

**BELIEVE IT
OR NOT**

**A BBB Study of the
Perceptions of Advertising
By Consumers & Business**

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A BBB Study of the Perceptions Of Advertising by Consumers and Business

INTRODUCTION

Concern for truthful advertising can be traced as far back as Cicero, more than 2,000 years ago, when he wrote to his son, Marcus: “All things should be laid bare so that the buyer may not be in any way ignorant of anything the seller knows.”

As advertising thrived in this country, by 1880 there was concern on the part of some regarding truth in advertising, including the editors of the *Farm Journal* who stated in their October 1880 issue, “We will make good to subscribers any loss sustained by trusting advertisers (in the *Journal*) who prove to be deliberate swindlers.”

Concern for truth in advertising played a key role in the start of Better Business Bureaus (BBBs) in 1912 when advertising standards were developed to promote self-regulation without government intervention. This role continues today as a core component of the mission of BBBs, which now monitor advertising and challenge ads. BBB|St. Louis, for example, challenged more than 1,600 ads in the past three years.

And more than 100,000 consumers mentioned advertising in their complaints filed with BBBs nationally during the past three years.

In keeping with this mission, the BBB in this study

reviews the status of advertising today. The media for advertising have expanded tremendously, particularly with the advent of the cyber age. What media do consumers trust most for truthful advertising that is not misleading? Do their views match those of advertisers? What type of advertising works and what doesn't? In what medium are most advertising dollars spent? These and other questions are examined in this study.

SOURCES & BACKGROUND

Sources used in this study include the following: St. Louis and national BBB databases; a survey of 1,360 consumers who filed complaints with BBB|St. Louis; a survey of 442 businesses that are accredited by BBB|St. Louis; the Federal Trade Commission (FTC); state attorneys general; states' laws; Consumer Federation of America; and trade associations.

The average consumer responding to the survey had an annual household income of \$84,000. Nine of ten had some college or technical school education.

A broad spectrum of businesses responded to the survey, from those that reported spending less than \$5,000 annually on advertising to those that spend more than \$2 million annually. The respondents have an average of 48 employees, with about two-

thirds having less than 10 employees, and 21 having at least 100 employees.

'THE TIMES THEY ARE A-CHANGIN'

The advertising scene is changing significantly and rapidly with old line advertising media such as newspapers experiencing sharp drops in ad revenue, and the newcomer on the block, the Internet with its websites, social networks, search engine optimization, and search engine marketing grabbing more and more of the action.

As an example, newspaper advertising, including online and print versions, dropped from \$4.9 billion in 2006 to \$2.4 billion in 2011, according to the Newspaper Association of America. Internet advertising in the same period, meanwhile, rose from \$1.7 billion to \$3.2 billion, according to eMarketer.

The continuing move to the cyber marketplace was reflected partially in the surveys of both consumers and businesses. In its survey, the BBB asked consumers to pick the most trusted and the least trusted media for advertising from a list of 11 media types. The two were combined to create a net trust factor.

Company websites led the list as the most trusted medium with a 17 percent net trust factor, followed by mainline newspapers with 12 percent. The least trusted medium was the Internet which scored a negative 12 percent net trust factor, and flyers with a negative 10 percent. A major medium for advertising—television—rated a negative 8 percent.

Businesses seemed to echo the consumers' trust, with a third of them saying that their own websites were their most effective means of advertising, including a

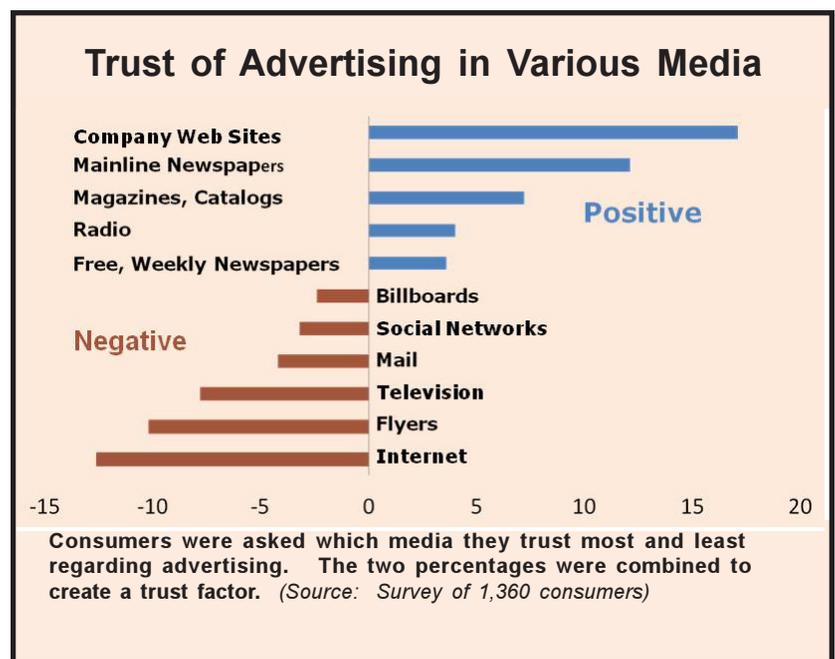
majority of the few that spend more than \$2 million annually.

A significant number of businesses say they advertise in media to which consumers gave low trust factors. A third of businesses responding said they use postal mail in advertising which has a negative 4 percent trust factor, while nearly half of businesses say they advertise on social networks which received a negative 3 percent trust factor.

Consumers in the 25 to 34 age bracket trust advertising on social networks much less than the average of other age groups, with 17 percent saying social networks were the least trusted medium compared with 12 percent of all age groups.

And while 21 percent of those younger respondents said they trusted TV the most for advertising, that number dwindled through the age groups, bottoming out at 11 percent in the 65 and older group.

The survey also looked at how often consumers viewed the various media in which advertising



appears. A third of respondents ages 25 to 34 reported spending no time reading newspapers or magazines, while a fourth of respondents aged 65 or older said they spend at least two hours daily doing so. And 15 percent of respondents in that younger age group said they watch TV three hours or more daily, and three times that number of those in the older group reported spending that amount of time.

SURFING THE 'NET

While it is probably an accepted fact that younger consumers are more active in cyberspace, the survey shows the extent to which this is true. For example, 93 percent of respondents ages 25 to 34 said they use a search engine to find a company with which to do business, with the numbers dwindling through the age groups to a low of 74 percent of those 65 and older.

Another indication of the increased use of higher technology by younger age groups is shown in those responding to the question whether they use a hand-held device to check ads while in the process of shopping. Those answering yes included 42 percent of the younger respondents, with the number dropping through the age groups to 6 percent of those 65 or older. A fourth of consumers of all ages reported doing so.

Despite the low trust factor for the Internet as an advertising medium, 85 percent of consumers of all ages said they use an Internet search engine such as Google to search for a company with which to do business. The seeming contradiction might be explained by the fact that consumers, in answering the trust factor questions, considered advertising on the Internet as a whole, rather than a means with which to find a specific company.

Those consumers who said they use a search engine to find a company exercise caution in doing

so. Ninety-two percent said they prefer not to employ a company that paid the search engine to advertise. And conversely nearly 90 percent said they prefer to select a company from local results on the search engine's list, with three-fourths of them narrowing their search parameters, such as specifying a municipality or region, to provide those local results.

Businesses are attuned to this consumer activity in searching for a company with which to do business. More than half of businesses responding to the survey said they use search engine optimization to drive consumers to their websites.

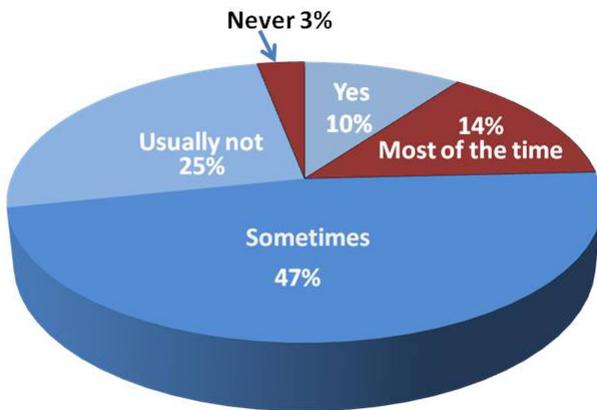
And of those who use search engine optimization, 40 percent said it was their most effective means of advertising. Although two-thirds of the businesses responding to the survey said they employ less than 10 people, more than half of them said they use search engine optimization.

DO CONSUMERS BELIEVE ADVERTISING AND DO BUSINESSES ASSUME CONSUMERS BELIEVE ADVERTISING?

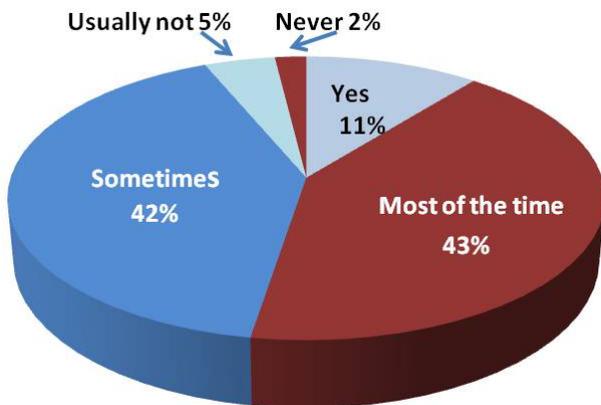
In 1906, following passage of the Federal Pure Food and Drug Act, the federal government sued a number of firms, including the Coca-Cola Co. Samuel C. Dobbs, sales manager at the time and later president of Coca-Cola, listened to the U.S. attorney charge Coca-Cola with false advertising. Dobbs was shocked at the response of his company's own attorney: "Why, all advertising is exaggerated. Nobody really believes it." That remark ignited Dobbs and eventually led to the beginning of the BBB system six years later.

But the question remains—with more than \$140 billion spent on advertising each year, how much do consumers believe? A large gap was revealed in the surveys between the responses of consumers to the question of how much advertising they believe

Do Consumers Believe Advertising?



How Do Businesses Think Consumers Responded to Whether They Believe Advertising?



(Source: Surveys of 1,360 consumers and 442 businesses)

generally and the perceptions of businesses as to how much consumers believe.

While only 14 percent said they generally believe advertising most of the time, businesses indicated they felt 43 percent of consumers believed advertising most of the time. And conversely, while a fourth of consumers said they usually don't believe advertising, businesses thought only 5 percent of consumers felt that way.

Perhaps contributing to these consumers'

somewhat skeptical view of advertising were their answers to another question. They were asked whether they had ever purchased a product or service based on advertising which they later felt was misleading. Eight of 10 respondents said they had done so. Leading the list by a wide margin of allegedly misleading advertising for these respondents were new and used auto sales (13 percent) and home repairs (12 percent). This finding agrees with a list published in July by the Consumer Federation of America of the top 10 types of complaints filed in 2011 with 38 state and local agencies, mostly governmental. At the top of the list was auto sales and service, with misleading representations in the sale of new or used cars mentioned prominently.

Younger respondents appear to be more skeptical of advertising as their responses to the question "Do you believe advertising?" was below the average of other age groups.

WHAT THEY LIKE AND DON'T LIKE

Consumers and businesses were asked to indicate which of several elements in advertising they consider positive or negative. The two groups agreed on some of the elements, but there was a sharp difference of opinion on others.

While only a third of consumers thought testimonials were positive, 80 percent of businesses thought they were. Nearly two-thirds of businesses thought ads that were repeated several times were positive, but only 19 percent of consumers thought so. The length of time in business was the highest rated positive element among consumers, and it received a high mark from businesses also.

Nine of 10 consumers said BBB accreditation was a positive element in advertising. Elements that rank low among consumers are a company

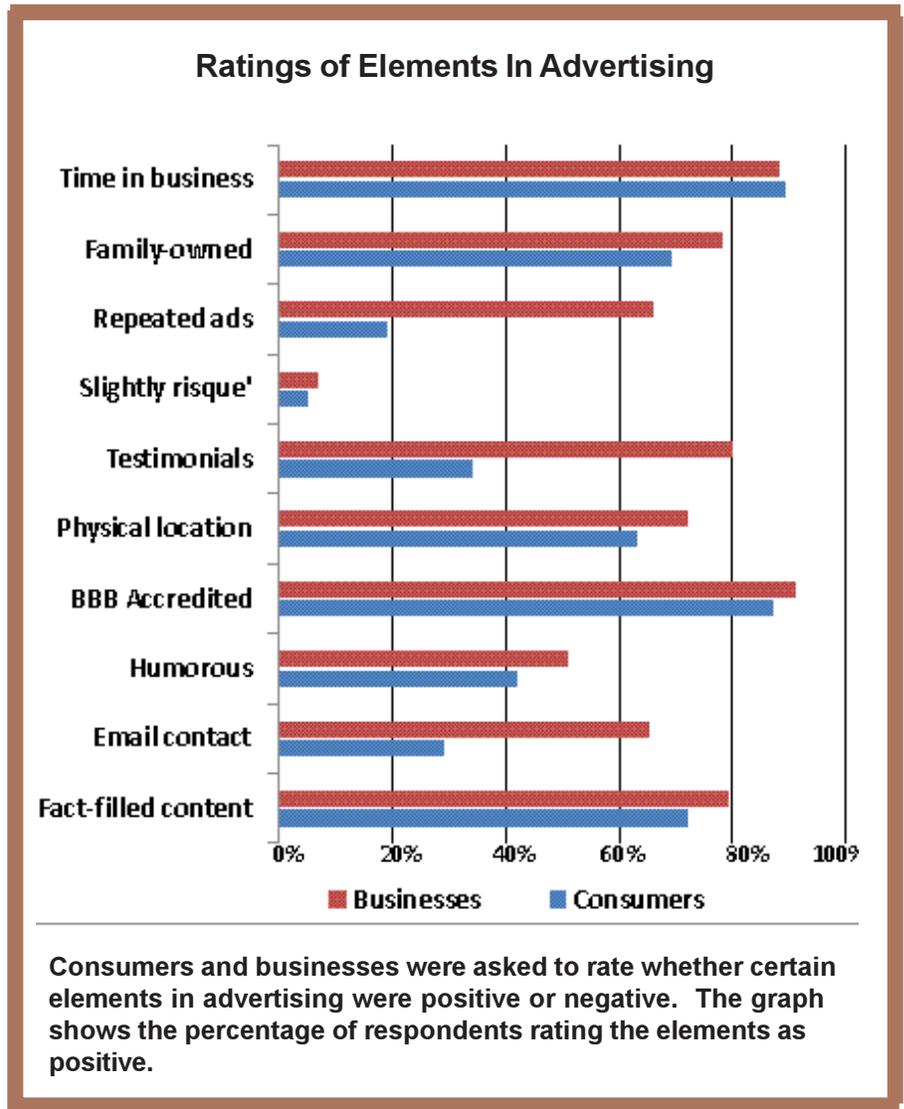
contact email address and humorous advertising. Both consumers and businesses agreed that slightly risqué advertising such as women in bikinis is negative, with nearly two-thirds of consumers expressing disapproval.

In another measure of preferences in advertising, consumers and businesses were asked whether they agree or disagree with several statements regarding the properties of an ad. Nearly all agreed that an ad must not violate laws, and nine in 10 thought an ad must comply with the BBB's standards for advertising.

In another question, about 90 percent of consumers and businesses agreed that even if a successful ad only slightly violates a regulation it should not be used. Only a little more than a half of the consumer respondents think an ad should be entertaining. But what 90 percent of consumers do want, and businesses agreed, is that an ad must provide relevant information and that it must be realistic.

The BBB standards for advertising spell out numerous tactics that should be avoided by advertisers. Consumers and businesses were asked to rank the importance of each.

Consumers felt a bit more strongly about each of the prohibitions than businesses did, the widest variance being improper lowest price guarantees which 95 percent of consumers thought was important compared with 82 percent on the part of businesses. Only the improper use of asterisks failed to garner at least a 90 percent rating of important on the part of consumers.

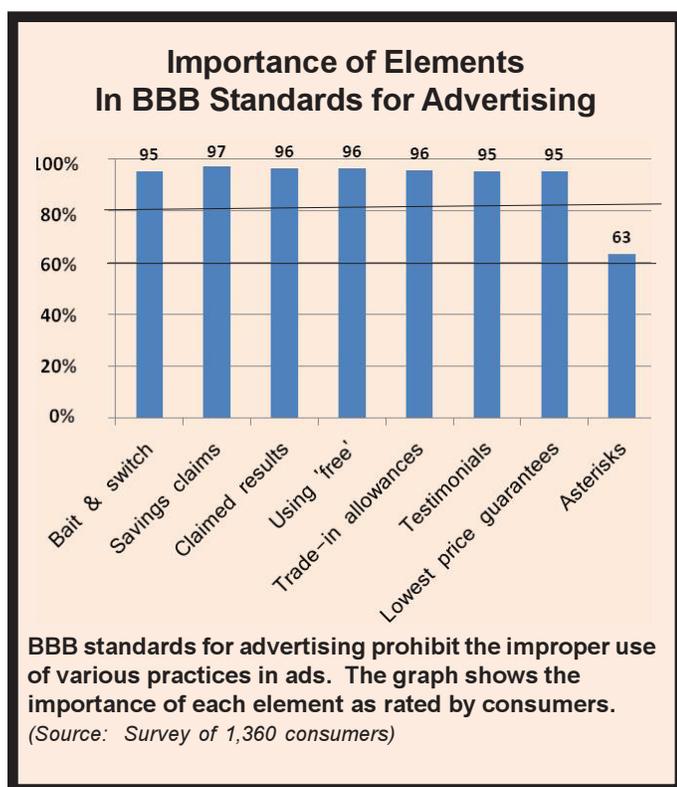


WHERE DOES THE BUCK STOP?

BBB standards for advertising state as a basic principle: “The primary responsibility for truthful and non-deceptive advertising rests with the advertiser.”

Some would suggest that the mantle of responsibility is far-reaching, and that media in which advertising appears also have a responsibility for legal and ethical advertising.

The Federal Trade Commission (FTC) has



repeatedly urged the media to be on the lookout for misleading advertising. In its “Screening Advertisements: A Guide for the Media,” published in 2006, the agency notes: “One evaluation standard applies to **all** ads: Does the offer, promotion, payoff, or benefit sound too good to be true? If you use this standard, and if you exercise caution when you spot some of the buzz words and techniques revealed in this booklet, there’s a good chance that you’ll be able to spot a questionable ad or promotion with just a quick look, and an even better chance that you’ll be able to stop it before it gets into print, on the air, or in the mail to your customers.”

But the Newspaper Association of America (NAA) disclaimed any responsibility for policing ads, telling the FTC at a 2002 workshop: “While the newspaper industry commits itself to working with the FTC on this important issue, NAA believes that advertisers are ultimately responsible for the content of their advertising, and further, that the

FTC and other government authorities are responsible for enforcing advertising laws.”

A consumer advocacy group, Consumer Watchdog, brought online advertising into the discussion with its study issued in February 2011, “Liars and Loans: How Deceptive Advertisers Use Google.” The organization alleged that Google profited from the foreclosure crisis by accepting misleading advertising.

Consumer Watchdog mentioned its study in submitting testimony to a U.S. Senate antitrust panel investigating the practices of the giant search engine in September 2011. At the hearing, Google’s Executive Chairman Eric Schmidt defended Google’s advertising practices, saying, “Our advertising system is based on an auction where advertisers bid what they’re willing to pay, so advertisers set their own prices and can easily assess the return on their advertising investment.”

THERE ARE ADVERTISING LAWS

The BBB defines advertising as “any oral, written, graphic or pictorial statement made by a seller in any manner in the course of the solicitation of business.”

There are numerous laws and regulations governing advertising on both the federal and state levels. The FTC enforces several rules regarding advertising. Among them are the Franchise and Business Opportunity Rule, Truth in Lending Act, Mail or Telephone Order Merchandise Rule, 900-Number Rule, Telemarketing Sales Rule, and Rule on Pre-Sale Availability of Written Warranty Terms.

The FTC also has published numerous “Guides” concerning products or services, setting out what it considers to be deceptive based in large part on past court decisions.

The Guides are very detailed. For example, the FTC’s “Guide Concerning Use of the Word ‘Free’ and Similar Representations” uses 1,255 words to describe when the word “free” should and shouldn’t be used in advertising.

Some of the other Guides deal with bait advertising, deceptive pricing, nursery industry, endorsements, environmental marketing, and jewelry.

Missouri’s Rules for Advertising became effective in December 1990. In large part they mirror the FTC’s Rules and Guides. A major portion of the Missouri Rules is devoted to price comparisons and savings claims.

They also deal with issues such as bait and switch schemes, lowest price guarantee, use of sale terminology, and price labeling. In addition, there are separate rules governing the advertising of vehicles for sale including the use of terms such as “sticker price,” and “list price,” and financing information.

The Illinois Administrative Code also includes a section on retail advertising, with a major portion devoted to price comparisons and savings claims, and a section on motor vehicle advertising.

ENFORCEMENT

State and federal authorities continuously file lawsuits against companies that employ allegedly false or misleading advertising. Often, state attorneys general will join the FTC in the investigation and settlement.

On Aug. 23, 2012, the FTC announced a \$25 million settlement with several companies and individuals in connection with a weight loss device. The FTC charged that the defendants had advertised that a three-minute a day workout

would make a person become thinner.

The FTC announced in May 2012 a \$40 million settlement with Skechers USA, Inc., a company that “deceived consumers with ads for toning shoes” that “would help people lose weight, and strengthen and tone their buttocks, legs and abdominal muscles.” The settlement with the FTC was part of a broader agreement resolving a multi-state investigation in which attorneys general from 44 states and the District of Columbia participated.

SELF-REGULATION

Since its beginning, the BBB system has been at the forefront of self-regulation in advertising, challenging ads brought to its attention by competing businesses or consumers.

In 1971, the Association of National Advertisers, the American Association of Advertising Agencies, and the American Advertising Federation formed an alliance with the Council of Better Business Bureaus (CBBB) to create an independent self-regulatory body, which was originally called the National Advertising Review Council (NARC) and this year changed its name to Advertising Self-Regulatory Council (ASRC).

The Direct Marketing Association, Electronic Retailing Association, and Interactive Advertising Bureau joined NARC in 2008. The board of directors of ASRC includes several representatives of the advertising industry.

The self-regulatory program, which monitors national advertising, is administered by the CBBB, with its National Advertising Division, Children’s Advertising Review Unit and Electronic Retailing Self-Regulation Program being the investigative arms.

CONCLUSIONS

The cyber age has brought wholesale changes to advertising involving both consumers and businesses. Consumers are changing their habits in how they shop, and companies are immersing themselves in the new ways the game is played. But despite all the changes, advertising is still advertising.

And the debate continues whether publishers and broadcasters share in the responsibility for policing advertising. While not at the level expressed a hundred years ago that no one believes advertising, many consumers still have a dim view of advertising.

Their skepticism is validated by the many enforcement actions taken by authorities against both large and relatively small advertisers, as well as by the numerous consumers who say they felt misled by advertising. In two questions in the surveys, consumers emphasized the necessity and importance of ethical advertising in the marketplace.

On the up side are the majority of businesses that adhere to the legal and ethical standards of advertising that is truthful and not misleading, or as Cicero put it long ago, “All things should be laid

bare so that the buyer may not be in any way ignorant of anything the seller knows.”

RECOMMENDATIONS

The BBB recommends that:

- Consumers continue to be alert for any misleading advertising noting the many red flags such as use of the word free, asterisks which may nullify the offer, large savings claims, lowest price guarantees, etc.
- Violations of consumer protection laws be reported to state or national agencies or the BBB.
- Businesses that have not done so explore the opportunities available through search engine optimization and search engine marketing.
- Businesses consider consumers’ trust factors in assessing the best return on their advertising expenditures.
- Reputable businesses continue to uphold the high standards of advertising spelled out in the BBB’s standards for advertising.
- Media be more diligent in screening advertising for public distribution.

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