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Author(s): George R. Milne, Shalini Bahl and Andrew Rohm

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Toward a Framework for Assessing Covert Marketing Practices

George R. Milne, Shalini Bahl, and Andrew Rohm

In an effort to make the marketing process seamless and more efficient, marketers are surreptitiously and inextricably coupling information gathering and marketing. To understand the welfare implications of these practices better, this essay extends the conceptualization of covert marketing to include both information gathering and marketing communications. The authors present a multistage exchange framework that helps identify factors affecting marketer and consumer welfare when covert practices are used. They use the framework to discuss the benefits and harms related to these types of covert marketing practices as well as consumer reactions to such practices.

Keywords: covert marketing, privacy, technology, deception issues

Online technologies have given marketers new approaches to learn about consumer preferences and structure targeted communications. Because these new marketing platforms rely on relatively new and evolving technologies, consumers often do not fully understand the implications associated with their use. In some situations, marketers use marketing communications and information-gathering technologies in a covert manner, choosing not to disclose marketer involvement fully in an effort to avoid consumers' negative attitudes toward advertising or information collection. Either by capturing a consumer's attention in a cluttered advertising environment or by gathering information from that consumer without his or her knowledge, marketers can attempt to gain a competitive advantage and benefit from increased revenues as a result of covert marketing practices.

Recent examples of covert practices include cases in which marketers have participated in online communities to gather information from and to communicate to consumers. In an effort to learn more about consumers and be more persuasive in their marketing communications, employees or hired individuals have participated in blogs and chat rooms, posing as consumers of the brand. By not disclosing their true identity, these companies have tried to gain unfiltered comments from consumers and to manufacture perceived peer-to-peer communications that are favorable to the company's products or services.

In addition, many online companies are known to participate in behavioral advertising programs (Federal Trade Commission 2007). This marketing approach involves per-

sonalizing Web sites by serving up advertising messages that are based on people's interests, which are predicted from prior online behavior. A database is generated by gathering information that is linked to a user's computer through cookies, or text files, that create a link to Web sites, pages, or online advertisements that have been viewed. When a consumer registers for a Web site and provides personal identifying information, this information is linked to cookies that are specific to the consumer's computer. Online advertising firms, such as DoubleClick, provide services that aggregate these data to assist companies in targeting consumers with specific advertisements on the basis of their prior online behavior. The issue with such approaches is that consumers are often not fully aware that their information is being collected and used to send them targeted communications.

These two scenarios highlight potentially harmful marketing practices that go beyond the traditional definition of covert marketing, which focuses more narrowly on situations in which a consumer is unaware that he or she is being communicated to through a commercial message (Kaikati and Kaikati 2004). In both the scenarios we described previously, marketers attempt to collect information about consumers without their full awareness and then link this information to marketing communications delivered to these same consumers.

Thus, in an effort to make the marketing process seamless and more efficient, marketers are surreptitiously and inextricably coupling information gathering and marketing communications. In the situation we described related to behavioral advertising, cookies are used to gather information, which in turn is used to deliver personalized advertisements. Consumers are often not aware of the extent of the behavioral information used to deliver these messages. In online communities, one-to-one or one-to-many conversations take place in which marketing communications are covertly delivered that directly respond to or are directly associated with consumer inputs. In both situations, without full and understandable disclosure, consumers become vulnerable to misleading marketing practices and invasions of

George R. Milne is Associate Professor of Marketing, Isenberg School of Management, University of Massachusetts (e-mail: milne@mktg.umass.edu). *Shalini Bahl* is Assistant Professor of Marketing, David Eccles School of Business, University of Utah (e-mail: shalini.bahl@business.utah.edu). *Andrew Rohm* is Associate Professor of Marketing and Denise and Robert DiCenso Term Professor, College of Business Administration, Northeastern University (e-mail: a.rohm@neu.edu).

personal privacy. This raises three important questions: First, what harm results from covert information gathering and marketing communications practices? Second, when should such practices be disclosed? and Third, what is the best approach for marketers to take to make such disclosures?

This essay has three objectives that begin to address these issues. The first objective is to provide a broader conceptualization of covert marketing practices to include both information gathering and marketing communications. The second is to present an exchange framework that helps identify factors that affect marketer and consumer welfare when covert practices are used. The third is to initiate discussion about both the benefits and harms related to these types of covert marketing practices and consumer reactions to such practice.

A Broader Conceptualization of Covert Marketing Practice

The Word of Mouth Marketing Association (2007) has viewed covert marketing as marketing practices designed to deceive consumers about the involvement of marketers in communications that take place in seemingly noncommercial settings. These techniques, also referred to as stealth or under-the-radar marketing (Kaikati and Kaikati 2004), are designed by marketers to break through commercial clutter and target consumers without their awareness of the commercial intent behind such activities. These practices have included companies hiring people to act as fake tourists and to engage passersby in conversations about new camera phones (as seen on the *60 Minutes* [2004] television show) and hiring employees of a promotional firm to enter chat rooms to promote new movie releases (Dunnewind 2004). Covert practices also include product placements in television shows for which people, particularly younger reviewers, may not recognize that specific products are embedded within the show's content for commercial motives (Binkley and Nelson 2003).

Although the previous emphasis on covert marketing has centered on deceptive marketing communications practices, we broaden the conceptualization of covert marketing to include both information gathering and marketing communication. We define covert marketing practices as the intentional omission and distortion of facts by marketers pertaining to the collection and/or dissemination of information by marketers. Thus, covert marketing practices include information gathering and marketing communications that are purposely undisclosed, disguised, or hidden from consumers. In this broadened definition, we include instances in which information gathering is conducted without full disclosure to consumers and instances in which this information is directly linked to the marketing communication. By collecting information covertly online, marketers can generate information without direct consumer consent in ways that are cost effective and that allow the marketer to gain unbiased data to augment subsequent marketing communications and promotions.

The recognition of the dangers of undisclosed information gathering is not new. Marketers have come under scrutiny for using cookies to collect information covertly (Richards 1997; Samarajiva 1997). However, what is new

is the linking of this information to behavioral advertising, which has prompted the Federal Trade Commission (2007) to hold meetings about this practice. Beyond the use of cookies, marketers are now using data-mining programs to monitor consumer conversations online. Companies such as Umbria are mining blogs to develop insights into people, issues, products, and companies. However, consumers who participate in online environments, such as social networking sites, do not necessarily view their postings to be in the public domain and, therefore, to be accessible to people outside the community.

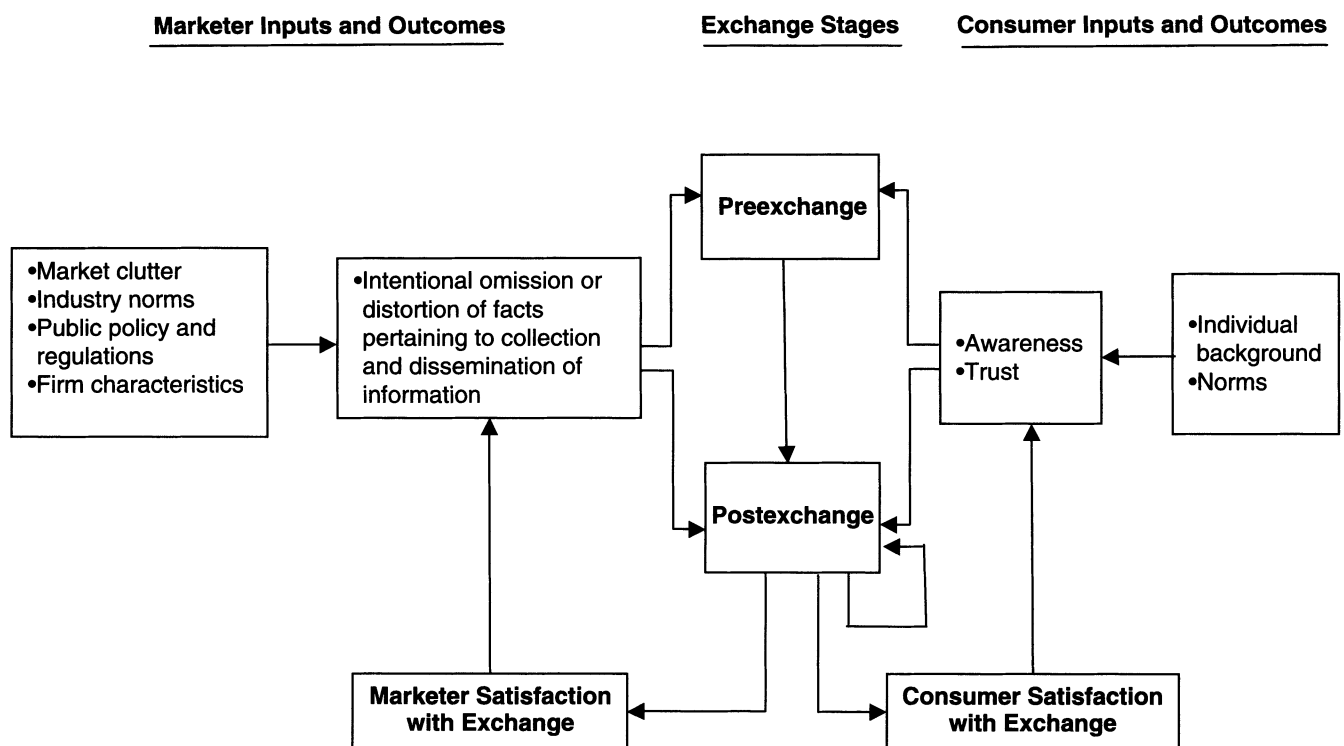
Related to the use of communication technologies, where should the line be drawn as to what is covert and can cause harm and what is not? At the broadest level, the marketing concept involves learning about consumer preferences by gathering information and then configuring a marketing mix, which includes marketing communications and promotions, to meet consumers' needs. Acceptable practices for how information is collected and disseminated are based on both public policy and self-regulation based on company and consumer welfare. However, as norms shift in conjunction with emerging technologies, drawing a clear distinction between proper and improper practices becomes more difficult. Next, we present an exchange framework to understand these issues better.

Multistage Exchange Framework

Exchange is fundamental to marketing practice and theory (Alderson 1965; Bagozzi 1975, 1979; Houston and Gassenheimer 1987). For a fair exchange to occur, after an exchange, both parties should remain as well as or better off than they were before entering into the exchange. However, assessing the utility of exchanges is problematic because the future behavior of the exchange partner is not always known *a priori*. Thus, for a transaction to take place, both parties must trust each other that future obligations will be fulfilled. For example, when a consumer provides credit card information, there is an expectation that this information will be treated safely not only during the discrete transaction but in the future as well.

There are several types of exchanges in which consumers provide information to marketers. The first type is when consumers provide permission to be engaged in future communications. This establishes boundaries and expectations for both the consumer and the firm. The second is when the consumer provides information in exchange for content or information from a marketer. This happens when a consumer registers for a Web site or participates in market research. The third is when the consumer makes a transaction and provides credit information. In addition, consumers may also provide information when they participate in social networks and online communities or make online purchases. In turn, the marketer provides information in an effort to promote products and to deliver products and services. The marketer also attempts to collect and use consumer information for marketing research.

Our framework depicting implications of covert marketing in Figure 1 shows that there are two basic stages of exchange. The first is what we call the "preexchange stage," and the second is the "postexchange stage." The preexchange stage is when information and permission are

Figure 1. Multistage Exchange Framework for Assessing Covert Marketing

exchanged. The consumer then decides whether to engage in a transaction. The postexchange stage occurs after the transaction has been made. At this point, future exchanges may also involve the exchange of permission and information, as well as the execution of subsequent purchases. This is depicted by the feedback arrow in Figure 1.

In the framework, a marketer's decision to use covert marketing practices is based on four factors: the volume of marketing communications (i.e., advertising clutter), industry norms, public policy and regulations, and individual firm characteristics. Covert practices involve the intentional omission or distortion of facts pertaining to the collection or dissemination of information. An advantage attributed to covert marketing practices is that it helps the marketer gain access to unbiased information and deliver marketing messages that are attended to and processed by consumers (Kaikati and Kaikati 2004). The use of these practices is driven in part by industry norms, such as the use of cookies, and the minimal mention of their use in often-difficult-to-read, obfuscated privacy notices (Milne, Culnan, and Greene 2006). Industry norms may also involve self-regulatory efforts through associations and member firms to direct standards and influence industry practice. In addition, public policy and legislation set forth by agencies such as the Federal Trade Commission and Federal Communications Commission influence firms' marketing communications and information collection practices. Finally, individual firm characteristics influence the decision to use covert practices. For example, small start-up firms with limited resources may use covert approaches because of limited resources and because these approaches might more effec-

tively stimulate consumer trials, especially when these firms do not yet possess established brand awareness and equity.

Consumers' decisions to enter into exchanges with marketers are based on their awareness of marketer practices and their trust that the marketer will fulfill their expectations. These two factors are affected by individual background characteristics of consumers and established norms. For example, consumers' age and gender differentially affect their awareness of marketing practices and their level of trust in marketers (Phelps, Nowak, and Ferrell 2000). Moreover, consumers may come to accept some covert practices, such as product placement in movies, because of their widespread use. Within this framework, as awareness of and trust in companies that engage in covert marketing practices evolve, these awareness and trust levels will influence consumers' decisions to engage in initial purchase or repurchase decisions.

The outcome of exchanges affects both marketer and consumer satisfaction. For the marketer, the level of satisfaction subsequently affects future decisions pertaining to the use of covert marketing practices. For the consumer, the level of satisfaction affects ongoing trust and the likelihood of entering into future exchanges and purchases.

Harms, Benefits, and Consumer Discovery of Covert Practices

Information collection can be harmful to consumers if and when it is perceived as invading a person's privacy (Culnan 1993; Goodwin 1991) and if it results in unwanted targeting

(Goodwin 1991; Petty 2000). Privacy harms can include loss of identity, human dignity, freedom, emotional security, and opportunities, as well as discrimination and embarrassment (Altman 1975; Rosen 2000; Westin 1967). Unwanted targeting is harmful insofar as it results in the cost to consumers in terms of processing and disposing messages (Petty 2000). Possible benefits to consumers from marketers' collection of personal or behavioral information are that these consumers will receive more personalized services and marketing communications more closely aligned with their preferences.

In contrasting the preexchange and postexchange stages for both benefits and harms (see Table 1), the degree of potential harms and benefits is heightened and more pronounced in the postexchange stage. This occurs, in part, because marketers have the potential to amass more information about the consumer during and after the exchange. Furthermore, with additional covert information collection, the consumer becomes more vulnerable because this information is linked with existing information, especially if it is personally identifying information. This vulnerability can turn to harm if the information is transferred to third-party

companies without consumer permission. However, although the consumer may be more vulnerable in the postexchange stage, consumer benefits may also be enhanced with more effective targeting. Sheehan and Hoy (1998) find that consumers did not perceive receiving e-mail (based on covert information collection) from a company with which they had a relationship as an invasion of privacy. This finding is also extended to cases in which the e-mail was not directly related to any previous interaction. These results are consistent with Milne and Boza's (1999) findings that consumers possess higher levels of trust in and lower privacy concerns about companies with which they had previous experience.

When covert information collection is exposed, we expect that there will be a different consumer reaction in the pre- and postexchange stages. We suggest that in the preexchange stage, consumer reaction will be minimal. At most, consumers may avoid certain Web sites or take greater precautions before visiting them. However, if covert information collection is exposed in the postexchange stage—for example, this might occur when a consumer finds out that company employees have been secretly posing as consumers in online communities to monitor discussion threads and collect information—it could result in a violation of trust, the outcome of which might be a loss of reputation and future business for the firm.

The harms and benefits suggest different patterns for covert marketing communications than for covert information collection. Overall, the harms from a covert marketing communication are that it may mislead consumers into making a purchase they otherwise might not have if they had gathered more information or processed the communication differently. When consumers receive commercial messages, they are more likely to be skeptical and to limit processing of the message. Messages received through covert practices may be perceived as being from a disinterested party (e.g., a friend or peer); thus, the consumer may attach more weight to the information presented in the message. The benefits to companies associated with covert marketing communications are that consumers receive communications specific to the product or purchase context and in a noninvasive way.

Thus, in the case of covert marketing communications, compared with covert information collection, the harms and benefits related to marketing communications may be more pronounced in the preexchange stage than in the postexchange stage. Consumers are likely to place more weight on the covert marketing communications in the preexchange stage than in the postexchange stage, in which the consumer has direct experience with the product. The benefits of covert marketing communication in the postexchange stage are that covert marketing communications might minimize cognitive dissonance by providing more favorable information about the product.

We suggest that the exposure of covert marketing communications in the preexchange stage can result in diminished consumer trust, damage to the company reputation, and lost present and future revenues. In contrast, in the postexchange stage, the impact should be minimal because the consumer has more direct company and product or service experience.

Table 1. Impact of Covert Practices on Marketing Exchange

Information Collection	Preexchange	Postexchange
Harms	<ul style="list-style-type: none"> •Privacy harms •Unwanted targeting 	<ul style="list-style-type: none"> •More vulnerable when information is linked to personal identifying information •Additional privacy harms when shared with third parties
Benefits	<ul style="list-style-type: none"> •Provides personalized and targeted offerings 	<ul style="list-style-type: none"> •More detailed personalization •More accurate targeting
Reactions after exposed	<ul style="list-style-type: none"> •Minimal effect •May limit exposure or take more precautions 	<ul style="list-style-type: none"> •Affects reputation and trust •Can affect repurchase decision
Marketing Communications	Preexchange	Postexchange
Harms	<ul style="list-style-type: none"> •Misleading 	<ul style="list-style-type: none"> •Minimal
Benefits	<ul style="list-style-type: none"> •Provides information in an unobtrusive manner 	<ul style="list-style-type: none"> •Helps ensure and minimize cognitive dissonance
Reactions after exposed	<ul style="list-style-type: none"> •Affects reputation and trust •Can affect purchase decision 	<ul style="list-style-type: none"> •Minimal effect on repurchase

Conclusions and Future Research Directions

In this essay, we presented a broadened definition of covert marketing practices that makes a distinction between information gathering and marketing communication. Using a multistage exchange framework, we argue that there will be differential harms and benefits to consumers in each stage, and the repercussions for marketers will be different in each stage if such practices are made aware to consumers. The propositions presented in this essay suggest directions for subsequent empirical work.

The exchange framework has identified several important factors that can be used to evaluate the perceived benefits and harms of covert marketing. For the consumer, perceived harms and benefits are directly linked to the stage of the relationship. In the preexchange stage, consumers may be less vulnerable to covert data collection than consumers in the postexchange stage. However, for covert marketing communications, consumers in the preexchange stage are more vulnerable than consumers in the postexchange stage because they have not yet had any direct experience with the company and product or service. Moreover, awareness, trust, and consumer background characteristics should affect consumer reactions to marketing practices.

The challenge in assessing covert marketing practice is determining where to draw the line between unacceptable practice and efficient and effective marketing tactics. This is difficult given the rapid evolution of technologies that are being used for information collection and marketing communications. Technology enables a less transparent marketing process that is unseen by consumers. For example, consumers might consider a radio frequency identification tag speeding up checkout at a store a welcomed efficiency, but data collection and subsequent targeting may be less desirable. Some consumers may consider subsequent data mining, transferring data to third parties, and using behavioral information coupled with consumers' background information covert, intrusive, and unethical. The unveiling of new technologies will need to be constantly monitored. Whereas some consumers may accept the use of these technologies, other consumers may be upset with such practices.

A broader conceptualization of covert practices raises the issues of how to inform consumers of the potentially covert practices and make such marketing efforts more transparent. With online marketing, it is widespread practice for companies to post privacy notices along with disclosures. However, these notices are often viewed as ineffective because consumers may not read the notices as a result of their length and difficult legal language. As covert data collection and marketing communications become more widespread, the current practice of privacy notices may need to be reexamined (Federal Trade Commission 2007). Perhaps different regulatory approaches, such as privacy audits, need to be examined. The examination of new disclosure paradigms for marketing communications and information collection practices would be a worthwhile direction for further research that would enable companies to balance the effectiveness of their communications and data collection tactics with the maintenance of consumer trust and protections.

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