a flip phone for weekends. We found users unwilling to make the compromises that come with an all-in-one while willing to embrace devices for different highly specialized aspects of their lives: “We bought my brother-in-law an iPhone specifically so we could get him to check his e-mail. Nothing else seemed to work.” (Laura, 26)

For retailers and manufacturers keen on helping consumers make just the right choice in a particular consumer electronics category, the best choice may be to choose more than one.

The proliferation of communication

A social hierarchy takes shape

Much has been written about the emergence of various forms of digital communication and the increasing frequency with which people use things like SMS, IM, and microblogging tools such as Twitter.

We found users actively seeking to specify communication methods to other individuals either based on the nature of the relationship (family vs. friends) or, more specifically, the relative value placed on the relationship.

While text messaging was described as “to the point” and “direct,” it was often reserved for some of the most personal and important relationships: “I only text my boyfriend when we are fighting.” (Sarah, 25) “My sister texts me when she wants me to convey something to my Mom.” (Lauren, 26)

For members of the Connected Class, the phone conversation appears to be increasingly reserved for non-users of more nascent forms of communication. It’s often described as a bit of a chore, as digital channels evolve to one-way broadcasts to large groups of friends: “Calls can be too long—if you just have a quick question, you don’t want to hear what they’ve been doing forever.” (Jillian, 21)

From a marketing perspective, forms of communication like SMS and mobile e-mail remain incredibly personal and relevant for a select set of direct-response-oriented brands able to integrate into the upper rungs of the user’s social hierarchy.

The proliferation of self-promotion

Social activity has real social value

Sharing different sides of your personality is a lot of work—it might require uploading photos, maintaining multiple profiles, constantly adding new friends, and simply keeping up with the technology necessary to do so.

We found that users are keenly aware of the level of interaction and sophistication demonstrated by themselves and others. Suspicion arises when a friend shows no social activity at all. ("What do you have to hide?") Someone who constantly updates their profile and posts photos of last night's cocktail party may be revealing their social insecurities. A small friend list may have people wondering whether or not that person is worthy.

This notion of hierarchy was particularly evident when users described the difference between personal conversations conducted using Facebook's private e-mail function and those using the public Wall function where they can broadcast to entire Facebook groups: "People converse on the Wall because it shows everyone how active their life is." (Laura, 26)

It also illustrates the degree to which new technology plays a critical role in keeping up with the Joneses both physically and socially. If the photos on your Facebook page are taken with a 1-megapixel camera, they aren't going to look too good. If your phone lacks wireless Web capability, you can't update your status as regularly.

This poses an interesting question for marketers. Is it enough to simply put up a profile and see who comes, or are users ready for a brand or brand-based character to actively aim to elevate its social status—through constant status updates, direct communications, and events?

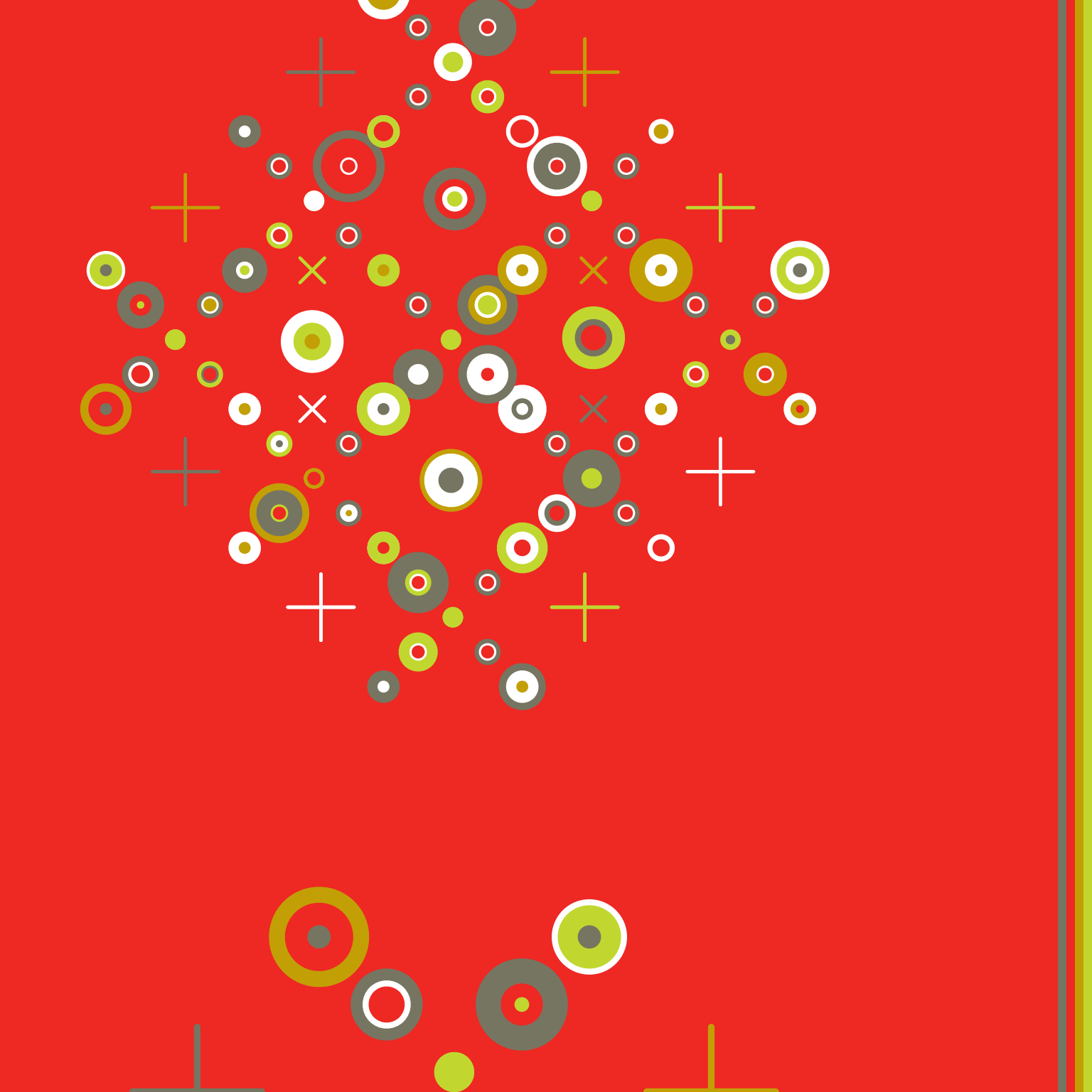
The proliferation of active participation

The proliferation of the digital you has additional implications for marketers

Media planners should consider some level of participation on social and mobile platforms, even if the majority of media activity is display- or response-based. Users' increasing reliance on the Web as a communication tool suggests they'll soon expect all relevant brands to be where they are and will question those who are not.

Direct marketers should define the communication channel appropriate for the level of relationship they expect to create with their consumers. Texting and mobile social networking, for instance, remain extremely personal forms of communication. Can you develop an offer or information resource worthy of this level of inclusion?

Brand managers should consider the elasticity of their brands. Can they stretch to show unique attributes or personality traits across various social platforms to effectively fit in with the environment? Even as new communication devices and platforms change how people present themselves, the concept of the fragmented digital you looks to be a permanent part of the fragmented media landscape.



emerging opportunities

digital (r)Evolution 2007

Shifts and starts in emerging channels

By Terri Walter, VP, Emerging Media, New York

FROM THE FIRST BANNER AD ON THE WEB almost 14 years ago until now, digital marketers and agencies have experimented with how best to translate a brand online and bring it to life via interactivity. While this challenge will continue, 2007 saw a fundamental shift: Content, which once resided on one, or maybe a handful of sites, became available when and where consumers wanted it. That presents new challenges and opportunities for publishers and advertisers who must follow eyeballs on a winding, ever-more-fragmented path.

Digital television is but one of many examples. The major broadcast networks, which had previously streamed their content on their own sites, with maybe a side deal with Apple's iTunes, now found that wasn't necessarily enough to gain the distribution and ad revenue they wanted. CBS's announcement in April that it was creating the CBS Interactive Audience Network set the tone. The online network called for its content to be distributed to partners including AOL, Microsoft, CNET Networks, Comcast, and Joost. In October, NBC and News Corp. launched a beta version of their streaming site Hulu.com, billed as a premium content destination to rival iTunes. As for ABC, it was simultaneously building up its own site as a destination while also pursuing online distribution deals.

Of course, network TV distribution deals were but the tip of the content-where-and-when-you-want-it iceberg. In 2007, social networks like Facebook and MySpace gained greater scale, and with that came greater opportunity to distribute content for both professionals and amateurs, whether it was *The New York Times* creating a Facebook widget to distribute its daily "10 Most Read" list of popular stories, or the rise of social networking helping people share bookmarks or rate content using services such as del.icio.us or Digg. And, of course, older viral trends continued. YouTube continued its runaway popularity, and the blurry lines between content and advertising, if anything, got blurrier. How else to explain a clip such as Ray-Ban's "Guy Catches Glasses on Face," which has resulted in millions of YouTube views and dozens of video responses? Meanwhile, mobile media began to move beyond its own hype (the hype surrounding Apple's iPhone notwithstanding). All of these developments were about content itself—not necessarily about where it resides.

Of course advertisers, if they weren't awake to digital's ascendance already, became even more so. According to the Interactive Advertising Bureau, for the first nine months of last year, interactive ad spending rose by almost 26%

to $15.2 billion. As such, in 2007, digital specialists were not the only ones thinking about the digital future anymore. Most marketers and agencies, regardless of their core discipline, were realizing the power that digital and emerging channels have in transforming business and consumer relationships. As a result, more marketers are putting digital at the center of their strategies. The question, as it has always been, is how to keep up with an interactive landscape that changes much faster than many can keep up—the rapid-fire dissemination of content being one of 2007's biggest challenges. But, try they must.

Here then are some of the events, from acquisitions to technology advancements, that shaped the market in 2007.

How merger activity reflected the marketplace

While the marketplace was full of deals, ranging from AOL's acquisition of behavioral marketing specialist Tacoda to Google's still pending acquisition of DoubleClick, the deals had one thing in common: They demonstrated that the tools and infrastructure needed to aggregate audience, buy and sell media, target, measure, and optimize—in all their complexity—are highly valued and ready to be built upon. In addition to the two above deals, other headline-makers included Microsoft's purchase of Avenue A | Razorfish parent company aQuantive, Yahoo!'s purchase of online ad exchange Right Media, and WPP Group's acquisition of 24/7 Real Media. These acquisitions signified a growing trust in advertising technology and targeting intelligence as a competitive differentiator, and hinted at a future that could place digital dashboards and infrastructure at the center of marketing management.

But looking at consolidation of the online media marketplace as solely a PC-based phenomenon would be a big mistake. Changes in the mobile arena were also evident as power struggles amongst the Internet pure-plays, telcos, and tech companies altered the establishment. AOL purchased mobile advertising company Third Screen Media; Apple chose AT&T as its exclusive iPhone carrier, and Finnish mobile powerhouse Nokia bought mobile advertising network/platform Enpocket as well as digital map data company Navteq. These moves, paired with Google's announcement of Android, an open-source mobile software development platform, put pressure on mobile carriers. In response, Verizon surprised the mobile industry with the announcement that they would be the first carrier to open their network to outside devices, software, and applications in 2008. Apple did the same for the iPhone, promising an open platform in early 2008.

Ever more mobile in 2007

While carriers still push minutes in advertising, users under 35 aren't talking as much. It's all about the mobile social network and text: "I definitely talk less than I used to and text more."

Avenue A | Razorfish Consumer Dialogues, 2007

While mobile advertising is still in its infancy, the clamor around it made a lot of sense. If people are truly consuming content where and when they want it, the mobile device will be where more and more of that activity will take place. With SMS at about 40% penetration and the mobile Web at about 10% penetration in the U.S. among mobile phone users (according to Q2 2007 data from M:Metrics), advertisers aren't flocking to mobile quite yet. However, many brands took their first leap this year, hoping to gain learnings about how their audiences are engaging with mobile devices. JCPenney won accolades in *The Wall Street Journal* for innovative mobile work that used SMS for wake-up calls on Black Friday. Overall, brands that leverage communication mechanisms like SMS, click-to-call, custom content like mobisodes, wallpapers, ringtones, and offline-to-mobile integration to build interaction are beginning to see flickers of success.

But in many ways, the pivotal event in mobile for 2007 was the launch of the iPhone. For the beauty, simplicity, and functionality with which it brought the graphical Web to mobile users, the device revolutionized the mobile experience and gave users a peek at what is possible. Its launch was significant for the effect it had in triggering both consumer and marketer interest in mobile as a new content platform.

In addition to the iPhone and other new mobile devices, new products categories like in-auto, voice-activated mobile platforms and mobile-activated remote controls are emerging. Ford Motor Company and Microsoft's collaboration on the Sync platform is one example. Launched in fall 2007, it's an in-vehicle technology that supports popular media devices and mobile phones and allows for hands-free communication. In 2008, we should see software companies like Microsoft and Apple, wireless players like Verizon and Nokia, Internet pure-plays like Google, Facebook, and Yahoo!, and entertainment providers like NBC and ABC push the mobile industry forward even further. The vision of a seamless gateway to content, regardless of the platform, may not be as far away as we think.

Collaborative experiences come to life

One route toward relevancy for advertisers has been to empower micro-communities to engage with brand-supported content via multi-user experiences, such as alternate reality games (ARGs), mashups, collaborative play, and widgets. ARGs, like the Iris promotion that launched Halo 3, leveraged multimedia clues and underground digital experiences to blur the lines between the virtual and the real worlds. Branded entertainment, or custom content provided by a marketer, also flourished. From the custom XBOX 360 games released by Burger King to live Web-only entertainment like Sprint and Suave's "In the Motherhood" series featuring Leah Remini, brands sought to differentiate themselves by offering consumers experiences they couldn't get anywhere else. This trend of marketer as content creator, which has been going on for several years, will become even more critical in 2008 as advertisers look to meet the higher standard set by consumers who want to both personalize and engage with content in deeper ways. Expect ad models in emerging channels to continue to evolve to fulfill this need.

Beacon: the light at the beginning of the tunnel?

Facebook's opening of its platform in May to third-party developers wasn't initially viewed as an advertising development. However, as advertisers looked to reach consumers in new ways and in new places, mini-applications such as the widget emerged as marketing opportunities. Since May, Facebook has seen over 12,000 mini-applications added to its service. Marketers such as Best Buy, Honda, Sony Pictures, Target, and Sprite have experimented with widgets on Facebook and elsewhere as advertising and/or consumer connection opportunities. New publisher environments like Yahoo! Widgets and Google Gadgets, and widget advertising enablers like Gigya and ClearSpring, are supporting this trend.

The promise of such environments is that social media will allow marketers to communicate with consumers where they are, offering up content that is relevant to them. Even though established ad forms, such as ad banners and text-based search ads, exist in social networking, the hope is for a higher degree of relevant consumer connection. But the ability to play influencer in a much more intimate way comes with a price. As personal and public media becomes more intertwined, consumers are going to keep pushing back at attempts to merge the two.

This was never more apparent than with Facebook's attempt in late 2007 to launch Beacon, which would have publicly posted Web-based behaviors to user profiles. In retrospect, it may hardly be surprising that your best friend didn't want it known that she had just wrung up a hefty bill at an online retailer like Bluefly. Therefore, after receiving much criticism over Beacon's privacy implications, Facebook was forced to change the program to opt-

in a few weeks after launch. The fracas led to a healthy discussion over how emerging channels like social networking and mobile should incorporate marketing messages. Social and mobile media are highly personal in nature, and hence a very different environment for marketing than more public forms of media like online portals, print, and TV. How brands behave in social media "friending" environments, with permission-based widgets, or in mobile remains to be seen. However, it should be clear that while effectiveness will always be important, in this arena, privacy implications cannot be ignored.

The year ahead will be marked by a thriving mobile Internet for brands and users, with mobile advertising starting to gain traction on the mobile platform. With new formats like mobile video, interactive ads built with Flash-technology and ads using localized information, we'll see campaigns that are see both highly creative and relevant to the user.

Stefan Mohr, Director, Mobile, Frankfurt

A look ahead

As digital content becomes more widely disseminated, the relationship between content provider, marketer, and consumer is changing rapidly. In 2008, more sophisticated content experiences will be born, the proliferation of widgets and applications will accelerate, and a brand's place in consumer-generated media will continue to be questioned. Some of the most striking advances will be in mobile and digital television, as competition and infrastructure shifts in those industries create new environments for innovation to flourish. Where and how marketers connect with their customers now and in the future, and what they say to them when they do, is explored in the next several sections.

online video in 2008

Tapping into user behavior to make it relevant

By Grant Owens, Director, Account Planning, New York

UNLIKE TRADITIONAL MEDIA, in which content is delivered in time-tailored streams and fixed locations, the Internet introduces inherently new behaviors, and users' actions are sending a resounding message that relevance is the key to great online video experiences.

Fortunately, technologies are lining up just in time to meet consumers' need for more personally and contextually relevant online video. In fact, the long-awaited era of convergence is finally upon us, but not through the "universal box" everyone had predicted; rather, convergence is developing behind the scenes as back-end technology platforms now seamlessly deliver video experiences regardless of source, device, or content location. As this continues, it is becoming increasingly important for marketers to understand how to make their online video messaging work in this diverse video environment in ways that also work for consumers.

What consumers are doing with online video

As with any rapidly evolving medium, it's important to identify the consumer behaviors that are developing into consumer expectations. Here are six key behaviors that will be the foundation for video innovation in the next year:

1. **Personal taste-making.** The volume of Internet video is massive and largely unstructured, so users are looking for tools that manage their unique media interests. Although videos are currently organized based on a similar tag, category, or past choices, standard conventions for recommendations come from commerce sites like **Amazon.com** and music experiences like Pandora's Music Genome Project or Last.FM's "scrobbling" technique—which adds every song users play to their music profile—have made this type of machine memory a user expectation. Users will soon benefit from similar tools in video.
2. **Seeking peer pressure.** Even though it's easy for users to access their historical viewing preferences and discover content by keyword, they still want to know what's hot. While a number of online video services rely on the wisdom of crowds to surface and display the most popular videos, new features will undoubtedly emerge to help users discover new content through more complex social influences and introduce peers with shared passions.

3. **Exploring new routines.** There are many instances, such as the popular videos documenting Diet Coke and Mentos-fueled explosions, that have proven the massive reach available when users snack on pop-culture clips. But online video is also becoming a direct replacement for the lack of quality programming on television. Avenue A | Razorfish data indicates that online video viewership peaks on Friday nights when network programming is typically weaker. As 2008 kicked off with a writers' strike, we believe this may have led many more viewers to explore online video options.

4. **Finding Web gems.** Search is currently inadequate at helping consumers swim through the complex video environment; as an alternative, the majority of online video viewers say they find new videos through friends' recommendations. Today's search tools are only useful when the user has previously heard about a video and would like to locate it. Therefore, search providers are actively experimenting with sound recognition—which would be used to create tags—and contextual tags to improve the results. We also expect to see topical segmentation enable searching within a video at particular points. This technology is on the market, but in its current form, the videos are sliced up to create additional ad impressions and allow time-stamped targeting.

5. **Plucking and aggregating.** As users increasingly enjoy both professional and user-generated content equally, the role of aggregators and syndication tools is growing. Now users can aggregate content themselves and combine different sources with different content filters into their daily media touchpoints. We believe successful video experience models will be those based on a mix of push and pull sources integrated into users' existing routines.

6. **Using community to share, comment, and embed.** With video files being distributed to multiple destinations, the community surrounding video content is often as important as the videos themselves. Most online video destinations provide many routes to social participation—tagging, saving favorite videos, commenting, rating, editing, and embedding. Other social interactions that are likely to take shape in 2008 will be in-video comments, real-time voting, and co-browsing for additional media with viewers that share your interests.

Leveraging user behavior to achieve video ad relevance

Advertising in online video is available in two forms: integrated advertising and branded entertainment. Although pre-roll represents an easy-to-understand model, it does not represent the full spectrum of opportunity within online video. In 2008, smart marketers will experiment with more relevant and creative online video tactics in taking advantage of both formats for brand engagement.

The first and most common option, integrated advertising, begins with the theme of "relevance" and ends with the filter of "does it annoy 'em?" What separates great executions from merely good is adherence to these four principles:

1. **Planning for the environment.** Online video ad integration depends on how the video with which it is associated is delivered—through a social networking page, in-banner, or elsewhere. Is the approach a passive full-screen experience with longer form content, or is it a short-form video where advertising may need to appear as post-video jumping off points via surrounding display advertising?

2. **Creating meaningful context.** Video ad integration, like any other ad integration, is best approached as a point in time informed by a host of others behaviors, passions, pain points, and historical actions. Figure out how your content complements whatever the user came to watch. Advertising should also align with metadata such as video tags and video titles, a task that will soon become easier as sound and image recognition technology becomes able to decipher video content and attach appropriate marketing messages.

3. **Syndicating ad messages.** Syndication services supply video to multiple destinations, allowing in-video advertisements to be viewed across a large swath of Web properties—anything from a personal blog to a national news site. Although the idea of your brand traveling around the Web unprotected can be a little distressing, many syndication providers offer levels of control that can allow you to select categories to blacklist or pick safe zones.

4. **Analyzing and optimizing advertising.** Beyond using traditional TV metrics, track your online video advertising using various engagement metrics. These could include unique views, interactions within the unit, and many others. Some of our clients are also beginning to set benchmarks and perform custom advanced analysis such as viewer segment analysis, cross-channel effects, and optimal frequencies. Solid metrics enable optimization of creative messages, video formatting, site placement, and other key variables.

Where branded entertainment and online video meet

Integrated advertising is not the only way online video marketing can engage consumers with brand messages. To make the most of it, marketers should have the same entrepreneurial spirit Procter & Gamble had in the 1930s when it created the soap opera. The modern opportunity, branded entertainment, is one in which marketers can supply compelling content that is both entertaining and engages viewers with their brands' core values.

Depending on campaign objectives, marketers may choose decidedly different content types and delivery formats. Whether it takes the form of a mockumentary or a simple product demonstration, compelling and creative content tied to a brand's core values can create a truly enduring experience.

Marketers commonly enter the branded entertainment space looking to crack the viral code. While there is clearly no single recipe that will turn an online video effort into a viral juggernaut, there are three guiding principles that we believe will improve overall success.

1. **Create something of value.** Do not interrupt what people are interested in; be what people are interested in. Base your content on consumer insights that align with your brand. You are creating content for your audience, not talking about yourself. Say it with a twist; make it funny, surprising, and original—like Blendtec's series of viral videos that demonstrate its blender's versatility and durability by scrambling everything from Spam (still in the can) to an iPhone.
2. **Be Web native.** Exploit the unique opportunities of the Web—don't just put 30-second spots online. You need to align content and format with the behaviors of the audience.
3. **Grease the skids.** Remember that you need to create buzz in order to get buzz. A little promotion can help—even if that means using some more traditional marketing tactics. Make your content pluckable, shareable, and embeddable. Let it be seeded. Make it rewarding to spread it.

Experimentation will count in 2008

Regardless of whether you are creating your own content or attaching an advertising message to someone else's creativity, be sure to experiment. Innovative marketers have a chance to define new standards with every video project. Also, be flexible and prepared to tailor each experience using the growing number of "back-end convergence" technical capabilities to deliver an experience consistent with consumer expectation and behaviors.

shooting on a dime

The new rules of video production

By Jeremy Lockhorn, Director, Emerging Media, Seattle

A 30-SECOND TELEVISION COMMERCIAL can cost millions to produce. Or, it can cost $12.79 if you're Five Point Productions, the winner of the 2007 Doritos "Crash the Super Bowl" contest. User-generated advertising is simultaneously fraught with risk and blessed with benefits, including potential cost savings. But budget is only the tip of the digital video iceberg—one that is already affecting radical shifts in the norms regarding the duration of video content, where it is distributed, and how it is assembled.

The rise of falling production costs

Digital technologies have lowered barriers to video production for consumers and professionals alike. A decent digital camcorder and a Mac are all you really need to be a media mogul—and worldwide distribution is now free via the Internet.

This, combined with the network effect of easy pass-along, has turned commercial production on its head and led to the ascendance of viral video marketing. Perhaps more importantly, it has demonstrated that spending lavish budgets on big, high-production-value video shoots is no longer necessary in order to achieve mass appeal or viral success. Further, digital production efficiencies and smart planning can help maximize the impact of production budgets and provide opportunities to take advantage of advancements in video targeting and delivery.

For decades, agencies have enjoyed big-dollar budgets to execute their big ideas. They have created high-concept scripts and then executed with matching high production values. But YouTube and user-generated content have suddenly unhinged those norms and created a new phenomenon—that lowering the bar on production values may actually be a valid strategy. We strive for relevancy in all other aspects of marketing; why should video content and production values be any different?

Tailoring production value to context

Witness a clip produced by Hitachi featuring Mr. T. (**http://youtube.com/watch?v=tW1S2tsxVHg**) It's a big idea, but the brand intentionally lowered production values. Pitting a bunch of data drones (played by people dressed as zombies) against a heartless consultant whose rubber mask is literally peeling off his face, the video is a little rough around the edges. The low production values (and the sudden appearance of Mr. T.) are essential to the humor, so there's a creative reason for the decision. The brand also thought about matching the quality of the content it would be appearing near. They sought to connect with a certain community, embraced the audience, and did their best to fit in.

The longer and shorter of the 30-second spot

Changes in how video is distributed have also impacted the acceptable duration for video advertising. In the old days, the 30-spot was the primary video advertising unit. Advertisers might also do a :15 and a :60 for certain campaigns, but it would likely end there, with those three pieces. Now, in addition to those ad durations, advertisers may need to start thinking much shorter—maybe a :05 spot, for example.

Meanwhile, both broadband video and video-on-demand over cable afford the advertiser an almost unlimited amount of time to tell a deeper story. If consumers are interested in an advertising message, they'll want to see more than just 30 seconds. That's the beauty of digital video advertising: The initial spot is merely the gateway to a longer piece that allows for deeper, richer, and more interactive experience.

TV spots, made to order

It's critical to begin thinking about these new methods of storytelling because another significant digital video innovation is looming on the horizon: dynamic assembly and personalization of video assets to produce hyper-relevant ads. Advertisers have used behavioral targeting in banner ads for years to deliver a more targeted ad to a user. A similar approach is coming in video: breaking the ad apart into individual components and then using smart business rules and targeting technologies to reassemble the ad (in real time) from a library of assets. With just minor tweaks to an ad's concept to allow for versioning, an advertiser could quickly get upwards of 250 different combinations, dramatically increasing the likelihood that a message will be relevant to the individual who's viewing it.

The technology to serve targeted, relevant video assets exists today. The only reason it's not getting used regularly is that marketers, for the most part, haven't figured out how to change production processes to capitalize on the opportunity without blowing budgets. That can and will change.

A budget of $12.79 doesn't cover a week shooting in Australia, but it can produce an effective spot. To truly capitalize on the opportunity afforded by digital video, we need to think beyond the :30 linear story. We need ideas that are big and nimble enough to cost-effectively feed a machine that requires a flexible suite of video assets.

waking up to wireless

How to build a compelling experience for the mobile consumer

By Patrick Moorhead, Director, Emerging Media, Chicago

THE MOBILE WEB HAS GROWN IN FITS AND STARTS since it first began to appear on the minds and handsets of American mobile consumers almost five years ago. Questions about how to build experiences on the handset's small screen, how similar or different mobile should be from HTML, and how consumers would actually use mobile services have been persistent in the course of growth for Wireless Application Protocol (WAP).

The consumer experience of WAP and the mobile Web has been disappointing for many reasons. Poor, non-intuitive user interfaces, slow network speeds, and a general lack of understanding about how to even go about accessing digital content from mobile devices has created a stigma in the mind of many consumers.

And yet, 2007 witnessed a striking growth in the availability and use of WAP content for mobile devices. Following are some guidelines for making things work in WAP, based on which behaviors consumers are involved in when they access the mobile Web.

The difference between WAP and HTML (and why it matters)

There is a lot of confusion on this subject, so before beginning a discussion about what to do with WAP, it's helpful to get clear about the difference between WAP and online HTML, and why, while at first blush WAP seems very limited, it in fact provides for a profoundly better mobile Web experience.

First off, WAP is a data transfer protocol along the lines of HTTP for the non-mobile Web. By definition, WAP is designed to function under two critical circumstances common in wireless devices: one, limited data transfer speeds because of low bandwidth and two, small, low-resolution display screens on the mobile device. It is because of these two factors that experiencing Web sites designed for the PC browser often disappoint the mobile user. Today's online sites are loaded up with heavy graphics, HTML, and XML scripting and intended for at least 1024-pixel-wide resolution on the screen (most mobile devices have less than one third of this).

The programming language used by designers for WAP is wireless markup language (WML). Think of this as HTML for the WAP environment. There are a number of differences between HTML and WML, most of which revolve around slimming down and cutting out many components of HTML that are not useful or required for WAP/WML applications.

The most apparent difference between WML and Web-based HTML is the concept of WML cards and the "card/deck" metaphor that is the foundation of WAP. In WAP browsing, a user is not loading a "page" in the sense of a Web page—instead the user is loading a "stack" or "deck" of small screens all at once. Cards effectively implement multiple WML screens within a single page. WAP browsers display only one card at a time, but they load a page file (called a deck) that contains multiple cards in one transaction.

Loading multiple cards at once caches potential screen views locally on the WAP browser to reduce the need for network requests. In addition, one network request to fetch a file the size of a typical HTML page will generally execute faster than a series of requests for much smaller pieces of the file. In these ways, WAP's implementation of cards and decks is a clever optimization of the limited bandwidth on today's wireless networks. The problem is that many designers and programmers do not approach WAP design in this way; they instead treat it the same way they treat HTML design, with a strategy of single pages loaded up with links, functions, and graphics (hence the many "wireless" sites that continue to deliver poor user experience and functionality).

With the understanding that WAP design is intentionally stripped down, mobile marketers can utilize the structure of WAP/WML to deliver efficiency, speed, and relevancy to end users.

Making WAP work for the user

Part of the challenge of building WAP experiences that will succeed has been understanding the role of the device and how the consumer uses it. Early executions in WAP tended to take the approach of replicating online experiences, a critical misstep. Additionally, early WAP design approaches failed to accurately assess and respond to how, when, where, and why people would engage with data and content via a mobile device. This results in an unwieldy, cluttered user experience that does not offer the end user value, given the context of their consumption behavior. If we start by identifying these problems, we can define better strategies for envisioning content and functionality that will serve consumers'—and the brands'—objectives.

In most cases, the mobile consumer is using data and communications services while doing other things: waiting, walking, running late, while lost, while on the town with friends. They may be searching for directions, trying to locate information critical to an immediate task, delving into info that can be had quickly, or even killing time. About half of these "other things" behaviors classify as "tool" functions—I'm trying to DO something. The other half of the time consists of "passive" moments when the consumer is waiting to do something else and seeking to pass that time via a quick piece of content like a sports score, or maybe to learn about the place or activity they are in the process of reaching. In all cases, it is important to note two critical factors; one, the mobile content and functionality the consumer is engaged with is NOT the primary focus of their attention at that moment, and two, no matter what the consumer is doing with mobile, their attention span will have a defined limit. You could have the most compelling content or function possible, but the consumer will still, eventually, get on with the "other thing" they were planning to be engaged in. This second point is especially critical in thinking about the types of experiences a brand may offer the consumer in the mobile environment. It is unrealistic to attempt to capture a consumer's attention for any amount of time in mobile. Rather, designing content that is bite-sized and intentionally disposable is the road towards higher consumption and higher perceived value for that content.

Who's getting WAP right, and why?

Getting the WAP experience right for consumers requires designers and publishers who understand and embrace the lean-and-mean efficiency that WAP/WML offers via the card/deck structure. Additionally, successful publishers and brands are jumping off from that knowledge into designing content, services, and user experiences that strip away components from their online sites and focus on critical items that allow users to derive value from them quickly and easily, and that meet needs of a consumer on the go, with limited time, and with attention focused someplace else. Here are a handful of such publishers and brands, and how their WAP designs show they are taking these ideas to heart.

Major League Baseball, wap.mlb.com

A product of MLB Advanced Media, the League's mobile site takes advantage of WAP's lean efficiency to the fullest. Graphics are limited to branding elements at the top of pages, and main page navigation is always the same format. Want news? Hit the "1" key. Scoreboard? Hit the "6" key. This standardization eliminates the need for repeat users needing to scroll through all of the main screen content. Even if they do, the links are simple, easy to read, and highly descriptive, so users only invest in clicks for things they know they want to get.

One of the best features of this site is the scoreboard and play-by-play. By taking full advantage of the card/deck architecture, it's very fast and easy to get real-time or near-real-time scores from several games at once, because all of the games from, say, the National League, come down together, allowing one refresh to update all the games in the conference. In a specific game page, the super-light interface allows for scoring to be instantly updated (in text form) giving the experience of "watching" a play-by-play version of a game the user is not attending. Easily keeping track of other MLB games is exactly the kind of activity a user who is at the ballpark would love to engage in on a Sunday afternoon.

Facebook, m.facebook.com

Facebook, the popular online social networking site, is also making great use of WAP and the mobile Web. Along the lines of the MLB, Facebook has taken great care to scale back or eliminate features from the online version that would clutter, complicate, or bog down the mobile experience. Knowing about friends' current status and recent activities, basic profile information about yourself and other users, and the ability to view others' photo collections are the primary features of the Facebook mobile platform—eliminating all of the power- and processor-intensive applications and communications features.

Adding to this sound approach, Facebook has gone one step further by optimizing certain versions and layouts for different types of consumer devices. Surf to Facebook.com from an iPhone, and the service "sniffs out" the iPhone browser and serves up an interface specifically designed for the larger screen and finger powered Apple device—buttons for this interface were specifically sized to nicely "surround" the average person's fingertip. By contrast, accessing Facebook's platform from a Blackberry gives a different but similarly tailored experience. Leveraging Blackberry's legendary background-sync technology, once a user has successfully logged into Facebook from the Blackberry, the platform stays currents with friends' status, photo uploads, group news feeds, and so on, meaning that upon returning to the Facebook browser, no refresh is required.

YELP Mobile, mobile.yelp.com

As any frequent business traveler will tell you, one of the biggest challenges is finding places to eat in unfamiliar cities. Not just places to eat, good places to eat. And near the hotel.

Yelp.com, an online service that finds local businesses and organizes them by quality and quantity of consumer-generated reviews, has the answer to this problem. Its online site harnesses the power of both social media and

Web 2.0, allowing users to search for keywords (bar, Chinese food, car wash) and returning local results by zip code, neighborhood, and other critieria. Online, all listings are linked to a floating GoogleMaps mashup to additional context and relevance.

Yelp Mobile is another great example of a publisher retooling its services for fast, relevant performance in the hand of a mobile consumer. The WAP site strips away many of the online features (serving up static screen grabs of the map interface as opposed to a live GoogleMaps window as online) but retains the core functionality of the product. Just as with the online site, users can search locally by keyword and slice-and-dice results many different ways, yet the trimmed down interface and no nonsense page design makes it lightning fast.

Yelp Mobile asked, “What would people want to do with our site on the phone?” The answer is simple: “I want help finding good local businesses and services—not from advertising, but from other people’s recommendations. I want all of that really fast, intuitive, and delivered to my phone so I don’t have to pull out my laptop during a business dinner to find a local brew pub.” Yelp has taken advantage of mobile to meet just these kinds of user demands.

Making Web content work for WAP

There are a number of critical success factors for brands and publishers seeking to enter the mobile Web arena this year. First, understand that WAP/WML is different than the Web, and with good reason. By understanding how and why WAP is what it is, and using that to their full advantage, brands and publishers can avoid the common pitfall of trying to make the mobile experience replicate what’s happening online.

Second, understanding that the mindset and need state of the mobile consumer is fundamentally different than that of a PC-based Web surfer will allow brands and publishers to begin to focus on only that which is relevant to the mobile consumer—providing fast, easy-to-use tools to accomplish things on the run, or providing bite-sized, disposable content experiences. Realizing that mobile consumers are in a fundamentally different state than those accessing the Web via PCs will help advertisers and publishers design a better WAP experience, which will drive consumer adoption and positive experiences with mobile Web products.

the mobile web

The center of Japan's Internet experience

By Nobuyoshi Noda, Analyst, Consumer Insight Group, Tokyo and Takeshi Amano, Analyst, Consumer Insight Group, Tokyo

Active mobile Web users

ONLY ONE RIDE ON THE TOKYO SUBWAY is necessary to understand how obsessed the Japanese are with mobile phones. The majority of passengers are either quietly looking at their screens or ferociously typing by thumb. 83% of phones in Japan are Web-capable and mobile activity is dominated by Web browsing and e-mail—more than 70% of users spend 10 minutes or less with voice functions daily. The market for mobile content (downloadable songs, games, etc.) combined with the mobile commerce market exceeded $10 billion in 2007. This makes Japan the perfect market to look at when trying to discern the possibilities of the mobile Web.

Teenagers spend more time on mobile phones than on PCs

More and more Internet users in Japan regard the mobile phone as their primary device for Internet access, and the PC is quickly fading as the device of choice. This trend is most noticeable among teenagers. Average time spent with mobile in Japan is 4%, yet teenage boys spend more than 15% of their total media consumption time with mobile, and it is even higher, at 25%, for teenage girls. Teenagers often regard PCs as expensive and lacking in portability and flexibility, and as a result, they spend much more time with mobile devices than with PCs.

Typical teenage mobile activities include communicating with friends through mobile social networking services, purchasing and listening to music, downloading ring tones, playing games, purchasing icons for decorating mobile e-mails, and often sending over 100 e-mails per day. Mobile music downloads have become the primary method of purchasing music among teenagers. There are several million sellers of mobile music downloads and this trend is causing CD sales to falter.

Mobile wallet, digital cash

Use of mobile as an e-commerce wallet is becoming popular in Japan, and the number of radio frequency identification (RFID) enabled phones in circulation is expected to exceed 40% by spring 2008. Applications for this technology, which allows the device to be “read” during a transaction, include e-money (prepaid by cash and postpaid with credit card), e-tickets for various forms of transportation (bus, train, airplane, etc.), and even ID

systems to enter buildings. On average, 15% of mobile users are utilizing RFID but more than 30% of teenage boys are now using it. The most popular way to use an RFID-enabled phone is for digital cash at stores or at vending machines. As the use of RFID for e-commerce becomes more and more popular, there is a growing expectation that marketers will be able to utilize purchase-history data to behaviorally target mobile ads to users.

13 billion page views per month

Another popular service among teenagers is the mobile community site mobagetown. Since its launch in February 2006, it has gathered over 7.5 million members, mostly through word of mouth but with some limited TV advertising. The number of members is still growing, and it now generates over 13 billion page views per month, which exceeds the page views of MIXI, Japan's number one online social network. Mobagetown is quite possibly the most traffic-intensive and fastest-growing mobile-only service in the world. It combines social networking using avatars, free content, news, and search. This site is especially popular with teenagers because of the high quality of free downloadable games. Social networking on mobagetown is popular among girls. Through its social networking service, avatars and virtual items can be purchased with a virtual currency called moba gold.

Mobile advertising market

Mobile is said to be interactive media that people carry with them anytime, anywhere, but what really is the merit of mobile? First, mobile is ubiquitous, with mobile penetration in Japan at over 80% of the population. Mobile not only has scale, it also enables direct marketing that leverages the targeting benefits of time, place, and occasion. Finally, mobile can activate and connect other media. With these characteristics, mobile has established itself alongside other primary channels (TV, newspaper, magazine, radio, and Internet) as the sixth media to be used in the advertising mix.

In 2007, the mobile advertising market, which amounted to over $500 million, grew by more than 40%, with growth mostly attributed to mobile affiliate and search marketing. For affiliate marketing, the growth was mainly driven by mobagetown. The mobagetown site user has a choice of over 10,000 virtual items like clothing, accessories, pets, and even furniture to be purchased for a user's virtual room, and a user can only acquire these items by spending moba gold. Users can earn moba gold by recruiting new members, by purchasing it with real yen, or by registering with sponsor sites. Sponsors pay results-based affiliate fees to the operating company DeNA when the user purchases sponsored avatar items with the mobile currency. This affiliate model has enabled DeNA to grow massively in 2007.

Growth in the mobile search market has been mainly driven by teenagers. The market showed most of its growth after Google cinched an alliance with AU, the second-largest mobile network carrier. Google then announced a business alliance with NTT DoCoMo, Japan's largest carrier, in late 2007. As for Overture, they have added mobagetown to their ad network and are continuing to show growth as Yahoo! retains its position as one of the largest portal sites.

Looking forward

Japan's mobile-savvy teenagers are growing up and beginning to enter into the mainstream adult demographic. They regard the PC as something expensive that they cannot use flexibly. Even if they can afford to purchase a PC, they have become averse to switching. Therefore, we expect to see more and more mobile-only services similar to mobagetown emerge in coming years that will strongly challenge the PC as the primary vehicle for Internet browsing and e-commerce. For this demographic, it is certain that the mobile phone will continue to be at the center of their Internet experience for years to come.

uncharted territory

Branding on the next-generation Web

By Christopher Stetson, Director, Technology, San Francisco

MODERN BRANDING WAS BORN IN THE 1950s with the advent of television. TV's visual component quickly trumped radio and newspaper advertising in capturing the public's attention. It was a quantum leap into a new form of media, much like the introduction of sound to movies—and it was uncharted territory. Branding in this new media required exploration, experimentation, failures—and, to judge from the commercial archives, a lot of hokiness. Soon, Madison Avenue established the iconography and narratives we recognize today as high-quality advertising.

The proliferation of digital technology—in particular the Web—has brought branding into uncharted territory once again. And like the early days of television, advertisers and agencies are stumbling around a bit, hanging onto old concepts and slow to reimagine themselves in this new landscape.

The force behind early branding methodologies was the need to differentiate one consumer product from another on the same shelf. When this got harder as the number of products proliferated and the difference between them narrowed, the focus of advertising gradually shifted from the product itself to the lifestyle engendered by the product—the brand. Television, we discovered, lent itself to certain branding techniques, in particular the use of personalities and lifestyles in the service of salesmanship. The Marlboro Man is the classic example of that era of branding.

Form, as they say, always follows function. Branding on the Web, by implication, requires that we find branding techniques that lend themselves to the Web. Only then will we understand its impact on the way we go to market and the way we deliver our brand experience.

Of course, this would be a lot easier to do if Web paradigms weren't constantly evolving.

Exploding Web paradigms

The Web today is qualitatively different than the Web of a few years ago. Whether you call it Web 2.0 or the next-generation Web, by any name, it is going through a major metamorphosis that will radically change how we approach the digital world.

Driving that metamorphosis is a second generation of Web-based communities and hosted services, in particular social networking from sites such as FaceBook and MySpace, user-generated content in locations as diverse as Wikipedia, YouTube, and the blogosphere, and tags, which are used to categorize and retrieve Web content. This new functionality has quickly translated into user communities and user contributions to all facets of the online world. The business impact has been nothing short of startling: Users are developing new voices, and these voices are empowering users. Let's review three aspects of Web 2.0 that are changing the way marketers will need to think and act in this digital world.

- Online voices in the form of ratings, reviews, blogs, social networks, and user-generated content are morphing into connected consumers who are collectively shaping your brand. The use of social networking technologies expands the reach of your brand and connects it into existing and developing social graphs.
- The Web *experience* has supplanted the Web page, and interactivity has become a critical expression of brand. Whether using AJAX/JSON, Flash/Flex, or Silverlight, the controls and facilities provided to your users affects their experience and shapes their impression of your brand.
- Channels are proliferating and cross-pollinating, and they will have a huge impact on how, when, and where users interact with your brand. While HTTP will continue to be the protocol of choice, device-independent data streams and progressively enhanced rich media will be critical design aspects of well-architected systems.

Following is greater detail on each of these phenomena.

Connected users shape your brand

The voices of online users are all around us, from book reviews on Amazon and tags on Flickr photos to the cacophony of political blogs. Increasingly, retail Web sites are empowering users to become active spokespeople for their products and, as a consequence, active contributors to their brand. As branding activities shift from television to the Web, what was once one-way messaging to the marketplace—something like a speech in front of a well-behaved audience—is now becoming a genuine two-way dialogue with customers and prospects.

On the Web, however, this dialogue can sometimes feel more like a debate, and the role of marketers shifts to defending the thesis in an oral argument. This is an important point. People will respond when they don't like something: Advertisers and agencies need to address those issues directly, in clear terms. A great example is Dell, which put out a firestorm by dealing promptly online with a negative issue.

Dell used the power of blogging to contain the damage set off when a Dell laptop literally burst into flames at a 2006 conference in Japan. Talking directly to its customers through the Direct2Dell blog, the company provided regular, timely information about the issue. Dell proved that prompt, honest response online gives us a more authentic channel for damage control than traditional methods, such as issuing a series of press releases.

Embracing the collective power of connected users—either to contain damage or to promote your brand—means "letting go" to a great degree. It feels risky because you are giving up a measure of control. But properly engaged, connected users can authenticate your message and brand in ways you never could.

Managing this two-way data model is considerably more difficult than the old one-way format of Web sites. While user-generated content does not require financial-transaction-level integrity, it does require that data be allowed through the firewall and the commensurate security and filtering requirements apply. Managing and reporting on this data also adds a layer of application functionality that did not exist in the Web sites of yore, which were oriented around their content management systems.

The wane of the Web page—the birth of the Web experience

Standard Web pages are steadily transforming into interactive applications. As we watch the static Web page fade, we can celebrate the birth of the Web experience, where site visitors engage with your brand online in an interactive fashion. Think about what happens when you visit Google Maps. You're not just landing on a page, you're having an interactive experience.

Experience has an emotional component, and that's an important concept to understand. It wasn't long ago that we simply used computers for information processing and display. Consumers' emotional lives were in the analog world—on television, in person, and over the phone. That is changing, and it's changing because the digital world has the ability to reach consumers emotionally, particularly since the advent of video on the Web.

Case in point: Patagonia is a company that sells outdoor clothing and gear. Its brand has a strong affinity with environmental causes, and its Web site displays videos about issues that are not directly connected to its products but are very emotionally appealing to its target customers. The takeaway: How users engage emotionally with your products and services through digital channels will define your brand.

All the technology and infrastructure to support a rich media and interactive data system comes with a price. Bandwidth, data storage, and performance requirements are all radically changed with the advent of video and Web 2.0 interfaces. Video files are larger than most early Web sites were in their entirety. AJAX applications require instantaneous feedback and response. These changes impact system architecture, information architecture, design, coding, and quality assurance. Marketers must rethink the process of development entirely.

The big idea is now multi-channeled—and always interactive

At one time, that emotional engagement, or "Big Idea," happened offline, primarily on television and in action-oriented advertising. Today, the Big Idea can happen on any channel, and every channel has the ability to engage your customers emotionally. What's more, every channel is becoming action-enabled, which can help you direct customers to a purchase decision.

New technologies are being developed as we speak, and they will continue to drive interactivity at multiple levels across digital channels. Even that stalwart of passive channels, television, has become interactive, thanks to TiVo and other digital video recorders. Digital cameras are coming into play as well. Today, with the integration of the camera into our digital world, consumers can scan bar codes in print ads and get information sent directly to them. Visa is using mobile devices to promote its brand by sponsoring all of National Public Radio's podcasts. These podcasts have an introduction that sends listeners to **visasignature.com**, where they can interactively explore what the card has to offer.

The long and the short of it is that customers want access to your brand from all their channels. They want that access to be interactive and engaging. If they don't get it, they will walk away. On the positive side, the capabilities of Web 2.0 mean that you can leverage today's connected consumer to authenticate your content, products, and services in ways never before possible.

It's definitely a new market landscape. And fortunately, technology exists today to help reimagine yourself in it. Web sites used to be targeted directly at the browser using simple, though often hacked, HTML to deliver a message to a single channel. This model is changing significantly as mobile devices such as the iPhone are being used to regularly access previously Web-only sites. Media systems such as TiVo are becoming Web-enabled as well with remote controls instead of mouse and keyboard. This means that plain-old HTML will not cut it any longer. The Web 2.0 designs of Model-View-Controller systems on both the back end and front (with a REST API intermediating the communication) provide the flexibility to finally, truly abstract the data from the view.

A new class of solutions

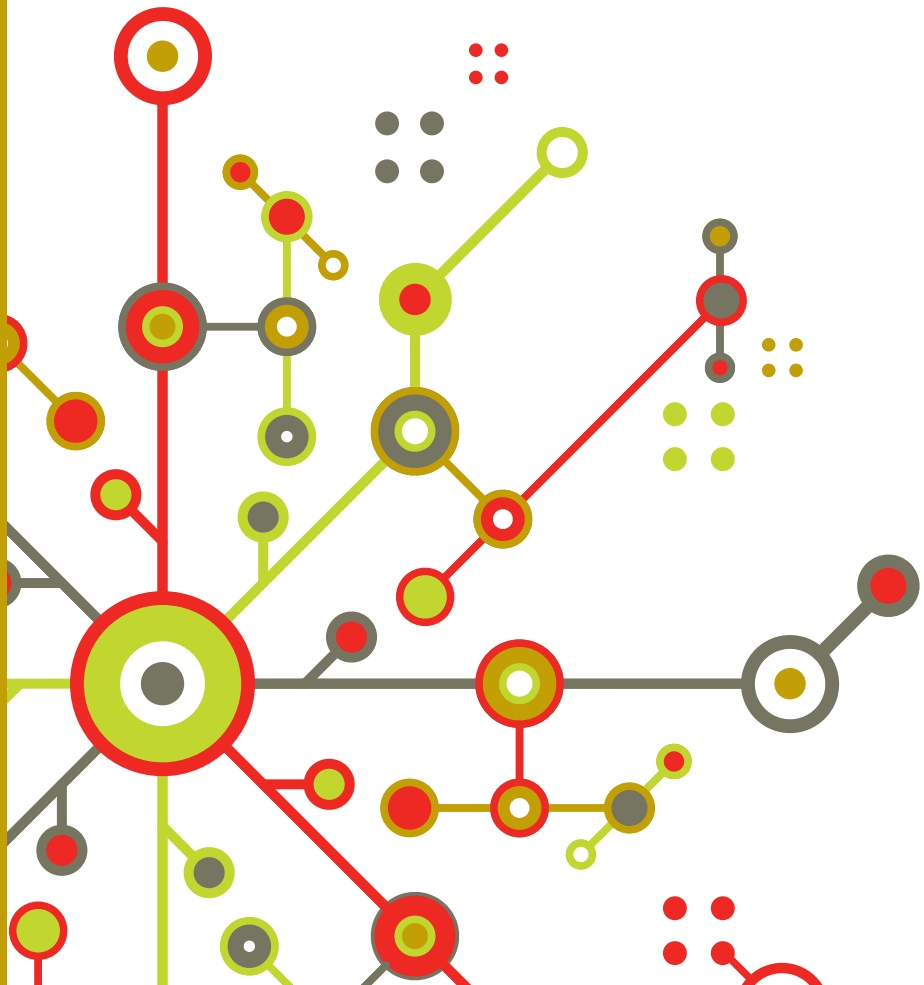
Today's next-generation Web content management systems address the challenges of our increasingly dynamic and digital world. With these systems, you can drive a closed-loop, automated process that lets your marketing team:

- Easily create and manage dynamic Web sites
- Quickly assemble customer segments and targeting rules
- Automatically deploy and deliver targeted content and segment-specific site navigation
- Track the behavior of site visitors
- Analyze the effectiveness of content and campaigns
- Quickly make adjustments and improve online experiences

These next-generation Web content management systems also incorporate open frameworks that allow tight integration with best-of-breed Web analytics technologies, as well as other customer-intelligence applications such as customer relationship management systems. This is important because Web analytics provide insight into the value and quality of your Web site's content by enabling you to view the behavior of your online visitors over time. When properly integrated with Web content management, this insight can be used to improve, and continuously refine, the online experience.

Important criteria for these next-generation systems are simplified processes, rich interfaces, and powerful rules engines that can be driven by marketing and business users without undue reliance on IT.

Marketers know that they need to actively engage customers and prospects across all channels. Whether through mobile applications, podcasts, or rich Web experiences, marketers can, and should, encourage customers to be participants in helping to shape their brand. We know that technology exists to help enable that.



social influence marketing

think social influence marketing in 2008

10 social media trends that will influence advertising

Shiv Singh, Director, Global Strategic Initiatives, New York

IS THERE ANY DOUBT that social media exploded in 2007? The astounding growth of Facebook alone forced everyone—not just marketers but corporations, investors, academia, and media—to pay attention to social media as a serious business and cultural phenomenon.

But the bigger question is, how will social media change the way we do business in 2008?

In fact, we're discovering a major shift occurring. The rise of social media is creating a new form of marketing altogether, which we call social influence marketing (SIM). SIM is about employing social media as part of the entire lifecycle of a marketing campaign, even beyond the campaign.

Here are 10 major social media developments for 2008 that you need to know about:

1. **SIM becomes the third dimension of marketing.** Marketers used to live in a world where brand marketing and direct response were all that mattered. Not anymore. SIM requires new strategies, rules, and tactics along with a lot of experimentation; it is about leveraging social media at every stage of a marketing campaign, and it goes beyond the lifetime of the campaign, too. In fact, we believe that over the long term, it is going to have a stronger effect on purchasing behavior than direct response and brand marketing.

2. **Advertising on your consumers' terms.** SIM is also about the active advertiser attempting to engage with consumers on their own terms—where they want and in a language and format of their choosing. The most immediate impact? Slick, big-idea advertising will have less influence than marketing strategies that allow companies to participate in online conversations. eMarketer predicts that ad spending on social networks will rise to $1.6 billion in 2008 from $920 million in 2007. That's because of this trend.

3. **Forget about the marketing funnel.** We're already starting to see that social media in all its forms is having a complex influence on the marketing funnel. The awareness, consideration, preference, action, and loyalty funnel stages don't look the same anymore. Peer reviews, social networks, blogs, microblogs, prediction markets,

virtual worlds, wikis, and social advertising are all making the marketing funnel look more like a Kandinsky painting than a linear process. We're going to see this transformation in 2008 as SIM impacts purchasing behavior and the traditional marketing funnel.

4. **Social networks matter more than Web sites.** It is anybody's guess how long Facebook's prominence will last. MySpace, Bebo, Orkut, LinkedIn, and Plaxo are just some of the competitors mounting a serious threat to its prominence. But we do know that social networks are here to stay. Any company developing a new Web site, product, or marketing campaign needs to think hard about how it integrates with the key social networks. This can't be an afterthought anymore. SIM is about reaching these audiences on these networks.

5. **Engagement metrics come to the forefront.** A lot of the Web's success as a marketing platform is driven by its ability to capture strong metrics. That's at the root of Google's phenomenal success. Now with SIM, new measurement models and corresponding tools will be needed to actually track whether it is having a stronger effect on the purchasing cycle than brand marketing or direct response. For example, what does it mean to have 7,000 fans of your company's Facebook page?

6. **The Internet blends in with everything else.** We've all talked about the corporate Web site becoming less important as users gravitate to social networks, but there's a larger related trend that we're ignoring. Consumers don't see the Internet as something distinctly different from their offline worlds anymore, and they expect seamless transitions. Every key consumer activity has online and offline components—each one contributing to the total experience. The reason? Finally, the online world is getting more social, and as a result, more like the offline world.

7. **Media companies continue to be at the forefront.** We saw this in 2007, and we're going to see more of this in 2008. Media companies are going to be at the forefront when it comes to taking advantage of SIM trends. Whether it is in how they approach social media and deliver video in new formats via the Web (or through a gaming system), or how they seed media within the social networks, they're the ones who are going to be in the lead again. Just play around with the recently launched Hulu beta Web site—a joint venture between NBC and News Corp.—to get a sense of what's coming our way. The reason is simple—they are the ones who have the most permission to play in this space.

8. **Companies realize that communities matter again.** In the late 1990s, online communities were all the rage. The success of the WELL, America Online, Tripod, and GeoCities were just some of the much-touted examples. Companies are going to discover that social networks are just another incarnation of online communities. They're going to spend money trying to understand adoption, user behavior, trust, and information flows in these communities. And as companies attempt to influence behavior on these networks, they are going to think hard about their own tone and how they should be participating.

9. **SIM takes many different forms.** We already know that social media for *The New York Times* is dramatically different from the social network strategies for Victoria's Secret, Carnival Cruise Lines, or Ford Motor Company. Companies and individuals will need to think hard about what SIM means for them and for their networks, organizations, and industries. For example, the travel sector is only beginning to harness the power of social influence marketing. The way it leverages it should be very different from the way the financial sector does so.

10. **SIM broadens influence.** Organizations are going to discover that SIM is not just about user-generated content or marketing on social networks—it is going to affect how organizations innovate, develop ideas, recruit, measure performance, and interact with all their constituents—customers, employees, partners, and shareholders. Why? Because only by changing their organizations from the inside out will companies be able to be authentic when talking to the outside world.

So that's it—10 SIM trends for 2008. Which of these will turn out to be true, and which will not, only 2008 can tell us. But one thing is certain: SIM going to prove its relevance in the years ahead.

For more thoughts on this topic, visit **goingsocialnow.com**.

fair trade

An argument for rewarding users on social networks

By Frank Kochenash, Director, Strategy and Insight, Seattle

TRAFFIC ON SOCIAL NETWORKING SITES IS BOOMING and user-generated content is proliferating. A recent study by Nokia forecasts that 25% of all Web content will be user-generated by 2012. But so far, hype seems to be outpacing genuine value creation. Sure, Facebook has a sky-high valuation, but how are advertisers, the source of Facebook's revenue, faring? As advertisers go, so goes Facebook and social media in general. Their success is intertwined.

With all the traffic and activity, why aren't we seeing more value creation from social influence marketing? (Also known as SIM, it's a collective term used to encompass a variety of methods that leverage social activity to drive business results.) It's not because of technology problems or even regulatory hurdles. Rather, value creation in social media is hindered because today's business models aren't creating the right conditions for growth and because there are no proven ways to measure the success of a SIM campaign. In short, it's new, and everyone is still figuring it out.

In the Web 1.0 world, Web site owners made money in two ways. They posted content that attracted audiences, and then they sold advertising, or they sold stuff to users directly and made retail profit margins. eBay's model is a notable departure in that it makes money by facilitating transactions between peers.

In today's Web 2.0 world, the same business models are being tried (eBay's peer-to-peer model largely excepted). The table on the next page highlights several SIM techniques and some challenges each faces within existing business models. To some extent, these challenges reflect the newness of SIM. On the other hand, innovation may be somewhat thwarted because the parties that control the valuable social data (social networking sites or sites hosting user-generated content) are trying to harvest the majority of the value. The problem with this, of course, is that these sites don't really have anything to sell and, so far, advertising has been relatively ineffective.

Hurdles facing a selection of social influence marketing techniques relevant to social networks

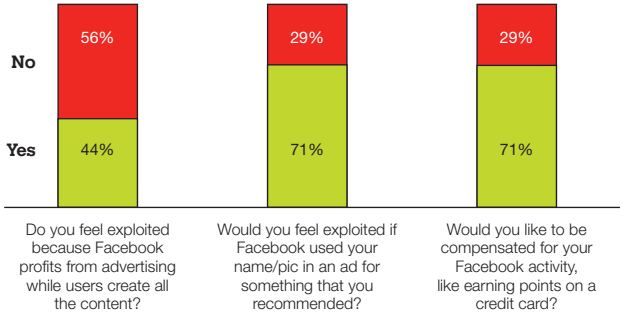
SIM technique	Challenges preventing wider success
Advertise on social media	User attention focused but not on ads; user interface not optimized for advertising; content relatively "uncontrolled"
Use social data to target advertising	Privacy and data sharing concerns
Create profile pages, group pages	Lack of measurement capability that ties to ROI
Deploy widgets	Immature business model, lack of measurement capability that ties to ROI
Facebook Beacon	Privacy concerns, ROI measurement

SIM business models will evolve to become more centered on the user. As this evolution occurs—as incentives are created that compensate users for the content and audience they create—and as new, clear ways to measure SIM effectiveness are developed, there will be a new wave of innovation and marketing opportunity. By way of example, consider the following questions:

- Facebook users make Facebook valuable. Why aren't they compensated in some way for the traffic they generate?
- YouTube users upload videos that make YouTube valuable. Why aren't they compensated in some way for the content they provide?
- Google has a great algorithm, but it would be worthless if millions of people didn't enter keywords and click selections every day. Why aren't people compensated in some way for the valuable data they provide?

Of course, it could be argued that the users *are* compensated. Facebook users get the ability to interact on the fly with their friends, YouTube users get a wide selection of well-organized videos, and Google users get highly relevant search results. But in a world where the consumer is boss and consumer enablement continues to grow, this will change. It's happened in other industries such as consumer credit, air travel, and retail. In all cases, as the product market matures and commoditizes, providers will strive to differentiate themselves by adding other consumer-valued features. The data in the graph to the right (gathered from Facebook's Polls feature) indicates a sense of exploitation amongst social media users and an interest in being compensated for their activities.

Users looking for love, and some points, on Facebook?



Source: Individual Facebook polls conducted randomly on 1/13/08

The trend has already started and new business models are being tested. Revver pays users for the videos they upload by giving them a cut of ad revenues. Sites like **favoritethingz.com** and **mypicklist.com** pay users for endorsements. SocialVibe enables users to get points based on social activity and donate them toward chosen causes. Google is launching a competitor to Wikipedia that pays for contributions. In many ways, it's back to the future for content—users get paid for creating content—but what about advertising? It's not a stretch to think that sometime soon a large-scale user-advertiser exchange will be created to pay users for the advertising inventory they create. This concept has been discussed before, but the timing may now be right for it to grow. Additionally, in as much as search is a form of user-generated content, it is not immune to these pressures. Every search term entered and every result clicked is valuable work that today is only compensated with relevant search results. This is by no means a small achievement, but as competition increases, users will expect additional differentiation from their search tools. This may be monetary rebates like credit card offers, reward points like frequent flier miles, or access to value-added services such as search results customized to the user. Already, Livesearch Club compensates users in points for search activity on Microsoft Live.

No one knows exactly what kind of business model, or models, will result, but as social networks and application makers struggle to monetize their audience and as new entrants compete aggressively for users' time and attention, the social media business model will evolve to more explicitly provide value and differentiated benefit to the consumer.

It's hard to anticipate specifically how this will evolve, but several developments can be expected. Social media sites will prosper more as parts of larger communities (because their valuable user data can be leveraged over more places where the audience is more receptive to marketing messages); interconnectedness and data portability between social utilities will improve; and consumer empowerment will be a key differentiator for social networks. Expect to see increased competitiveness and specialization among social media sites and utilities, each trying to differentiate the network through perks available to members. The fragmentation of social media sites implies four other effects:

1. Advertising networks that can effectively leverage social information will become marginally more important.

2. Widgets, as vehicles to carry a message effectively within and across various social media environments, will become more popular.

3. Exchanges or clearing houses will arise to provide compensation in some form (e.g., cash, rewards, points, status) for users.

4. Niche social media will become attractive places for brands to engage in SIM because relevance can be increased.

What does this mean? There are several potential ramifications for different constituencies:

Bids to monetize social activity. Marketers across the SIM landscape will need to consider whether advertising alone is the best way to monetize social activity. Is there room for paid services or subscriptions? Do loyalty programs have a place?

Increased concentration on developing SIM metrics. Advertisers will need to figure out how to measure the impact of their SIM investment and how to effectively integrate it with their other marketing activities—key metrics and benchmarks must be developed. Marketers need to prepare to deal with a fragmented spectrum of social media offerings—it's not wise to bet on only one site. It also means preparing to identify and deal with stronger advertising networks.

Coping with empowered consumers. For publishers of social media sites, it means preparing for a world of empowered consumers who expect more perks to participate on a site and surrender valuable personal data. It means changing or adapting the business model so that they are not solely reliant on advertising for revenue.

Finding those who find can find value in SIM. For investors, it means focusing on ad networks that include social networking sites, effective widget developers, and the marketers that know how to use SIM effectively. It also means that companies and new entrants that innovate on the social media business model (not just the technology platform alone) will be new sources of value creation.

Even as social networking made arguably more headlines than any other form of online media in 2007, the advertising models that can work in that environment are still very much in their infancy. As they are built out, they will need be quid pro quo, so that consumers, not just advertisers and publishers, benefit.

the six "Cs" of social influence marketing

By Terri Walter, VP, Emerging Media, New York

IN LESS THAN TWO YEARS, social networking has had a transformational effect on the way we communicate. For teens, social networks are the hub of existence. For many professionals, they have become a primary source of networking. For the average Web user, social networks offer ways to stay better connected to a passion point, hobby, or issue and for connecting or reconnecting with family and friends.

For brands, social networking has also opened up new formats for engaging with consumers. Display advertising is certainly a viable ad model in social networking environments, but the real opportunity for marketers is to leverage the unprecedented community-building aspects of the medium to build their brands. Whether through unique content on brand profile pages, widgets with pass-along value, blogs, mashable video, advocacy programs, virtual avatars, or brand Web sites with social networking elements, marketers are experimenting widely in the space while getting better attuned to consumers' opinion of their efforts.

While the opportunity is significant, it is not easy to join the communities that your customers have formed. There are six "Cs" of social influence marketing—the main principles that make it work.

1. Content

In 2007, many brands experimented with social networking environments—for better or for worse and in various forms. Brands like Victoria's Secret loungewear line PINK and Nike seem to thrive in the space, giving consumers access to unique content they can't get anywhere else. Access to valuable tools and content is a key factor in a consumer's decision to interact with a brand.

Content can take many forms: brand badges, coupons, wallpapers, behind-the-scenes movie clips, mashable video, updated stock quotes, recipes, sweepstakes, mobile downloads, charity donations, or plain information. Content can also take many formats—on brand pages, in widgets, through avatars, or via mobile phones. Regardless of their goals, brands need to think about customizing bite-sized, portable content or experiences for their most prominent target segments—content that their "friends" would be proud to display, share, or support.

2. Customization

One of the foundations of social media is customization. In social networks like MySpace or Facebook, users are defining themselves through their profile pages and the elements that they choose to display, and each profile is personalized. Users crave the ability to customize content, post it, share it, and make it their own. On user-generated content (UGC) sites like YouTube or Flickr, users are either building custom video or seeking content they can collaborate with or personalize that represents their particular likes, interests, or humor. Jeep's custom video channel on YouTube is a good example of a how a brand and a community can come together by way of a common passion—love of driving—to share personalized content. While not all UGC is positive, the genuine quality of UGC can add significant dimension to a brand among a community of influencers.

In social media, marketers need to understand where their brands intersect with the passion points of their consumers. But ultimately, they need to empower consumers to express themselves via their connection to the brand. In most cases, brands can craft the framework of a campaign, but the customization of content and the dialogue around the campaign will be up to the consumer.

3. Community

The foundation of every community is a relationship rooted in trust and mutual interest, and online communities operate the same way. A first step for brands that want to participate is to understand the community they are convening with and what holds them together. The second step is to realize that they do not speak naturally in this space, but people do, so there is a need for marketers to think carefully about how to personify and express their brands in an appropriate way before jumping in. For Dove, the cause the brand has supported as part of the Campaign for Real Beauty—the self esteem of girls—has been enough to stir conversation and community among the target audience it sought, and to carry its viral video efforts through to success. Taking a genuine approach to social influence marketing that is truly rooted in a cause, a topic, a utility, or a behavior that is both relevant to the community and the brand will ensure a healthy campaign.

Building community for brands in social networks is hard. The adage "build it and they will come" is not applicable here. In order to build community within social media campaigns, brands need to achieve several things:

- Give users a reason to interact with your brand frequently by providing unique content, value or engagement.

- Let your content travel by distributing it across widgets and other mechanisms beyond your Web site.

- Consider adding social networking experiences on your site that relate back to your brand pages on social networking sites.

Many campaigns in social media can be aided by display media, PR, or other promotional support, but it is important to avoid a heavy-handed attempt to promote yourself—either you are providing a unique value to the community or you aren't. If you are, consumers embrace it; if you aren't, no amount of advertising will help. Our client work has shown that social marketing programs with media and promotional support have had much stronger results in terms of user participation and exponential pass-along value than those that were word-of-mouth only—but only when that support was consistent with the needs of the community.

If you use media support to launch a contest on a social network, it is also important to have your media do more than link to your home page. Your media buys on MySpace, for example, should link to your brand and/or campaign profile pages and to any other branded social networks you have developed on your Web site in order to build community around your campaign. Widgets and widget distribution networks like Gigya and ClearSpring have also proven effective at distributing content widely and rapidly among communities with common interests.

4. Conversation

Brands are so intertwined with our culture that inevitably many consumers represent aspects of their personalities through the brands they associate with, advocate, or even criticize. The social media space is unique in that dialogue is happening openly among consumers about the things they admire and despise the most. This creates both an opportunity and a challenge for marketers. Brands can tap into positive buzz and build a network of advocates to support customer relationship building and new sales. But brands must also accept the negative conversation and hear the signals that may help them mitigate a problem before it escalates.

Social networking environments are public—but from the point of view of consumers, it is still considered private space that warrants permission or value to enter and collaborative behavior to stay. Brands need to respect this space and explore how they can create benefit with consumers that warrants their welcome and continued conversation. Importantly, these conversations need to be transparent—nameless, faceless brand representatives are unlikely to connect with the community in a meaningful way.

5. Commerce

Many marketers are concerned about measuring success in the social media space. Standards and metrics are not yet well defined, and success varies based on the advertiser and type of campaign, as well as the kind of social media environment a marketer is participating in. UGC sites, blogs, and social networks are all slightly different environments for brand participation, and the metrics you lay out in the beginning of a campaign need to factor in the environment and its nuances. The coming year should bring additional progress in establishing metrics for engagement, buzz monitoring, and reputation management across the social Web.

As methodologies for measurement emerge, there is one factor around social influence marketing that is able to give marketers more immediate satisfaction: commerce. Whether you offer coupons on your brand profile page like Victoria's Secret PINK, enable commerce in widgets, or build an entirely new product category like Nike+ that pays off in product sales, brands can gain a return on their investment in social media that goes beyond customer relationship building or branding. However, marketers should tread lightly when trying to establish social influence marketing as a direct driver of commerce. The community has not come together to help companies sell products.

6. Commitment

As mentioned earlier, consumers expect brands in social networking environments to bring some kind of benefit to the community they foster. Any brand can enter the social media space on a campaign level or experimental basis, but those who can actually make a commitment to building a presence, a community of friends, and a steady amount of new content to keep their communities engaged will benefit most.

As marketers focus on the six "Cs," they will find that social influence marketing enables them to establish ongoing customer communication, solicit feedback on products and services, provide more value to customers, enhance a brand's reputation, and enable brand advocacy. Ultimately, it will help them drive sales.

the social technographics profile

By Charlene Li and Josh Bernoff, Forrester Research

WHEN TRYING TO UNDERSTAND the ways people are participating online, consider the Social Technographics Profile, a way to group people based on the groundswell activities in which they participate. Think of these groups of people and their activities as rungs on a ladder. The ladder shows how we can classify consumers according to their involvement in the groundswell, placing them into one or more of six overlapping groups. Notice that these groups overlap—most Creators are also Spectators, for example. The Social Technographics Profile includes the following groups.

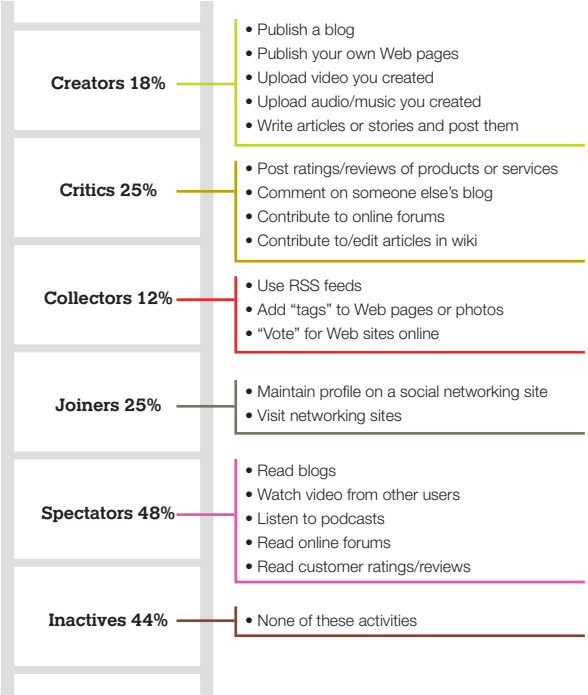
Creators, at the top of the ladder, are online consumers who at least once a month publish a blog or article online, maintain a Web page, or upload videos or audio to a site like YouTube. In the U.S., Creators represented 18% of the online adult population in 2007; in Europe, they were only 10%. South Korea, which has an extremely active blogging population, included an amazing 38% Creators.

Critics react to other content online, posting comments on blogs or online forums, posting ratings or reviews, or editing wikis. Since it's easier to react than to create, it's no surprise that there are more Critics than Creators. One in four online American adults is a Critic, as are one in five online Europeans and 36% of Japan's online population.

Collectors save URLs and tags on a social bookmarking service like del.icio.us, vote for sites on a service like Digg, or use RSS feeds on services like Bloglines. This act of collecting and aggregating information plays a vital role in organizing the tremendous amount of content being produced by Creators and Critics. For example, anyone who searches for "Maui Hotel" will come upon the collected sites with that tag on **del.icio.us**. Similarly, visitors to **digg.com** see the top stories recommended by the collectors on that site. Collectors are an elite group, including only around 10% of online Americans and Europeans, but should grow as more sites build in diverse types of collector-type activities. Collecting is more popular in Hong Kong and South Korea than in the U.S., but is actually less popular in Japan, where only 6% of online adults are Collectors.

Joiners participate in or maintain profiles on social networking sites like MySpace. In the U.S., where Facebook is growing rapidly among adults, Joiners have already reached 25% of the population; in South Korea, where CyWorld is popular, it's nearly 40%. Right now, Europe is behind on social network activity, with Joiners only half as common as in the U.S.

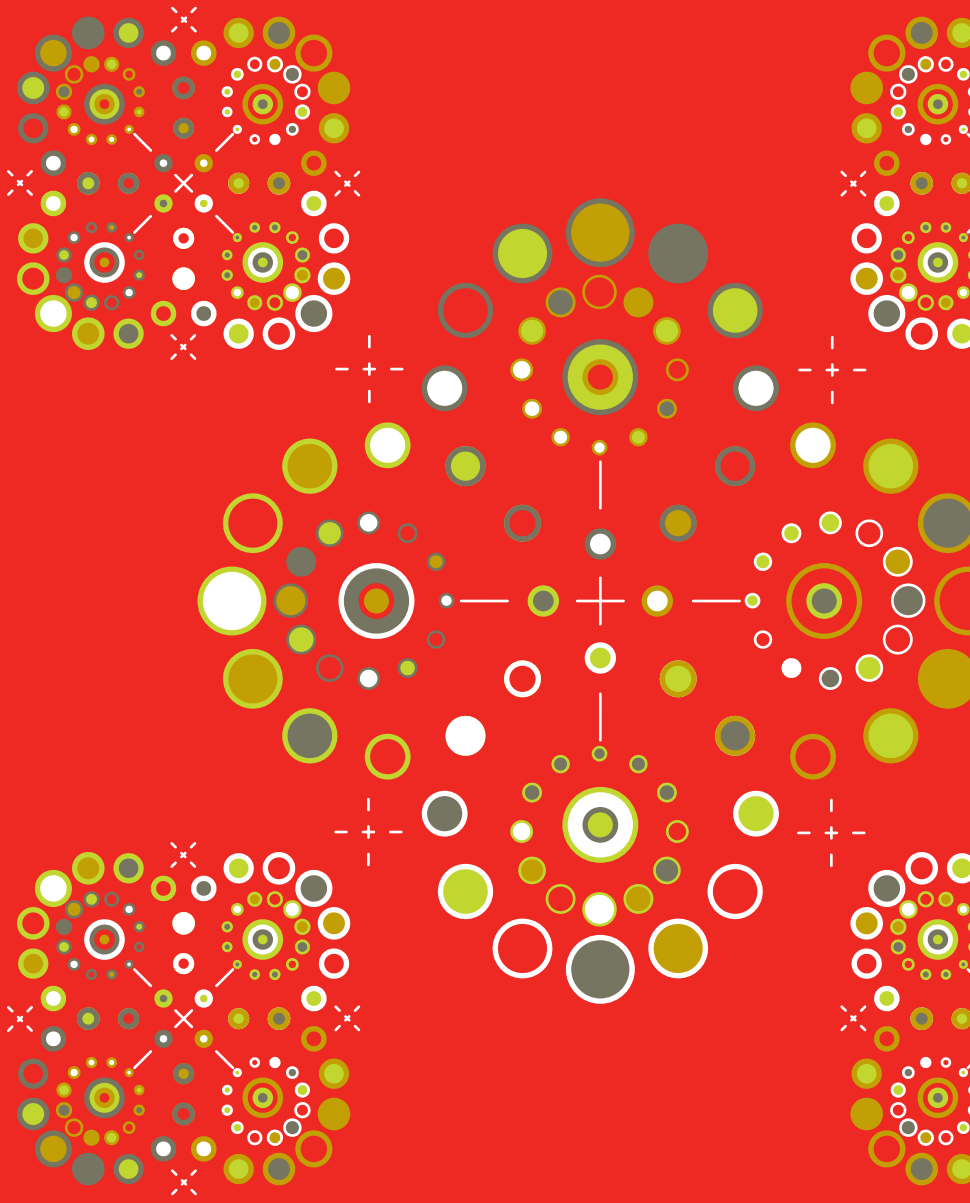
Spectators consume what the rest produce—blogs, online videos, podcasts, forums, and reviews. Since being a spectator requires so much less effort than the other activities in the groundswell, it's no surprise that this is the largest group, with 48% of online adult Americans, 37% of online adult Europeans, and two-thirds of the online adults of Japan and of the large Chinese cities where we conduct surveys.



Base: U.S. adult online consumers. Source: North American Social Technographics® Online Survey, July 2007.

Inactives—non-participants—still remain. Among those online in 2007, 41% of Americans, 53% of Europeans, and only 37% of South Koreans are untouched by the groundswell. Of course, this is just the online population. Offline consumers can't participate at all.

The real power in the Social Technographics Profile is this: With it we can understand how social technologies are being adopted by any group of people. If that group happens to be your customers, you can use their Social Technographics Profile to build an appropriate social strategy.



the state of search

the state of search marketing

By Matt Greitzer, VP, Search Marketing, New York

2008 MARKS THE BEGINNING OF THE SECOND DECADE of marketers' concerted efforts to acquire, retain, and grow customers through the search engine channel. And while some areas of the channel are maturing, innovations in the search marketing arena continue at breakneck speed. This section highlights some of the key trends that will shape search marketing in 2008, such as the rise of universal search and the growth of international search marketing campaigns. It also explores key trends and developments in the paid search and natural search landscapes that will influence search marketing efforts in 2008 and beyond. This section concludes with a snapshot of the local search market as seen from the eyes of five key players in the local search space.

Trends to Watch in 2008

Universal search

Online content is moving rapidly away from the text-based constructs of the mid-1990s, yet audio, video, and other rich Internet applications are still largely ignored by current text-based search user interfaces. That should change in 2008, as this will likely be the year search engines embrace sight, sound, and motion. Google received credit for driving this development with its launch of universal search in May of 2007. As Marissa Mayer, Google's vice president of search products and user experience writes, "With universal search, we're attempting to break down the walls that traditionally separated our various search properties and integrate the vast amounts of information available into one simple set of search results." Put another way, universal search is an attempt to index, categorize, and display the most relevant information for a query regardless of format: audio, video, images, press releases, and other rich Internet applications.

While Google received the credit for universal search, its efforts were preceded by innovative new user interfaces launched by Ask.com and AOL. Yahoo! and MSN, too, were experimenting with multimedia search user interfaces before Google's much-lauded announcement. Who came first aside, the landscape is shifting dramatically for search marketers, with the most immediate opportunity for search marketers being in natural search. Marketers will need to shift their search engine optimization strategies away from page-based optimization towards a multimedia content distribution strategy. Video, audio, and rich applications will need to be online and available for index by major search engines. Opportunities to distribute multimedia content directly to search engines via feeds are also becoming a reality and will increase in the future. Marketers without a feed management strategy should address this gap in 2008 and set the foundation for a sound feed distribution program.

Search as research

One of the more academic developments in the search marketing landscape over the past year is the nascent practice of using search as a research channel. At its root, an expression of customer demand, marketers are starting to develop tools and techniques to use search query data to discern consumer needs, understand market

trends, and identify product opportunities. On the most basic level, marketers are using paid search ad copy to test offers and promotions and apply their findings to position products more effectively on a broader scale. Capital One Auto Finance, for example, applies this technique to help determine the most effective way to promote their loan products, gauging consumer response to certain product variables. Because of the ease of implementing and executing this kind of consumer testing, Capital One can obtain feedback quickly and inexpensively and apply that insight to product positioning as well as other marketing messages.

A more entertaining example of the search-as-research phenomenon is the use of search query volume to predict future consumer interests. Google, for example, has demonstrated a consistent correlation between increased search query volume for a new movie title and the movie's ultimate success. No doubt this technique could be used to predict market activity in other categories.

The search-as-research trend received a windfall recently when Microsoft opened up its Keyword Services Platform to the development community. An unfiltered view into search query activity across the Microsoft search network, it allows marketers to uncover new value in search query data. With the potential for becoming an entirely new business segment in the search marketing community, the search-as-research channel deserves serious attention going forward.

Search-focused content strategies

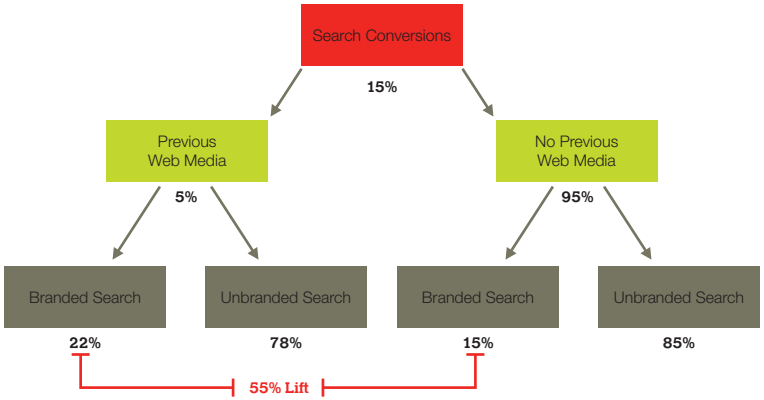
Marketers are shifting focus as well to align their content better with the search marketing channel. In the past, advertisers—especially large ones—gave little thought to the unique needs of customers coming in through the search channel. They simply drove traffic to existing Web content and landing pages as effectively as they could. Sophisticated search marketers, however, are now starting to tailor Web content and user experience specifically for customers coming in through search. We have labeled these efforts "search-focused content strategies." Advertisers who employ these strategies make the effort to understand the intent of the searcher through quantitative and qualitative data. They then assess their current Web site experience and make adjustments to content, taxonomy, and navigation based on their findings in an effort to provide a better experience for customers coming in through the search channel. While this may seem like the tail wagging the dog, for advertisers spending millions of dollars each year on search marketing, the shift towards a search-focused content strategy is a relatively small investment that can have dramatic impact on search marketing performance.

The iPhone appears to have delivered new hope for growth in mobile. The multiple interaction points of the device (touch, voice, type) offer unlimited possibilities for the next generation of on-the-go searchers. The general consensus is, and always has been, that the demand for information whilst out and about is enormous. It may be that the iPhone gives mobile search the kick it needs to become mainstream.

Nathan Levy, Head of Search, London

Online advertising attribution

As an industry practice, online advertising attribution (the practice of how touchpoints lead a customer to convert) is typically based on a prospect's last touchpoint prior to conversion. More often than not, the last touchpoint is through search. But a prospect is likely to experience several interactions with an advertiser prior to converting. Therefore, campaign investment decisions that are often made solely based on that final touchpoint may not be optimized to take into account the impact of prior exposures. Understanding these interactions and how they ultimately lead to a conversion has a significant impact on how we approach digital marketing investment strategy.



We conducted a conversion attribution analysis for a client to examine the impact of prior exposures on conversions and to help the client adjust the campaign metrics based on all touchpoints that contributed to the conversion. We found that previous exposures did have an impact on conversions. Specifically, display advertising acted as a lead generator because it influenced prospects who ultimately converted after clicking on paid search terms. In this case study, display advertising contributed to 39% more conversions than it was given credit for. Additionally, previous exposure to a display banner increased the likelihood that a user would enter a

branded search query instead of an unbranded query by 55%, thereby moving the prospect further along the sales funnel and generating a cheaper search click conversion.

The result of this analysis was that the client bought display media that would have otherwise been taken out of a media plan focused solely on the last touchpoint. This media was evaluated on how effectively it drove conversions and the marginal improvement it drove in search campaigns. Ultimately, using a more sophisticated media measurement approach drove higher return on investment for the client.

Vertical search

It seems each year there is discussion of the breakout potential in vertical search. While it's unlikely 2008 will bring about widespread consumer defection from the major search engines, vertical engines in several categories are gaining significant traction in the marketplace. Consumers have demonstrated their growing preference for hyper-targeted content in areas where they search most, as typified by the strong growth and recent merger of online travel metasearch engines Kayak and SideStep. Activity in the healthcare space is heated, too. Search engines like Healthline and Healia made a splash in 2007 and are carving out a niche as both primary and secondary healthcare research sources. WebMD, too, has been using TV commercials to aggressively promote its site as the go-to destination for healthcare searches.

The major search engines are not sitting on the sidelines in the vertical search game. Google has long been rumored to have designs on a health-specific offering, and its initial efforts working with physicians and professionals on Google Co-op—which allows third-parties to build custom search engines—may have been its first foray into this space. Meanwhile, Yahoo! recently pushed its FareChase metasearch engine to the forefront of Yahoo! Travel, no doubt a direct response to the success of Kayak and SideStep. Again, while consumers will not bypass major search engines altogether for vertical-specific alternatives in 2008, vertical search engines are making significant inroads into consumers' search behaviors. Marketers should take time to understand the vertical search landscape in their industry and explore marketing opportunities where suitable.

Google's greatest strength is their ability to reward advertisers who respond most relevantly to searcher demand. They've pushed the entire industry to accept this model, and in doing so created value for Google, advertisers, and customers alike. It will be interesting to see if Google can maintain their agenda of relevant, interactive communications as they move into other areas, like display and offline media, where this concept is less established.

Adam Heimlich, Director, Search, New York

key developments in paid search

By Brian Krick, Director, Search, Philadelphia
and Lindsay Blankenship, Associate Director, Search, Atlanta

AS CONSUMER MEDIA CONSUMPTION migrates from a traditional broadcast model to a time-and-place-shifted on-demand model, search continues its rise as a primary means of navigation as opposed to traditional content browsing. Not only "online" consumers are searching for directions via GPS units and for entertainment via digital cable platforms. This cross-channel adoption of search as a means of navigation has led to continued increases in search volume. Combine the reach with the targeting opportunity search presents for marketers, and it is easy to understand why paid search marketing continues to develop and evolve at breakneck speed. Jupiter Research reports domestic paid search spending will continue to grow at a compound annual growth rate of 15% over the next five years, hitting $18.5 billion by 2012. As advertisers continue to invest heavily in paid search, they should be mindful of changes in the landscape that will influence marketing success over the next year and beyond.

The most significant development in paid search in 2007 was the disappearance of transparent bidding. Yahoo!, the last holdout in adopting the opaque Google bidding model, eliminated transparent bidding with the launch of Panama in the first quarter of 2007. While this type of bidding was only a minority of paid search volume, its demise at Yahoo! marks the end of an era of relative transparency in paid search economics. As the prices advertisers are willing to pay for search clicks are now obscured across all search engines, advertisers are operating in a blind market. And as any economist knows, a blind market always favors the seller—in this case the search engines.

Related to the opacity in the bid landscape is the increasing anxiety advertisers have about Google's Quality Score. Launched by the search giant several years ago, Quality Score is an added variable in Google's auction model based on the company's perception of the quality of an ad and the quality of the advertiser. Because Google offers little insight into how Quality Score is determined or how it can be managed, advertisers are apprehensive about poor scores driving up costs with little advertiser recourse. To add to their apprehension, Jordan Rohan, an analyst with RBC Capital Markets, has speculated that a late 2007 adjustment to the Quality Score gave Google wide latitude to manipulate it to extract maximum revenue. According to Rohan, Quality Score now acts as a revenue dial, which Google can turn up or down at will. To date, our clients have seen little or no impact resulting from the recent Quality Score adjustment, but the implications it has for Google's ability to control the marketplace for paid search gives even the most confident advertiser pause.

On the subject of competition, 2008 will likely bring about exciting developments in the paid search trademark debate.

While advertisers' insight into and control of paid search bidding is in decline, their ability to understand the broader competitive landscape in which they operate has never been greater. Once a blind spot in the paid search planning process, knowledge about competitive advertisers' strategies is now being provided by several software providers. Companies such as AdGooRoo, Compete, and comScore offer data such as automated information on competitors' ad copy, keyword selection, and budgeting strategies. Armed with current information on the environment in which they compete, advertisers can make better decisions about their paid search programs and identify opportunities. For example, utlilizing AdGooRoo's software, advertisers can easily identify relevant keyword inventory their competitors are not addressing. This can allow them to find pockets of efficiently priced keyword inventory and address opportunities their competitors have not identified.

The emergence of competitive analysis tools in paid search is relatively new, and it is likely that innovation and development will continue to bring about useful information to give advertisers an edge. Savvy search marketers understand the opportunities in accurate competitive intelligence and will incorporate this data into the ongoing management of their paid search programs.

On the subject of competition, 2008 will likely bring about exciting developments in the paid search trademark debate. At stake are the fees advertisers pay for paid search clicks on their own branded keywords. Two pending lawsuits, one brought by American Airlines and another by 1-800-Contacts, challenge the practice of bidding on competitors' trademarked terms. While several previous cases have upheld the practice, none have settled the issue. Search marketers will watch these two cases with great interest—and they should remind advertisers bidding on trademarked keywords of the inherent danger of litigation that may result from this practice.

Google continues to be the leader of the search engine pack, holding down 63% of the search market share, and the company is pushing into new channels as well. Print, Newspaper, TV, and Radio all are now Google offerings with the capability to buy, manage, and report through the AdWords interface.

In April 2007, AOL launched AOL Search Marketplace for the top 2,000 advertisers. Backfilled by Google (paid and organic listings), Marketplace provides advertisers the opportunity to purchase and manage pay-per-click from AOL Search properties while using a white-label version of Google's premier management tool, AdWords Editor. AOL has yielded strong client results, including increases in click-through-rates (CTRs) and higher revenues per sale for select clients.

Unique to AOL Search, the Trademark Layer offers premium placements for advertisers and trademark protection of brand terms, which results in average CTRs of 15% to 20%. This opportunity gives multiple high-visibility text links above the sponsored and Web search results as well as a branded logo.

AOL Search surpassed Ask.com's query share in December 2007 with 4.6% market share. This jump brought the newly launched search engine to fourth place within nine months. AOL enters 2008 with designs on joining Yahoo! and Microsoft in a battle for the number two position in search.

key developments in natural search

By Joshua Palau, Group Director, Search Engine Marketing, Philadelphia

ADVERTISERS CONTINUE TO FIND NATURAL SEARCH one of their most efficient and effective channels for acquiring and retaining customers. Yet many marketers—large brands in particular—are still under-investing in search engine optimization (SEO) and are missing the full potential of the natural search landscape. There are several reasons for their reluctance. SEO often involves site-side technical changes that clients are unable to implement due to resource constraints. Additionally, SEO is not as predictable or measurable as other forms of online marketing. Thus, the investment in SEO is taken on with some risk, and results are not always certain.

We find that marketers who embrace this risk are rewarded many times over. Not only do their SEO efforts produce returns that far exceed their costs, but they act as a multiplier of their paid search efforts. Those advertisers who are most successful at implementing SEO recommendations are those who build it directly into the Web development process. This allows SEO experts to address the upfront keyword research, site architecture, and search-friendly coding considerations necessary for search-friendly Web sites with no additional friction or deployment of technical resources beyond those already needed in the site design process. The trend of including detailed SEO considerations in the Web development process will accelerate in 2008 and eventually become a standard component in site creation.

Just as advertisers are changing the way they incorporate SEO into their businesses, search engines are changing the way they incorporate information into their search results. As discussed earlier, the advent of universal search will have a dramatic impact on marketers' SEO efforts. Universal search is a seismic shift in the way search engines find, categorize, and display content to users. Marketers without a multimedia content strategy will need to evaluate the impact audio, video, and other rich content has on the natural search results within their competitive set, and advertisers will need to reach beyond page-based optimization and link building to address this opportunity. Search marketers in the retail, travel, and entertainment industries, for example, will need a fully scaled multimedia SEO strategy to realize their full potential in a world beyond text-based search results.

Social media, too, will continue to have a strong impact on organic search rankings. News and information sites are already seeing an impact through the use of adding Digg, StumbleUpon, and Reddit tags. Articles "dugg" by others are appearing in the organic listings and leading to additional traffic. In the world of images and video, successful companies are digitizing all of their assets and loading them onto sites such as MetaCafe and Flickr to gain more exposure as these assets rise to the forefront of search results pages through universal search. And more marketers, too, are developing blog outreach programs. Beyond their reach and influence, effective use of the blog channel has two SEO benefits: inbound links from blogs aid link-building efforts, and blog entries are widely indexed by search engines and can give marketers additional exposure in search results outside of their own Web sites. Advertisers will need to take a closer look at their social media optimization strategy in 2008 or risk falling behind in this rapidly evolving field.

managing global search marketing

By Michael Buckley, Director, Media, Sydney

ONE OF THE MOST DISCUSSED TOPICS in search marketing today is the rapid growth of the international search market. International revenue made up a full 48% of Google's revenue in Q3 2007, and is expected to grow at a rate far exceeding U.S. revenue. Less discussed, but just as important for marketers, is the relative ease with which international campaigns can be executed. Automated, online interfaces and a market pricing model in which negotiation and relationships are deemphasized combine to put international advertising capabilities within reach of even the smallest advertisers.

While international search campaigns may be easy to implement, they still require in-market knowledge that is generally not available in a single location. Copywriting, keyword development, and insight into the competitive landscape are activities better suited to professionals with in-market expertise. In regions like Asia Pacific, covering at least six key countries with four different language sets is necessary. Couple that with the fact that different engines are favored in different countries—simply turning on Google country targeting may not capture the mass audience.

So what is the proper approach to manage a global campaign? Advertisers running successful international search marketing campaigns will rely on a combination of centralized execution and localized strategic support to make the most of the opportunity. Starwood Hotels, for example, relies on a centralized U.S. search team for strategic planning and execution, but also taps into local expertise in Europe, Asia, and Latin America for market-specific tasks. This model of centralized planning and execution with in-market support for localization and market-specific tactical needs allows for scalable international search marketing campaigns with limited resources. Look for large advertisers to increasingly move toward this "hub and spoke" engagement model for the effective and efficient management of global search campaigns.

an eye on local search

PERHAPS NO OTHER CHANNEL inspires and confounds marketers like the local search space. All signs point to growing consumer adoption of the local search channel—Yahoo! reports that a whopping 30% of all searchers have local intent. Yet the local search landscape is still unsettled—myriad local search providers, tactical challenges, and confusing pricing options cloud the opportunity. However, we remain bullish on the local search space because consumer demand for relevant, online local information is too great for advertisers to sit on the sidelines for long. To help provide a window into the future of this dynamic channel, we've asked experts from leading search providers Google, Idearc, Marchex, Medio, Microsoft, and Yahoo! to offer their points of view.

Eric Stein

Director, Local Markets, Google

Great local search depends on great content, and great content in the local arena comes from a wide array of companies—from the smallest to the largest. To encourage these businesses to use Internet marketing to their advantage, many technology companies have built platforms that enable merchants to advertise their products and services online. Yet TMP/comScore and Webvisible-Nielsen studies from 2007 show that even though consumers now turn to the Internet as their first resource for finding products and services, marketers aren't following their audience online as quickly as consumers are flocking there. The fact that the percentage of marketers using local advertising is currently only in the low single digits attests to the huge opportunity.

That being said, 2008 is poised to be a breakout year in which a number of factors will serve as catalysts for rapid development in the local space. Here are three of the most significant:

1. **Economy.** A slowdown in the economy will likely speed local merchants' adoption of the online medium. Pay-for-performance models, increases in return on investment due to consumer preference for the Web, and the ability of online advertising to drive in-store traffic will make the medium a must-have solution.
2. **Local service infrastructure.** Fortune 500 companies with large local footprints will stop waiting for local representatives to adopt the online medium, and instead will get directly involved by building programs and partnerships to ensure their local online presence is established. Traditional media companies from every vertical (directory, cable TV, local TV, newspaper, radio, etc.) will also forge partnerships with companies such as online ad platforms, search engine marketers, search engine optimization companies, and ad agencies to bring online advertising solutions to their local customers, making the Internet accessible to hundreds of thousands of additional businesses.
3. **Maps and mobile.** Consumer usage of mobile devices, especially maps, will continue to skyrocket, and advertising opportunities will bring specialized information to consumers.

All in all, we're poised for an exciting year in local search.

Local Search in 2008

John Keister

President and COO, Marchex

Consumers are increasingly relying on local search to make important decisions on goods and services. In fact, more than 80%[1] of search engine users search for local products and services (from where to buy a plasma TV to selecting the best home insurance provider), and more than 90%[2] of the transactions resulting from these searches are completed offline. In response to this shift of consumer behavior, marketers are increasing their local online advertising budgets. Spending is projected to grow from $8 billion in 2007 to nearly $20 billion in 2011,[3] equaling the $20 billion spent on total online ad billings in 2007.[4]

Over the past few years, we have seen marketers tailor their online advertising to local consumers through geo-targeted search campaigns. In 2008, marketers of all sizes will continue to target their campaigns locally, but they will augment these campaigns by taking the logical next step: employing more sophisticated tracking and optimization technologies to measure and expand their presence in local markets.

For example, a company such as Geico can optimize the performance of their motorcycle insurance ads that are geo-targeted to Southern California by employing call-tracking, allowing them to measure the effectiveness of campaigns and length of phone calls, map phone calls to transactions, and capture information on missed calls. With call-tracking, Geico can measure the number of transactions they generated over the telephone from several advertising campaigns simultaneously, and they can measure the effectiveness of each publisher, search engine, and target market involved in their campaign.

The local Internet offers outstanding growth opportunities for national marketers and agencies. The ability to track, measure, and optimize specific online campaigns by location will make local online advertising a foundational component of many marketers' advertising plans in 2008.

[1] The Kelsey Group 2007
[2] John Kim, Senior Director of Advertiser Product Marketing, Yahoo! Search, The Next Wave of Advertising 2007
[3] Local Online Advertising Forecast by Veronis Suhler Stevenson 2007
[4] Online Advertising Revenue by Internet Advertising Bureau 2007

Brian Lent

CEO, Medio Systems

In some respects, mobile search today is like Internet search was in 2000 or 2001, when the market leaders, business models, ads, and user interfaces were still in a state of experimentation and flux. However, there is a critical difference with mobile—local search is already established as a large component of the total search mix and is expected to grow at a faster rate. Today, 26% of searches through carrier-provided search boxes or third-party search services via the mobile browser are for local listings, according to Nielsen Mobile's recently released Mobile Search Report.

In mobile, user context is often more precise for advertisers both in terms of location and immediacy. Using the nearest cell site or GPS coordinates is superior to locating a user through his or her landline IP address. Furthermore, a local search performed from a mobile device implies the user wants to act right away rather than invest energy researching alternatives—a scenario that is more common in Internet search. As such, the click-to-call capability of the mobile device is compelling both to the subscriber and the local business. While this gives local search in mobile some advantages over its landline equivalent, the two challenges of mobile data and content services today remain the same: the reduced keypad and the screen size of the handset.

The range of devices, interfaces, and specialized applications in mobile offer a wide array of local search services, from mobile 411 at $1.50 per call to navigation-centric services on mobile phones to personal navigation devices (PNDs) that sell for a few hundred dollars each. In 2008, expect to see search engines gain market share in local search over specialized applications as more users become familiar with mobile search. The next year will also bring new mobile ad networks that enable cross-carrier distribution, and that, in turn, will cause an influx of new mobile advertisers. However, 2008 will still be seen as a building year in local for mobile, with 2009 being the year we see significant growth in advertising dollars—and possibly a shakeout and consolidation within the industry.

Local Search in 2008

Brad Goldberg

General Manager, Microsoft Live Search

For marketing professionals of all varieties, here's the big news: Local search is big and, with more than 1.5 billion queries per month, it will get bigger. The reason? Local search empowers consumers to make intelligent decisions. When it comes to spending money, consumers stay close to home to make retail purchases, and they trust others who live, work, and buy in their own community for information and opinions about businesses they share in common.

That said, consumers don't want to waste time looking for the data they want; they expect fast and easy access to local information. Consumers want to know where they can buy and what's available, and they want to know from fellow consumers what's new and what's good. Before they become your customer, they want to know what others who live and work in their own community think of your business, including whether it has sufficient parking, is child-friendly, and provides excellent service. These are questions consumers using local search capabilities are asking. In a word, local search is personal.

Local search is all about giving consumers information to make decisions and to make shopping easier and more convenient, from one-click map directions that don't require entering a start point to a bird's-eye view of their destination that gives them an up-close look of the location and the surrounding area as well. It's also critical to provide universal access to local information for consumers when they're away from their PCs, including voice-activated mobile solutions. Consumers will seek out the local search services that are appropriate for wherever they are, whatever they're doing, and in whichever mode they prefer.

To date, national businesses have been first to adopt local search advertising. However, local businesses are also recognizing the importance of local search. As this shift evolves, there are huge opportunities for advertisers to reach potential customers with the information they really want when they are in a purchasing mindset and looking for a business that is local. And today that information goes beyond an address and phone number. As you market your product or service, always keep in mind the importance of doing business locally. It's what consumers want, and with the Internet at their fingertips, it's where they buy.

Local Search in 2008

Robyn Rose

Vice President, Idearc/Superpages.com

While much of the local search space is still evolving, some things are clear. Local search is not about branding; it's about reaching a consumer when she's ready to buy. Consumers are influenced by brand messages, but their buying decisions are decidedly local. Both small and large companies need to get their unique messages across and they need to do it on the local level.

That makes content key. Right now, we're seeing the launch of great tools and applications, but without rich content to support them, they have little value. Consumers crave information about products and services, so in 2008 we'll continue to see an increase in sites that support user-generated content such as user reviews; consumers are researching and using the available information before making purchases.

For this reason, it's crucial for advertisers to join the conversation about who they are and how they are different from their competitors. While often overlooked in local search, video should play an important role in establishing this differentiation. Videos give advertisers another medium for content so they can tell their stories to the people who are ready to buy, and the rise of universal search, which will incorporate many forms of content into search query results, will make this video more accessible to consumers.

But this is not just something that local advertisers need to focus on. It's also time for national advertisers to show their local side. The tendency may be to just place generic messaging or national brand videos next to their local listings, but remember, local search is not about branding. Instead, major national marketers should also tell their local stories and give consumers a reason to choose them over other local businesses, whether large or small.

When it comes to local search, there is much wisdom in the nearly forty-year-old recycling slogan: Think Globally, Act Locally.

Local Search in 2008

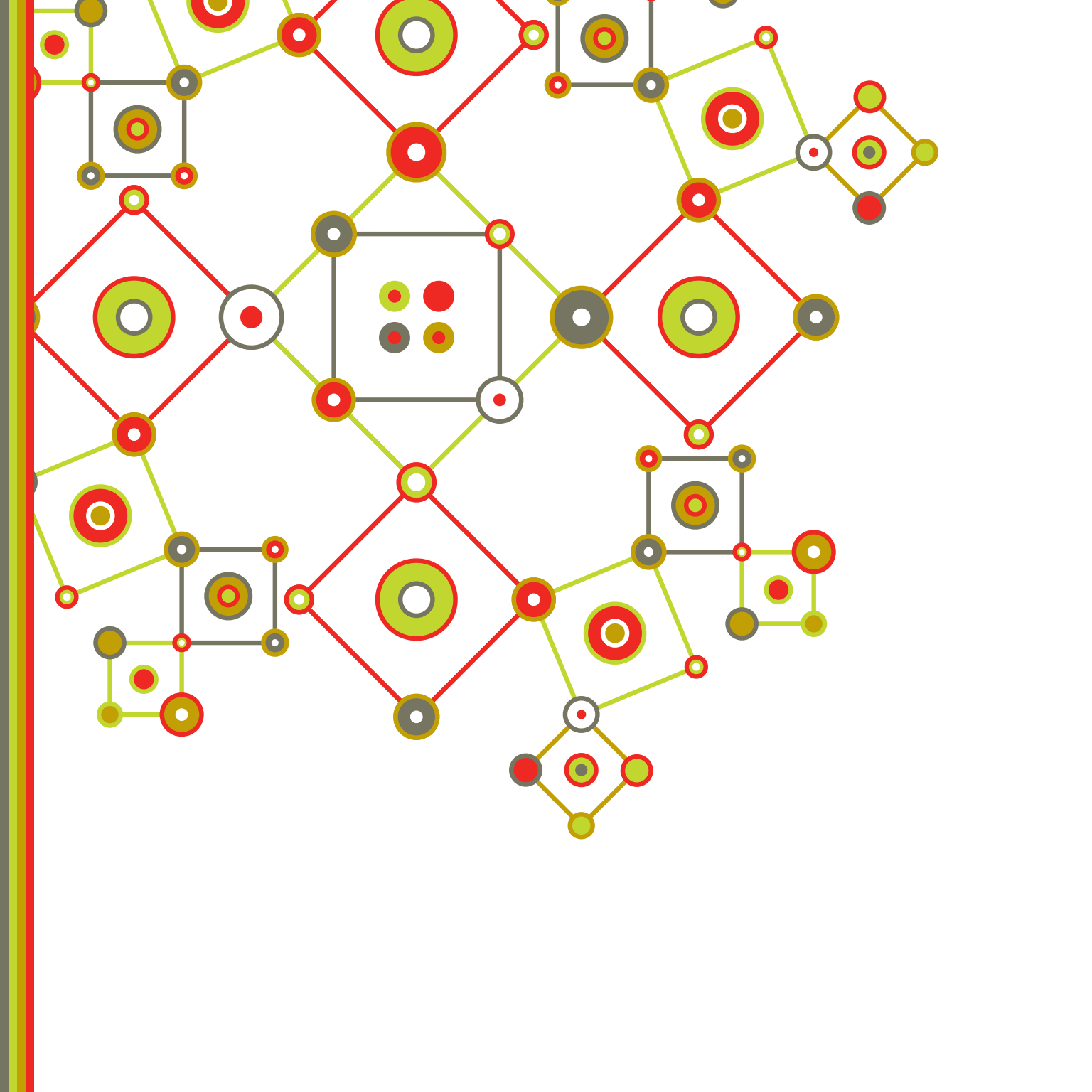
Frazier Miller

General Manager, Yahoo! Local

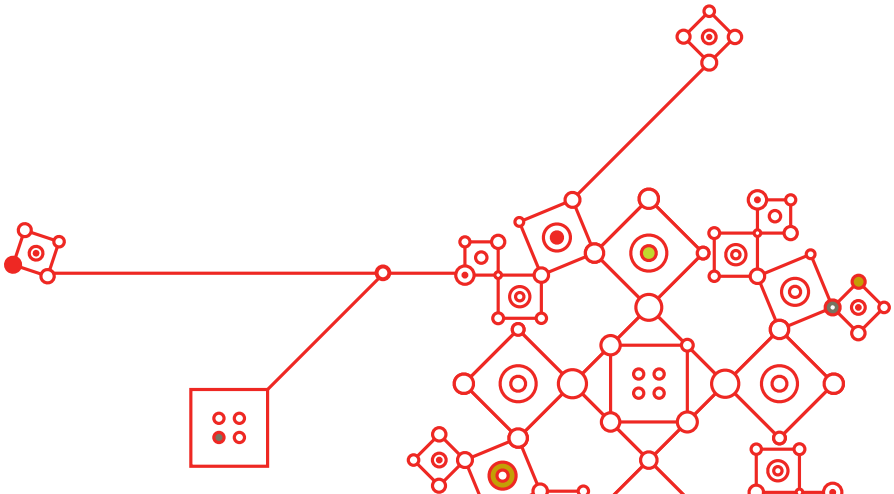
After several years of growing interest from users in the local search category, 2008 will start to usher in more diverse changes and growing interest from advertisers—both online and on mobile platforms. User behavior outpaces spending in local search advertising—approximately 26% of search queries have local intent, but only 8% of ad dollars come from local sources.

Of course, an increase in local search spending means there is a tremendous opportunity in mobile search. By 2010, mobile phones are expected to outpace PCs by three times. Local information is in high demand on mobile devices, so the importance of mobile in the evolution of local search cannot be overstated. Maps, directory listings, and nearby restaurants and stores are among the most sought-after types of information on mobile devices, and ad dollars should begin to gravitate toward these types of searches.

Given how U.S.-centric the local search market is today, another opportunity is often overlooked: expanding local search into markets throughout the world. We are increasingly focused on how to globalize our offerings in a way that works for local markets outside of North America. Being in a category where tremendous opportunity exists online, on mobile devices, and globally is a very exciting state of business for Yahoo! and the entire local search industry.



analytics & measurement



expanding behavior targeting

By Tim Barnes, VP, Global Business Intelligence Group, Seattle

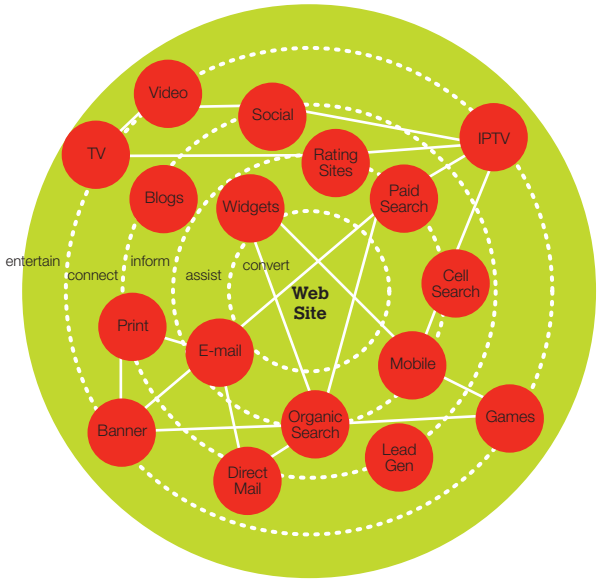
2007 WAS THE BREAKOUT YEAR for behavior targeting for both solution providers and marketers. According to Forrester Research, more than 75% of marketers were either using or evaluating the use of online behavior targeting—which targets ads based on consumers' online behavior—last year. The consolidation of tools aimed at delivering dynamic content on clients' sites as well as the continued expansion of networks purporting to provide sophisticated segmentation responded to meet the increasing demand.

The road to relevancy

Unfortunately, these solutions tend to work in silos: They either measure network performance *or* site behaviors; they fail to measure the impact of search, social networks, e-mail, and ultimately offline interactions. They also do not provide a singular platform from which to launch consistent messaging regardless of channel. The benefit of combining these disparate approaches is huge in terms of relevancy, consistency, cost, and overall return on investment.

In order to make a campaign relevant to consumers, behavior targeting should not be limited to site activity. Many key interactions with your brand occur on third-party sites (publishers, forums, microsites, partnerships, etc.). Tracking and evaluating these interactions is critical in an effort to fully understand the impact they have on your primary business goal, whether that be awareness, signup, download, conversion, etc. Third-party ad serving and tracking platforms are ideal, as they typically have a presence on these channels. This data can be leveraged to more effectively target customers before they even interact with your site. For example, if a consumer is searching specifically for your brand, clearly this person is aware of your brand. It is a waste to continue to message this person with brand awareness ads. The next time you have the opportunity to market to this individual, you should either advertise a different brand or use a direct-response approach to move them closer to conversion. Similarly, customers who have visited certain sites or interacted with your brand in other ways—on MySpace for example—can be segmented to receive specific content relevant to their position in the purchase funnel.

A Complex Digital Landscape



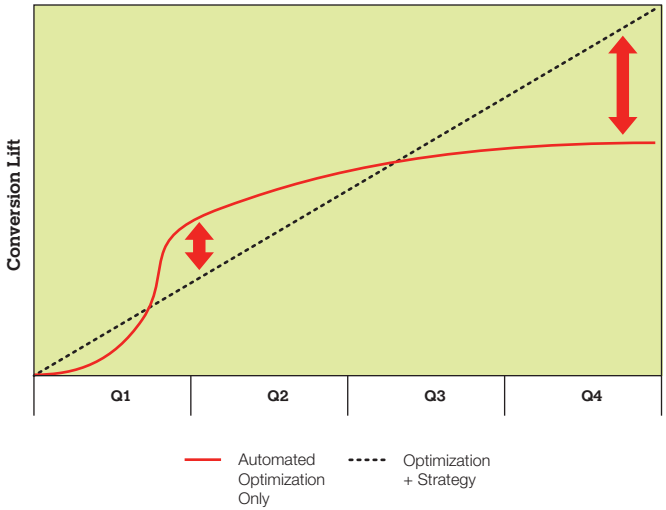
The importance of how consumers behave on your site

Even though measuring consumer activity on third-party sites is crucial, there is no doubt that your site also reveals an amazing amount of information about your customers. Factors such as how recently individuals have visited, frequency of visitation, the path they have followed on your site, visitation to key sections, purchases, downloads, session time, and registrations and logins can be leveraged to better segment and target relevant messages. But how can this be done? The answer is to use three key levers:

1. **Customer state.** Where customers exist in their lifecycle with your brand or company can be measured in several ways, including the aforementioned off-network exposures, frequency of visitation, visits to key areas of the site, and of course, conversion. Customers should be profiled over time to understand what their state is. Micro-lifecycle-targeting, for instance, using creative specifically designed not necessarily to convert the customer but to move them to the next state, can be very effective in driving higher lift.

2. **Test and control segmentation.** The downfall of many targeting efforts is complexity. Time and again, marketers cannot resist designing extremely complex business rules and creative combinations with no ability to test effectiveness. A more productive approach is to begin simply. Start with one placement—on a landing page for example—with two or three creative executions. Using stringent test-and-control methodologies, this approach can instantly produce results, paving the way for more complex segmentation schemes. Next steps include simple but effective segments like new vs. repeat visitors, geographic location, and "booker/looker/prospect" that are effective at providing lift while easy to execute. Expanding the placements to additional pages and segments and changing the creative should be introduced only after each additional execution is carefully measured for its effectiveness. Real-time or in-session behavior targeting has not proven to be effective, in our experience, as a methodical segment-based approach.

3. **Automated creative optimization.** Many tools provide the ability to cycle through different creative executions, comparing the performance of each against a conversion metric to achieve optimal lift. This approach can deliver high initial lift (as shown in the figure below). The results tend to flatten over time as the champion/challenger method (continually testing new executions against the most successful one) ultimately produces a handful of winners.



Leveraged together, the three approaches can be extremely effective in delivering results. The continued emphasis on customer state can influence how segments and creative are designed. Automation can quickly ascertain which creative is most effective for each segment. Using a test-and-control method ensures that results are not random but proven.

The customer converted: now what?

Most content targeting plans are designed for customer acquisition. Few focus effectively on driving customers through a customer lifecycle, but the profiles you have developed over time can absolutely be used to retain and grow your customers. Using many of the techniques discussed above, retention-based segments can be created that are based on past purchase behavior, value (current and perceived), loyalty, and so forth. Furthermore, it is possible to tie offline data (customer relationship management and direct mail segments, attrition models, purchase behavior, propensity modeling) to your online segments and targeting. While dependent on anonymous customer IDs that are consistent across both channels, this connection can greatly increase the amount of data available to micro-target and move customers through a lifecycle.

The benefits of a holistic targeting approach

What's the key to leveraging segments and behaviors both on and off your site? A single data platform. While many tools can provide aspects of this targeting approach, none can provide both a complete view of customer behavior regardless of channel and the ability to message your customer consistently regardless of channel. We recommend using the most ubiquitous of tools: your third-party ad server. While limited in terms of real-time decisions, the ad server has the unique ability to collect information about your customer as they interact with your brand on other destinations as well as your site. Additionally, this approach is very scalable, tends to have low costs, and typically only requires a single line of code, which makes it easy to experiment.

Ultimately, the concepts of behavior- and value-based targeting will continue to get more complex. It is our belief that effective messaging strategy should be treated the same way you treat media buys. Strict test-and-control, consistency, and relevancy will drive results and more than pay for the effort.

It's essential to have an integrated approach to Web development, creative, search marketing, and display advertising. Following best practices in each discipline helps you compete. Having a single view of your customers across all digital touchpoints helps you win.

Patrick Hounsell, VP, Digital Marketing, Chicago

customer-centric engagement

The new metrics

By Andy Fisher, Director, Analytics, New York

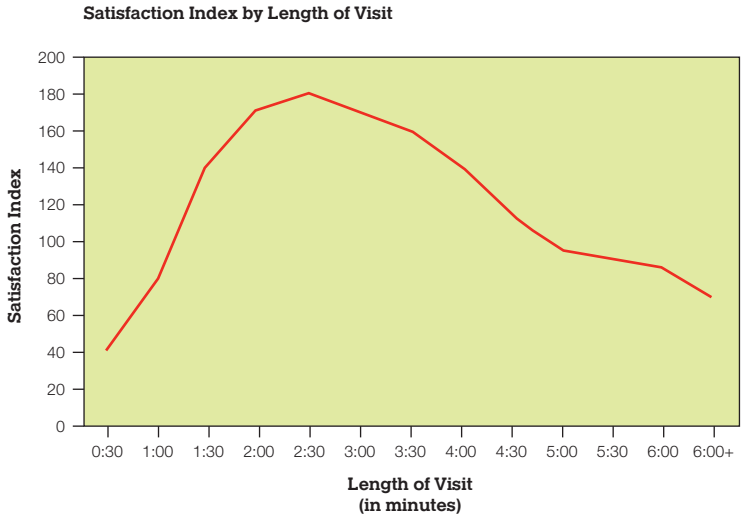
As digital marketing metrics have evolved, they have progressed from impressions to clicks to shopping carts to cost-per-acquisition. Now, with digital media becoming a primary vehicle for branding as well as direct response, a new class of metrics aimed at measuring engagement has emerged.

The goal is to improve upon the limited ways marketers have been able to look at engagement in the past. Typically, it has been viewed in the following way: User A sees a rich media ad and then moves on to different content. User B sees the same rich media ad, but mouses over it, expands it, and then watches a video within the ad before moving on to different content. It seems reasonable to conclude that User B is more engaged with the ad than User A and that the higher level of engagement shown by User B is more desirable to the advertiser.

However, even though it is reasonable to conclude that the behavior of User B has more value than the behavior of User A, it gives only a vague idea of how valuable one user is to the marketer vs. another. Newer engagement metrics can better answer the question of how marketers should assign value to different online behaviors.

Valuing engagement

A good example of why determining the value of engagement is so difficult can be illustrated with a simple microsite analysis. In the example below, a set of randomly chosen visitors was asked to rate their satisfaction with a branded community microsite. The length of time visitors spent on the microsite was also recorded.



As might be expected, as the length of time spent on the microsite increased, satisfaction increased—but only up to a point. At around three minutes, satisfaction actually started decreasing as length of time spent increased.

The reason it's hard to make sense of this data is that we have no underlying notion of who is being engaged, so it's impossible to develop a meaningful metric about visitor behavior. In fact, there were many types of visitors, including community builders and information seekers, interacting with this microsite, and their behavior should have been segmented. For community builders, success should have been determined by how long members of the group spent interacting with the site. For information seekers, success should have been determined by how little time members of the group spent interacting with the site. Give them what they want and they quickly leave satisfied—but if it takes them a long time to search for what they want and they don't find it, they become frustrated.

The shape of the graph above, then, is explained by the fact that it is an aggregate across disparate segments with opposing needs. Time on site does not have the same value for different segments.

A new approach to customer-centric engagement

As the analysis above demonstrated, it is critical to understand that different metrics are more relevant for some visitor segments and tasks than others. As a best practice for developing engagement metrics, we recommend the following six-step process:

1. **Determine the key visitor segments on your site.** This is often done via surveys and/or panels and typically is refined and validated in multiple iterations.
2. **Determine what tasks these segments are on the site to perform.** In other words, why are they there?
3. **Determine what tasks you want these segments to complete.** For each segment, what tasks would have the highest business value?
4. **Implement a per-segment metric that connects desirable behaviors with the relevant segments.** For instance, if the site is meant to serve the needs of information seekers, measure how long it takes this segment to find the information it wants.

5. **Validate the meaningfulness of metrics.** This is typically done by recontacting original survey participants or through customer relationship management systems.

6. **Evaluate and adjust engagement metrics on an ongoing basis.** This should be performed based on changes in segmentation, site design, or business objectives.

By first defining the customer segments and then determining appropriate engagement metrics for each segment, engagement can be far more appropriately valued. Additionally, this information can be applied to value all digital touchpoints. Personalization, multi-variate testing, landing page optimization, creative testing, media planning and measurement, and search engine optimization are all areas that can benefit from this integrated approach across touchpoints.

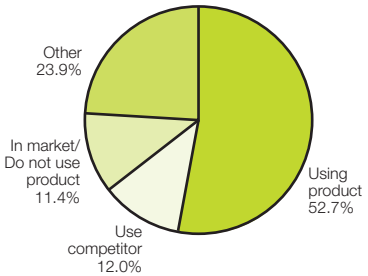
Only by starting with the customer can marketers deliver a meaningful engagement metric. Metrics such as time on site, scored values for content consumed, and length of time watching video only make sense when it is understood to whom these metrics are being applied.

Using customer-centric metrics to improve a client's marketing effectiveness

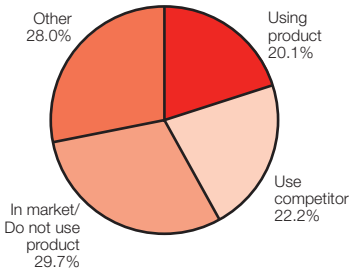
An Avenue A | Razorfish client was losing market share on its flagship product. Industry research indicated that visitors to the client's site were the most engaged of all visitors in the client's category, but that the brand was being significantly outspent online by its leading competitors. Using a third-party panel, we surveyed visitors to the sites of competitive brands and married the results to the media the visitors to competitive sites had consumed. The findings revealed that although visitors to our client's site were more engaged than those of its competitors, this did not lead to more potential acquisitions than on competitors' sites. This was because competitors used media tactics that were effective in drawing visitors that were new to the category.

Working with the client, we executed marketing tactics that would reach higher numbers of qualified visitors who were new to the category. They included investing in distributed content and increasing investment in specific areas of unbranded paid search. The result was a 10% increase in conversions, while still maintaining a positive return on investment.

ClientBrand.com Traffic Composition



Competitor1.com Traffic Composition



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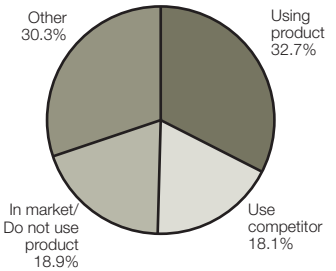


the man from Oskaloosa

Using environmental psychology to improve site performance

By Randy Barney, Director, Site Optimization, Seattle

SHORTLY AFTER WORLD WAR II, a Stanford Ph.D. named Roger Barker set up a research station in the small Kansas town of Oskaloosa. For 25 years, the residents of Oskaloosa were his research subjects as he observed the interplay between people and their surroundings—from this initial work, the field of environmental psychology was born. Since then, environmental psychology has become a multidisciplinary field and is responsible for much of what we know about proxemics (how space between persons varies in different settings), aesthetics, ergonomics, and other elements of the spaces in which we live and work.

In the 1960s, retailers sought to gain a competitive edge and boost their sales by improving the customer experience and functionality of their stores. Over the next two decades, they turned to environmental psychology to help them do this. In addition to using the existing applicable research, they paid researchers to examine everything from store layout and music—otherwise known as atmospherics—to lighting and signage. Good articles about this work include "Environmental Color, Consumer Feelings, and Purchase Likelihood" from a 1992 edition of the publication *Psychology & Marketing* and "Retail Store Lighting for Elderly Consumers: An Experimental Approach" published by the *Family and Consumer Sciences Research Journal* in 2007. As you might guess, if retailing is your thing, both make excellent leisure reading.

As the digital channel grows in importance, businesses are beginning to apply a virtual version of environmental psychology to how they design their online destinations; they recognize it is critical to invest time and effort to examine every detail of their online presence to identify how it can better promote desirable outcomes. The changes made to sites based on this kind of analysis result in site optimization.

While today's experts in site optimization work closely with user experience, design, and other Web development disciplines, their efforts are unique due to their singular focus on improving site business performance by finding and eliminating friction points that cause potential customers to drop out of a site and identifying elements that can be modified to improve site performance. Depending on a site's primary business purpose, specialists focus on a variety of objectives, including:

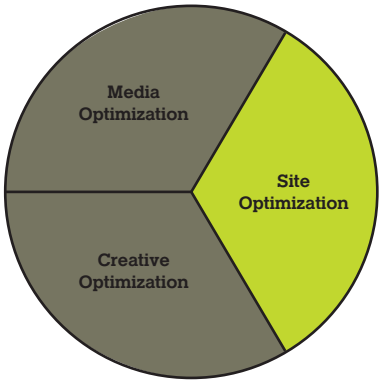
1. Improving sales
2. Increasing lead capture
3. Creating greater engagement
4. Improving brand favorability
5. Increasing customer satisfaction

Roger Barker and his colleagues relied on visual observation of people and their physical surroundings, while today's site optimization practitioners observe people in their digital surroundings by combing through site behavioral data, survey responses, and the results of A/B and multi-variate tests.

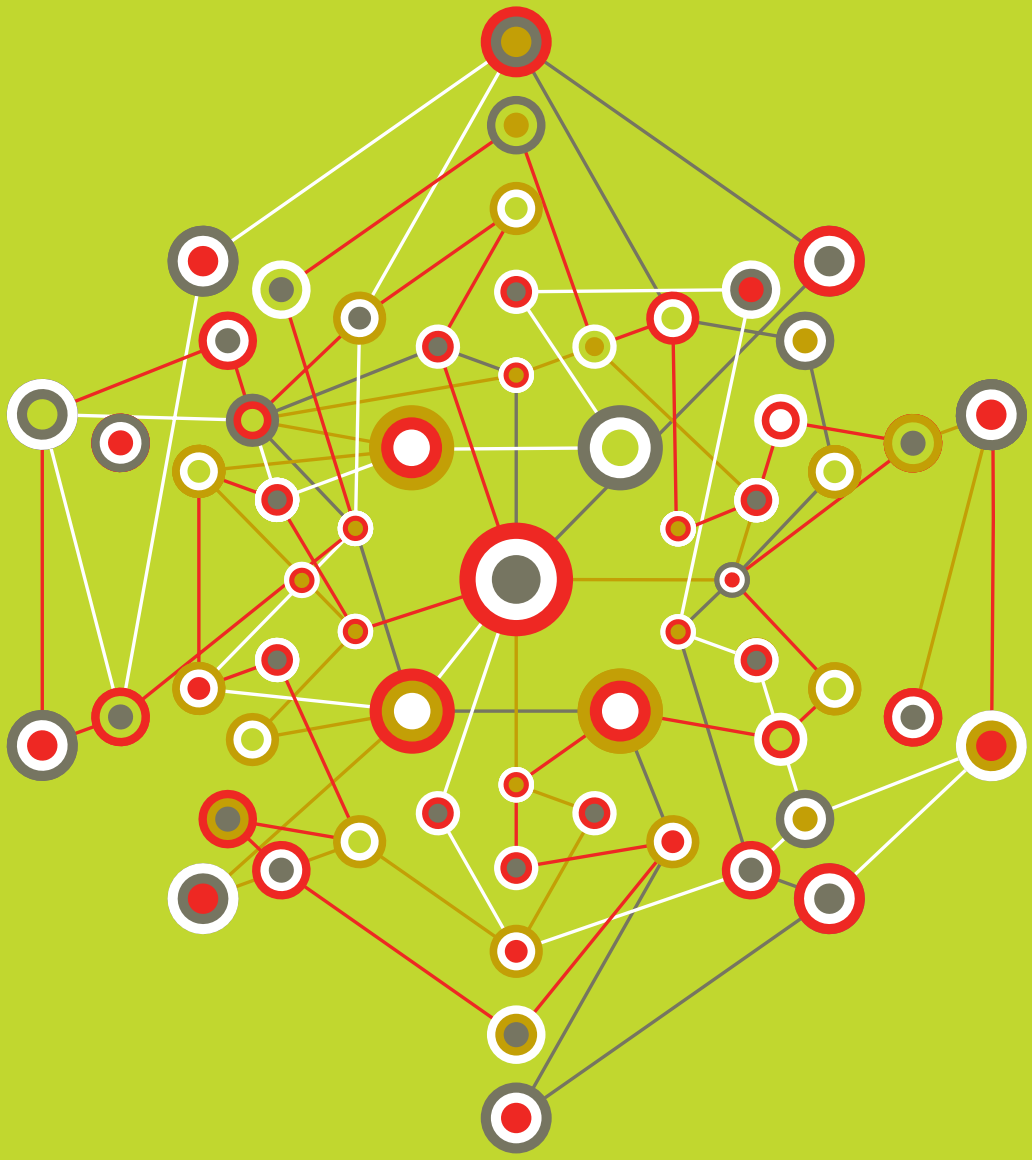
As with stores in the 1960s and 1970s, sites that are developed and/or optimized using this data-driven approach enjoy higher conversion rates and provide a competitive advantage. Avenue A | Razorfish's work has helped clients improve productivity by 15%, 25%, 50% or even 100%. For example, recently a telecommunications client asked for help with an underperforming home page. The team's recommendations included the following:

- Relocate specific merchandise content from the category page to the home page.
- Provide clear calls to action within the main body for both prospects and current customers, but dedicate more real estate to current customers.
- Group related content and differentiate these areas with visual cues such as colors and creative execution.

Applying the site optimization team's recommendations resulted in a redesigned home page that converted to sales at twice the rate of the earlier home page.



With all of the effort spent on search, search engine optimization, and display advertising, the most efficient part of the budget may be the money spent on optimizing the productivity of the site. If your site has hit a performance plateau, it may be the time to dust off a decades-old discipline and apply some Oskaloosa-style elbow grease to your Web site.



changing the world with technology

In May of 2007, Avenue A | Razorfish hosted its annual Publisher Summit in New Orleans. Each year, the event marks an opportunity to share the agency's strategy with the broader media community, as well as thank the publisher partners who do so much great work for our shared clients. Last year, we also added a philanthropic component to the event.

THE 2005 SUMMIT HAD ALSO TAKEN PLACE IN NEW ORLEANS, shortly before Hurricane Katrina devastated the region. For the 2007 event, we invited the publisher community back to the Louisiana, and asked that they join us in raising awareness of the work the Children's Health Fund is doing to aid the children of the Gulf Coast. In an auction format, publishers bid on items from brands that included Nike, CNN, Polo, Disney, Levi's, WeightWatchers, HSBC, TiVo, Crestor, Coors, Verizon, AT&T, AstraZeneca, and Expedia. At the end of the evening, nearly $3 million in advertising inventory was raised for the Children's Health Fund.

The outstanding publishers who helped support the Children's Health Fund and the Gulf Coast included:

About.com
Amazon.com
American Greetings
AOL
Atlas Solutions
CBS Digital Media
CNET.com
CNN Money
Community Connect
Enpocket
ESPN
Google
IAC
Marketing Technology Solutions
Marthastewart.com
MSN Network
MySpace
New York Times Digital
Pandora
Pricegrabber
Revolution Health Group
Tacoda
Terra Networks
The New England Journal of Medicine
Facebook
Tribal Fusion, Inc.
Tribune Interactive
USA Today
Value Click Media
WeatherBug
Winstar Interactive Media
Yahoo!

Seeing the impact the Children's Health Fund has made in the Gulf Coast, and the important role the Internet has played in their efforts, prompted us to look more closely at the role technology is playing in changing our world. The following pages highlight a few inspiring examples.

Oxfam

By Hugh Wallace, Head of Interactive Media, Oxfam

Midway through 2004, Oxfam launched a fundraising drive for our programme in Darfur, Sudan. Focusing on tried-and-true fundraising methods like phone and postal mailings, we were surprised to see online donations continuing to grow. It was clear that the business of giving was changing, and we needed to respond quickly.

We were already starting to formulate our strategy when the Asian tsunami struck on Boxing Day (December 26th), 2004. As many charities will testify, the tsunami was the event that officially changed the rules in terms of online giving. The unimaginable scale of the tragedy, and its domination of the news agenda, spurred people on to give—and to give quickly. For the first time with a tragedy of this magnitude, they were able to do so online. Subsequent disaster responses drew lessons from the tsunami experience, and now online has become the *de facto* first step for fundraising in emergencies.

While technology has become a means to execute a gift, it's done much more for non-profits. It also enables donors to understand a problem more thoroughly, and helps them appreciate the difference they are making. An excellent example of this is the ability to buy a "virtual gift." **Oxfamunwrapped.com** allows donors to buy specific items to support causes around the world. Visitors can buy books, a bag of seeds, clean water…or even a goat. The site has become a core component of Oxfam's income generation and, like the tsunami, it has changed our strategy for connecting with supporters.

These examples are just part of a much bigger picture; digital media is now critically important to how charities operate. As the impact of social networks and user engagement grows and grows, the whole nature of fundraising is changing. Relationships that were traditionally "offline" have moved online—whether they're to do with marketing, fulfillment, or just straightforward communications. Charities have natural communities around them in the shape of their supporter bases, and will continue to leverage new technologies to help change the world.

Avenue A | Razorfish partnered with Oxfam to build **oxfamunwrapped.com**.

Changing the World with Technology

Appalachian Voices

By Vaughn Tan, Earth and Maps Team, Google

Non-profits need a better way to tell their stories. Action comes from awareness, and the much-needed work non-profits do is often too uncomfortable, not glamorous enough, or too far away to achieve widespread awareness. But today, technology can provide non-profits with unique and effective tools to make their stories come alive. They're able to reach a much larger audience—more quickly and for much less money—than previously possible. The non-profits that do this are using technology to motivate people to take action.

Take the case of Google Earth, a geographic browser that lets users fly to remote locations and participate in rich media experiences from the comfort of their homes. A non-profit called Appalachian Voices—which brings people together to solve environmental problems in the Appalachian region—saw the browser as a unique way to tell their story to the hundreds of millions of people who have downloaded Google Earth.

Beginning in 2006, Appalachian Voices began collecting content for a Google Earth keyhold markup language (KML), a file format for displaying geographic data in Google Earth, to document mountaintop removal mining in the Appalachians. When it was finally launched early in 2007, this KML gave anyone using Google Earth an easy way to understand the issues and make a decision to act. The evidence: Within 10 days of Appalachian Voices releasing its KML, over 13,000 people from every state in the U.S. and more than 30 countries signed the organization's online petition to stop mountaintop mining waste from being dumped into waterways. Last July, prompted in part by Appalachian Voices' success, Google launched the Google Earth Outreach program to help non-profits learn to use Google Earth and KML to tell their stories more effectively.

Google Earth is just one tool; there are many more. Non-profits should be thinking strategically about using non-traditional tools to help them do their work better—either learning how to use these tools themselves or finding resources like agencies and volunteers to help them do it. The buzz these days is about new media, and this is where it comes into its own: blogs, photos, videos, maps, gadgets, search, ads, social networks, payment systems—the list goes on and keeps growing. These tools and services open the channel to large audiences of interested users and represent a tremendous opportunity for non-profits seeking to build and engage passionate groups of supporters.

Technology, more than ever before, is allowing all of us to create serious change on a grand scale.

Make It Right

By Trevor Neilson, Founder, Global Philanthropy Fund and Advisor, Jolie-Pitt Foundation

More than two years after Hurricane Katrina hit, much of New Orleans looks exactly as it did the week after the storm. Thirty-five percent of the population has not been able to come home—because there are no homes. While billions in dollars of government aid has been pledged, little seems to have made its way to the streets of this city.

One of the first philanthropists to come to New Orleans after the storm was Brad Pitt. Brad owns a home in New Orleans and has spent a lot of time there over the years. He was shocked to hear that many people were saying that New Orleans would never be rebuilt, and wanted to do what he could to help.

Brad convened a group of experts in New Orleans to brainstorm about building green affordable housing on a large scale to help victims of Hurricane Katrina. Having spent time with community leaders and displaced residents determined to return home, Brad saw that this crisis created an opportunity—to build houses that were not only stronger and healthier, but that had less impact on the environment.

The group—which included experts like renowned architect William McDonough and charitable outreach foundation Cherokee Gives Back—determined that a large-scale redevelopment project focused on green affordable housing and incorporating innovative design was indeed possible. Make It Right identified the goal of constructing 150 homes—one of the larger rebuilding projects in the city—with an emphasis on developing an affordable system that could be replicated in New Orleans, the Gulf Coast, and around the world.

We also decided to focus on the Lower 9th Ward, one of the poorest and most devastated areas of New Orleans. This is where the levee broke and where thousands of people died during and after Hurricane Katrina. When we first came here after the storm, houses were on top of houses. Cars were in trees. There was no life and little hope.

But today something very different—and very exciting—is happening in the Lower 9th, and technology is at its core.

At the beginning of the project, Brad and philanthropist Steve Bing came up with the idea of pledging to match, dollar for dollar, all money raised from the public (up to $10 million in matching funds). This pledge would be

accompanied by a public art project—life-sized, bright-pink objects shaped like houses spread across ten city blocks. GRAFT, an architecture firm with which Brad has worked closely, evolved and managed the concept with stunning results.

The bright pink "houses" were in pieces scattered across the neighborhood, and as donors went online and sent donations to pay for parts of the houses (sinks, toilets, floors, solar panels, etc.) the pink houses would be assembled. All of this was driven by Brad's passionate and articulate media appearances and supported by a Web site that allowed people to act, connect, and make a difference in New Orleans.

Makeitrightnola.org allows visitors to walk through 3-D models of the houses, selecting parts of the home to sponsor. Along the way, people are educated on green building. Sponsorship opportunities range from $10 to $150,000. Teams can organize themselves online to raise money together. You can send a toilet or a sink to a friend as a gift. The site engages visitors and brings to life the difference that can be made.

The results have been remarkable. Thirty thousand dollars came in during the first thirty minutes the site was live. Over a one-month period, the American people came together and gave enough money to build over 60 houses. We have offers from companies wanting to donate everything from building materials to linens. The campaign is still underway, and we will break ground and begin building homes this spring.

Hurricane Katrina devastated New Orleans and the Gulf Coast—thousands of people died and hundreds of thousands of people have had their lives turned upside down. Through the innovative use of technology, art, and media, the American people are helping Make It Right.

MGX LAB partnered with the Jolie-Pitt Foundation to develop **makeitrightnola.org**.

Pangea Day and the Encyclopedia of Life

By Amy Novogratz, Director, The TED Prize

The TED Prize was initiated in 2005 by the TED Community. It honors three individuals per year who have shown that they can, in some way, positively impact life on this planet. Winners of the TED Prize have been granted one wish to change the world, along with a community of thousands of people who are committed to making that wish come true. Each wish is different; they range from raising awareness about poverty in Africa to inspiring architects to use design to improve living standards to the wish of Harvard entomologist E.O. Wilson to catalog all life on earth. But the cornerstone of each wish is to bring a global community of people together to work toward a common goal. Through the power of technology, we have created remarkable online communities that have become the force behind fulfilling a number of these wishes.

The creation of Pangea Day, a wish made by documentary filmmaker Jehane Noujaim, is about bringing the world together through the power of film. Pangea Day will come to fruition on May 10, 2008, as eight sites worldwide video-conference live to produce a four-hour program of powerful films—supplemented by visionary speakers and global musicians. A global audience of millions will simultaneously watch this event.

To stay true to the vision of Pangea Day and ensure its success, it must be a day of films truly made by the world, with the world watching. **Pangeaday.org** is the vehicle that will make this happen. The site allows filmmakers and storytellers worldwide to submit their films. It captures the vision of the day and inspires storytelling. While the .org site is the means for artists to submit their work, **Pangeaday.com** is a platform for the world to come together. Through this site, you can sign up to be a part of live events all over the world. There is an interactive map that features the geographic locations of screenings and there are already hundreds of locations lit up worldwide representing groups taking part in the day. There will be a live stream going out to people globally, and they'll have the ability to send in photos and comments that will become a part of the event. Obviously, without the Internet, the ability to connect and participate wouldn't be possible.

Another exciting TED Prize is E.O. Wilson's wish to use the Internet to create the Encyclopedia of Life. There are currently 1.8 million named species, and each will have its own, ever-evolving page on the Encyclopedia of Life. **EOL.org** is an engaging, dynamic site that is open to the contributions of thousands of scientists from all reaches of the world. Importantly, it also offers free access to everyone, with the content itself customized for each user. It's a site that will help the world understand our environment and its species a little better, and will serve to inspire preservation of earth's biodiversity.

The TED Prize works because of the intricate collaboration involved in each wish. Corporations, non-government organizations, and individuals across the globe have a chance to work together to own pieces of a project that will become a part of something much larger than one person's idea. Connected online communities are the only way this could happen.

Avenue A | Razorfish partnered with the TED team on their Pangea Day effort, as well as on the Encyclopedia of Life.

The i'm Initiative

By Tara Kriese, Senior Product Manager, Microsoft Windows Live

The world is going digital fast, with nearly 1.2 billion people expected online in 2008. Instant messaging has become a powerful channel for change by helping people partner with social causes they are passionate about while doing what they do everyday—sending instant messages.

In March 2007, 10 of the world's most effective non-profit organizations announced their involvement in the i'm Initiative—which contributes a share of IM-generated ad revenue to social causes—and to discuss the role technology is increasingly playing in their efforts to reach new audiences. Every time an individual has a conversation using IM on Windows Live Messenger, Microsoft shares a portion of the program's advertising revenue with the participating i'm Initiative organization. When users join, they are asked to select the cause organization they are most passionate about to benefit from donations.

According to a 2006 Cone Cause Millennial Study, 61% of young Americans between the ages of 13 and 25 are currently worried about the state of the world today and feel personally responsible to make a difference. The i'm Initiative empowers people to make a difference through their online conversations, without spending a dime, in support of some of the world's most urgent social issues. Not everyone can make financial contributions or volunteer their time for the causes they care about, so it is Microsoft's hope that the i'm Initiative will empower people to give simply by engaging in an online activity that they're already doing anyway.

The 10 organizations that Windows Live Messenger users can choose to support are the American Red Cross, Boys & Girls Clubs of America, The Humane Society, the National AIDS Fund, the National Multiple Sclerosis Society, ninemillion.org, the Sierra Club, stopglobalwarming.org, Susan G. Komen for the Cure, and UNICEF.

The American Red Cross sees its participation in the i'm Initiative as a way to extend its online fundraising. Explains Kristine Templin, director of corporate partnerships, "When the Red Cross was approached to participate in the i'm Initiative, we were excited to provide people, particularly youth, another channel to support the lifesaving mission of the Red Cross. While youth can help the Red Cross through volunteering, taking health and safety classes, and

giving blood, they don't always have the means to make a donation even though they may want to. The i'm Initiative allows anyone to be a philanthropist.

"The i'm Initiative is beneficial to the Red Cross through the financial revenue generated for its Disaster Relief Fund and the forum it provides to educate its users on Red Cross disaster relief services. While the Red Cross is most visible after hurricanes, wildfires, earthquakes, and tornadoes, it also responds to the needs of families affected by destructive home fires every day. The Red Cross is a way to help others, and this has a profound effect on the person who provides the help as well. By supporting the Red Cross through the i'm Initiative, people are changing lives, starting with their own."

While there is no set cap on the amount each cause can receive, Microsoft will make a minimum $100,000 donation to each of the 10 organizations during the first year of the program.

three things every executive should know about digital in 2008

it's a tangled web we weave

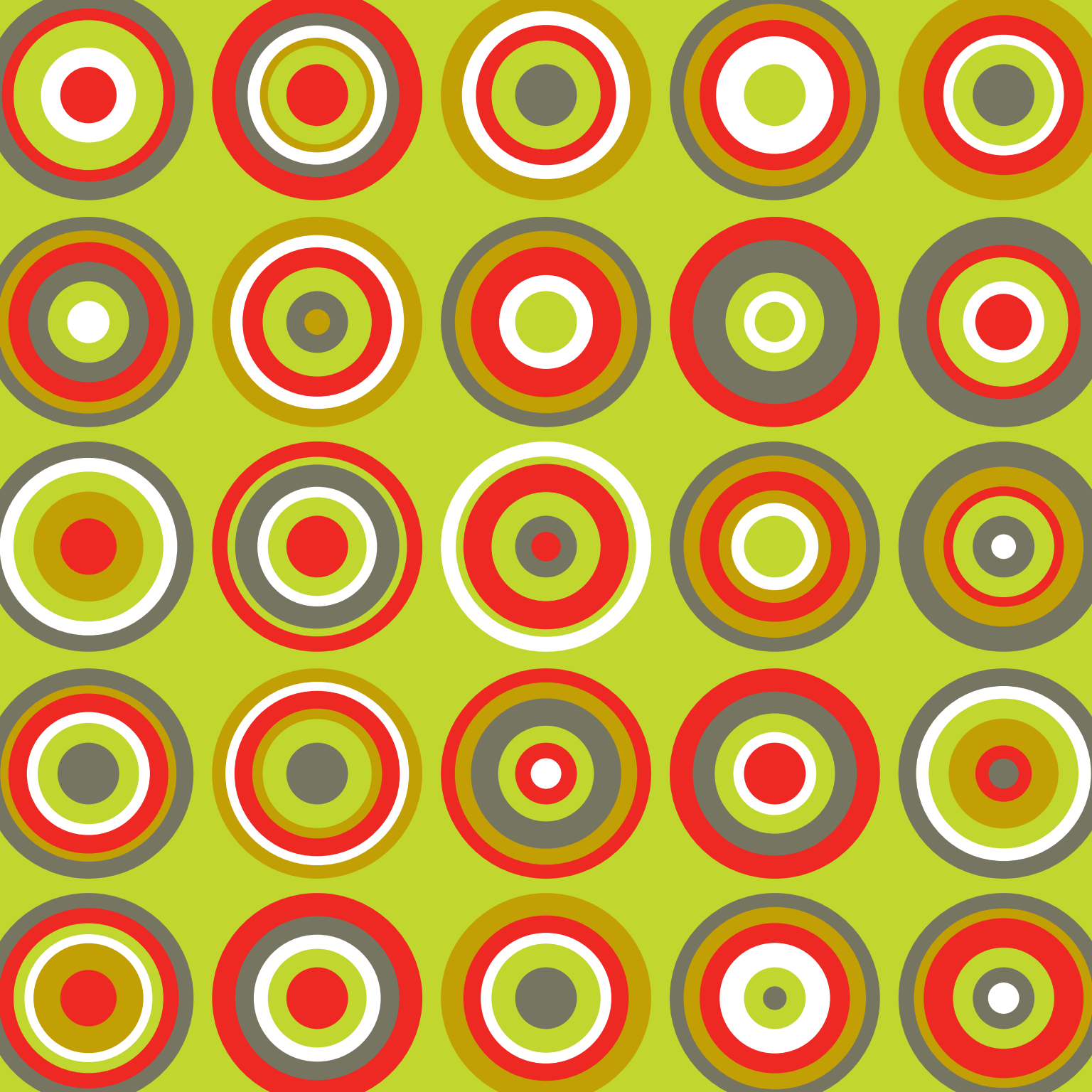
It's long been accepted that consumers want media on their terms. As it turns out, everyone has different terms. The audiences that were once neatly organized around a small number of media properties are now scattered across thousands of destinations. In this environment, media owners must not only produce compelling content but also have a cogent strategy for distributing chunks of that content to the many different places customers now spend their media time. For marketers, this tangled new personalized media environment requires a reinvention of customer connection. Different stories must be told in new places, and on a number of devices.

the geek shall inherit the earth

Or at least the advertising business. For all of the disparate efforts and skills that are required to succeed in digital marketing, there is one tie that binds—data. It's data that allows us to segment customer groups and deliver relevant messaging about our brands. It's data that feeds business intelligence platforms, enabling reporting on ad effectiveness, customer engagement, brand health, and site performance. While it's easy to become focused on videos and virtual worlds, widgets and WAP sites, it's data and analytics that will be at the heart of the most successful digital businesses.

this time, it's personal

From LiveStrong to ProjectRED, cause marketing has become increasingly prominent over the past several years. Digital is accelerating that trend. The depth of information on the Web makes it easy to understand the challenges non-profits face. Digital enables individuals to financially support a cause at the moment they are inspired—and then encourage their friends to do the same. And perhaps most importantly, it provides the single, passionate voice the bullhorn needed to reach the masses. Quite simply, technology is empowering consumers to make change, and those consumers will support and trust those brands that share their desire to make a difference. It's not just a buying decision, it's a personal choice.



About Avenue A | Razorfish

Avenue A | Razorfish is one of the largest interactive marketing and technology services agencies in the world. The company helps industry leaders such as Starwood Hotels, Kraft, Ford Motor Company, and Carnival Cruise Lines use digital channels to acquire and service customers. Avenue A | Razorfish's full suite of digital offerings includes online advertising, Web site design and development, e-mail and search engine marketing, emerging media strategies, and enterprise portal development. Its award-winning client teams have a great understanding of customer needs and provide solutions through distinct business disciplines, which include: analytics, strategy, technology, media, creative design, and user experience. Avenue A | Razorfish has offices in markets across the United States and global operations in Australia, China, France, Germany, Japan, and the United Kingdom. Please visit avenuea-razorfish.com for more information.

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Adobe® 2012 Mobile Consumer Survey Results

Using mobile sites, apps, and emerging technologies to get ahead

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The proliferation of mobile devices and tablets continues to rise. In 2011, smartphone adoption alone reached 38% in the United States and is projected to grow to 48% in 2012[1]. Mobile has become a long-term initiative for businesses, yet marketers are still finding their way on how to define, implement, and optimize their mobile marketing strategies.

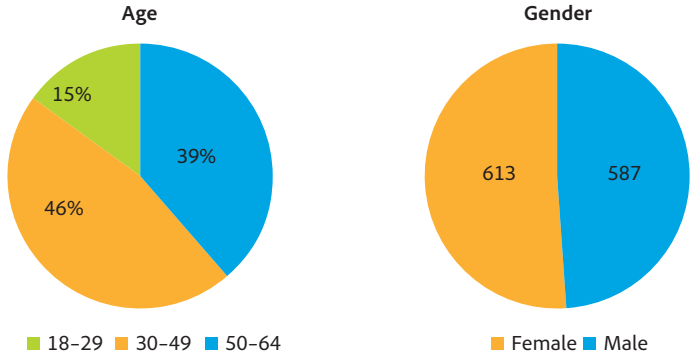
Results from the Adobe 2012 Mobile Consumer Survey show that consumers are using their smartphones and tablet devices to connect with brands in a variety of ways, but there is significant room for improvement in the user experience. Businesses must not approach their mobile strategy in an identical manner as the desktop. Mobile is a unique channel, with different requirements for smartphones and tablets, and this channel must be integrated into the overall marketing mix. It is imperative that businesses understand who their mobile consumers are, how they access sites or apps, which devices they use, and what their expectations are for a positive experience. By understanding the consumer through analytics and measurement, businesses can optimize their mobile channel to enhance their online presence, engage better with their customers, and achieve business objectives.

Survey of mobile users

In March 2012, Adobe surveyed more than 1,200 mobile users in the United States to learn what mobile devices they use, how they interact with websites and applications, and what they want most out of their mobile experiences. Participants provided valuable insight into their mobile activities across several categories, including media and entertainment, travel services, financial services, and shopping for consumer products and electronics.

The survey, administered by Keynote Services, categorized preferences based on gender and age. The participants were split nearly equally between male and female. Age groups were split into young (18–29), middle-aged (30–49), and older (50–64), with the highest number of participants coming from the middle-aged group.

Demographics of survey participants



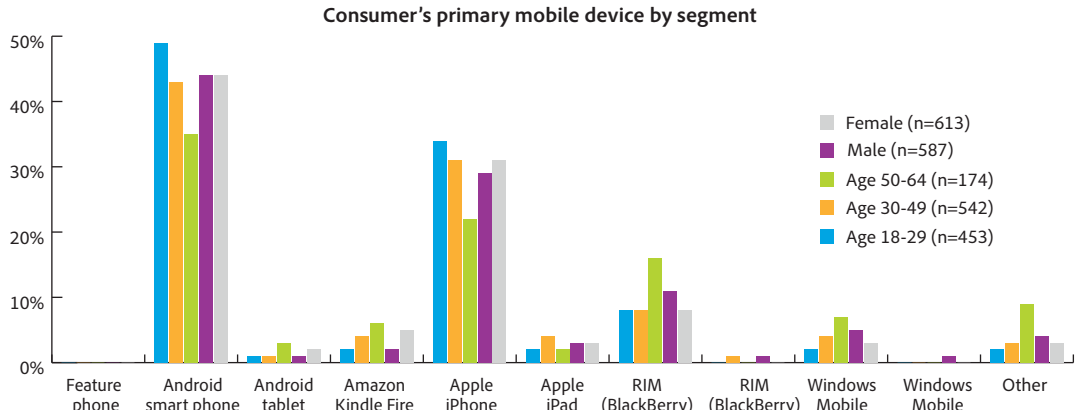
[1] "US Mobile Usage Forecast," eMarketer, April 2012

Key insights and findings

Without a doubt, the penetration of mobile devices continues to rise, with smartphones becoming the preferred form of web access for consumers. However, the overall mobile landscape is extremely fragmented when it comes to how, when, and where consumers are using their mobile devices.

Smartphones and tablets

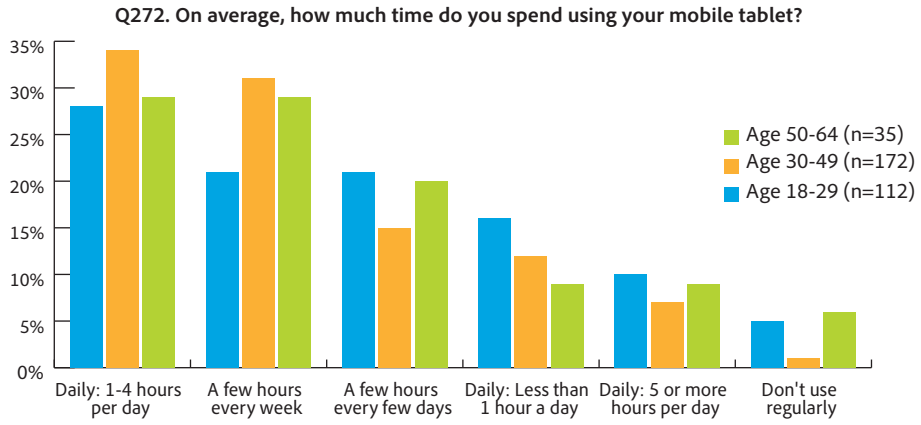
Perhaps one of the most surprising results from the Adobe 2012 Mobile Consumer Survey is that Android devices lead the way in overall popularity at 51%, followed by iPhones at 38%. Industry experts have advised over the past five years that the best app experiences are developed for iOS, this recent statistic suggests that the market might not remain this way for long. The numbers for Android devices skewed even higher for the young age group at 58%. As the most popular platform for young consumers, marketers must ensure that their sites are equally optimized for apps and web browsers via Android devices as they are for iOS devices.

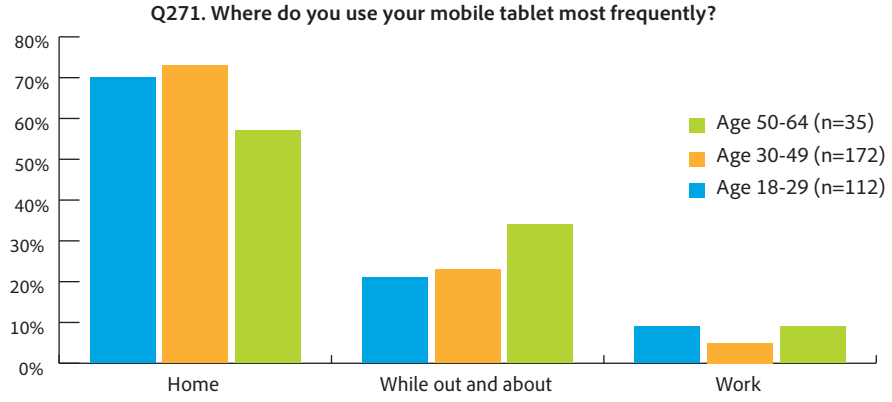


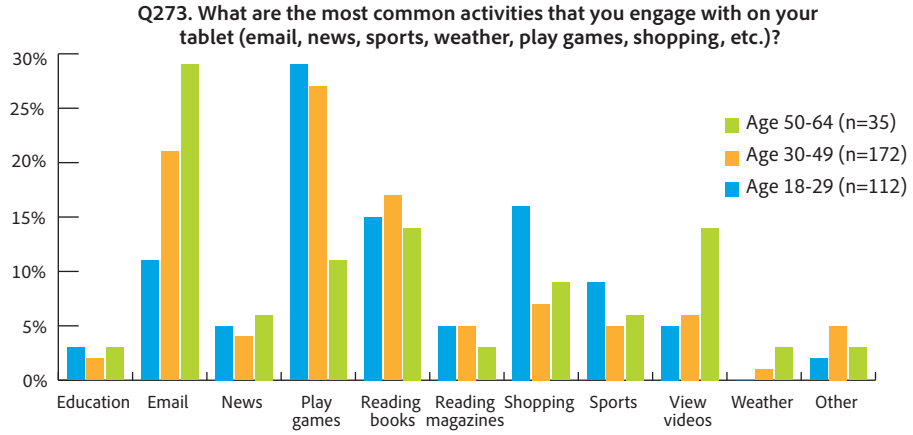
For consumers who own both a smartphone and tablet, the primary device is still the smartphone (88%). While smartphones dominate the overall mobile device market, tablet devices are poised to gain market share because of consumer preference to interact with websites from tablets because they provide a much larger screen for consumers to engage with content on the mobile web. According to a recent Adobe Digital Index analysis of website visit activity, it is anticipated that tablet visits will surpass smartphone visits by early 2013 and generate more than 10% of overall website visits in 2014. Designing for the tablet experience is quickly becoming a necessity for companies that want to maximize conversions via this device.

As expected, tablet users are more likely to be home-based (70%), while 24% use tablets on the go. Consumers devote a significant amount of time to their tablets, with 31% using them daily between 1 to 4 hours. Additionally, tablets are more likely to be shared devices, with a majority of tablet users (56%) stating that they allow other members of the family, such as children, to use their tablet.

Tablet users also appear to be slightly more valuable consumers when it comes to website visits than those who visit a site with a smartphone. iPad users (62%) and Android tablet users (56%) reported spending more than $250 on consumer products via their devices over the past 12 months, compared to 58% of iPhone users and 53% of Android smartphone users.







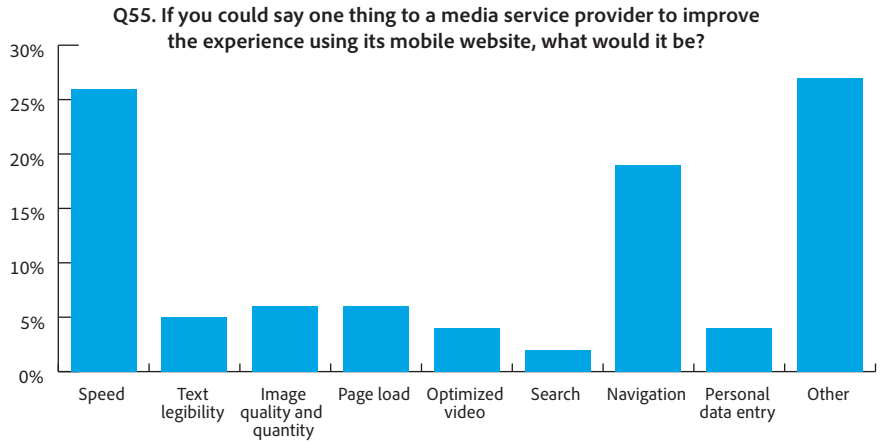
User experience and engagement with mobile services

Participants in the Adobe 2012 Mobile Consumer Survey shared their user experience when conducting mobile activities for both mobile websites and applications, as well as provided insight into how much time they are spending on these activities. The categories spanned media and entertainment, travel services, financial services, and shopping for consumer products and consumer electronics.

Media consumption

In the category of media consumption, consumers reported having the most negative-to-neutral experiences for both mobile websites and applications in the areas of speed and performance, transaction processes, ability to load website on phone, and ability to enter data. Consumers also highlighted navigation as a key area for improvement. Interestingly, media consumption was the only category where consumers stated that they would like the simplicity of site design improved.

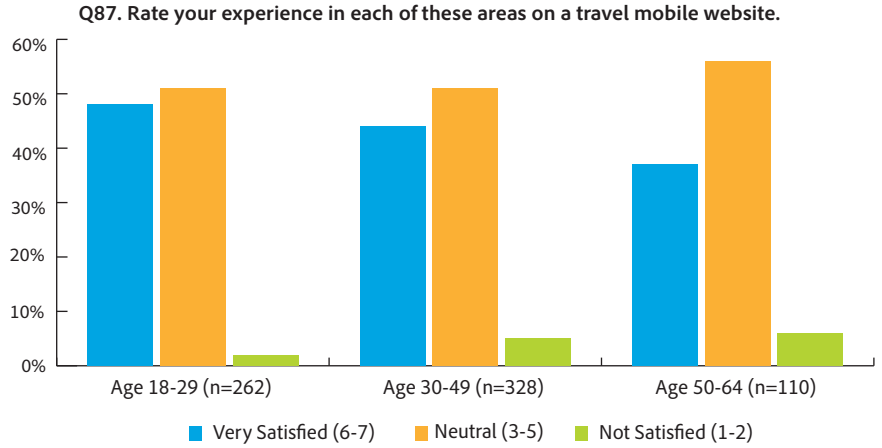
In looking at media consumption by age and the time spent on a device per week, the younger age group reported the most hours at 3-5 hours per week on mobile websites (28%) and applications (28%). In contrast, the older age group skewed towards spending less than one hour per week on both websites and applications. As such, it is important for brands that target younger demographics to provide mobile-optimized experiences.



Travel services

Across all categories, travel services received the highest negative-to-neutral ratings for experiences with both mobile websites and applications. In particular, the older age group felt more negative about their experiences with travel services, as compared to the young and middle age groups. While mobile devices provide the essential ability to look up travel information from anywhere, consumers found it difficult to conduct transaction processes and enter in data, which are crucial elements for actually booking travel online.

Businesses in the travel services industry would be well-served to look at their user profile data, and test different navigation, design, page layout and content options based on age. The results may then help marketers in this industry prioritize age-based offers and content that raise satisfaction levels in their testing plan, leading to a more "in-establishment" experience online that resonates with this audience.



Financial services

Mobile has become one of the key imperatives for financial services firms, as the benefits of delivering mobile experiences to customers are clear. Customers always have their mobile devices with them, the devices are always on, and devices can provide various means of interaction including voice, touch, camera, and location. In fact, mobile banking is forecasted to grow to over 50 million users in the US by 2015.[2]

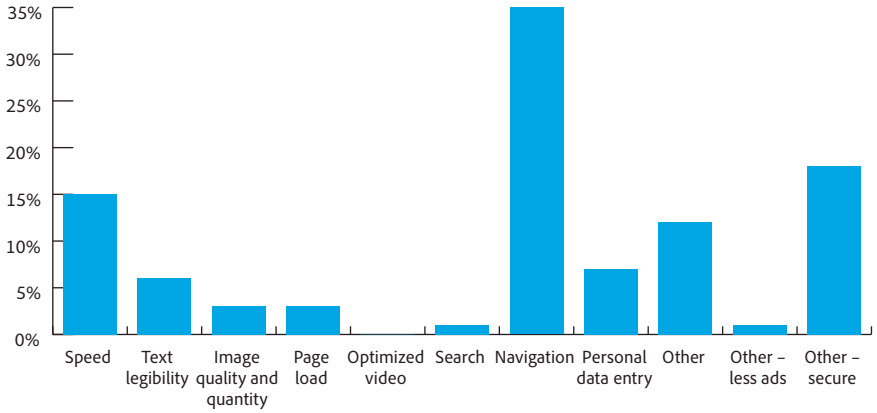
[2] Forrester Research Mobile Banking Forecast, 2010 to 2015 US

Given the immense opportunity for financial services to acquire, convert and retain customers via the mobile channel, organizations must look at providing better mobile experiences that meet consumer expectations. As with the travel services industry, survey respondents reported a high negative-to-neutral rating for their experiences with transaction processes, ability to enter data, and navigation. The older age group also reported the most dissatisfaction with these experiences. Again, testing higher-level personalization based on age could prove to be advantageous for organizations. With the older age group having more history of personal interactions with financial services, organizations may want to test their mobile channel as a portal to connect this age group to services that are easy to access. By creating more personalized engagement via mobile, organizations can create an experience that is closer to an in-establishment feel.

The older age group also reported using tablets more often. Organizations should look to uncover opportunities in this area by taking advantage of the tablet screen real estate to provide an optimized experience, while differentiating brand and increasing conversions.

The category of financial services was the only vertical in which security was highlighted as an area for improvement for both mobile websites and applications. Consumers are still concerned about the safety of their personal and financial data online. Organizations can efficiently test options to help ease customer concerns by testing the placement of security certificates on the UI, thereby encouraging trust with the visual cue that security is in place.

Q136. If you could say one thing to a financial service company to improve the experience on its mobile website, what would it be?



Shopping for consumer products

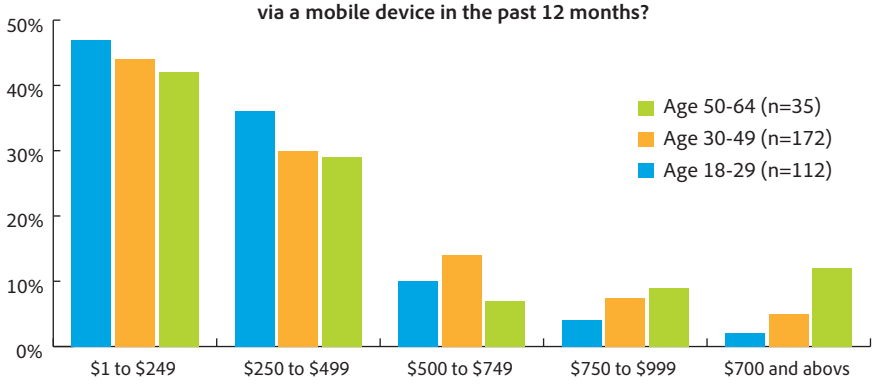
Overall, consumers who shop via mobile applications on Android tablets report the highest percentage levels of satisfaction at 88% versus iPad users at 71%, and Android smartphone users at 69% versus iPhone users at 66%.

When it comes to shopping for consumer products via mobile websites, iPad users reported the highest satisfaction levels at 75%, followed by Amazon Kindle at 73%, iPhone at 66%, Android tablet at 66%, and Android smartphone at 60%.

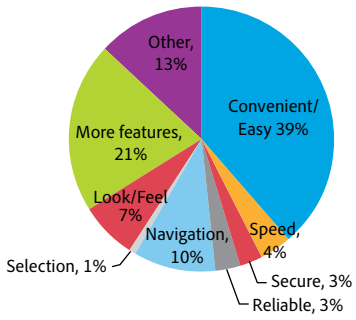
In general, men appear to be happier with mobile shopping experiences for consumer products, with 67% of men reporting being satisfied versus 59% of women.

- All ages are comfortable in the range of $1–$250 (just over 40% in all). The older demographics are bigger spenders: Age 30–49 spent more than the other two groups in the $500 to $749 range. Age 50–64 spent most in the $1000+ range (12.12% compared to 2.6% for age 18–29, and 5.08% in age 30–29).
- Females are most comfortable spending in the $1–$249 range (53% compared to 36% of males). Males are more comfortable spending in higher ranges: 17.47% in the $500 to $749 range, and 14% in the $750+ range (double the percentage of females).

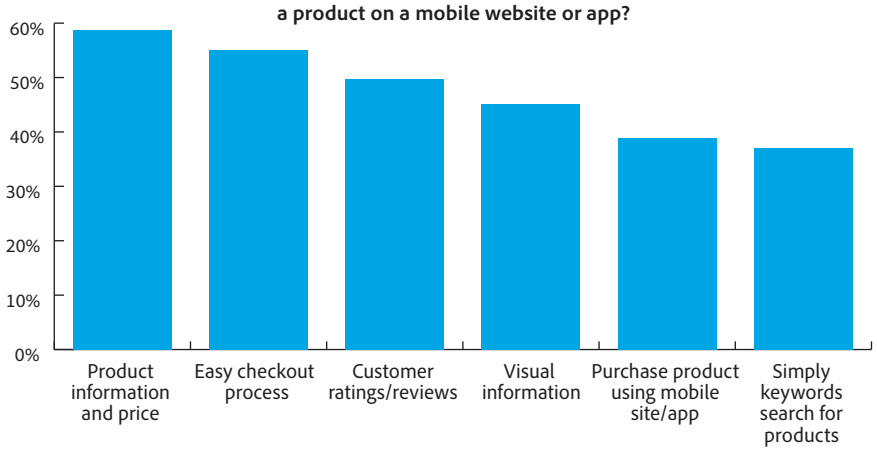
Q151. Average dollars spent on consumer product purchases via a mobile device in the past 12 months?



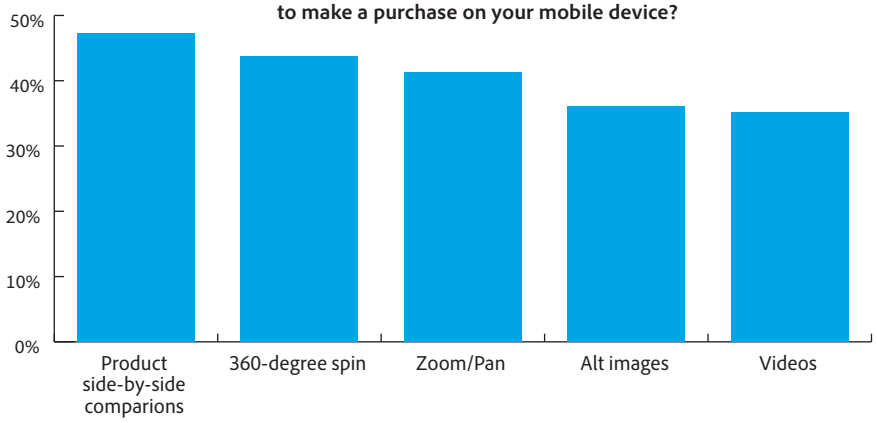
Q157. Provide why you prefer a regular website when shopping on your mobile device.



Q159. What information is most helpful when purchasing a product on a mobile website or app?



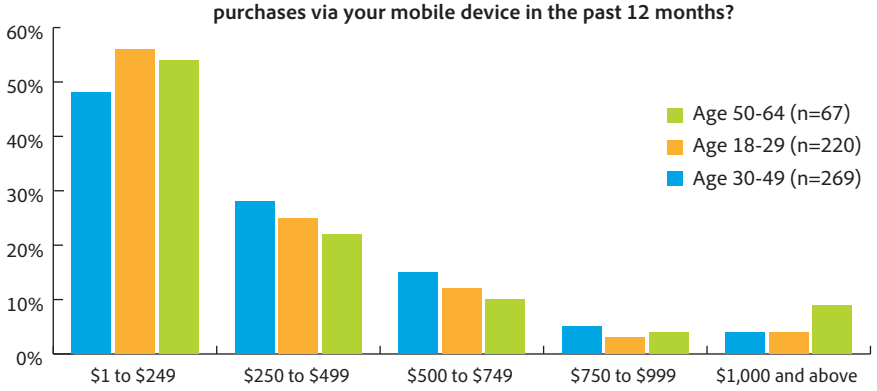
Q172. What visual features will increase your likelihood to make a purchase on your mobile device?



Shopping for consumer electronics

- All ages appear comfortable in the range of $1–$250 (48% for ages 30–49, others above 50%). The older demographics spend more. Given the cost of electronics, unlike consumer products, ages 18–29 spend up to the $500 to $749 range. The 50–69 group appears more comfortable than the others spending over $750 (13% compared to 6%–8% for the others).
- Females spend more than males up to $749 (94% compared to 89%), with the highest portion between $1–$249. Males spend more in the $750+ range (11% compared to 7% for females).

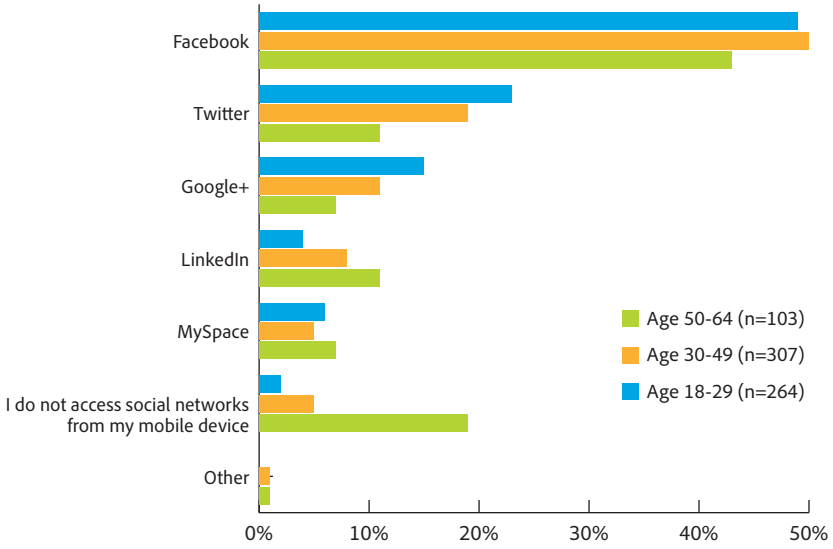
Q202. On average how much have you spent on consumer electronics purchases via your mobile device in the past 12 months?



Social media and mobile access

It is no surprise that Facebook is the dominant social network accessed by mobile (85%), followed by Twitter (35%), and then Google+ (21%). It is also expected that the most popular activity is to read status updates (85%). However, consumers are also using their mobile devices to view Facebook fan pages of their favorite brands. Today's brands should have mobile-optimized experiences for offers that are launched from their Facebook fan pages. This is most important for brands that target younger demographics, with 91% of the young age group and 87% of the middle age group accessing social networks via mobile devices.

Q267. Which social networks do you access from a mobile device (Facebook, Twitter, Google+, etc.)?



While 53% of consumers who view a Facebook fan page receive an offer or promotion, one in five consumers report that they do not have a mobile-optimized experience when linking from Facebook to a brand's site. Because the assumption is that the consumer wants to take advantage of the offer or promotion, companies should consider optimizing the mobile transition as low-hanging fruit for increasing conversions.

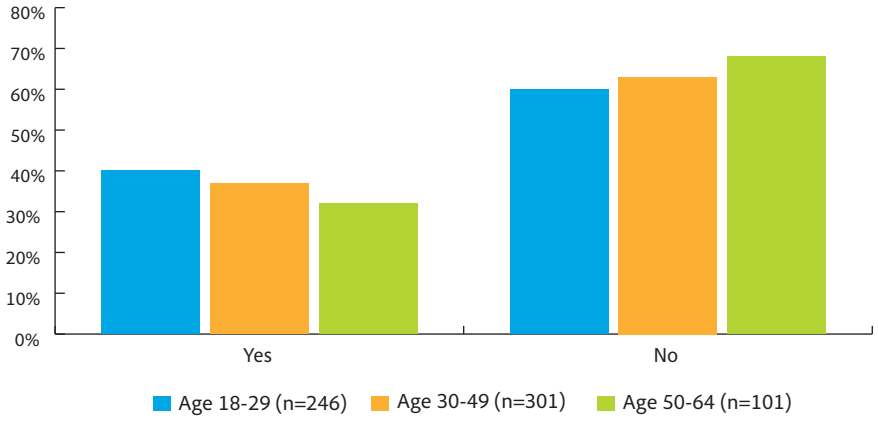
A majority of consumers (56%) access their social networks on a daily basis, with 20% reporting that they visit these sites on a weekly basis. Given the frequency of mobile visits to social sites, the ability to use dashboards to measure and optimize traffic that result from these visits is gaining in strategic importance.

Mobile advertising

More and more, companies are looking to mobile search and display ads to acquire new consumers and retain current customers. The ad spend for mobile search and display ads is anticipated to see a compound annual growth rate of over 50% from 2010 to 2015.[3] A high percentage of consumers surveyed report that they are clicking through mobile ads presented in both mobile websites and apps, with 42% clicking through ads on mobile websites, and 37% clicking through ads on mobile apps.

As mobile consumers may exhibit high intent when searching for products or services, having tools to target and optimize mobile-specific offers represents a big opportunity for companies. Consumers are reporting that a majority of advertisers are providing mobile-optimized experiences when they click through ads on both mobile websites (73%) and mobile apps (77%), suggesting that optimization of mobile ad content appears to be prevalent. Men are more likely to click through on mobile ads presented within mobile apps than women (42% versus 32%). Prioritizing a testing roadmap to include campaigns that target men could yield a strong opportunity for conversion optimization.

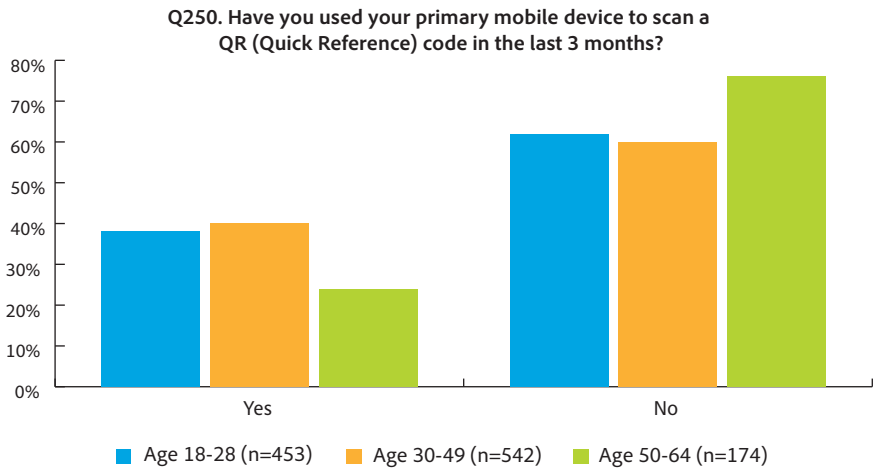
Q264. Have you clicked thru on mobile ads that are presented in a mobile application?



Emerging technologies

Nowhere does the opportunity for brand differentiation and improved customer experience appear more evident than in the adoption of emerging mobile-specific technologies. For example, the practice of scanning Quick Response (QR) codes is rapidly becoming a mainstream activity, with 38% of young and 40% of middle age groups reporting that they have scanned QR codes in the last three months. The codes were presented in a wide variety of media. After scanning the code, a high percentage (83%) of respondents said they were presented with a mobile-optimized experience. As QR codes can be associated with a location-based offer (e.g., in-store display), companies should take advantage of the ability to dynamically personalize the brand experience for their target audience.

[3] eMarketer, Sept. 2011



Another opportunity for location-based personalization is represented by the rise in adoption of consumer "check-in" services. Almost a third of respondents have checked in via a location service on their mobile device, with Facebook being the most popular service, followed by Foursquare and Yelp. In addition, 48% of those who checked in received an incentive. By offering incentives to check in, marketers have the ideal opportunity to upsell and cross-sell to consumers when and where they are most likely to be engaged in a purchase process. Younger demographics clearly represent the strongest opportunity here, and marketing programs geared at this audience should receive the priority in the campaign development process.

Although augmented reality (AR) and mobile wallets are still at an early stage, consumers are reporting their advantages. For those who have used AR, 55% indicated that it was used to locate and find a company, product, or service. And of those who have used a mobile wallet to pay for a product or service, 86% said that the payment experience was easier than providing their credit card. Given this high rate of positive response, retailers should consider positioning this option in their payment stack when they have the opportunity to efficiently test and deploy.

Overall, the study showed that men are adopting these emerging mobile technologies at a quicker pace than women, with 21% of men reporting mobile wallet usage versus 14% of women. In addition, 19% of men reported experience with augmented reality versus 12% of women.

As could be expected, consumers who are the earliest adopters of emerging technologies are also the most valuable customers. For example, people who reported using a mobile wallet in the past three months were also the bigger spenders online: 33% of people who used mobile wallets spent more than $500 on consumer products via their mobile device over the past 12 months versus only 9% of those who did not use mobile wallets.

The same holds true for QR codes. Of the people who reported using a QR code in the past three months, 31% spent more than $500 on consumer products via their mobile device over the past 12 months versus only 16.5% of those who did not report using QR codes.

The results of the survey hold strong implications—companies that want to convert consumers with the highest potential value should implement plans to test and adopt emerging mobile technologies.

Conclusions

The mobile survey revealed that consumers are using their smartphones and tablet devices to connect with brands across a variety of categories through both mobile-optimized websites and mobile apps. By understanding how consumers are coming to a site—whether it's through a mobile site or app or via a smartphone or tablet—companies can leverage their customers' perspectives and preferences to deliver a better user experience, which can translate to increased customer loyalty and improved bottom line.

- For consumers who own both a smartphone and a tablet, the primary device is still the smartphone (88%).
- Android smartphones are the most popular by ownership percentage (58% young, 50% middle, 38% senior) across all age groups.
- Apple tablets (iPads) are the most popular with young (27%) and middle age (31%) groups. However, the Kindle Fire is the leader among seniors (22%). A majority of tablet owners (56%) share their device with other family members.
- Across mobile platforms (Android versus Apple), ownership by gender is equally distributed across males and females.
- Facebook is the dominant social network accessed via mobile at 85%, followed by Twitter at 35%, and Google+ at 21%. A majority of brands provide mobile-optimized experiences for offers that are launched from their Facebook fan pages via mobile devices. Over 87% of young and middle age groups access social media via mobile devices.
- Mobile ads presented in both sites and apps have a high click-through rate (42% and 37%, respectively). A majority of advertisers provide mobile-optimized experiences when consumers click through on ads.
- Men are more likely to click through on mobile ads presented within apps than women (42% versus 32%).
- Scanning QR codes is becoming a mainstream activity: 38% of young and 40% of middle age have scanned in the past three months.
- Location services are on the rise and are being driven by consumer incentives to check in. Younger demographics are more likely to check in (35%) versus senior at 18%.
- AR and mobile wallets are still in the early stages. Only 19% of young adults have used AR or mobile wallets. Men are more likely than women to use these emerging technologies.

Best practices

Different devices deserve different experiences. Today's consumers expect equally optimized visits across desktop and mobile devices. Brands must offer an engaging and dynamic mobile user experience design that meshes with their optimized desktop experiences to provide a consistent experience across all devices and screens. As sites add mobile-optimized implementations, there are several best practices to consider.

- **Reduce touch events to conversion.** Understanding the business goals and key performance indicators (KPIs) you are driving toward is the foundation of building any commerce strategy. Keep these in mind and design the mobile experience with the path of least resistance to achievement. Research has shown that conversion rates are directly impacted by streamlined paths to purchase—conversion should occur within three touch events. Two will be table stakes in the near future.
- **Design for mobile interactions**. The tablet and smartphone user experience needs to focus on touch-driven controls as the primary visitor interaction, rather than mouse clicks and keyboard controls. Take advantage of mobile display controls such as finger swipe, touch, drag, pinch, and zoom. Use simple, large buttons to designate interactions and navigation, such as a large shopping cart or video play button. If designing for mobile retail, incorporate rich product visualization that is optimized for device type. The difference in functionality shifts the user experience focus to embedded, large-viewer or full-screen interactive zoom and pan, 360-degree spin, and enhanced video functionalities.

- **Optimize for speed**. Even a one-second delay in mobile page load time equals 7% loss in conversion, according to the Aberdeen Group. Lighten the load on a mobile-optimized website by incorporating dynamic media content, such as images, video, and campaign banners, that automatically adjusts content size, resolution, and format delivery based on the device platform and network detection.
- **Make content "findability" easy**. Mobile users have high intent, and the majority of mobile customers use search before they do anything else on m-commerce sites, making mobile site search optimization crucial. Use explicit navigational cues for easy browsing. Implement auto-suggest and auto-correct in search input boxes to address the difficulty of mobile typing. Provide the most compelling, relevant top-search results optimized for screen size and location.

In addition, the more positive consumers feel toward their mobile experience, the more ability brands have to build customer loyalty and improve conversion rates. And with over 40% of respondents reporting a negative-to-neutral rating for experiences in several areas across the categories of media consumption, travel services, financial services, and shopping, there is significant room for improvement.

Recommendations

With mobile device user penetration expected to skyrocket well into 2015, it's more important than ever for organizations to connect all their channels—including web, social, call center, search—with mobile to achieve business objectives of conversion, revenue, and loyalty. Today's digital marketers should review their mobile strategy to look for cross-channel execution opportunities and ensure that analytics are in place to measure success. While the following recommendations may not represent the ideal solution for every business, it is critical to integrate mobile marketing into your overall marketing strategy.

- **Don't launch mobile channels without analytics.** Review your mobile sites and apps to ensure that analytics are in place to measure success from day 1. Direct measurement of visitor behavior is important to understanding the effectiveness and ROI of mobile channels. This mobile consumer survey provides a snapshot of macro trends. However, Adobe recommends that you acquire the same insights about device platforms and user engagement for your mobile channels via the Adobe Digital Marketing Suite.
- **Don't forget about tablets.** As reported in the Adobe Digital Marketing Index, tablets provide engagement levels nearly equivalent to desktop and laptop computers.[4] Consequently, marketers need to plan and prioritize optimization efforts for tablet experiences that are unique and different from smartphones, given the larger screen size.
- **Don't launch a social mobile presence that is not mobile optimized.** Review your owned social media channels to ensure that consumers can click through to offers and that tweets are optimized for smartphones and tablets.
- **Don't run mobile advertising campaigns that link to a desktop site.** When planning your mobile search and display campaigns, ensure that landing pages are mobile-optimized and do not simply click through to the desktop home page.
- **Don't go solo when you go mobile**. Seek guidance from Adobe Consulting and partners for expertise in mobile marketing.

[4] *http://success.adobe.com/en/na/programs/digital-index/1205_13926_di_report_rise_of_tablets.html*

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OFFICE OF FAIR TRADING

Findings from consumer surveys on Internet Shopping

A comparison of pre and post study consumer research

May 2009

OFT1079

CONTENTS

1 EXECUTIVE SUMMARY

1.1 This report presents results from questions placed by the OFT on telephone and online consumer omnibus surveys[1] in January 2009, relating to consumers' experience of online shopping. It also compares these 2009 findings to those of the original surveys conducted as part of OFT's Internet Shopping market study in 2006. This work is part of an effort to monitor any changes to consumers' attitudes, awareness and confidence about shopping online following OFT's Internet Shopping market study and subsequent activities undertaken in 2007.

1.2 Later in 2009 we will publish an analysis of the results of the omnibus surveys presented in this report and also of a web-sweep exercise, to form an overall assessment of market developments on such key issues as awareness of cancellation rights, security concerns and consumer confidence.

1.3 Overall, the comparison of the 2009 survey results with those from 2006 suggests that, amongst those who shop online, there have been significant improvements in consumers' awareness of their rights when doing so, that there has been some reduction in concerns around security and delivery, and that consumers are increasingly confident in engaging in Internet shopping. However, there remain some important issues to be addressed. A majority of those who do shop online nevertheless expressed concerns over doing so. Moreover, more than half of all respondents had not shopped online at all over the last 12 months, with a significant proportion of these not doing so because they don't trust shopping on the internet.

1.4 Below we present summary findings on key areas of Internet shopping that were addressed by the OFT market study and follow up activities in 2007:

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[1] GFKNOP Telebus, and TNS Onlinebus.

Awareness of consumer rights

- The proportion of 2009 telephone omnibus respondents who shop online claiming to be very aware about their consumer rights when shopping online had nearly doubled compared to 2006 (from 12 per cent to 23 per cent), with 63 per cent now stating they are very or fairly aware.

- Fewer internet shoppers in the 2009 telephone research do not know where to go for advice on their rights (16 per cent), compared to 2006 (28 per cent).

Cancellation and refund rights

- The proportion of internet shoppers in the online research who correctly thought they could return an item simply because they had changed their mind had risen from 44 per cent in 2006 to 51 per cent in 2009.

- On the additional questions included in the 2009 research:

  - 79 per cent of internet shoppers participating in the telephone survey felt that retail sites provided accurate information on their rights to cancel their purchase or return faulty goods.

  - 68 per cent responding to the telephone survey agreed there is now better information available on cancellation rights compared to a year ago. However,

  - Only 25 per cent of internet shoppers in the online survey knew the correct answer when asked how long they had to exercise their right to cancel an order, and this had not changed since 2006.

Seller information

- More internet shoppers in the 2009 telephone research said they **always** look for the terms and conditions (+ six percentage points, from 49 to 55 per cent), consumer reviews of the website (+ 15 percentage points, from 21 to 36 per cent) and contact telephone

numbers (+ six percentage points, from 51 to 57 per cent) compared to 2006.

- The proportion of online respondents buying from auctions sites who had tried to identify whether the seller was a trader or a private seller had risen from 65 per cent in 2006 to 70 per cent in 2009.

Consumer confidence

In terms of consumer confidence, the 2009 telephone survey found that:

- 72 per cent of those who shop online have (few, some or many) concerns about doing so. Nevertheless, the proportion of those shopping online with no concerns about using the internet to shop online has more than doubled from 12 per cent in 2006 to 28 per cent in 2009.

- An increased proportion of online shoppers felt that shopping online was as safe as shopping in store (54 per cent in 2009 compared to 26 per cent in 2006). The proportion saying shopping in person was safer than shopping on line had fallen to 41 per cent from 72 per cent in 2006, and

- 85 per cent of online shoppers felt they were very or fairly confident that their consumer rights were protected when shopping online.

Security, privacy and delivery concerns

- There is still significant distrust around internet shopping amongst those that had not engaged in it over the past 12 months. For those that had, the primary concerns in 2009 (as in 2006) continue to be about financial or personal details being divulged and delivery.

- According to the 2009 telephone survey:

  - Only 46 per cent of respondents to the telephone survey had shopped online over the past 12 months, with 31 per cent of respondents having never used the Internet.

- Of the remaining 23 per cent of respondents who had used the Internet but had not shopped online over the past 12 months, 30 per cent did not do so because they did not trust the internet for shopping, 15 per cent did not trust online sellers and 20 per cent were worried about personal security. 49 per cent listed at least one of these options as a reason for not shopping online. These results were not statistically different from those in 2006.

- The proportion of those who did shop online who were concerned about security issues such as financial details being divulged had fallen from 78 per cent in 2006 to 68 per cent in 2009.

- Concerns about product delivery had halved (from 24 per cent to 12 per cent), and concerns about product quality fell by five points from 16 per cent in 2006 to 11 per cent in 2009.

- However, there was no significant change in the number of shoppers experiencing problems since 2006, with around one in five online shoppers reporting a problem. Around half of these related to delivery.

- The 2009 online survey indicated that:

  - The proportion of respondents aware that they were not liable to pay in case of credit card fraud increased from 65 per cent in 2006 to 73 per cent in 2009.

  - In 2006, 70 per cent of internet shoppers checked for the padlock symbol which indicates that information entered on the site is securely encrypted. This had fallen to 61 per cent in 2009.

  - The percentage saying they did not shop online through auction sites because of worries about giving personal details had almost halved (from 47 per cent to 24 per cent).

Ability to search effectively

In the 2009 online survey:

- 60 per cent of internet shoppers had used a price comparison site to search for goods or services to buy online in the previous 12 months (13 percentage points lower than in 2006).

- However, of those that used a price comparison site, the proportion of those that had used more than one price comparison site had risen from 63 per cent in 2006 to 71 per cent in 2009.
- The number of those who had not used a price comparison site because they didn't know how to use them halved from 18 to 9 per cent.

2 INTRODUCTION

2.1 The OFT launched a fact finding market study into the Internet Shopping market in April 2006 to assess consumer and business attitudes and experiences, the regulatory framework, and awareness of rights and their enforcement. The report was published in June 2007 and was followed by other work strands that aimed to increase consumer confidence by raising awareness of consumer rights and improving business compliance in the sector.

2.2 The Internet Shopping market study report estimated that the UK internet shopping market was growing at 30 per cent per annum and was worth over £21.4bn, and that the previous year over 20 million people had shopped online with nearly a third of them spending over £1,000. It also found that some shoppers could find better deals by searching more effectively, many could do more to protect themselves online, and most did not know that they have cancellation rights when shopping on the internet.

2.3 The report found that more could be done to improve consumer confidence to ensure consumers get the most from shopping online. In particular:

- awareness of online shoppers' rights is low for businesses and consumers
- shoppers have significant fears about security and privacy, which put some off buying online altogether, and
- by searching more effectively, shoppers can find big savings.

2.4 The publication of the report was followed up by work strands focused on increasing awareness of rights and business compliance. These included:

- Publishing a range of summary materials to supplement existing OFT guidance documents and integrating them into the Consumer Direct web site. These included tips for safe shopping online such as

checking if websites are secure, refund policy and cancellation rights. The November 2007 National Consumer Week was used to promote these messages.

- Updating the OFT's advice to business web pages, including a summary of key regulatory requirements and advice for small firms on online security to protect themselves and their consumers by adhering to sensible security practices. This information was emailed out to industry bodies such as APACS for onward distribution.

- Working with the Consumer Education Alliance to distribute materials through web sites.

- Securing the agreement of the top five internet auction sites to provide information to consumers about their rights under the Distance Selling Regulations (DSRs) and to provide clearer identification of traders. Under the DSRs, consumers have the right to receive clear information about goods/services they buy, and cooling off period.

- Securing the agreement of key price comparison sites to give consumer advice and links to the guidance on Consumer Direct.

- Findings from an initial assessment of compliance by a small number of leading web sites were shared with industry bodies – BRC, IMRG, and CBI in the expectation that they would encourage members to address any gaps.

- The OFT co-ordinated a national web-sweep by nearly 100 Trading Standards Departments of the 'top 500' online retailers in December 2007. It published a report and press release on the overall results of the exercise in March 2008. The results indicated that most large UK based online retailers were complying with key consumer protection requirements. However, they also identified room for improvement in some areas, including the provision of adequate contact details, and transparency in cancellation and refund rights. The OFT then informed the top 400 UK retailers of the results and indicated that, in

some cases, TSS officers would follow up their findings by directly advising the retailers on compliance with the regulations.

2.5 Sections 3 and 4 present findings from the online and telephone omnibus surveys carried out in January 2009 and compare these to the responses received in the 2006 surveys to indicate how particular market indicators have moved since the above awareness raising activities.

Methodology

2.6 In January 2009, telephone and online omnibus surveys[2] were used to gather evidence on consumer confidence and awareness. Most of the questions (listed in the annexes to this report) were taken from the telephone and e-panel surveys undertaken in November 2006 as part of the market study. This enabled a comparison of the responses pre and post OFT intervention.

2.7 A few questions were added to gather more information on consumer confidence.

2.8 All changes remarked upon in the below paragraphs are statistically significant at the 95 per cent level of confidence, unless stated otherwise.

2.9 Results from the 2006 research may be found in Annexe H to the market study report, available online at www.oft.gov.uk/shared_oft/reports/consumer_protection/oft921h.pdf.

2.10 It should be noted that there are one or two results which suggest that the 2006 sample may have been slightly biased by self-selection. For example, it would appear that 2009 Onlinebus respondents spend less online, use price comparison sites less and are more likely not to have a credit card.

[2] GFKNOP Telephone omnibus, 16-18 January 2009, 1,001 UK respondents aged 16+ and TNS Onlinebus 13-15 January 2009, 1,037 UK respondents aged 16-64.

3 FINDINGS FROM THE TELEPHONE RESEARCH

3.1 The previous telephone survey undertaken in November 2006 interviewed 1,003 UK consumers, 797 of whom were defined as internet shoppers: that is, they had used the internet at some time and had bought goods/services online in the previous 12 months. The January 2009 GFKNOP telephone omnibus interviewed a total of 1,001 UK consumers of whom 69 per cent had used the internet at some time. Two thirds (463) of these respondents had shopped online in the previous 12 months (46 per cent of all respondents). The incidence rates of internet shoppers for the two projects are not comparable as the 2006 sample was set to a quota such that c.10 per cent of respondents had **not** used the internet and that c.10 per cent of internet users should **not** have shopped online in the previous 12 months.

3.2 For the third (231) of the 2009 telephone omnibus respondents who had used the internet but not shopped online the top reasons for not doing so were because they didn't trust the internet for shopping (30 per cent), there's no need as there's nothing they can't buy elsewhere (26 per cent), they like to see goods before they buy them (25 per cent) and because they were worried about personal security such as identity fraud or having their credit card details stolen online (20 per cent). The reasons given in 2009 were not statistically different from those in 2006. See Table 3.1 for more details on the other answers to this question.

Table 3.1: Reasons for not shopping online

	Nov-06	*Jan-09*
Don't trust the internet for shopping	24%	30%
There's no need	27%	26%
Like to see goods before I buy them	26%	25%
Worried about personal security	17%	20%
Don't trust online companies that sell online	-	15%
Don't have a bank account/credit card	5%	3%
Other people shop online on my behalf	-	3%
Want to see goods/try on etc	8%	3%
Don't know my rights when buying online	-	1%
Had a bad experience previously	2%	1%
Online retailers won't generally deliver to my area	-	-
No one in the premises to receive the goods when delivered	2%	-
Other	2%	17%
Base count	86	231

Base: internet users who have not shopped online in the last 12 months

3.3 In 2009 top reasons for buying online were because there's a wider choice and/or they can compare more prices online (85 per cent: an increase of nine percentage points since 2006), because shoppers can find what they want more quickly and/or easily (84 per cent) and because they can shop in comfort at home (81 per cent). In 2009, more respondents stated that reasons for shopping online were more product information, special online offers, free delivery, greater choice of second hand goods, and the availability of products not available in the UK or offline.

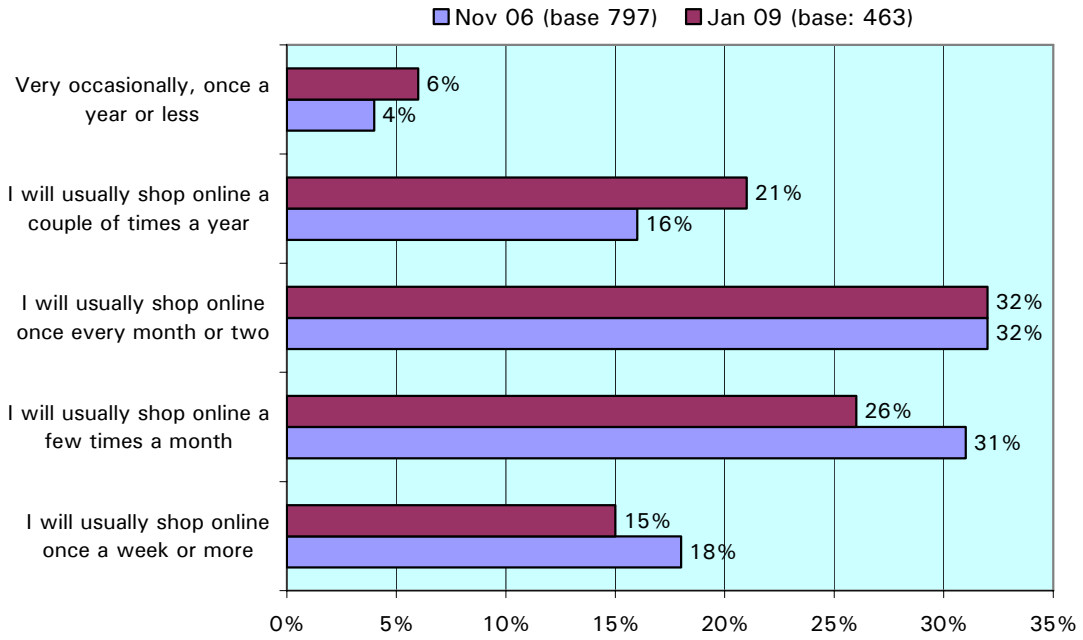
Table 3.2: Reasons for buying online

	Nov-06	*Jan-09*
Wider choice/ can compare prices	74%	85%
Find what you want more quickly/saves time/'quick and easy	80%	84%
Shop in comfort/ can stay at home	78%	81%
24/7 access	83%	79%
Prices are lower	72%	75%
Don't have to carry/transport the items	68%	72%
More product information to help make decisions	61%	72%
Avoid the crowds/don't have to deal with people	64%	64%
Free delivery of goods	45%	62%
There was a special on-line offer	53%	59%
Can buy products not available in the UK	46%	56%
More choice of second hand items	35%	43%
The item/s are only available on line	38%	39%
Base count	797	463

Base: all internet shoppers

3.4 The frequency of internet shopping in the 2009 omnibus was similar to the 2006 survey, with the percentage of shoppers saying they shopped online a few times a year having increased from 16 per cent to 21 per cent.

Chart 3.3: Frequency of online shopping

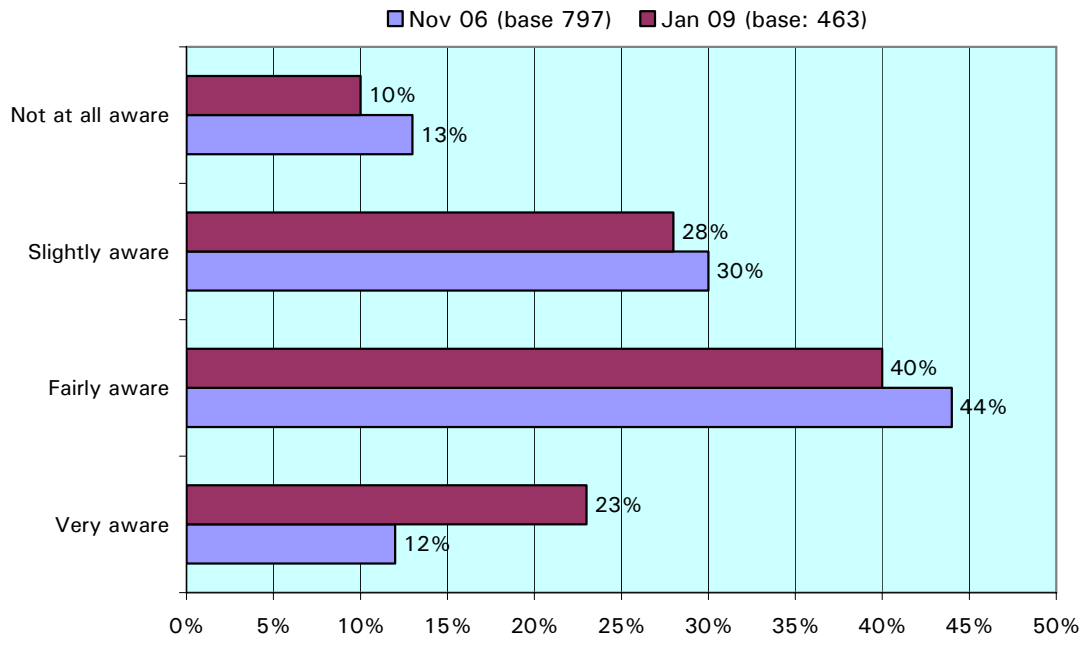


Base: all internet shoppers

Note: 'Don't know' responses are not displayed so figures may not sum to 100 per cent

3.5 The proportion of internet shoppers claiming to be very aware about their consumer rights when shopping online had nearly doubled in 2009 compared to 2006: rising from 12 per cent to 23 per cent. Otherwise, awareness of rights remained unchanged from 2006 levels.

Chart 3.4: Awareness of rights when shopping online



Base: all internet shoppers

Note: 'Don't know' responses are not displayed so figures may not sum to 100 per cent

3.6 In 2009, 41 per cent of internet shoppers said they would look on the internet or use a search engine to search for advice about their rights whilst shopping online: a ten percentage point increase since 2006. The number who would turn to Citizens Advice has also increased: nearly doubling from 12 per cent to 22 per cent. The percentage who mentioned the OFT fell from 11 per cent to three per cent. This is probably indicative of the differences in the 2006 survey which mentioned the OFT as the sponsor, and the recent omnibus, which did not mention the OFT. Most positive of all, is that the number who said they did not know where to go for advice, had fallen from 28 per cent to just 16 per cent.

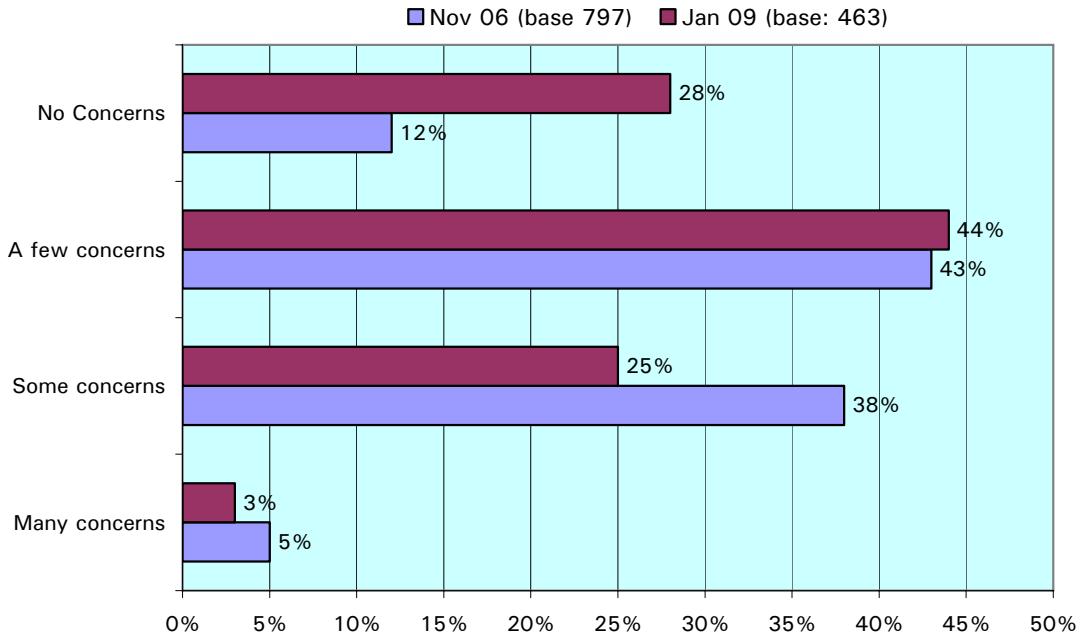
Table 3.5: Where consumers would look for advice about their consumer rights when shopping online

	Nov-06	*Jan-09*
Internet/Search engine	31%	41%
Citizens Advice bureau	12%	22%
Family/Friends	13%	12%
Consumer Associations/ Consumer interest groups/rights groups	9%	11%
The terms and conditions on the site/item I wanted to buy	8%	8%
Legal Acts/ Statutes	4%	4%
Office of Fair Trading	11%	3%
Consumer Direct	5%	2%
Department for Business Enterprise and Regulatory Reform	4%	1%
Don't know	28%	16%
Base count	797	463

Base: all internet shoppers

3.7 The proportion of those shopping online with no concerns about using the internet to shop online has more than doubled, increasing from 12 per cent in 2006 to 28 per cent in 2009.

Chart 3.6: Concerns about using the internet to shop online

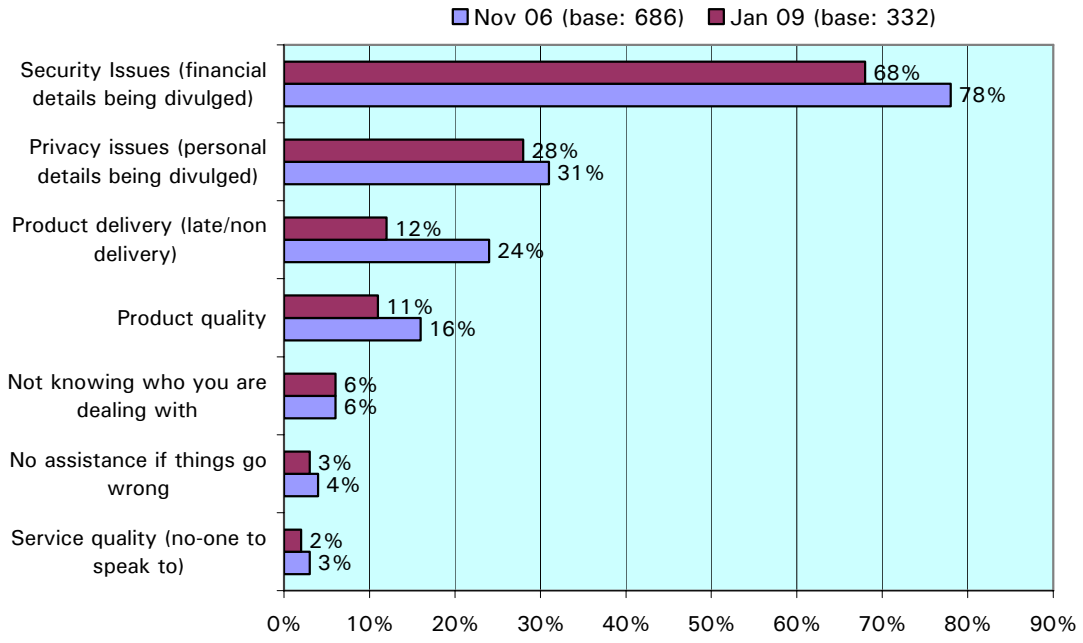


Base: all internet shoppers

Note: 'Don't know' responses are not displayed so figures may not sum to 100 per cent

3.8 As in 2006, top concerns in 2009 about shopping online were about the financial or personal details being divulged and delivery. However, the percentage of internet shoppers concerned about security issues such as financial details being divulged had fallen by 10 percentage points from 78 per cent to 68 per cent. Similarly, concerns about product delivery had halved and concerns about product quality fell by five points from 16 per cent in 2006 to 11 per cent in 2009.

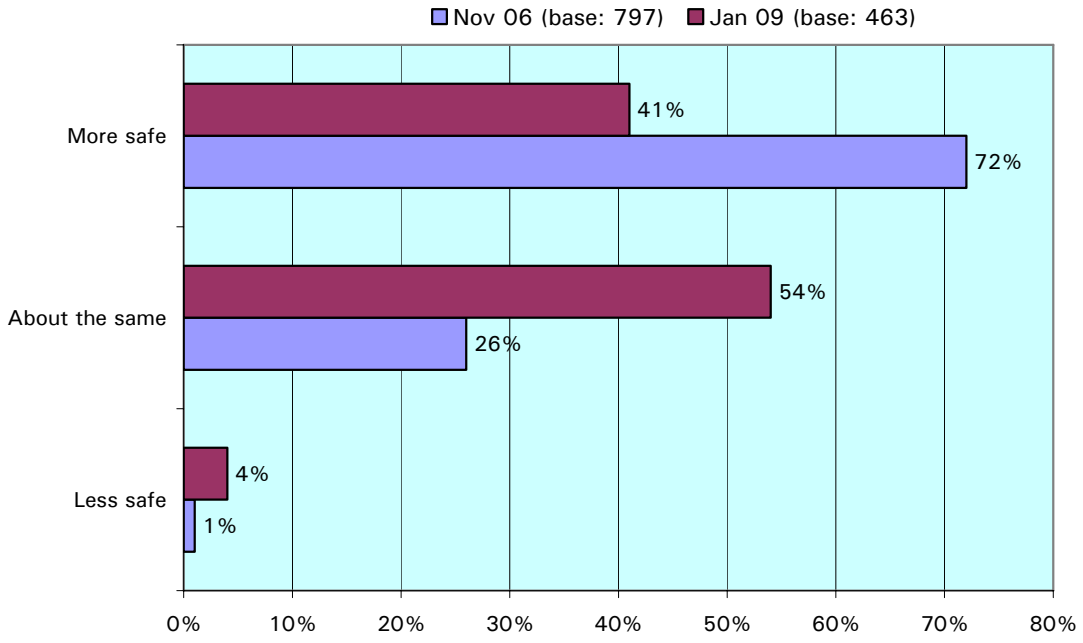
Chart 3.7: Concerns about shopping online



Base: internet shoppers with concerns

3.9 Internet shoppers were asked to think about buying an item such as a DVD or a toaster. They were then asked whether they thought shopping for that item in person in a store or shop is safer, about as safe or less safe than shopping online. The 2009 response to all three categories is different from 2006. Most notably, the majority (54 per cent) now feel that internet shopping is about as safe as shopping in person and the proportion who thought shopping in person was safer than shopping online has fallen by 31 percentage points from 72 per cent to 41 per cent.

Chart 3.8: Whether shopping in a store is safer than shopping online

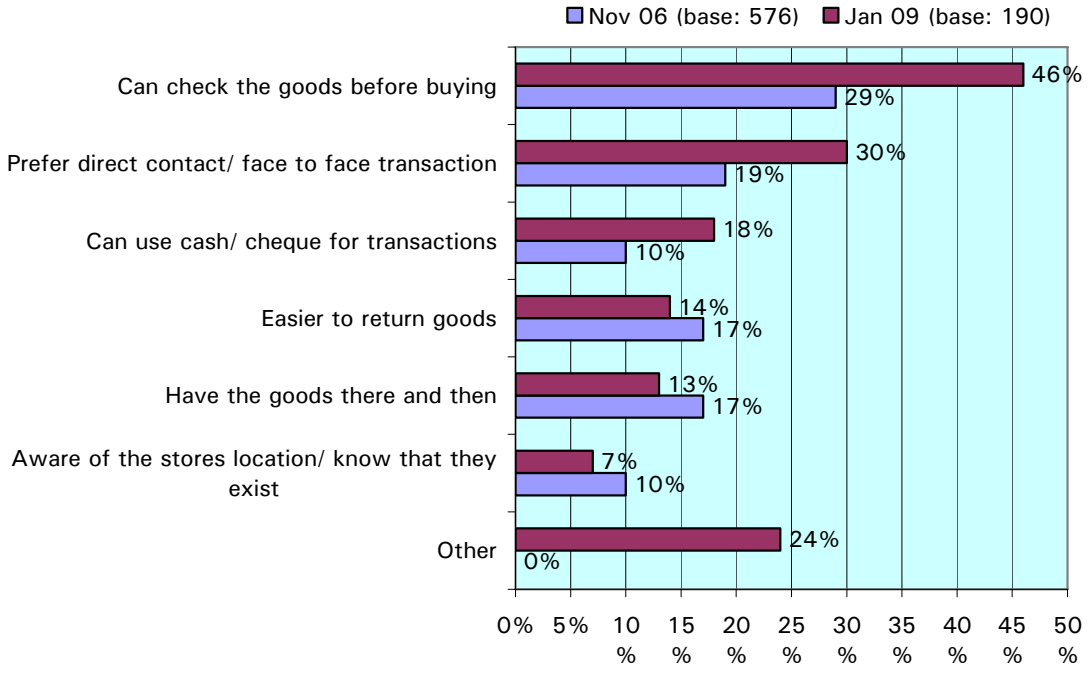


Base: all internet shoppers

Note: 'Don't know' responses are not displayed so figures may not sum to 100 per cent

3.10 Around half (46 per cent) of internet shoppers who felt buying in store safer than shopping online said it was because they could check the goods before buying. Thirty per cent preferred a face to face transaction and 18 per cent wanted to use cash or a cheque. The percentage giving each of these responses has risen in 2009 compared to 2006.

Chart 3.9: Reasons for shopping online being less safe than shopping in a store



Base: Internet shoppers who felt shopping online was less safe than shopping in store

3.11 In 2009, approximately one in five (19 per cent) internet shoppers had experienced what they considered to be (a) problem(s) when shopping online in the previous 12 months. This is not statistically different from the 2006 result of 23 per cent. Nor had there been any change in the type of problems experienced, with around half (48 per cent) of all problems being delivery related.

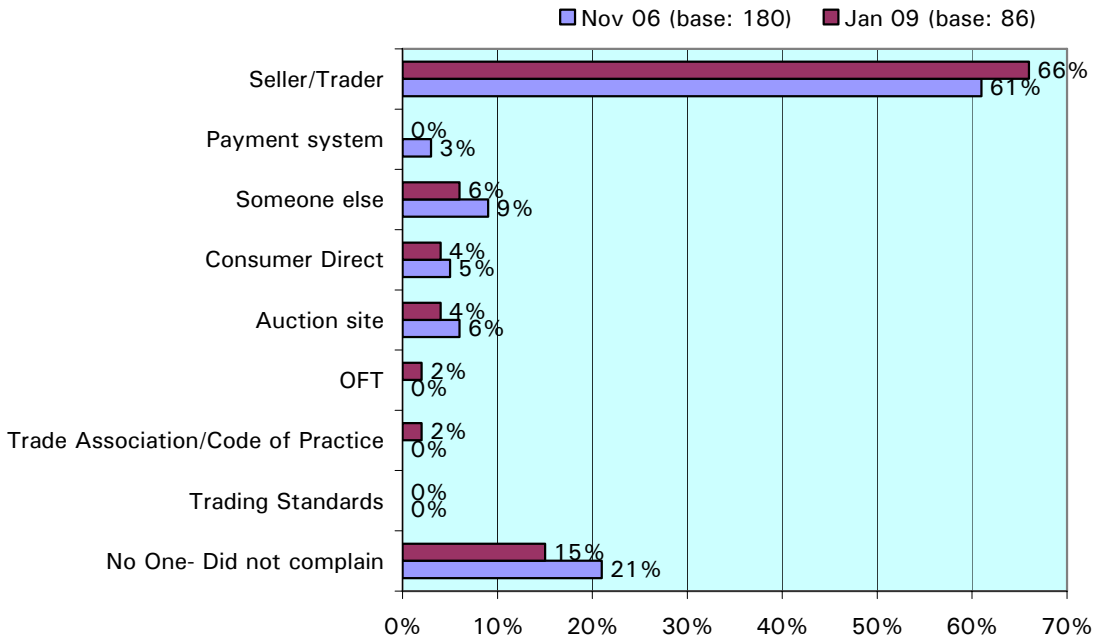
Table 3.10: Problems experienced

	Nov 06	*Jan 09*
Delivery/delayed/did not arrive	48%	48%
Communication problem	6%	12%
Other	-	7%
Damaged/faulty goods	7%	6%
Details can be hacked	2%	5%
Wrong/ incomplete information	6%	4%
Poor quality of goods	6%	4%
Difficulty contacting them/the right person	8%	3%
Payment issues	8%	3%
Refund delayed/ didn't arrive	7%	3%
Received wrong goods	4%	2%
Difficulty/delay in returning items	6%	1%
Sent item twice/ charged twice	4%	1%
Out of stock	1%	1%
Poor customer service	6%	-
Had to pay to return items	3%	-
Miscellaneous	9%	-
Base count	180	87

Base: internet shoppers who had experienced a problem/problems in the last 12 months

3.12 As illustrated in Chart 3.11 there was no statistically significant change in who the shopper contacted in order to resolve their problem with two-thirds contacting the trader/seller and a fifth not contacting anyone about the problem.

Chart 3.11: Who the shopper contacted about the problem

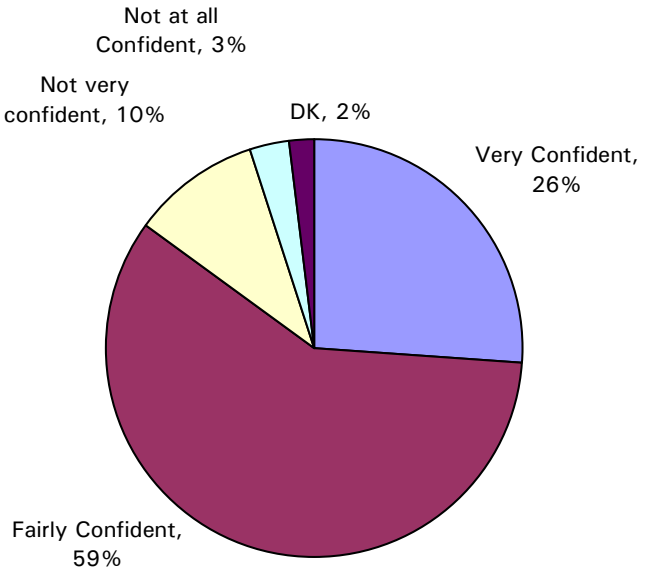


Base: internet shoppers who had experienced a problem/problems in the last 12 months

3.13 In 2009, 69 per cent of shoppers who experienced a problem said it was resolved to their satisfaction. Thirteen per cent said it was not resolved but they were still trying to do so and a further 14 per cent said it had not been resolved and they'd given up trying to do so. Just four per cent said they hadn't resolved the problem but hadn't tried to do so. There are no statistically significant differences to the 2006 response to this question.

3.14 When asked how confident they were that their consumer rights were protected when they shop online, 85 per cent of the 2009 online shoppers questioned declared themselves very or fairly confident.

Chart 3.12: Confidence in consumer rights being protected when shopping online (2009 only)



Base: 463, all internet shoppers

3.15 In 2009 the majority of internet shoppers (70 per cent) were as confident as they were 12 months previously that their consumer rights are protected when shopping online. Twenty-four per cent were more confident and four per cent said they were less confident that their rights were protected when they shop online than they were 12 months ago.

3.16 In 2009, 79 per cent of online shoppers felt that businesses selling their products online provided accurate information on their rights to cancel their purchase or return faulty goods. The majority of internet shoppers (76 per cent) were as confident about there being adequate information available on their rights to cancel an order or return faulty goods when shopping online as they were 12 months ago. Twenty per cent felt more confident and four per cent were less confident that there was adequate information available on their rights to cancel an order or return faulty goods when shopping online than there was 12 months ago.

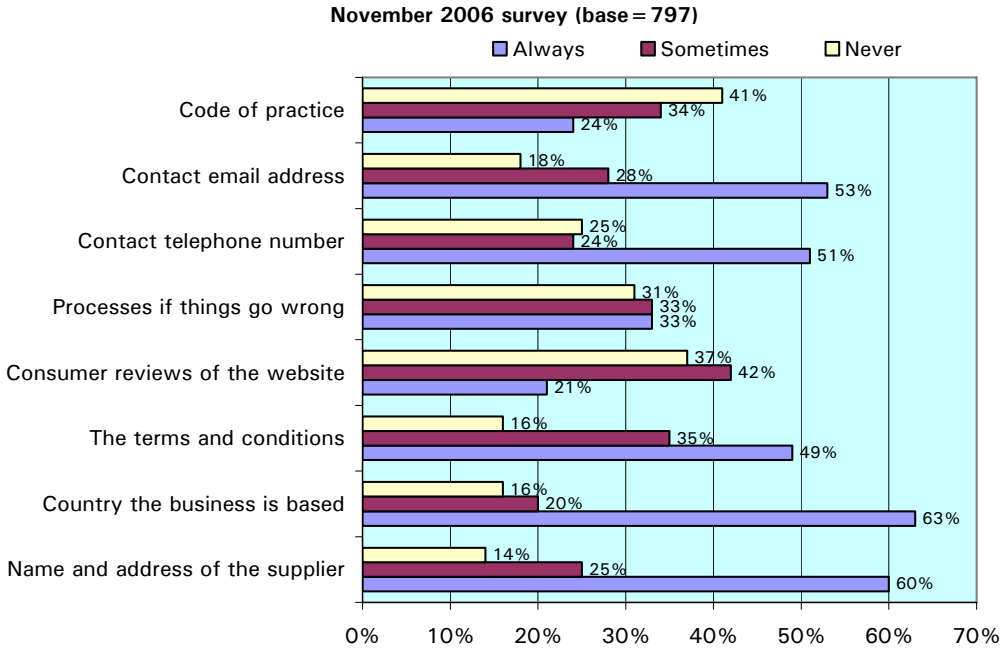
3.17 Charts 3.13-3.14 on the next page illustrate whether internet shoppers always, sometimes or never look for certain items of information before they buy when deciding whether or not to buy from a site. Key difference between results for 2006 and 2009 include:

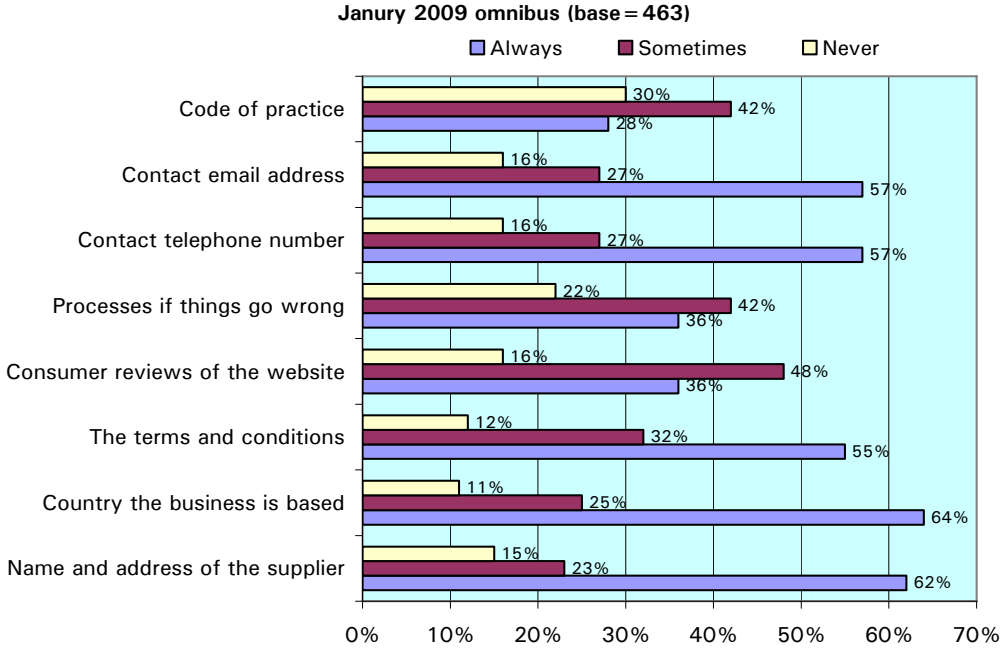
- More internet shoppers now claim that they **always** look for the terms and conditions, consumer reviews of the website and contact telephone numbers.

- More internet shoppers now claims that they **sometimes** look to identify the country the business is based in, for consumer reviews of the website, information on processes if things go wrong and a code of practice.

- Fewer internet shoppers now say they **never** look to identify the country the business is based in, for consumer reviews of the website, information on processes if things go wrong, contact telephone numbers and a code of practice.

Charts 3.13 and 3.14: information consumers look for before deciding to buy from a website

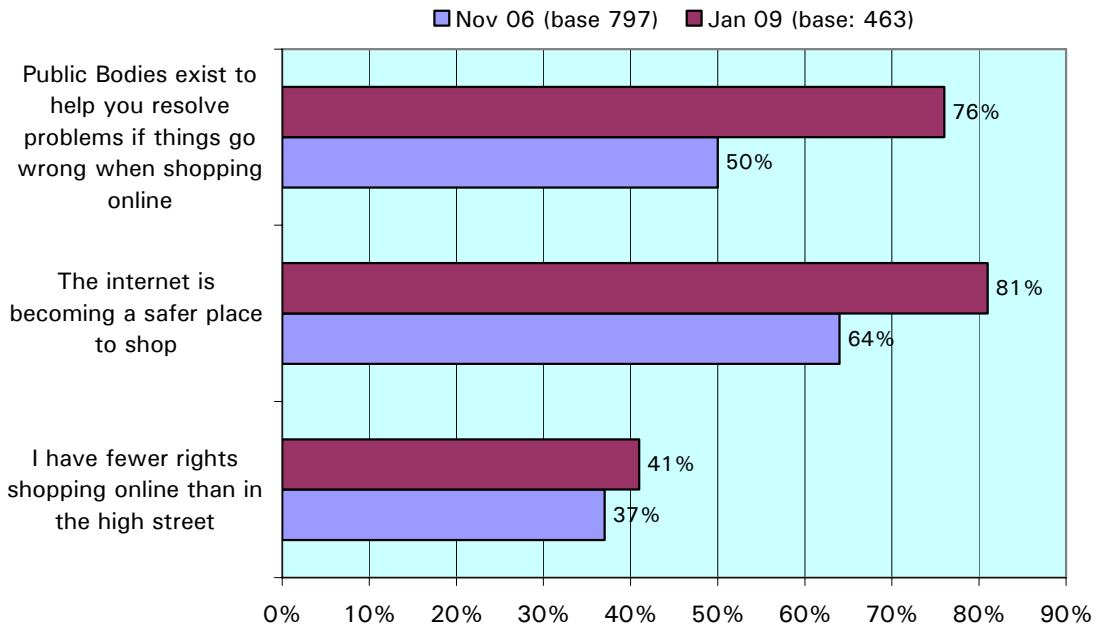




Base: all internet shoppers

3.18 As illustrated in Chart 3.15, in 2009 more internet shoppers agreed that the internet is a safer place to shop and that public bodies exist to help resolve problems if things go wrong when shopping online than they did in 2006.

Chart 3.15: internet shoppers agreeing strongly/agreeing with general statements on consumer confidence



Base: all internet shoppers

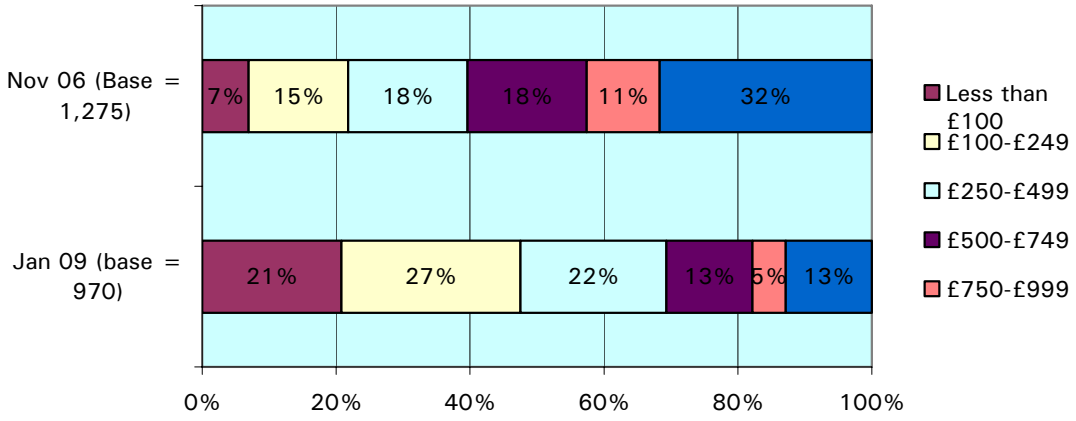
3.19 In 2009, 60 per cent of internet shoppers agreed that it is difficult to resolve problems when shopping online compared with shopping on the high street. Sixty-eight per cent agreed there is now better information available on their rights to cancel an order or return faulty goods to help them make informed decisions when shopping online compared to a year ago. This was a new question for 2009.

4 FINDINGS FROM THE ONLINE RESEARCH

4.1 In November 2006 1,275 e-Panel members who had shopped online during the previous 12 months responded to our online survey conducted by TNS. In January 2009, 93 per cent (970) of the 1,037 UK consumers responding to the TNS Onlinebus had shopped online in the previous twelve months.

4.2 As illustrated in Chart 4.16, internet shoppers said they have been spending less in the 12 months previous to January 2009 than they had in November 2006. The percentage who said they spent less than £100 had trebled from seven per cent to 21 per cent and the proportion who said they had spent £100 - £249 had nearly doubled from 15 per cent to 27 per cent. In contrast, the percentage saying they had spent more than £1,000 online fell by more than 50 per cent (32 per cent to 13 per cent).

Chart 4.16 the amount spent online in the 12 months to January 2009

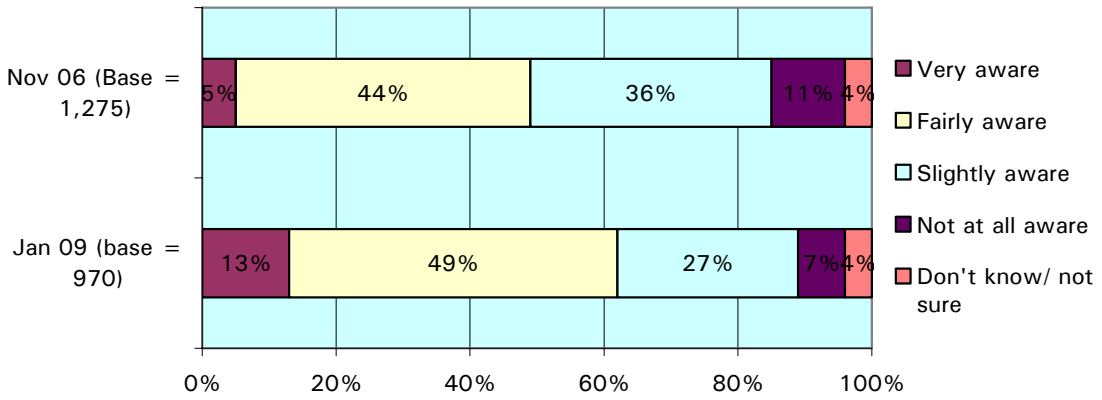


Base: all internet shoppers

This could be indicative that the e-Panel members who chose to complete the 2006 survey (demonstrating a personal interest in the topic) spent more online than Onlinebus respondents or it could be that the lower spending is a result of the current financial climate. Both of these suggested explanations are entirely speculative.

4.3 Internet shoppers felt more confident about their awareness of consumer rights in 2009. The net proportion claiming to be very or fairly aware had risen from 49 per cent in 2006 to 62 per cent in 2009 and the proportion claiming to be slightly or not at all aware had fallen from 47 per cent to 34 per cent.

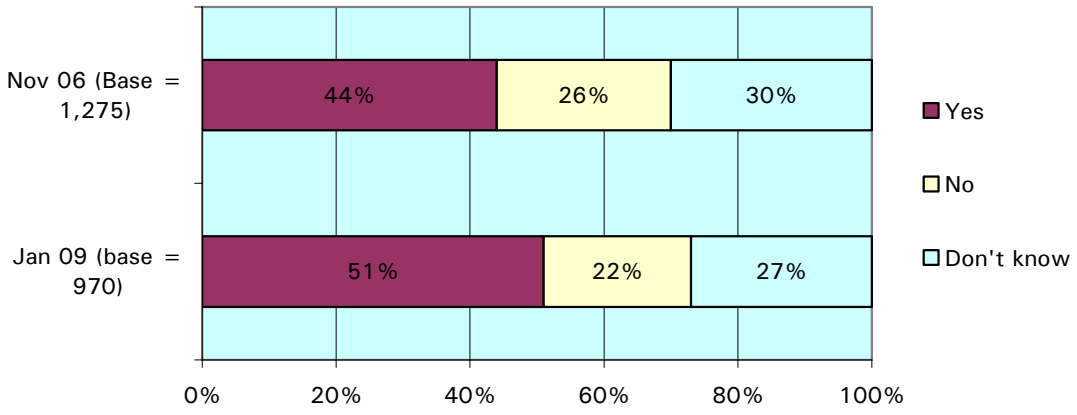
Chart 4.17: awareness of consumer rights when shopping online



Base: all internet shoppers

4.4 The proportion of internet shoppers who correctly thought they could buy a small electrical item online and then cancel it if they had simply changed their mind has risen from 44 per cent in 2006 to 51 per cent in 2009.

Chart 4.18: Can an item be cancelled if you simply change your mind?



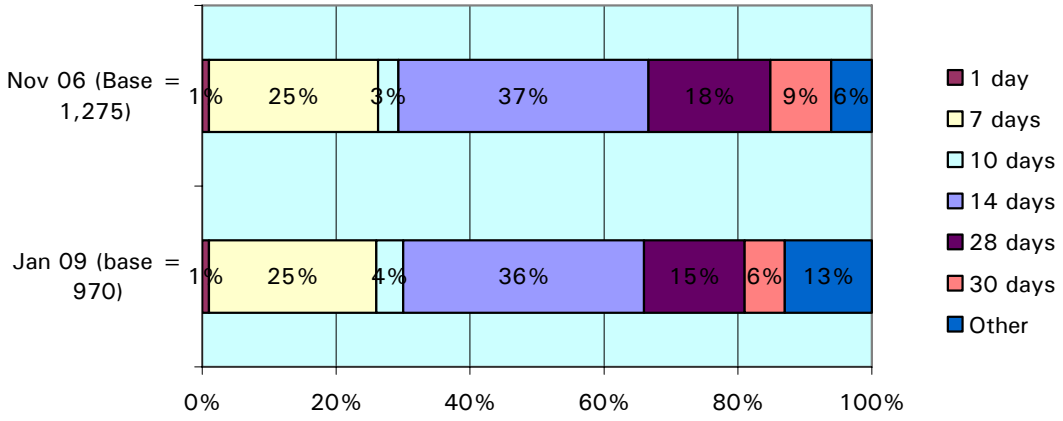
Base: all internet shoppers

4.5 In January 2009, 15 per cent of internet shoppers said they had cancelled an online purchase because they'd changed their mind. This is not statistically different from the 2006 result. Just over one third (36 per cent) of the online shoppers responding to the 2009 Onlinebus who had cancelled an online purchase had not received a full refund including outward postage and packaging.

4.6 When asked how long they had in which to exercise their rights to cancel an item, 25 per cent of respondents in both the 2006 and 2009 surveys replied that they had seven days. This approximates the correct answer, which is that cancellation rights end seven working days after the day on which the goods were received[3]. Thus 75 per cent of respondents did not know the correct answer and there has been no change in this result since 2006.

[3] This assumes that the supplier has provided to the buyer in writing or in another durable medium various information, including cancellation rights, at or before delivery (Regulation 11(2) Distance Selling Regulations).

Chart 4.19: minimum period after delivery for cancellation



Base: all internet shoppers

Note: 'Don't know' responses are not displayed so figures may not sum to 100 per cent

4.7 In January 2009, 60 per cent of internet shoppers had used a price comparison site to search for goods or services to buy online in the previous 12 months. This was 13 percentage points lower than in 2006. However, the proportion of those who had used price comparison sites that had used more than one price comparison site had risen from 63 per cent in 2006 to 71 per cent in 2009.

4.8 The main reason for using more than one price comparison site was still to find the best price. However, as seen in Table 4.20, fewer respondents in the 2009 survey said that this was to find the best price, increase the variety of retailers or because price comparison sites may be biased by businesses paying for their listing position.

Table Chart 4.20 Reasons for using more than one price comparison site

	Nov-06	*Jan 09*
To find the best price	83%	76%
Price comparison sites differ in the retailers they include	62%	59%
To increase the variety of retailers to choose from	61%	53%
Price comparison sites differ in the product information they provide	46%	43%

To look at a greater range of consumer reviews	43%	42%
Because results from one price comparison site may be biased by businesses paying to be included/nearer the top of lists	46%	36%
Other	-	2%
Weighted base	933	413

Base: all internet shoppers who use more than one price comparison site

4.9 Those who hadn't used a price comparison site in the last 12 months were asked why. As in 2006 the top answer was still because respondents prefer to shops from sites they know. The number saying they didn't know how to use price comparison sites halved from 18 per cent to nine per cent and the proportion who had used them before and don't find them user friendly fell from 12 per cent in 2006 to seven per cent in 2009. Table 4.21 outlines the results to this question in more detail

Table 4.21 reasons for not having used a price comparison site

	Nov-06	*Jan 09*
I prefer to shop from sites I know	43%	51%
I prefer to use search engines	24%	20%
I don't think the prices vary that much on these sites	16%	15%
I don't trust them to 'produce unbiased results	14%	14%
The type of products I buy do not vary in price	7%	11%
I don't have time	11%	10%
I don't know how to use them	18%	9%
I've used them before and don't find them user friendly	12%	7%
Other	-	12%
Weighted base	342	387

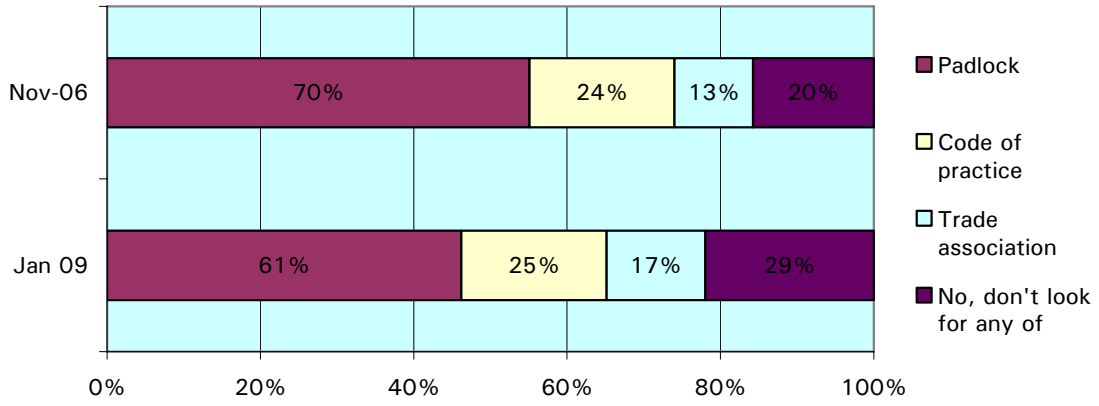
Base: all internet shoppers who have not used a price comparison site in the last 12 months

4.10 Two thirds (66 per cent) of respondents said they had a credit card in January 2009. This was 19 percentage points lower than the 2006 response. It may well be that fewer internet shoppers have credit cards or it may be that the behaviour demographics of the Onlinebus respondents is different to those of the self selected e-Panel respondents. Respondents were asked to consider whether or not it was true that 'if I buy goods worth over a certain limit over the internet using a credit card and something goes wrong, the credit card company legally

has to provide me with protection'. In 2009 the proportion saying that this was true increased from 65 per cent in 2006 to 73 per cent.

4.11 The proportion of internet shoppers checking whether the padlock symbol is present on a website fell from 70 per cent in 2006 to 61 per cent in 2009. During the same time, the number of internet shoppers not looking for the padlock symbol or whether a trader belongs to a Code of Practice or trade association has increased by around 50 per cent, rising from 20 per cent to 29 per cent in 2009. There was a very slight increase in the number checking to see whether a trader was a member of a trade association.

Chart 4.22: use of indicators of a secure site



Base: all internet shoppers

4.12 Nearly three quarters (73 per cent) of respondents to the 2006 e-Panel survey had ever bought something through an auction bid from eBay. This was not statistically different from the result of 72 per cent in 2009. However, the proportion of respondents who had ever bought something at a fixed price on eBay fell from 73 per cent in 2006 to 68 per cent in 2009 (whilst 32 per cent of respondents had never bought something at fixed price from eBay: up five percentage points on the previous survey). As it does not make logical sense for the number who have never done something to increase so quickly we must assume that this change is accounted for by behavioural differences in the two

respondent groups. Use of other auction sites remains very limited (two per cent or less).

Chart 4.23: use of auction sites

	Nov-06	*Jan 09*
Auction bid		
eBay	73%	72%
QXL	2%	1%
EBID	2%	1%
Bidz	1%	1%
Other	-	2%
Never	24%	27%
Fixed price		
eBay	73%	68%
QXL	2%	-
EBID	2%	-
Bidz	1%	-
Other	-	2%
Never	24%	31%
Weighted base	1,275	970

Base: all internet shoppers

4.13 When asked why they had not bought something from an auction site, the proportion of respondents choosing each option was less than previously. In particular, the percentage saying they did not shop online through auction sites because of worries about giving out personal details from this type of site or not understanding the bidding procedure had fallen by around 50 per cent. Table 4.24 presents the results to this question in full detail.

Chart 4.24: reasons for not buying from an auction site

	Nov-06	*Jan 09*
Concerned about the risk of fraud/security of payment on this type of site	49%	34%
Worried about giving out personal details/possibility of identity theft on this type of site	47%	24%
Worried that I would not receive goods or services from this type of site.	53%	30%
I do not trust the sellers on these sites	31%	26%
I wouldn't be able to tell if the seller was genuine	53%	35%
I would be worried that I would receive the wrong goods or services	36%	22%
I would have difficulty in returning unsuitable/damaged goods or services	37%	30%
I would have difficulty resolving problems which may occur	43%	29%
I can end up bidding too much/Paying more than I wanted to	19%	16%
I don't understand the bidding procedure	26%	10%
I have never thought about buying from an auction site	32%	25%
Prefer goods that are in shop condition	45%	40%
Weighted base	240	230

Base: all internet shoppers who had not bought something from an auction site

4.14 In 2006, 65 per cent of internet shoppers who had bought something from an auction site and had tried to identify whether the seller was a trader/business or a private seller. This had risen by five percentage points to 70 per cent in 2009. When asked how they would distinguish whether a seller was a trader or business or a private seller, there were large increases between 2006 and 2009 in the proportion who say it tells them on the site (up from 49 per cent to 64 per cent) or by looking at feedback (up from 37 per cent to 52 per cent, see table 4.45).

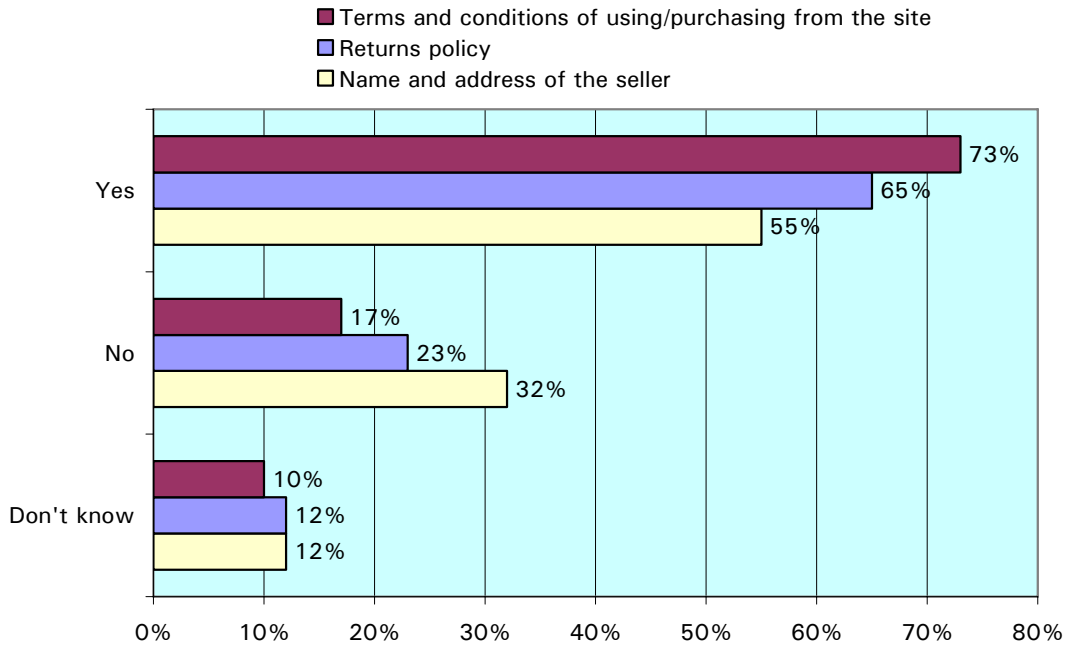
Table 4.45: how to tell if the seller is a trader/business or private seller

	Nov-06	*Jan 09*
By looking at the number of goods they sell	60%	52%
It normally tells you on the site	49%	64%
By looking at the feedback the seller gets	37%	52%
A trader/business will often have a link to a shop site	70%	72%
The look of the site- if it looks professional it will be a trader/business	20%	15%
The trading policies for traders/businesses tend to be more detailed (for example, returns policy, payment policy)	44%	43%
If goods are new, it is usually a trader/business	25%	19%
By looking at the user name	22%	22%
I don't know	6%	2%
Weighted base	1,035	520

Base: internet shoppers who had bought something from an auction site and tried to identify whether the seller was a trader/business or a private seller

4.15 In the 2009 Onlinebus respondents who had bought from an auction site in the last 12 months were asked whether auction sites generally provide enough information on a range of items. Fifty-five per cent said that auction sites generally provide the name and address of the seller, 65 per cent said that they generally provide the returns policy and 73 per cent said that they generally provide the terms and conditions of using/purchasing from the site. Around one in ten (10-12 per cent) replied 'don't know' to each of these answers as illustrated in Chart 4.25. This was a new question for the 2009 Onlinebus.

Chart 4.25: Whether Online Auction Sites generally provide enough information (2009 only)



Base: all internet shoppers who had bought from an auction site in the last 12 months (n = 723)

A TELEPHONE OMNIBUS QUESTIONS

1 ONLINE SHOPPING

ALL ADULTS 16+ Section Answered ---------- 01 ASK Q1

I now have some questions about the internet...

Q.1 Have you ever used the internet? CODE ONE ONLY
Yes ---------- 01
No ---------- 02

ASK Q.2 IF USE THE INTERNET (CODE 01 AT Q1) OTHERS TO NEXT SECTION

Q.2 In the last 12 months, that is since January last year, have you bought goods and/or services online, for example, CDs, electrical items, travel and accommodation services, groceries, etc. but not internet banking transactions or financial services? CODE ONE ONLY
Yes ---------- 01
No ---------- 02

ASK ALL WHO HAVE NOT USED THE INTERNET TO BUY GOODS/SERVICES (CODE 02) AT Q.2. OTHERS GO TO INSTRUCTION AT Q.4

Q.3 And why have you not used the internet to buy goods and/or services online? DO NOT READ OUT. CODE ALL THAT APPLY
There is no need – there's nothing you can't buy elsewhere ---------- 01
Don't trust the internet for shopping ---------- 02
Worried about personal security (credit cards details, identity fraud) online ---------- 03
Don't trust online companies that sell online ---------- 04
You don't know your rights when buying online ---------- 05
Don't have a bank account/credit card ---------- 06
Online retailers won't generally deliver to my area ---------- 07
Like to see goods before I buy them ---------- 08
Had a bad experience previously ---------- 09
Other people shop online on my behalf ---------- 10
No one in the premises to receive the goods when delivered/live in flats/work late ---------- 11
Want to try on goods ---------- 12
Don't have a PC/internet access ---------- 13
Other ---------- 14
Don't know ---------- DK

ASK Q.4 IF BUY ONLINE (CODE 01) AT Q.2. OTHERS GO TO NEXT SECTION

Q.4 What were the main reasons for buying online is it because...? READ OUT. ROTATING ORDER, CODE ALL THAT APPLY

- You can have 24/7 access ---------- 01
- You don't have to carry/transport the items ---------- 02
- You can avoid the crowds/don't have to deal with people ---------- 03
- You can find what you want more quickly/saves time/quick and easy ----- 04
- You have a wider choice/can compare prices ---------- 05
- There is more product information to help make decisions ---------- 06
- Prices are lower ---------- 07
- There was a special online offer ---------- 08
- The item/s you want are only available online ---------- 09
- Free delivery of goods ---------- 10
- More choice of second hand items ---------- 11
- Can buy products not available in the UK ---------- 12
- You can shop in comfort/Stay at home ---------- 13
- Other ---------- 14
- Don't know ---------- DK

Q.5 Which of the following statements best describes how often you shop online? READ OUT. CODE ONE ONLY

- I will usually shop online once a week or more ---------- 01
- I will usually shop online a few times a month ---------- 02
- I will usually shop online once every month or two ---------- 03
- I will usually shop online a couple of times a year ---------- 04
- I shop online very occasionally, once a year or less ---------- 05

Q.6 Thinking generally about online shopping, how aware do you think you are about your consumer rights when shopping online? Are you? READ OUT. REVERSING ORDER. CODE ONE ONLY

- Very aware ---------- 01
- Fairly aware ---------- 02
- Slightly aware ---------- 03
- Not at all aware ---------- 04
- Don't know/Not sure ---------- DK

Q.7 If you needed advice about your consumer rights when shopping online, where would you look for advice...? DO NOT READ OUT. CODE ALL THAT APPLY

- Internet search engine ---------- 01
- Family/Friends ---------- 02
- Citizens Advice Bureau ---------- 03
- Office of Fair Trading ---------- 04
- Consumer Associations/Consumer interest groups/rights groups ---------- 05
- The terms and conditions on the site/item I wanted to buy ---------- 06
- Consumer Direct ---------- 07
- Legal Acts/Statutes ---------- 08
- Department for Business Enterprise and Regulatory Reform ---------- 09
- Other ---------- 10
- Don't know ---------- DK

Q.8 Thinking about using the internet to shop online, would you say that you had...? READ OUT. REVERSING ORDER. CODE ONE ONLY

Many concerns about shopping online ---------- 01
Some concerns about shopping online ---------- 02
A few concerns about shopping online ---------- 03
No concerns about shopping online ---------- 04
Don't know ---------- DK

ASK Q.9 IF MANY/SOME/FEW CONCERNS (CODES 01-03) AT Q.8. OTHERS GO TO Q.10

Q.9 What are you most concerned about...? DO NOT READ OUT. CODE ALL THAT APPLY

Security issues (financial details being divulged) ---------- 01
Privacy issues (personal details being divulged) ---------- 02
Product delivery (late/non delivery) ---------- 03
Product quality ---------- 04
Not knowing who you are dealing with ---------- 05
No assistance if things go wrong ---------- 06
Service quality (no-one to speak to) ---------- 07
Other ---------- 08
Don't know ---------- DK

ASK ALL (INTERNET SHOPPERS)

Q.10 Now I would like you to think about buying an item such as a DVD or toaster. Can you tell me whether you think shopping in person in a store or shop is more safe, about the same or less safe than shopping online? CODE ONE ONLY

More safe ---------- 01
About the same ---------- 02
Less safe ---------- 03
Don't know ---------- DK

ASK Q.11 IF MORE SAFE (CODE 01) AT Q.10. OTHERS GO TO Q.12

Q.11 Why do you think buying in a store or shop in person is more safe than shopping online? DO NOT READ OUT. CODE ALL THAT APPLY

Can check the goods before buying ---------- 01
Prefer direct contact/face to face transaction ---------- 02
Have the goods there and then ---------- 03
Easier to return goods ---------- 04
Can use cash/cheque for transactions ---------- 05
Aware of the stores location/know that they exist ---------- 06
Other ---------- 07

ASK ALL (INTERNET SHOPPERS)

Q.12 Have you experienced what you consider to be any problems when shopping online in the last 12 months, for example problems with delivery, returns, communication etc.? CODE ONE ONLY

Yes ---------- 01
No ---------- 02

ASK Q.13 IF EXPERIENCED PROBLEMS (CODE 01) AT Q.12. OTHERS GO TO Q.16

Q.13 And thinking about the most recent problem, what was the key issue? DO NOT READ OUT. CODE ONE ONLY

Delivery – delayed/did not arrive ---------- 01
Difficulty contacting them/the right person ---------- 02
Payment issues ---------- 03
Damaged/faulty goods ---------- 04
Refund delayed/didn't arrive ---------- 05
Communication problem ---------- 06
Poor customer service ---------- 07
Wrong/incomplete information ---------- 08
Difficulty/delay in returning items ---------- 09
Poor quality of goods ---------- 10
Sent item twice/charged twice ---------- 11
Received wrong goods ---------- 12
Had to pay to return items ---------- 13
Details (card/order) were hacked/cloned ---------- 14
Out of stock ---------- 15
Various ---------- 16
Other ---------- 17

Q.14 And who, if anyone, did you complain to about this problem? DO NOT READ OUT. CODE ALL THAT APPLY

Seller/trader – sent an e-mail to the company/company website contact/ phone call ---------- 01
Trade Association/A trade associations Code of Practice ---------- 02
Auction site ---------- 03
Payment system ---------- 04
Office of Fair Trading ---------- 05
Consumer Direct ---------- 06
Trading Standards ---------- 07
Credit card company ---------- 08
Someone else ---------- 09
No-one, did not complain ---------- 10

Q.15 Was the problem resolved to your satisfaction? DO NOT READ OUT. CODE ONE ONLY. INTERVIEWER IF NO, ASK: 'Are you still trying to resolve the problem or have you given up?

Yes ---------- 01
Not yet, but still trying to resolve it ---------- 02
No, and have given up trying to resolve it ---------- 03
No, but haven't tried ---------- 04

ASK ALL (INTERNET SHOPPERS)

Q.16 How confident are you that your rights as a consumer are protected when shopping online? For example, your rights to cancel your purchase and receive a full refund or return faulty goods. READ OUT, REVERSING ORDER. CODE ONE ONLY

Very confident ---------- 01
Fairly confident ---------- 02
Not very confident ---------- 03
Not at all confident ---------- 04
Don't know ---------- DK

Q.17 In general do you feel that businesses selling their products online provide accurate information on your right to cancel your purchase or return faulty goods? CODE ONE ONLY

Yes ---------- 01
No ---------- 02
Don't know ---------- DK

Q.18 Would you say you feel more confident that your consumer rights are protected when shopping online nowadays than you were 12 months ago, less confident, or about the same? READ OUT, REVERSING ORDER. CODE ONE ONLY

More confident ---------- 01
Less confident ---------- 02
About the same ---------- 03
Don't know ---------- DK

Q.19 When shopping online nowadays compared to 12 months ago, would you say you feel more or less confident that there is adequate information available on your rights to cancel an order or return faulty goods, or do you feel about the same? READ OUT, REVERSING ORDER. CODE ONE ONLY

More confident ---------- 01
Less confident ---------- 02
About the same ---------- 03
Don't know ---------- DK

Q.20 When deciding whether to buy from a site do you always, sometimes or never look for each of the following...? READ OUT, ROTATING ORDER. CODE ONE ONLY FOR EACH

	Always	Sometimes	Never
Name and address of the supplier before you buy	01	02	03
Country the business is based in before you buy	01	02	03
The terms and conditions before you buy	01	02	03
Consumer reviews of the website before you buy	01	02	03
Processes if things go wrong before you buy	01	02	03
Contact telephone number before you buy	01	02	03
Contact e-mail before you buy	01	02	03
Code of practice before you buy	01	02	03

Q.21 Do you strongly agree, agree, disagree or strongly disagree with the following statements? READ OUT, ROTATING ORDER. CODE ONE ONLY FOR EACH

	Strongly Agree	Agree	Disagree	Strongly disagree	Don't know
I have fewer rights shopping online than in the high street	01	02	03	04	DK
The internet is becoming a safer place to shop	01	02	03	04	DK
Public Bodies exist to help you resolve problems if things go wrong when shopping online	01	02	03	04	DK
It is difficult to resolve problems when shopping online compared with shopping on the high street	01	02	03	04	DK
There is now better information available on my rights to cancel an order or return faulty goods to help me make informed decisions when shopping online compared to a year ago	01	02	03	04	DK

B ONLINEBUS QUESTIONS

Changing the subject……

Base: All respondents

Q1 In the last 12 months, have you used the internet to buy goods or services online? ***Please pick one option only.***

SINGLE CODE

Yes	1
No	2

DP: ASK Q2 IF YES (CODE 1) AT Q1, ALL OTHERS SKIP TO NEXT SECTION

Base: All who have bought something online in past 12 months

Q2 If you think about all the goods or services that you have bought online in the last 12 months, approximately how much do you think you have spent? ***Please pick one option only.***

SINGLE CODE

Less than £100	1
£100-£249	2
£250-£499	3
£500-£749	4
£750-£999	5
£1000 +	6

Base: All who have bought something online in past 12 months

Q3 Thinking generally about online shopping, how aware do you think you are about your consumer rights when shopping online? Are you... ***Please pick one option only.***

SINGLE CODE

Very aware	1
Fairly aware	2
Slightly aware	3
Not at all aware	4
Don't know/not sure	5

Base: All who have bought something online in past 12 months

Q4 If you buy a small electrical item online, for example a digital camera, and it is delivered on time, is not faulty and is exactly what you ordered, can you cancel it if you have simply changed your mind?
Please pick one option only

SINGLE CODE

Yes	1
No	2
Don't know	3

Base: All who have bought something online in past 12 months

Q5 Have you ever returned an item which you bought online simply because you'd changed your mind?

Please pick one option only

SINGLE CODE

Yes	1
No	2

DP: ASK Q6 IF YES (CODE 1) AT Q5, OTHERS SKIP TO Q7

Base: All who have returned goods bought online due to change of mind

Q6 Did you receive a full refund including outward postage and packaging?

Please pick one option only

SINGLE CODE

Yes	1
No	2

Base: All who have bought something online in past 12 months

Q7 In general, what is the minimum number of days after delivery that the consumer has to exercise the right to cancel the order? ***Please type your answer in the box***

DP: MAXIMUM ANSWER OF 99

Base: All who have bought something online in past 12 months

Q8 In the last 12 months, when using the Internet, have you used a used a price comparison site to search for goods or services to buy online for example, Kelkoo?

Please pick one option only

SINGLE CODE

Yes	1
No	2

DP: ASK Q9 IF YES (CODE 1) AT Q8, ALL OTHERS GO TO Q11

Base: All who have used a price comparison website in the past 12 months

Q9 Do you usually use more than one price comparison site to search for a specific item?

Please pick one option only

SINGLE CODE

Yes	1
No	2

DP: ASK Q10 IF YES (CODE 1) AT Q9, OTHERS SKIP TO Q11

Base: All who use more than one price comparison website

Q10 Why do you use more than one Price comparison site?

Please pick select all that apply

MULTICODE, ROTATE

To increase the variety of retailers to choose from	1
To find the best price	2
Because results from one price comparison site may be biased by businesses paying to be included/nearer the top of lists	3
Because price comparison sites differ in the retailers they include	4
Because price comparison sites differ in the product information they provide	5
To look at a greater range of consumer reviews	6
Other	7

DP: ASK Q11 IF NO (CODE 2) AT Q8, ALL OTHERS GO TO Q12

Base: All who have not used a price comparison website in the past 12 months

Q11 In the last 12 months, why have you not used a price comparison site when buying goods or services online?

Please pick as many as apply

MULTICODE, ROTATE

I prefer to shop from sites I know	1
I prefer to use search engines	2
I don't know how to use them	3
I don't think the prices vary all that much on these sites	4
I don't trust them to produce unbiased results	5
I've used them before and don't find them user-friendly	6
I don't have time	7
The type of products I buy do not vary in price	8
Other	9

Base: All who have bought something online in past 12 months

Q12 Do you own a credit card?

Please pick one option only

SINGLE CODE

Yes	1
No	2

DP: ASK Q13 IF YES AT Q12, ALL OTHERS GO TO Q14

Base: All who have bought something online in past 12 months and own a credit card

Q13 Please state whether you think the following statement is true or false:

'If I buy goods worth over a certain limit over the internet using a credit card and something goes wrong, the credit card company legally has to provide me with protection.'

Please pick one option only

SINGLE CODE

True	1
False	2
Don't know	3

Base: All who have bought something online in past 12 months

Q14 Do you look for any of the following 'codes' or 'signs' when you are buying goods or services from a website?

Please pick as many options as apply

MULTICODE, ROTATE

Code of practice	1
Padlock	2
Trade association	3
No, don't look for any of these	4 - **FIX**

Base: All who have bought something online in past 12 months

Q15 Have you ever bought anything through an Auction Bid from any of the following online auction sites?

Please pick as many options as apply

MULTICODE, ROTATE

eBay	1
QXL	2
EBID	3
Bidz	4
Other (please write in) _____	5 - **FIX**
Have never bought anything through an auction bid from an online action site	6 - **FIX, SINGLE CODE**

Base: All who have bought something online in past 12 months

Q16 Have you ever bought anything at a fixed price from any of the following online auction sites?

Please pick as many options as apply

MULTICODE, ROTATE

eBay	1
QXL	2
EBID	3
Bidz	4
Other (please write in) _____	5 - **FIX**
Have never bought anything through an auction bid from an online action site	6 - **FIX, SINGLE CODE**

DP: ONLY ASK Q17 IF NOT BOUGHT ANYTHING (CODE 6) AT Q15 AND Q16, OTHERS SKIP TO Q18

Base: All who have never bought anything from an online auction site

Q17 Why have you never bought from an online auction site?

Please pick as many options as apply

MULTICODE, ROTATE

I'd be concerned about the risk of fraud/security of payment on this type of site	1
I'd be worried about giving out personal details/possibility of identity theft on this type of site	2
I'd be worried that I would not receive goods or services from this type of site	3
I do not trust the sellers on these sites	4
I wouldn't be able to tell if the seller was genuine	5
I would be worried that I would receive the wrong goods or services	6
I would have difficulty in returning unsuitable/damaged goods or services	7
I would have difficulty resolving problems which may occur	8
You can end up bidding too much/Paying more than you wanted to	9
I don't understand the bidding procedure	10
I have never thought about buying from an auction site	11
I prefer goods that are in shop condition (for example, unopened unused, premium condition)	12
Other	13

DP: ASK Q18 IF PURCHASED FROM AN ONLINE AUCTION SITE (CODES 1-5) AT Q16 OR Q17, OTHERS SKIP TO Q20

Base: All who have bought something from an online auction site

Q18 When buying from an online auction site do you ever try to identify whether the seller is a trader/business or a private seller?

Please pick one option only

SINGLE CODE

Yes	1
No	2

DP: ASK Q19 IF YES (CODE 1) AT Q18, ALL OTHERS SKIP TO Q20

Base: All who try to identify if they are buying from a private or business seller

Q19 How would you tell if the seller is a trader/business or a private seller?

Please pick as many options as apply

MULTICODE, ROTATE

By looking at the number of goods they sell- a large number of sales will be a trader/business	1
It normally tells you on the site	2
By looking at the feedback the seller gets	3
A trader/business will often have a link to a shop site	4
The look of the site- if it looks professional it will be a trader/business	5
The trading policies for traders/businesses tend to be more detailed (for example, returns policy, payment policy)	6
If goods are new, it is usually a trader/business	7
By looking at the user name	8
Other	9
I don't know	10 - **FIX**

Base: All who have bought something online in past 12 months

Q20 Do Online Auction Sites generally provide enough information regarding the following:

Please pick one option for each statement

SINGLE CODE

	Yes	**No**	**Don't know**
The returns policy	1	2	3
The terms and conditions of using/purchasing from the site	1	2	3
The name and address of the seller	1	2	3

-END-

Consumer Motivations for Online Shopping

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Abstract

Consumers shop online for goal-oriented, instrumental reasons, and for experiential reasons. However, goal-oriented motives are more common among online shoppers than are experiential motives. Based on our exploratory research of online shopping using 5 offline and 4 online focus groups conducted in conjunction with Harris Interactive, we identify and discuss attributes that facilitate goal-oriented online shopping, including accessibility/convenience, selection, information availability and lack of unwanted sociality from retail sales help or shopping partners such as spouses. The goal-oriented characteristics of online shopping collectively result in an experience that is involving for buyers, but which results in low commitment to purchasing. Buyers shop when and where they want, and are comfortable abandoning a site and products placed in a shopping cart either on a whim or to further consider their purchase; consumers often use the words "freedom" and "control" in explaining the value of online shopping. While consumers are more likely to describe offline rather than online shopping in experiential terms, we find evidence of experiential motivations for online shopping emerging. We offer managerial implications for cultivating goal-oriented and experiential online buyers.

Introduction

The number of consumers buying online, and the amount being spent by online buyers has been on the rise; Forrester Research has estimated Internet sales in 1999 to be more than double that of 1998, $20 billion (see estimates at www.forrester.com). Despite the hype and the growth, consumer e-commerce sales currently account for less than 1% of retail sales, and experts and scholars have argued over the possible upper limit to the percentage of consumer online spending.

Ultimately, the degree to which online and offline shopping fulfill various consumer needs -- both goal-oriented and experiential -- is likely to impact the amount of shopping dollars that consumers will choose to spend in each environment. Inarguably, online and offline environments present different *shopping experiences* even when the same products can be purchased. Consumers shop with utilitarian, goal driven motives as well as for experiential motives, such as fun and entertainment; in sum, they shop to acquire products or they shop to shop (Babin, Darden and Griffen 1994; Bloch and Richens 1983; Hirschman 1984; Hirschman and Holbrook 1982; Hoffman and Novak 1996; Schlosser and Kanfer 1999).

Based on our research, we suggest that online and offline shopping experiences are perceived and evaluated by shoppers with respect to their ability to deliver satisfaction on two dimensions: (1) goal fulfillment and (2) experience-related outcomes. Our research suggests that goal-directed motivations are more likely to be satisfied *online* while experiential shopping motives are more likely to be associated with *offline* shopping. Nevertheless, there are online buyers who reported to us that they shop for fun; typically they shop auction sites, engage in ongoing hobby type interests (see Bloch, Sherrell and Ridgeway 1986 for a discussion of offline hobby behavior) or enjoy the thrill of looking for bargains.

Research Method

This research represents the first phase of a research plan intended ultimately to identify and measure the consumer experiences and website attributes that are associated with quality and satisfaction. In this first phase, we desired to understand motivations, attitudes and behavior of consumers from a phenomenological point of view (as experienced and explained by consumers). Five offline and four online focus groups of online buyers were recruited by Harris Interactive who maintains a panel of about 5 million online consumers. We believe the importance of various attributes associated with quality will vary somewhat depending on the motivation for online shopping (Hoffman and Novak 1996; Hoffman, Novak and Schlosser 2000; Schlosser and Kanfer 1999); the research reported here focuses on these motivations and the attributes that support these motivations according to online consumers.

Both researchers attended or "lurked" (logged in without being visible to participants) in all focus groups. The researchers moderated the five offline groups, which were both audio and videotaped. In the four online groups, a professional moderator ran the groups, while both researchers "lurked." The online groups are held in real time in a "chat room" format; our youngest informant was 19 and our oldest was 81. Focus group participants were chosen to (1) maximize the variety of age groups over age 18, (2) include both men and women, (3) solicit participants who collectively had engaged in purchases in the top categories -- books, CDs, computers and software, travel, and online auctions. As well, during their focus

groups, informants reported purchases in a variety of other purchase categories including online stock trading, cars, ammunition, toys, clothing, groceries, and buying jewelry from the home shopping network; one participant even bought his house online! The offline groups were based in Southern California, but the online groups included participants from across the United States (included rural areas) and at least one Canadian.

Online qualitative research methodologies evoke dialogues that are honest, direct, and somewhat less constrained by social conventions present in traditional focus groups (Montoya-Weiss, Massey and Clapper 1998). Online qualitative research is uniquely suited for engaging Internet savvy respondents. It is especially appealing to those for whom time is at a premium. It also reaches audiences not generally reached by traditional face-to-face focus groups, including those in outlying areas and respondents who are home bound.

Theoretical categories both existed a priori and emerged during coding and analysis of transcripts. We looked for exceptions to our tentative findings (Arnould and Wallendorf 1994; Glaser and Strauss 1967; Miles and Huberman 1984; Spiggle 1994). Our primary theoretical categories for this analysis involve reported goal directed search vs. experiential browsing/buying behavior, as well as the attributes and outcomes that are associated with those behaviors. A second analysis is currently underway which identifies all the attributes online consumers associate with satisfaction and overall transaction quality.

GOAL DIRECTED SEARCH VS. EXPERIENTIAL BROWSING

Our research suggests that accessibility/ convenience, selection, information availability, control of sociality, low commitment to the experience and more generally, a sense of freedom and control all mark *goal-directed buying* (see Table). Moreover, these attributes that are associated with goal-directed search are more likely to be associated with online as compared to offline shopping (see Solomon 1999 concerning goal-directed search).

While offline shopping is more likely to be associated with experiential benefits, some online buyers nevertheless describe online shopping as being enjoyable, fun, and even sociable. Collectors, hobbyists and eBay shoppers sometimes formed relationships with those who shared their interests online.

In addition to socialilty, online buyers told us they engage in experiential browsing for three reasons: (1) auction activities (2) ongoing hobby-type search (similar to offline behavior described by Bloch, Sherrell and Ridgeway 1986) and (3) bargain hunting. What do auctions offer consumers? Positive surprise (Babin, Darden and Griffen 1994) is a major benefit of auction sites. Hobbyist shoppers frequently and regularly check sites of interest. Another activity that results in experiential online is looking for great deals. Consistent with our observations that discount shopping is associated with experiential buying behavior, goal-oriented shoppers are actually *less* likely to use shopping agents than are the experiential shoppers we interviewed; the experiential shoppers enjoy the fun of surfing various sites and finding the best deals; as well, based on empirical research, Babin, Darden and Griffen (1994) identify bargain-shopping in offline retailing as being experiential.

The Prevalence of Goal-Directed Buying on the Internet

Recent market research as well as our focus groups indicate that a majority of Internet buyers are goal-oriented rather than the being experiential. For instance, Jupiter Communications (Solomon 1999) reports that 77% of shoppers go online with a specific purchase in mind. Currently, weekly data provided publicly on Nielsen-NetRatings website regularly show that the "stickiness" or in other words, time spent at an e-commerce Web site during a visit, is limited; the length of visits at the top e-commerce sites (with the significant exception of the more "experiential" site e-Bay) is largely 10 minutes or so, suggesting that consumer online buying behavior tends to largely be focused and goal-oriented.

Table: Goal Directed vs. Experiential Online Shopping Behavior

Goal Directed Buying	Important Factors	Outcomes
	Accessibility/Convenience	Freedom, Control
	Selection	
	Information Availability	
	Control of Sociality	
	Commitment to Goal, Not experience	
Experiential Browsing/Buying	Ambiance/Atmosphere	Fun
	Positive Sociality	
	Positive Surprise	
	Commitment to Experience as important or more important than goal	

Goal-oriented or utilitarian shopping has been described by various marketing scholars as task-oriented, efficient, rational, and deliberate (cf. Babin, Darden and Griffen 1994; Batra and Ahtola 1991; Hoffman and Novak 1996; Sherry 1990). The online medium facilitates this task-orientation as search costs are dramatically reduced (Klein 1998). Moreover, many users currently prefer to undertake efficient linear searches on the Internet using the fewest number of clicks to get to the information they want (Hoque and Lohse 1999). Consistent with this goal-orientation perspective, consumers more likely to buy on the Internet are likely to be time-starved (Bellman, Lohse and Johnson 1999).

In fact, online buyers often told us that they did not necessarily think of buying on the net as "shopping." Rather, they think of it as “buying.” As well, online buyers often said they decided to go online to shop only when they had a specific purchase in mind, describing online buying as consisting largely of planned purchases. We specifically asked online buyers if they are more impulsive while shopping online or offline and were overwhelmingly informed that shoppers are *more impulsive offline*. Our online consumers report that goal-directed buying is facilitated online specifically because of: (1) convenience and accessibility (2) unique and broad selection (3) availability of accurate and comprehensive information and (4) lack of sociality from salespeople, retail workers, spouses and kids. Each of these goal-oriented attributes was explicitly associated by online consumers with freedom and control. Consistent with the importance of freedom and control to many online shoppers, Hoffman, Novak and Schlosser (2000) find that longer and heavier users of the Internet report a significantly higher internal locus of control than do non-users.

Related to the ideas of freedom and control, shoppers reported to us that they feel little pressure to buy online, whereas offline they are disappointed if they come home empty handed. They often shopped in whatever moments they had free to look for information, shopped for an item across multiple online sessions that included offline looking, and feel comfortable abandoning online shopping carts, especially given how easy it is to return to the site and make the purchase later if they want; thus goal-oriented buyers "nibble" or "snack" on commercial websites. Thus, and paradoxically, many online shoppers appear engage in "low commitment, high involvement" behavior, as they easily leave a site without purchasing, but find their online shopping trips interesting, informative, useful and involving.

Conclusion: Designing for Goal-Oriented and Experiential Consumers

Experiential browsing behavior is desirable online as it has been associated in offline environments with increased impulse purchases, and more frequent visits (Babin, Darden and Griffen 1994). Moreover, as younger surfers become full-fledged consumers, experiential benefits (for instance, streaming video, community, forums, games, auction) may become more desirable at websites. Before emphasizing such benefits, however, sites need to identify a base of users who are regular visitors and who are involved with the product category. Products and services with a hobbyist or enthusiast base are natural matches for sites that mix e-commerce with experiential content and community.

Before designing the mix of experiential vs. goal-focused features offered on a site, a company needs to understand both its products and its users; average time spent on the sites by users is associated with goal vs. experiential orientation; thus, using clickstream data, companies should be able to estimate the percentage of shoppers and buyers who are goal-oriented vs. experiential.

Additionally, website design and strategy issues should be based on motivations and satisfiers for online buyers. For example, online buyers largely do not expect or desire "high touch" service unless they have questions or problems with customer service, in which case they expect relatively speedy answers (within 24 hours) responsive to their individual problems. Any features that increase the sense of user control and freedom, including order tracking, purchase histories, saving information to facilitate speed in future sessions, and opt-in email notification of new products and special deals, increase the satisfaction of goal-oriented users. The importance of posting accurate, relevant and (when requested) comprehensive information about products cannot be overemphasized by e-commerce sites.

In sum, companies anxious to build experiential features and encourage customers to spend longer times at their site (or increasing "stickiness" as widely encouraged in industry publications) may be overlooking the fact that transaction-oriented customers can build ties to an online business even when they do not spend much time at a site. Offering goal-oriented online consumers what they want, when they want it, and answering inquiries in a timely fashion creates loyalty, even if these customers are not interested in being entertained while shopping online.

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Determinants of Purchase Behaviour of Online Consumer

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ABSTRACT

Online consumer behaviour is a broad and interesting area of study that can benefit organizations in their efforts to market and sell products online. As consumers' attitude towards online shopping is a prominent factor affecting actual buying behaviour, this research attempts to investigate a modest part of that area. The results of study of perceptions of 200 online purchasers in Hyderabad reveal trust, security, Internet speed, and responsiveness significantly affect online purchasers' behaviour. In addition, on examination of demographic variables like gender, age and education using regression, the study presented some valuable insights that might help organizations develop effective strategies eventually leading to customer satisfaction

INTRODUCTION

Internet is a new information technology device that has dramatically changed the way we live. It has become an integral part of modern life across the world and India is not an exception. With abundance and diversity of information, easily found and conveniently shared facilities, Internet use has grown exponentially reshaping peoples' informational and social needs. There are around 28 million Internet users in India and is expected to reach 100 million by 2007 (IAMAI, 2005). As Internet usage rapidly grew and spread across the country, it fuelled the growth of Internet commerce. The term "Internet Commerce" refers to online transactions where an organization sells its products or services to consumers over the Internet. Internet commerce exploded and became a normal part of everyday life of consumers. It provided both organizations and consumers, with endless options to choose from for various transactions. Consumers on one hand have the ease of choice, the comfort of shopping from home and an endless variety of products, while saving time and money. Organizations, on the other hand, are exploiting the unlimited shelf space the internet offers, operational

timings and geographical boundaries it unconfined and the opportunity it creates to cater to wide markets at a comparative miniscule cost. As a result customers and organizations are having a much fuller relationship than ever before.

As Indian consumers turned to the Internet to tap into this explosion, Internet commerce has become an important business initiative. Organizations have become more serious about their Internet operations witnessing a sharp rise in online retailing activity. In spite of Internet being a relatively new service channel, Internet Commerce transactions is expected to cross the Rs 2000 crore mark in 2006-2007 up by over 300% from 2004-05 (IAMAI, 2005). The primary reason that can be attributed is the rise in Internet penetration and the constant reshaping of Internet by people. Although the emergence of Internet and its relationship with people is brief, Internet users have developed high expectations and these expectations will only increase with time. The longer the Internet is around, the more people will expect from it. Thus the online environment has become more complicated than the traditional market environment. As the online population saw a vertical rise, its composition has changed rapidly. With the number of choices increasing at a staggering pace and the amount of information available about these choices amplified, the online customers have become more knowledgeable and hence more demanding and complex to handle. To succeed in interaction and in creation of a long-term relationship with such customer, Organizations need to contemplate strategies from an overall perspective with an increased focus on customer satisfaction. Thus there is a need to focus on examining the factors that predict and explain the satisfaction of the online customer. It becomes imperative to understand the attitudes and experiences of consumers to succeed. This study aims at improving the understanding of online consumer behaviour by investigating attributes and preferences as they form a prominent factor affecting actual buying behaviour. The purpose is to explore the attributes that assist organization gain significantly in impacting satisfaction and engagement.

OBJECTIVE OF THE STUDY

The main objective of the study is to identify the key factors that influence online purchasing behaviour of consumers in India and more specifically in Hyderabad region.

LITERATURE REVIEW ON ATTRIBUTES INFLUENCING ONLINE CONSUMER BEHAVIOUR

Review of existing empirical studies has revealed that consumers have multiple concerns that influence their behavior. Fears and concerns, real or perceived, inhibit online consumers' purchasing decisions and are relevant in their decision process (Kovar et al. 2000 & Cranor et al. 1999). Moreover, a survey by Donthu & Garcia, 1999 indicated that online shoppers are more impulsive than others. In these circumstances, as these factors have the ability to explain and predict consumers' online purchase behaviour, an effort has been made to identify and understand them that will provide insights into consumers' online purchase behaviour.

Price, quality of service and information, speed and reliability of delivery, ease of on-line ordering, and trust towards vendors are important factors for consumers considering online purchases that will increasingly determine their propensity to engage in e-commerce (Goldman Sachs, 2001). The seven identified consumer concerns about making online purchases are security of transactions, customer support, quality of products/services, legitimacy of firm selling product/ service, price, privacy, and documentation (Odom, Marcus D.; Kumar, Anand; Saunders, Laura, 2002). Yang, Zhilin & Jun, Minjoon, (2002) identified six primary dimensions perceived by Internet purchasers and they are reliability, access, ease of use, personalization, security, responsiveness, availability, personalization, and access. Sohn (2000) found that trust, interactiveness, ease of use, content/ functionality of Web sites, reliability, and speed of delivery were the six significantly important dimensions perceived by customers in an online environment. Liu and Arnett (2000) identified information quality, system use, system design quality, and playfulness as four major determinants for the success of Web sites in the context of Internet commerce.

Jarvenpaa and Todd (1997) uncovered that product availability is the main factor and limited selection of products and services or outdated information is most likely to keep Internet non-purchasers from purchasing online. Balfour, Farquhar, and Langmann (1998) emphasized on transaction security and personal information privacy. The perception of trust is found to influence transactions in an online environment and has been discussed widely (e.g. Tan & Thoen 2000–2001; Lee & Turban 2001; McKnight,

Choudhury & Kacmar 2002; Gefen, Karahanna & Straub 2003; Tan & Sutherland 2004; Kim, Song, Braynov & Rao 2005). Jarvenpaa et al. (2000) found that store trustworthiness and perception of risk influenced the willingness to purchase.

Corbitt, Thanasankit, and Yi (2003), Trochhia and Janda (2003), and Font (2000) argue that information to make the purchase and to be able to make comparisons with alternative offers plays an important role in the absence of sales staff and the inability to see and try the product. The cost of accessing the Internet is also a decisive factor for engaging in Internet activities. While low prices do not guarantee high penetration, they are an important factor for more widespread development of the Internet and consequently, of electronic commerce. Another factor that influences the success of e-commerce is the outstanding customer service. For firms engaged in e-commerce customer service is the key to successful online selling (Jedd 2000).

Rice (1997) shows that web site and its design features, such as content, layout, ease of finding information, navigability, and emotional experience, such as enjoyable visits are important variables which influence online consumers in their purchases. Ease of use is a prominent factor in determining customers' decision to adopt a new information technology (Davis 1989). Reliability - In the field of electronic transactions, reliability also holds an important position, with some empirical studies considering it the most important dimension (Yang et al. 2003). Personalization - Hoffman and Novak (1997) pointed out that personalization is the essence by which Internet firms valorize the Internet as a unique consumer market. Apart from the above, there are several studies that reveal people's behavior online is influenced by high-speed connections. Customers with broadband log on more often and spend more time online and do more Internet activities. A significant positive correlation between information download speed and Web user satisfaction is evidenced (Hoffman & Novak 1996).

Thus it is understood that many factors have been consistently cited as being influential on the behavior of on-line customer

RESEARCH METHODOLOGY

Sample Design

The sampling frame consists of 200 consumers from the city of Hyderabad, the capital of Andhra Pradesh, India. The city is one of the largest and most developed cities in

the country and is fast emerging as the IT hub of India.

Since the focus of this study is on different attitudes and perceptions about online purchasing, only Internet purchasers are considered. For this study, Internet purchasers are defined as those who purchased at least one product or service through the Internet during the last 12 months.

There has been strong evidence that gender and age will have an affect on consumer's perception (Mitchell 1998; Liebermann & Stashevsky 2002). Previous studies by Kovar et al. 2000; Kotkin 1998 have also indicated that younger consumers are more likely to purchase online and online purchasers tend to be more educated. As noted in IAMAI report, Internet use in India varies significantly across age groups. While 25% of 18-25 year-olds go online, 46% of 26-35 year-olds, 18% of 36-45 year-olds, and 9% of 46-60 and 1% of age 65 and older say they use the Internet. While 37% of adults who have graduate education use the Internet, 46% of adults with a post graduation degree go online. Only 2% use the Internet with less than SSC. Eighty Five percent (85%) of Internet users are male and 15% are female. Since Gender, Age and Education strongly influence Internet use, sample in terms of these demographical variables were considered. The study was conducted between June 2006 and August 2006.

Data Collection Methods

Both the primary and secondary data collection methods were considered. The primary data was collected through a questionnaire designed exclusively for the study. Secondary data was taken from Research papers, Journals, Magazines and Websites.

Questionnaire Development

A well-structured questionnaire was developed after an extensive review of Internet commerce literatures. The questionnaire has two parts. Part I consists of general information about respondents' backgrounds. Part II consists of questions relating to attitudes and perceptions. The respondents were requested to assess each of the scale items on a Likert point scale used for each statement where 1 = strongly disagree and 10 = strongly agree. Questionnaires were administered in English to customers near office premises, shopping malls, colleges and Internet centers.

A pilot survey was conducted with a small number of 25 respondents to arrive at the twelve factors that the customer feels are significant and also to understand the

degree to which respondents understand the questions.

DATA ANALYSIS & RESULTS

The Statistical Package for the Social Sciences (SPSS) version 14.0 was used to analyze the data. The Gender, Age and Education wise classification, giving an overview of the research sample, is presented in Table I. Out of 200 respondents, One hundred and fifty eight are male respondents (79%) and forty-two (21%) are female. One hundred respondents (50%) belong to the middle age group (between 31 years and 40 years), fifty one respondents (25.5%) belong to the young age group (between 20 years to 30 years), and the remaining forty nine respondents (24.5%) belong to the old age group (above 45 years). The Literacy wise distribution reveals that forty-two respondents (22.5%) have been educated up to under graduate level, sixty-four respondents (32%) are graduates and a majority of ninety-one respondents (45.5%) fall under post graduate category. The numbers were found to be consistent with the data available on Internet users in India as per IAMAI.

Table I: Characteristics of the Sample