

Little-known scores rank consumers' value based on data from Web, apps, loyalty cards

March 26 2014

If you've bought a house or car lately, chances are you know your credit score, or at least whether it's good or bad. But what about your customer loyalty score? Or your identity score? Or your health score?

Most people have no idea that businesses use thousands of such scores to rank [consumers](#) based on data harvested from search engine histories, shopping habits, social media networks, mobile apps, surveys and census reports.

The scores rely on computer modeling to determine whether you receive a coupon for free shipping from your favorite clothing store, or one for \$10 off, or no discount at all. They dictate whether you see ads for credit cards with high interest rates or for platinum cards with low rates and enticing rewards.

A score that assigns you a value based on the average credit score in your ZIP code could limit your financial choices by putting you in a less desirable pool of potential borrowers.

Some scores route certain people to higher-ranking customer service representatives based on estimated purchasing power. Other scores designed to catch identity fraud can even affect your ability to open a bank account, purchase a cellphone or board an airplane.

But unlike [credit scores](#), the so-called "e-scores," or "predictive scores" used for marketing or [fraud detection](#), are not regulated by the

government. Consumers have no legal right to see their scores or correct errors in them.

The scoring practices have drawn scrutiny from the Federal Trade Commission, which is investigating how companies collect and use consumer data. Last year the watchdog agency cracked down on 10 data brokers in a "secret shopper" operation. The brokers allegedly were willing to sell consumer information to undercover FTC officials for credit, insurance, employment or housing decisions, a violation of the Fair Credit Reporting Act.

The FTC sent warning letters to the companies.

Together with consumer advocates, FTC officials have testified about scoring before Congress, urging lawmakers to update federal laws to ensure that people can access and control the data collected about them.

"There are many, many different kinds of scores, but the main thing is a score is an effort to categorize you to decide what to offer you and what to charge you for it," Ed Mierzwinski, federal consumer program director for U.S. PIRG, a consumer group, said in an interview. "If it's used fairly and transparently, it might be OK, but we don't know enough about them."

Companies that create and sell scores for marketing or fraud detection purposes say that stronger legal protections aren't necessary because the industry has plenty of voluntary safeguards in place.

Members of the Direct Marketing Association trade group, for example, must agree to guidelines for ethical business practices, which include a pledge to keep data secure and honor consumers' requests not to use their personally identifiable information. And many data brokers allow consumers to see their profiles for free or for a small fee, a practice the

FTC encourages.

"The industry's trying to do the right thing," said Susannah Sulsar, a member of the association and director of customer relationship marketing at Barkley, an advertising agency in Kansas City, Mo.

"Nobody wants to be singled out for being a bad steward of consumer data," Sulsar said. "People would not want to do business with them and they would lose more customers than they would lose through bad marketing."

Barkley uses scoring to divide consumers into categories according to how likely they are to respond to a specific advertising pitch. If data reveals that a subset of customers prefers burgers, Sulsar said, there's no point in sending them coupons for chicken sandwiches.

The scores aren't always numeric. The agency might build profiles or characters for a segment of consumers, labeling foodies "flavor cravers" because they value taste over cost, Sulsar said, or "Nick & Lisa," for married couples with kids who share a certain income bracket and education level.

Or the agency might assign customers a score between 1 and 10 depending on how often they frequent a client's store or restaurant and how much they spend there. Those who score 8, 9 or 10 are probably the most loyal customers who come often and spend more per trip.

Those people might not get discount offers because they're already displaying the behaviors marketers want to see.

But customers who score 5, 6 or 7 might get "bounce-back offers" of extra savings if they buy something within two weeks, rather than once every few months. If they usually spend \$20, they might get a "basket-

stretcher offer" to encourage them to spend more by offering \$5 off if they spend \$30.

Businesses benefit because they can spend less money to target more valuable people, Sulsar said. Consumers benefit because they get ads and discounts for products they're actually interested in buying, she said.

"For me personally, I'd rather target smart than get junk mail, and for me as a marketer, I'd rather not waste my money," Sulsar said.

The scores that Barkley calculates for retail clients to fine-tune discount offers don't worry consumer advocates as much as scores that could be used by predatory lenders or scam artists to identify and target vulnerable groups based on health information, age, sexual orientation, race, religion, gender and other sensitive factors.

Scores used to detect fraud and identity theft especially concern advocates.

Most businesses use identity scores in order to verify a customer is who they say they are, said Pam Dixon, executive director of World Privacy Forum, a public interest research group in San Diego, Calif.

"If you're a victim of identity theft or have just gotten married, your score will be very low and you will find it extremely challenging to open a bank account or purchase a cellphone and you may even have trouble getting on a plane," Dixon said. "But the vast majority of people in this country don't even know they have an identity score."

The problem is compounded by the fact that scoring isn't necessarily very accurate.

A study released this month by the National Consumer Law Center

found that the data files obtained by 15 of the organization's staffers were "riddled with inaccuracies," including wrong addresses, emails and phone numbers; strangers listed as relatives; and incorrect occupations. Seven of the 15 reports generated by one data company contained errors in estimated income, and 11 misstated study participants' education levels.

Without the legal right to correct mistakes, consumers have no recourse if something is wrong with their identity score, Dixon said.

"And if you find yourself the victim of identity theft and you can't get verified as you, it's a huge problem in our digital world," she said.

For now, there's little consumers can do to avoid the scoring phenomenon, short of going off the grid, Dixon said.

"You'd have to curl up into a little ball and pay everything with cash, and it's just not feasible," she said.

©2014 McClatchy Washington Bureau
Distributed by MCT Information Services

Citation: Little-known scores rank consumers' value based on data from Web, apps, loyalty cards (2014, March 26) retrieved 24 June 2024 from <https://phys.org/news/2014-03-little-known-scores-consumers-based-web.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.