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Have They Got a Deal for You: It's Suspiciously Cozy in the Cybermarket

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Abstract
A couple of years ago, in an undergraduate seminar I taught called "Spam and Society," discussion veered a bit off topic. One of the students asserted confidently that airline Web sites give first-time users lower prices than returning customers. Most of the others immediately agreed. They said the motive was to suck in potential buyers; then, when they returned, the airline could quietly raise prices.

I hear this kind of claim fairly often among heavy computer users. It seems to have become an article of faith that the unseen moguls behind all sorts of Web sites are cherry-picking consumers, customizing ads, manipulating prices and changing product offers based on what they've learned about individual users without the users' knowledge.

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It's Suspiciously Cozy In the Cybermarket

By Joseph Turow
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A couple of years ago, in an undergraduate seminar I taught called "Spam and Society," discussion veered a bit off topic. One of the students asserted confidently that airline Web sites give first-time users lower prices than returning customers. Most of the others immediately agreed. They said the motive was to suck in potential buyers; then, when they returned, the airline could quietly raise prices.

I hear this kind of claim fairly often among heavy computer users. It seems to have become an article of faith that the unseen moguls behind all sorts of Web sites are cherry-picking consumers, customizing ads, manipulating prices and changing product offers based on what they've learned about individual users without the users' knowledge.

In my research on Internet marketing, I talk to lots of Web workers and consultants, and read the trade press, and it's pretty clear that this is going on. But it's extraordinarily hard to verify when it occurs, why any particular offer is made, or how a vendor is evaluating any given customer. Online merchants don't have to tell anyone how they operate, so generally they don't. University of Utah professor Rob Mayer, an adviser to Consumers Union's WebWatch project, told me he once asked an online travel industry executive whether travel sites offer certain customers different prices depending on their online history. The reply was cryptic yet telling: "I won't say it doesn't happen."

Lighten up, you might say. Nobody's forcing anyone to buy airline tickets or anything else. But I'm disturbed by what this reflects about our general retail environment -- the evolution of what I would call a culture of suspicion. From airlines to supermarkets, from banks to Web sites, American consumers increasingly believe they are being spied on and manipulated. But they continue to trade in the marketplace because they feel powerless to do anything about it.

This is a profound change. Broadly speaking, the past 150 years saw what you might call the democratization of shopping in the United States. Beginning around the mid-1800s, department stores such as

Stewart's in New York City and Wanamaker's in Philadelphia moved away from the haggling mode of selling and began to display goods and uniform prices for all to see. Part of the motive was self-interest: Given the wide variety of merchandise and the large number of employees, the store owners didn't trust their clerks to bargain well with customers. But the result was a more or less egalitarian, transparent marketplace -- one that Americans have come to take for granted. When they have to negotiate -- most notably in car dealerships -- they see it as an unusual, nerve-wracking experience.

This reliance on evenhanded, fair dealing lies at the heart of American capitalism, or at least the way we'd like to think of it. It's not always practiced, by any means, as antitrust suits and many consumer complaints attest. But it's a worthy goal, and such institutions as the Securities and Exchange Commission and the Federal Trade Commission were established, in part, to aim for it.

The scaffolding of this system is shaken if a retailer changes its offerings to individual consumers based on information about the consumers that the consumers don't know, or that they suspect but can't verify. Take airline tickets. The Consumer Union's WebWatch investigators visited airline sites many hundreds of times, finding a bewildering array of prices that seemed weirdly random and virtually unpredictable (some prices changed between logon and checkout). The airlinessay it's the result of a necessarily complex pricing structure, but how can we tell that's all that's going on?

In September 2000, Amazon.com got headlines when customers found that the same DVDs were being offered to different buyers at discounts of 30, 35 or 40 percent. Amazon insisted the discounts were part of a random "price test," but critics suggested they were based on customer profiling. After weeks of bad press, the firm offered to refund the difference to buyers who had paid the higher prices. The company vowed it wouldn't happen again.

Frequent computer users I've talked to -- like my fairly hip students -- don't really believe such assurances. Frankly, it's hard for any dispassionate observer to believe there's no "price customization" when associates from the influential McKinsey consulting firm write in a 2004 Harvard Business Review article that online companies are missing out on a "big opportunity" if they are not tracking customers and adjusting prices accordingly -- either to attract new buyers or get more of their money.

Meanwhile, this sort of thing goes on quite openly in brick-and-mortar retail stores. In a hyper-competitive environment, where trying to beat Wal-Mart and Costco on price is all but impossible, department stores and supermarkets compete with them by trying to hook the right customers. Operating on the financial industry's premise that about 20 percent of the customers bring in 80 percent of profits, they try to identify who belongs in that 20 percent -- who will spend money and come back to spend more. And they're happy to get rid of those who hold out for bargains or return too many purchases.

Note that this is subtly different from the 20th-century model, in which storekeepers stocked certain brands of soap or pasta or disposable diapers because they sold well, thus pleasing customers and making money at the same time. While that certainly continues, the new goal is to make money by identifying individuals who fit "best customer" profiles and then reinforce their purchases for reasons

and in ways that are hidden from them.

It happens everywhere. Many banks give customers scores based on their deposits and financial backgrounds; their phone representatives use friendlier scripts for high scorers. Supermarket cash registers spit out customized coupons at checkouts, tailored to the previous purchases recorded on "preferred customer" cards. If you buy Coke, you might get a coupon for Pepsi -- or perhaps one for Coke, to make sure you return; if you buy coffee, they'll offer you a discount latte. Some grocery chains are already testing "shopping buddies," small computers that you actually carry around the store, getting personally tailored recommendations and discounts from the moment you enter.

The idea used to be that you, the consumer, could shop around, compare goods and prices, and make a smart choice. But now the reverse is also true: The vendor looks at its consumer base, gathers information, and decides whether you are worth pleasing, or whether it can profit from your loyalty and habits. You may try to jump from site to site to hunt for the best buy, but that's time-consuming. And there are comparative shopping sites such as Bizrate or Nextag, but these can be tough to navigate, and companies are learning quickly how to game the system.

This all might make sense for retailers. But for the rest of us, it can feel like our simple corner store is turning into a Marrakech bazaar -- except that the merchant has been reading our diary, while we're negotiating blindfolded, behind a curtain, through a translator.

Considering the manic nature of retail and media competition and technological developments, this kind of marketing is likely to grow, and become more sophisticated. I've spoken to telemarketing executives who claim they can target TV commercials to specific households. It is even possible, they say, to digitally place different products or dialogue into the scene of a show. Sure, there are financial and technical roadblocks to implementing these customized commercials -- not to mention some charmingly old-fashioned concerns about privacy -- but I'll bet they're coming.

Certainly, being targeted by marketers has its benefits. I like getting coupons for my favorite breakfast cereal. I like Amazon.com suggesting films I might enjoy. And I like being treated well on the phone by a company that thinks I'm valuable. But I also like feeling that I'm in control of buying the product, not that the seller is choosing me.

In the early 20th century, "keeping up with the Joneses" was a real ideal, and it spurred consumption. But the mysteries surrounding database marketing will increasingly make us not so much competitive as wary: Are our neighbors getting a better deal not because they shopped harder or bargained smarter, but because of some database demographic we don't know about and can't fight?

Lack of knowledge breeds suspicion. A survey I directed this year for the Annenberg Public Policy Center found a startling degree of high-tech ignorance among Americans who use the Internet. Eighty percent of those interviewed knew that companies can track their activities across the Web. Yet a substantial majority believe, too, that it is illegal for merchants and charities to sell information about

them, even though it's legal and goes on all the time. Sixty-four percent believe incorrectly that "a site such as Expedia or Orbitz that compares prices on different airlines must include the lowest airline prices." And only 25 percent knew that the following statement was false: "When a website has a privacy policy, it means the site will not share my information with other websites and companies." Our report calls for changing the Orwellian label "Privacy policy" to the more honest "Using your information."

We also call for merchants to be more open about their database activities. A friend of mine phoned Citibank about his credit card and got a representative from India who wasn't able to understand his problem. My friend had never before gotten an "outsourced" operator and, knowing something about databases, concluded that Citibank had pushed him down a notch in status, reserving the U.S.-based service people for better customers. The reality is, he knows nothing about how Citibank operates, and has no idea what it thinks about his status. My point is, precisely because he's Internet - savvy, he's automatically suspicious that information may be used against him without his knowing it.

We used to say, "My money's as good as anyone else's." But in the 21st century, that may no longer be true. My students can hardly remember a time before Internet cookies and frequent flying and preferred shopping. They and their kids will try to beat the system to get the best deals, all the while assuming that they don't know all the rules of the marketplace. They'll be automatically mistrustful. It's a new world out there.

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Joseph Turow is a professor at the University of Pennsylvania's Annenberg School for Communication. His book on the social implications of database marketing is to be published next year by MIT Press.

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