Are Retailers going too far tracking our Web Habits?

By Jayne O'Donnell, USA TODAY Money, Updated 10/26/2009

Sherry Natoli is followed everywhere she goes while shopping online, but she doesn't mind at all.

Natoli, who owns a seashell business in Tampa, does all but her grocery shopping on the Internet and even opts in whenever she's asked whether she's willing to have her online movements tracked by websites.

Companies have been monitoring our online behavior for almost as long as there's been an Internet, often using our online footsteps (cookies) whenever we search, browse or buy online. Tracking technology has advanced so much that everything from how long we linger over a product description to whether we are searching for sexual-dysfunction drugs can be collected and stored on individual profiles. Our profiles are numeric descriptions, not our real names, but in some cases, it's not hard to determine personal information behind the numbers.

Privacy concerns abound, and several privacy and consumer groups are urging Congress to enact laws on what can and can't be collected and for how long.

But the tracking continues in earnest, in few places more avidly than among retailers. With the approach of a holiday season that even the most hopeful of industry analysts think will see only a 1% sales increase, retailers are increasingly turning to the Web for answers — and sales. Even retailers beating the odds, such as thriving teen retailer Aeropostale, find their online growth far surpasses that in their brick-and-mortar stores.

Aeropostale has been among the few chains to post monthly sales increases, typically less than 15%, but online-only sales were up 85% last year.

Macy's CEO Terry Lundgren said recently that for every dollar its customers spend online, they spend an additional $5.77 in its Macy's and Bloomingdale's stores. Online sales made up only 6% of all retail commerce last year, but store operators believe that if their websites help capture customers' wants and needs, they will do better on and offline.

By monitoring the browsing and buying behavior of consumers who visit their websites, stores are able to better target online and e-mailed promotions to what consumers are most likely to buy. They occasionally adapt their home pages to the shopper. And as Amazon has been doing for years, they also can use what products other shoppers have purchased to knowledgeably recommend additional purchases.

The e-commerce marketing company Coremetrics says consumers are 50% more likely to open and click through a targeted e-mail than a generic one. And targeted e-mails generate 50% more revenue than generic e-mails, the company has found.

So it's all very successful but still controversial.
"It's a very touchy subject," says Joseph Davis, CEO of Coremetrics, which counts Macy's, Petco and REI among its clients. "It's a double-edged sword: The more granular data you can get about the person, the more successful you will be, (but) some don't want the data to be used."

**Tracking can help**

The Federal Trade Commission (FTC) recognizes behavioral tracking can help consumers when promotions are tailored to different shoppers. The agency has been studying the issue for years and issued voluntary guidelines for marketers in February. But if Congress were to act on the issue as they are being urged to, the FTC could make its guidelines mandatory.

"Our concern here isn't so much that you'll be served an ad based on where you are on the site," says Rich. "It's that profiles are developed that will follow you around on the Web ... and potentially could fall into the wrong hands."

Jeff Chester, executive director of the Center for Digital Democracy, hesitates before noting there are some benefits to consumers when stores send them advertisements for products they might want — as long as "individuals have more control." But Chester says it's all part of a slippery slope.

"We don't know what data is being shared or sold," he says. Retailers and the consultants who work on their online marketing insist most use the information they collect on their sites — or their Facebook fan pages — only for advertising and other pitches for the site it was gathered from. That's unlike the networks of advertisers and other marketers that share data across sites. Under pressure from government officials and privacy groups, retailers are also increasingly disclosing what they are doing and letting consumers opt in or out.

A survey of 1,000 consumers released last month by professors from the University of Pennsylvania and the University of California-Berkeley found almost 70% were opposed to online behavioral tracking by advertisers, and even more were opposed after they were told how the tracking was done.

But the National Retail Federation says that whatever concerns shoppers may have, they're not avoiding online shopping because of them. In a survey of 2,600 consumers released last week, NRF asked for the primary reasons why shoppers might not be increasing their online spending this year. Privacy concerns and worries about "online tracking" were named by only 0.1% of shoppers, the smallest factor. The cost of shipping, on the other hand, was the biggest concern, with almost 23% citing it.

Critics argue that people aren't more worried because they don't understand how sweeping the tracking can be, while industry officials argue those who worry often don't recognize the upside.

"Retailers could do a better job explaining the benefits of letting them capture some information about you," says Davis. "If people say, 'I just want to opt out,' they don't find out about the sale and don't get coupons for discounts."

Victoria Thornton of Dayton, Ohio, says she appreciates getting ads based on what she's searched for online, but she is concerned about "personal information being stored and rerouted." Her mother feels
even more strongly, she says: "The thought of something documenting and then anticipating her interests unnerves her."

Natoli, who has an eBay store, isn't worried.

She likes it when Ann Taylor and Victoria's Secret suggest other things she might like to buy and has bought more from both stores because of the feature. She gets e-mail only from Ann Taylor when it has a sale, which is the only time she buys, so she appreciates that, too.

And the targeted promotions she gets from booksellers Barnes & Noble and Borders really can resonate. She says one of them recently sent her an e-mail saying, "What's the matter? You don't like books anymore?" It included an offer for $20 off her next purchase.

"So of course, I had to order," she says, laughing.