

FTC Moves to Unmask Word-of-Mouth Marketing

Endorser Must Disclose Link to Seller

By Annys Shin Washington Post Staff Writer Tuesday, December 12, 2006; D01

The [Federal Trade Commission](#) yesterday said that companies engaging in word-of-mouth marketing, in which people are compensated to promote products to their peers, must disclose those relationships.

In a staff opinion issued yesterday, the consumer protection agency weighed in for the first time on the practice. Though no accurate figures exist on how much money advertisers spend on such marketing, it is quickly becoming a preferred method for reaching consumers who are skeptical of other forms of advertising.

Word-of-mouth marketing can take any form of peer-to-peer communication, such as a post on a Web blog, a MySpace.com page for a movie character, or the comments of a stranger on a bus.

As the practice has taken hold over the past several years, however, some advocacy groups have questioned whether marketers are using such tactics to dupe consumers into believing they are getting unbiased information.

In October 2005, Commercial Alert, an advertising and marketing watchdog group in [Portland, Ore.](#), petitioned the FTC to consider taking action against word-of-mouth marketers. The group called for the FTC to issue guidelines requiring paid agents to disclose their relationship to the company whose product they are promoting, including any compensation.

The group cited a 2002 [Wall Street Journal](#) article on a marketing campaign by [Sony Ericsson](#) Mobile for its T68i mobile phone and digital camera. The initiative, called "Fake Tourist," involved placing 60 actors posing as tourists at attractions in [New York](#) and [Seattle](#) to demonstrate the camera phone. The actors asked passersby to take their photo, which demonstrated the camera phone's capabilities, but the actors did not identify themselves as representatives for Sony Ericsson.

Commercial Alert also singled out Tremor, a marketing division of [Procter & Gamble](#), which has assembled a volunteer force of 250,000 teenagers to promote the company's products to friends and relatives.

Procter & Gamble spokesman [Terry Loftus](#) said participants in its word-of-mouth campaigns are free to talk negatively or positively about a product or service and do not receive compensation. Volunteers are not required to disclose their relationship with the company, he said. Some participants receive sample products, he said, so they can offer an opinion on a product.

Word-of-mouth advertising is already covered under existing FTC regulations that govern commercial endorsements. What the FTC sought to do yesterday in its staff opinion was to note that such marketing could be deceptive if consumers were more likely to trust the product's endorser "based on their assumed independence from the marketer."

"The petition to us did raise a question about compliance with the FTC act," said [Mary K. Engle](#), FTC associate director for advertising practices. "We wanted to make clear . . . if you're being paid, you should disclose that."

The FTC said it would investigate cases where there is a relationship between the endorser of a product and the seller that is not disclosed and could affect the endorsement. The FTC staff said it would go after violators on a case-by-case basis. Consequences could include a cease-and-desist order, fines and civil penalties ranging from thousands of dollars to millions of dollars. Engle said the agency had not brought any cases against word-of-mouth marketers.

Though the staff's opinion fell short of Commercial Alert's original request, the group's executive director, [Gary Ruskin](#), said he was pleased the staff agreed that word-of-mouth marketing could be deceptive.

"This letter tells marketers like Procter & Gamble that their 'sponsored consumers' must disclose that they are shilling, or they are probably in violation of the prohibition against deceptive advertising. That's big," he said. "It will change practices in the word-of-mouth marketing industry."

[Andy Sernovitz](#), chief executive of the [Word of Mouth Marketing Association](#), said the FTC's decision was an endorsement of the industry's efforts to police itself. The [Chicago](#)-based association, which has more than 300 members, last year issued a code of ethics stating that marketers should disclose ties to sponsors.

The group has also tried to hold members accountable. Sernovitz said the group is reviewing the membership status of the Edelman public relations firm after Wal-Mart, one of the firm's clients, reportedly gave positive comments to bloggers who then posted the comments without mentioning the source. Edelman later admitted that some of its employees had written the blogs.

Procter & Gamble, which is not a member of the association, recruits volunteer marketers online, Loftus said. The company chooses volunteers based on their answers to a survey on the Tremor Web site, which tells participants if they join the Tremor Crew they could "name the next big movie" or "help design a video game."

Peter Blackshaw, chief marketing officer for Nielsen BuzzMetrics, which tracks the effectiveness of word-of-mouth marketing, said brands have more than a moral incentive to be upfront with consumers. "There's a high turn-off factor if consumers learn that the person making a recommendation is actually on contract," with an incentive to push a

product, he said.

A 2005 survey of 800 consumers by market research firm Intelliseek found that 29 percent of participants age 20 to 34 and 41 percent of those age 35 to 49 said they would be unlikely to trust a recommendation again from a friend whom they later learned was compensated for making the suggestion.

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