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Will They Trust You Tomorrow?

September 01, 2006

Will recent high-profile failures to protect personal data make consumers more wary of contests and loyalty programs?

By Maggie Rauch

On the surface, the news last month that the internet search records of 657,000 AOL users was circulating publicly online may not have seemed relevant to promotional marketers. Ditto the theft earlier in the summer of personal data on 26.5 million veterans. But taken together, these stories are part of a gathering tide of bad news for consumers who thought their most sensitive data was secure because they'd supplied it only to entities they trusted.

"What loyalty programs bring to retailers is customer data. That's the golden egg here," says Tamara Mendelsohn, a New York-based analyst for Forrester Research.

But is the goose that laid that golden egg in trouble? Might news of big data breaches make it harder for reward and loyalty programs to attract participants, collect their personal information and track their habits

TRUST AND VALUE

Mendelsohn doesn't think such a shift will happen anytime soon. "Participation rates in loyalty programs are high," she says. "Consumers are willing to sign up for three or four retailer cards, so we aren't seeing any backlash."

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Robb Lippitt, chief operating officer of ePrize, a company specializing in online promotions that collect consumer data ranging from name and zip code to extensive surveys, says his company's success indicates a high level of consumer comfort with sharing information under the right circumstances.

"We're seeing a huge uptick in participation," Lippitt says. Founded in 1999, Detroit-based ePrize posted nearly \$30 million in revenue last year, and plans to hire 450 employees in the next three years. "There's growth in this type of promotion, which is why ePrize is doing so well," he says

Martha Rogers, author of *Return on Customer* and a specialist in consumer relationships, says that some people are likely to link the recent data protection failures at known and trusted brands like AOL with their participation in incentive programs.

"If we found out today that there was a data breach involving, for example, American Express credit cards, I can't separate that from my AmEx points program," Rogers says. But she adds, "Whether every single customer makes that connection or not, I don't know."

Rogers, along with other industry watchers, believes consumers will continue to participate in loyalty programs so long as they see a positive value proposition.

"One thing that has remained consistent as we watch trends in consumer behavior is [consumers] are always quite price-sensitive," Mendelsohn says. "Any program that can help them save money is going to be attractive to them." But often it's the perception of value, not an understanding of actual savings, Mendelsohn believes, that makes consumers happy to share a little information.

That value must be backed up by credibility, adds Lippitt. "I think the key thing that ePrize brings to the table is trust," he says, explaining that ePrize clients sign a contract with a no-spamming clause. And, he says, most consumers still put some faith in big brand names. "Whether we're working with a Coca-Cola or a Dow or a GM, there's a trust that's built up between that brand and the consumer."

ACADEMICS GO TO MARKET

Recently, two separate studies conducted by Boston academics have examined consumer

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relationships with grocery-store loyalty cards, reaching different conclusions.

At Boston University in 2004, James McQuivey, a communications professor with a background in technology market research, conducted an online poll examining 515 people's attitudes about and use of grocery-store loyalty cards. McQuivey sought to find out whether people knew that stores track their purchases, and whether that affected their use of the cards. His findings showed that although most consumers know their cards are used for purchase tracking, and are concerned that stores have that ability, they use the cards anyway. Among the 90 percent of cardholders who say they use their cards "always, whether products are on sale or not," 71 percent are concerned about stores tracking their purchases.

McQuivey says his findings surprised him: "I thought we'd see more consumer dislike than we did." He takes the results as evidence that shoppers place high trust in supermarkets. "In general, people say, 'I'm concerned that companies know too much about me.' But they feel differently about the company that they trust enough to buy food from. As a general rule, consumers are willing to share information as long as they have confidence in who they're sharing with."

A second study, led by Katherine Albrecht for completion of her thesis (publication pending) for a psychology doctorate at Harvard University, involved in-person surveys conducted in five states. The 397 grocery shoppers filled out one of two different forms—one in stores that have a card program, another in stores that do not.

Albrecht found that nearly 90 percent of shoppers use a card every time they shop, supporting one of McQuivey's findings. But Albrecht's study is less concerned with consumer behavior and more with knowledge. She delves into shoppers' understanding of how their data is used, distinguishing between spontaneous and prompted knowledge, and between shoppers who know their records are individually identifiable as opposed to existing anonymously in a data bank.

Using a more complex survey technique than McQuivey, and applying her own algorithms, Albrecht concludes that nearly 75 percent of shoppers either do not know that shopper information is collected, or do not realize it is individually identifiable.

"Seventy-five percent of people didn't know they were making a privacy tradeoff," says Albrecht, who has founded a consumer privacy advocacy group called CASPIAN. "There's not going to be a backlash against card programs if there is not knowledge about them."

INFORMED CONSENT

Of course, keeping consumers in the dark about how their data is stored and used is not the answer to gaining their loyalty.

"First, that will never work. People find these things out," Rogers says. "And second, in order for this whole thing to work—for trust to be a differentiator for us, then we have to have a philosophy that works in the customer's best interest."

Adds Mendelsohn: "We've found consumers are much more comfortable if the retailer is up front with them about the promotion. If they say, 'We're tracking things about you, but only using it to send you information that's more relevant to you,' then people don't seem to mind."

Given the variety of ways people allow their activities to be tracked nowadays, loyalty programs might just blend right in. But Rogers points out that the customers most likely to one day opt out of these programs are the most desirable ones.

"If someone were to say to me today, 'You can save five percent on your groceries, but then you will have a ten percent higher risk of identity theft, I would give up the five percent,' she says. "The people who can't afford to give up the discount will stay. The customers who have more discretionary income will leave first."

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