

## Telemarketing: How Knowledgeable Are Consumers?

*Joan Koonce Lewis and Teresa Mauldin  
University of Georgia*

The merging of computer and telephone technologies has provided consumers with a way of buying products and services called telemarketing (Golodner, 1991). This changing marketplace presents unfamiliar marketing strategies and the possibility of telemarketing fraud for consumers. Effective consumer education and legislation may be needed to reduce the negative impact of this new technology on consumers (Golodner, 1991; Lazzareschi, 1992; U.S. House of Representatives, 1993a, 1993b; U.S. Senate, 1993a, 1993b). These efforts will be most effective when based upon research into consumer experiences with telemarketing.

In 1988, the National Consumers League (League) believed that consumer education was so important in protecting consumers from telemarketing fraud that they organized an Alliance Against Fraud in Telemarketing (Golodner, 1991). In 1992, the League sponsored a telemarketing study that was conducted by Louis Harris and Associates. The study found that consumer education increased consumer knowledge and 86% of the sample knew the importance of contacting credit card providers if unauthorized charges were found on their credit card bills. Barry Cutler, Director of the Bureau of Consumer Protection at the Federal Trade Commission (FTC), reported that the Federal Trade Commission uses a significant amount of resources for consumer education efforts aimed at the reduction of telemarketing fraud (U.S. Senate, 1993b).

Telemarketing can be either solicited (calls made by consumers responding to advertisements or catalogs) or unsolicited (calls made by telemarketers to consumers). Telemarketing began in the 1920s (Golodner, 1991) and has increased in popularity. Fred Verinder, Deputy Assistant Director for the Federal Bureau of Investigation, estimated that approximately 3.4 million persons work for the telemarketing industry and the industry sells about \$400 billion annually (U.S. Senate, 1993b).

Telemarketing is a convenient way to sell and purchase products and services. However, many fraudulent salespeople use the telephone to deceive consumers. Fraudulent telemarketers cheat consumers by

selling low-quality or worthless products and services and gaining access to credit card and checking account numbers for illegal use (Meyers, 1994). In the 1992 League survey, more than 90% of respondents reported being solicited by a fraudulent telemarketer who sent postcards claiming they had won prizes. Among those who responded to the offers, only about 33% actually received prizes. In addition, about 3% of the respondents felt that they had been victims of illegal telemarketing scams, and about 17% reported difficulty resisting telephone salespersons (U.S. Senate, 1993b). For consumers, this problem is further compounded by the finding that only one-third of consumers who had been defrauded reported it to an appropriate agency and only 10% received refunds (Lazzareschi, 1992). It is estimated that consumers will lose \$3 to \$40 billion a year from telemarketing fraud (U.S. House of Representatives, 1993a, 1993b; U.S. Senate, 1993b).

Because both legitimate and fraudulent telemarketers use 800, 900, and 976 telephone numbers (Golodner, 1991), many consumers are unable to use the telephone number to determine telemarketer legitimacy. One caution is that 900 and 976 numbers are toll calls and use of these numbers may be related to increased incidence of telemarketing fraud (Meyers, 1994).

State and federal governments have created regulations to reduce telemarketing fraud. Many states prohibit computerized dialing, allow consumers to have their names removed from telemarketing lists, and require registration of telemarketing companies. Federal legislation includes the Telephone Consumer Protection Act of 1991 that prohibits calls during certain hours of the day, Telephone Disclosure and Dispute Resolution Act of 1992 that regulates 900 numbers, and Postal Inspection Service Act of 1872. The Postal Inspection Service Act allows the Postal Inspection Service to investigate 900 and 976 numbers suspected of being fraudulent when the United States mail is involved in the purchase (Meyers, 1994). In August 1994, the Telemarketing and Consumer Fraud and Abuses Prevention Act became public law. This law requires the FTC to establish rules prohibiting fraudulent telemarketing activities and authorizes a clearinghouse for inquiries made to Federal agencies regarding telemarketing fraud. The Act allows for the enforcement of the FTC's rules by state attorneys general, providing them with the opportunity to prosecute fraudulent telemarketers in federal court (U.S. Senate,

1993a). Telemarketing fraud can also be reduced through industry self regulation. Legitimate telemarketers and other businesses (e.g., credit card companies and banks) affected by telemarketing fraud can and should help reduce the problem (Meyers, 1994).

Uhl's (1970) consumer protection model emphasizes the importance of consumer education, governmental regulation and legislation, and industry self regulation in protecting consumers. The model considers consumer education to be the most effective solution. Consumers can only receive full benefit from legislation and/or consumer rights when they are knowledgeable of laws designed to protect them.

To get a better understanding of consumers' familiarity and experiences with telemarketing, this study examined 1) knowledge, perception of fairness, and purchase experiences relating to selected consumer regulations; 2) negative telemarketing experiences; and 3) relationships between knowledge, perception of fairness, and purchase experiences and negative telemarketing experiences.

## Methodology

### *Data*

Data used in this study were taken from the 1989 national telephone survey of consumer behavior conducted by Market Facts for the American Association of Retired Persons (AARP). The AARP study included 1,305 interviews, with a disproportionate percentage of older respondents interviewed. Data were weighted by age group to reflect the distribution of adults aged 25 years and older in the population (Market Facts, 1990). While the survey included a wide range of topics, the present study selected items about knowledge of consumer rules, perceptions of the marketplace, bad buying experiences, and purchasing behavior.

### *Sample*

A subsample of consumers who reported recent experiences with telemarketing was used in this study. Included were 422 respondents (32.3 percent of the total AARP sample) who reported that within the past six months they had ordered products or services by telephone (solicited sales) and/or had purchased products or services from people selling over the telephone (unsolicited sales).

A majority of respondents were married (63.9%), under 65 years of age (55.2%), white (92.2%), and female (59.0%). Approximately 42% were employed, and 82.1% had a high school education or greater. Slightly more than 15% had annual incomes less than \$12,000, and approximately 18% had annual incomes of \$50,000 or greater.

### *Analysis*

Frequency distributions and percentages were used to describe respondents' knowledge, perception of fairness, and purchase experiences relating to specific consumer regulations and negative telemarketing experiences. The Chi-square test of independence was used to determine if relationships existed between knowledge, perception of fairness, and purchase experiences relating to specific consumer regulations and negative telemarketing experiences.

### *Variables*

Variables used in this study to measure knowledge, perception of fairness, and purchase experiences included questions about credit card purchases, product misrepresentation, the 30-day rule, and unsolicited merchandise cancellation. These questions were chosen because consumers who use telemarketing are likely to encounter similar situations when dealing with legitimate telemarketers. These three variables (knowledge, fairness, and experience) were measured by responses to two specific scenarios and three questions about consumer rights and protections.

The first scenario described a consumer who used a credit card to purchase an inexpensive travel package via telephone. The next day the consumer called the salesperson and asked to cancel the purchase. He was told that all sales are final and the cancellation request was denied. A second scenario involved a consumer who purchased a product from a mail order catalog only to find it did not look like the picture. Respondents were asked if the situations these consumers encountered were legal or illegal, fair or unfair, and whether they had experienced either situation (Market Facts, 1990).

The other questions tested consumer knowledge through answers of "true", "false", or "unsure" to three statements: (a) When you

order by mail, if a delivery time is not specified, you can cancel the order if the product is not shipped to you within one month; (b) If you receive an unordered product through the mail, you are required to either pay for it or return it; and (c) You have up to one week to cancel purchases you make via telephone using your credit card (Market Facts, 1990). The following question identified negative telemarketing experiences: "In general, where have you had your worst buying experience?" Choices included buying through the mail, from door-to-door sales people, by telephone, at stores, and never had a bad experience. Respondents were judged to have a negative telemarketing experience if they said their worst buying experience was buying via telephone. Each respondent defined "worst buying experience" (Market Facts, 1990).

### **Results**

Only 12% of the respondents knew that they did not have a week to cancel a credit card purchase over the telephone and only 2% felt that this was fair. About 6% indicated that they had encountered this situation.

The majority of the sample felt it was unfair (90%) and knew it was illegal (61.8%) for a mail order product not to look like the catalog picture. About 30% had received products that did not resemble the catalog picture.

Less than half the sample (44.4%) correctly knew that, unless specified, a mail order must be shipped within one month or the consumer has the right to cancel the order. More than half (68.7%) of the respondents correctly knew that consumers are not required to pay for or return unordered merchandise. Only 26% knew that consumers did not have up to one week to cancel purchases made by telephone via credit card. Only a small percentage (6%) said that telemarketing was their most unpleasant purchase experience.

Only one statistically significant relationship existed between the negative telemarketing experience and knowledge, perception of fairness, and purchase experiences. Of the respondents who reported experiencing the first scenario, a larger proportion reported negative telemarketing experiences (23.08%) than did not report negative telemarketing experiences (4.83%). Stated in reverse, among the group who did not experience the first scenario, a smaller percentage

of respondents reported negative telemarketing experiences (76.92%) than did not report negative telemarketing experiences (95.17%) (n=422,  $X^2 = 14.465$ , df=1,  $p < .05$ ). It is important to note, however, that the practice is legal.

### Conclusions and Implications for Consumer Educators

Respondents had low to moderate knowledge of legal and illegal practices related to legitimate telemarketing. Further, only a small proportion (6%) of the sample of telemarketing purchasers reported that telemarketing was their worst buying experience. Perhaps few consumers are using telemarketing for shopping, or consumers are so unfamiliar with this new marketing strategy that they do not recognize problems. On the other hand, telemarketing may be a satisfactory way of shopping for many consumers, and they may have had even more negative experiences in other marketplaces.

Consumers in the sample, for the most part, appear to be satisfied with telemarketing. But, given the low to moderate knowledge of respondents, consumer educators should design curriculum that will educate consumers on their consumer rights and protections. Consumers need to learn how to determine whether a telemarketing practice is legal and whether the telemarketer is legitimate. Because some consumers are unfamiliar with telemarketing and are unable to recognize problems, consumer educators can prepare lessons on fraudulent telemarketing practices. This is necessary so consumers can prevent future problems.

Also, telemarketing is not the only innovation in the marketplace. Consumers can now shop via electronic mail and many home shopping networks. Lessons that prepare consumers for this changing marketplace can be an effective way to increase knowledge of acceptable and unacceptable practices as the rules of the marketplace change with new technology.

### References

- Golodner, L.F. (1991). Telemarketing: Enhancing consumer choice of the market place: Enhancing opportunities for fraud. In R. N. Mayer (Ed), *Enhancing Consumer Choice: Proceedings of the Second International Conference on Research in the Consumer Interest* (pp. 315-324). Columbia, MO: American Council on Consumer Interests.
- Lazzareschi, C. (1992, July 7). An epidemic of fraud spreads via telephones. *Los Angeles Times*, pp. D1, D13.
- Market Facts. (1990). *A Report on the Survey of Older Consumer Behavior*. Washington, DC.
- Meyers, J. (1994). Effects of an educational experience on high school students' awareness of telemarketing. *Unpublished Master's Thesis*, University of Georgia.
- Uhl, J.H. (1970). Consumer education and protection: A synergistic relationship. In L. Mather (Ed.), *Economics of Consumer Protection* (pp. 101-114). Danville, IL: Interstate Printers and Publishers.
- U.S. House of Representatives. (1993a, February 4). *H.R. 868: Consumer Protection Telemarketing Act* (103D Congress, 1st Session). Washington, DC: U.S. Government Printing Office.
- U.S. House of Representatives. (1993b, March 3). *H.R. 868: Consumer Protection Telemarketing Act* (103D Congress, 1st Session). Washington, DC: U.S. Government Printing Office.
- U.S. Senate, Committee on Commerce, Science, and Transportation. (1993a, March 11). *S. 568: Telemarketing and Consumer Fraud and Abuse Prevention Act* (103D Congress, 1st Session). Washington, DC: U.S. Government Printing Office.
- U.S. Senate Committee on Commerce, Science, and Transportation. (1993b, March 18). *Telemarketing Fraud and S. 568, The Telemarketing and Consumer Fraud and Abuse Prevention Act* (103D Congress, 1st Session). Washington, DC: U.S. Government Printing Office.

*Joan Koonce Lewis is Assistant Professor and Teresa Mauldin is Associate Professor in the Department of Housing and Consumer Economics, University of Georgia, Athens, Georgia 30602-3622.*