

NY AG calls Internet discount clubs 'deceptive'

January 27 2010, By DAVID B. CARUSO , Associated Press Writer

(AP) -- New York's attorney general warned Internet retailers Wednesday that they should stop funneling unsuspecting customers into "deceptive" Web discount clubs that have been accused of slamming people with hidden fees.

Attorney General Andrew Cuomo said his office has sent investigative subpoenas to 22 prominent merchants, including Barnes & Noble, Priceline and Pizza Hut, that allowed the marketing companies Affinion, Vertrue and Webloyalty to piggyback on their Web sites.

Those companies have been the subject of thousands of complaints in recent years from irate customers who say they were unwittingly enrolled in clubs while buying things such as flowers and movie tickets.

In many cases, the consumers clicked a box offering cash back on their purchase without noticing fine print warning that accepting the offer would enroll them in a club with a monthly fee. Many people learned the truth only when those fees turned up on their credit cards.

"We want it stopped," Cuomo said. "We believe it is a classic consumer fraud."

At least one retailer, the movie ticket seller Fandango, has already agreed to stop sharing customer billing information with the companies, Cuomo announced.

Fandango has also agreed to pay \$400,000 in restitution and make better disclosures about any third-party offers on its Web site, the attorney general's office said.

Cuomo encouraged others to follow suit, saying that while the sign-up system for the discount clubs wasn't "illegal per se," it could be considered a "deceptive practice."

The companies getting subpoenas included Barnes & Noble, Orbitz, Buy.com, Ticketmaster, MovieTickets.com, FTC.com, Shutterfly, 1-800-Flowers.com, Avon, Budget, Staples, Priceline, GMAC Mortgage, Classmates.com, Travelocity, Vistaprint, Intelius, Hotwire, Expedia, Hotels.com, Columbia House, Pizza Hut and Gamestop/EB Games.

Some of those companies said they have already taken action. Vistaprint, Priceline, Expedia and 1-800-Flowers.com said they severed ties with the companies last fall.

Affinion, Vertrue and Webloyalty, all based in Norwalk, Conn., have been accused of improper conduct many times before.

Webloyalty recently settled a class action lawsuit in Massachusetts. Vertrue and Affinion, which previously did business under different names, have both been sued by attorneys general in other states over their sales tactics.

Each company says their practices are legal, but all have recently promised changes.

After a U.S. Senate committee in November accused them of acting unethically, all three began requiring customers to re-enter all 16 digits of their credit card number before they are signed up as members.

Previously, that billing information was automatically forwarded by retailers without the knowledge of customers.

"We have listened to consumers, lawmakers and regulators and have led the industry in evolving our practices," said Webloyalty spokeswoman Beth Kitchener. She said the company also introduced new language on its offering page to clarify that people will be billed for joining a club.

Vertrue said in a statement that its marketing practices "are not only clear," but also "provide consumers with access to significant and realizable benefits." Affinion said that while it believed its marketing material "has always incorporated clear, prominent and unambiguous terms, we are constantly evaluating our offers to consumers."

A report issued by the Senate's Commerce committee in November said the three companies have taken \$1.4 billion from customers in a little more than a decade. Retailers that gave the companies a spot on their Web sites got a sizable cut of that cash, often worth millions of dollars each.

The report said managers at the companies appeared to be aware that customers were being deceived. One Webloyalty employee noted in an e-mail that "90 percent" of the people getting billed "don't know anything about the membership."

Each company also has call centers staffed by workers whose primary job is to process membership cancellations.

Some companies appear to be sticking with the clubs, despite complaints. Orbitz.com said in a statement that it had improved its sign-up process with Webloyalty in a way that will ensure consumers know they are consenting to membership in a paid club.

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Citation: NY AG calls Internet discount clubs 'deceptive' (2010, January 27) retrieved 20 April 2024 from <https://phys.org/news/2010-01-ny-ag-internet-discount-clubs.html>

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