

TESTIMONY OF

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BEFORE THE  
FEDERAL TRADE COMMISSION  
PUBLIC WORKSHOP: INFORMATION FLOWS:  
THE COSTS AND BENEFITS TO CONSUMERS AND  
BUSINESSES OF THE COLLECTION AND USE OF  
CONSUMER INFORMATION

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Chairman Muris and members of the Commission, thank you for the opportunity to participate in this timely workshop to help inform the debate about the costs and benefits to consumers and businesses from the collection and use of consumer information. I appreciate the opportunity to share some details about how our business operates and help separate the facts from the fiction.

While serving as CEO of Acxiom Corporation for the past 30 years, I have strongly supported a balanced approach to the use of personal information. The efficient flow of consumer information to businesses has significantly contributed to our nation's economic growth and stability by (1) enhancing variety in consumer goods and services; (2) facilitating lower domestic prices as compared to foreign markets; and (3) accelerating the accuracy, speed and ease with which transactions can be completed. These flows should be permitted to continue.

Notwithstanding these benefits to Americans, the inappropriate use of information to defraud or discriminate against consumers should be, and in many cases already is illegal, and those laws should be strictly enforced.

I might add that these long-held beliefs for a balanced approach and against extreme approaches to information sharing are even more profound today as our nation and world attempt an economic recovery.

As Rajat Gupta, former managing partner of McKinsey and Company, the international consulting firm, has said, it is incumbent upon businesses to show consumers that they are getting a fair economic trade from the capture and use of their information. This will lead to trust. Most consumers are more than willing to allow their information to be used if they believe they are getting a benefit.

And to start the debate from a position of intellectual strength, I will quote an American icon.... Alan Greenspan, who in recent testimony to Congress said,

*“The flow of information on the characteristics of customers, both businesses and individuals, and changes in information technology in recent years, have improved the efficiency, innovativeness and competitiveness of our markets. This information has enabled producers and marketers to fine-tune production schedules to the ever greater demands of our consuming public for diversity and individuality of products and services.”*<sup>1</sup>

And in 1998, Mr. Greenspan wrote to Congressman Ed Markey (D-Mass):

*“A critical component of our ever more finely hewn competitive market system has been the plethora of information on the characteristics of customers both businesses and individuals. Such information has enabled producers and marketers to fine-tune production schedules to the ever greater demands of our consuming public for diversity and individuality of products and services. Newly devised derivative products, for example, have enabled financial institutions to unbundled risk in a manner that enables those desirous of taking on that risk (and potential reward) to do so, and those that chose otherwise, to be risk averse. It has enabled financial institutions to offer a wide variety of customized insurance and other products.*

*Detailed data obtained from consumers as they seek credit or make product choices help engender the whole set of sensitive price signals that are so essential to the functioning of an advanced information based economy such as ours.”*<sup>2</sup>

In a May 1999 speech at the Federal Reserve Bank of Chicago, Greenspan noted:

*“[I]nformation technologies have begun to alter the manner in which we do business and create value, often in ways not readily foreseeable even five years ago. . . . Prior to the advent of what has become a veritable avalanche of IT innovations, most of twentieth century business decision-making had been hampered by limited information. . . . Large remnants of information void, of course, still persist and forecasts of future events on which all business decisions ultimately depend are still inevitably uncertain. But the*

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<sup>1</sup> *Fair Credit Reporting Act reporting act question submitted to Chairman Greenspan in writing following February 12, 2003 hearing, House Financial Service Committee response received February 28, 2003.*

*recent years' remarkable surge in the availability of real-time information has enabled business management to remove large swaths of inventory safety stocks and worker redundancies, and has armed workers with detailed data to fine tune product specifications to most individual customer needs.”<sup>3</sup>*

To help focus the debate, I would like to highlight three distinct uses of consumer information in which Acxiom is involved. Each of these uses brings different kinds of value to both the consumer and to businesses, and each requires different policy approaches. They are (1) information which helps manage and keep accurate the information a business has about their customers; (2) information which helps businesses find, keep and grow a trusted relationship with their customers; and (3) information which helps manage various risks a business experiences in delivering their products or services. To better understand these three categories, let me offer an example of each.

In the first category, accurately managed information is critically important to every consumer and every business. Errors can result in issues ranging from minor inconveniences, such as having a product delivered to the wrong address, to major issues, such as having a request for credit denied because someone else's bad credit has been erroneously included in the applicant's credit report. Bad data is bad for business and bad for the consumer.

In the second category, businesses must find, keep and grow relationships with their customers to survive. That means they must market to find new customers, keep them by providing good value (a quality product at a competitive price), and grow them by establishing a trusted relationship through good service that encourages the customer to come back again and again.

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<sup>2</sup> [Letter from Alan Greenspan to Edward J. Markey, July 28, 1998]

<sup>3</sup> [Remarks by Alan Greenspan at the Conference on Bank Structure and Competition of the Federal Reserve Bank of Chicago, Chicago, IL (May 6, 1999) (available at <http://www.federalreserve.gov/boarddocs/speeches/1999/19990506.htm>).]

Finally, in a world where identity theft and fraud are growing at disturbing rates, businesses must use every means at their disposal to properly identify a customer and understand how much risk they are willing to assume in doing business with an individual. Unfortunately, it isn't the criminal who pays for the crime. Instead it is all the honest customers who bear the burden of a business's loss in the form of higher prices.

I would like to provide some examples of how information flows play a vital role in each of these areas. However, since other panelists are going to focus on information flows for customer relationship management and risk mitigation, I will focus most of my remarks on the accuracy issue.

### **Accurate Data Management**

How can a business make sure the information they are collecting from a consumer is correct or hasn't changed since it was collected? Our experience in working with large sophisticated companies with state-of-the-art technology shows they typically have from an 8.8 to a 12.7 percent error rate in the identifying information they hold about their customers (See Attachment 1). We find that the data was either captured wrong or provided in error by the consumer. Add to that the fact that 20 percent of the population moves every year, more than 6 million households have a second home, the vast majority women change their names when they get married and often when they divorce, and you see why data gets less accurate over time. Furthermore, when information is integrated across various channels – say between a retail outlet and a website – there is another opportunity for errors to be introduced.

As a customer begins to engage a company through multiple touch points or channels, the customer's expectations for recognition and fast, accurate responses to his or her requests increase. However, the inverse is also usually true; as the number of channels increases, the company's ability to accurately recognize customers and satisfy their expectations

actually decreases. Results can range from mild customer dissatisfaction to outright customer defections.

The DWTI Report Series in 2002 entitled “Data Quality and the Bottom Line” concluded the following: “The Data Warehousing Institute estimates that data quality problems cost U.S. businesses more than \$600 billion a year. Yet, most executives are oblivious to the data quality lacerations that are slowing bleeding their companies to death. More injurious than the unnecessary printing, postage, and staffing costs is the slow but steady erosion of an organization’s credibility among customers and suppliers, as well as its inability to make sound decisions based on accurate information.”<sup>4</sup>

The answer to this problem is for a business to compare its customer data to some other data source that is known to be accurate and current. This allows a company to identify the data in error and either get back with the consumer to correct it or automatically correct it using information from a trusted independent source.

Bad data leads to serious negative consequences for both consumers and businesses. We live in an information society where we make decisions every day based on the assumption that the data businesses hold about consumers is accurate. When it is wrong, the decision is flawed, and typically the consumer pays the consequences.

For consumer-facing businesses, it is critical that the most frequently used data identifying an individual be the most accurate: name, address, telephone number, e-mail address, and when available, Social Security number. Since there is no single repository of information to confirm the data is accurate, businesses like Acxiom aggregate information from carefully selected sources into repositories against which a business can compare its data, confirm accuracy, and in some cases, correct the errors. A 2002 study by the Consumer Federation of America and the National Credit Reporting Association<sup>5</sup>

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<sup>4</sup> 2002 by 101 Communication LLC. TDWI Report Series entitled, Data Quality and the Bottom Line, Achieving Business Success through a Commitment to High Quality Data by Wayne W. Eckerson.

<sup>5</sup> Consumer Federation of America and National Credit Reporting Associations, *Credit Scoring Accuracy and Implications for Consumers* 38 (2002).

concluded that “almost one in ten consumers runs the risk of being excluded from the credit marketplace altogether because of incomplete records, duplicate files, and mixed files.” The report goes on to say that “use of nicknames, misspellings, transposed social security numbers, and mixed files that report information under one person’s name, but match that name to a spouse’s Social Security number, are all examples of variations that can result from an automated interpretation of complex and sometimes contradictory personal identifying data.”

Where Social Security numbers are available, they improve the likelihood of a correct match, but do not guarantee it. Identification using Social Security numbers can be problematic because accounts for the same household may have different primary Social Security numbers (e.g., husband, wife, or minor) and because transcription errors can easily occur when capturing strings of numbers. And, many industries do not collect their customer’s Social Security number at all and thus gain no advantage.

As demonstrated at the Federal Trade Commission’s workshop on notices last year, many financial institutions had considerable difficulty determining when the holder of more than one financial product was the same person and thus needed to receive a single notice. As a result, most consumers received multiple notices from the same financial institution.

One problem that is common to all businesses is having accurate address information. Based on their 2001 rate case, the U.S. Postal Service reported 5.7 billion pieces of mail were “undeliverable-as-addressed” in FY2000 resulting in almost \$2 billion in costs to the Post Office. Industry estimates that the impact to mailers was twice that number. And, this does not factor in missed opportunities for consumers caused by undeliverable mail. In addition, the USPS Mailing Industry Task Force Spring 2003 Progress Report concludes that 23 percent of all mail contains major addressing deficiencies. These cause delays, create inefficiencies, contribute to undelivered mail and to mail delivered to the wrong address. All of these translate into a negative impact on the consumer – delayed bills, late fees, lost payments, delayed or lost products, and more.

One example of a solution to this problem specifically directed at the needs of the Postal Service is its National Change of Address (NCOA) service. This service has been in operation for over 15 years and one interesting dynamic is the use of third party licensees to help deploy the service to the mailers. The Postal Service licenses companies, such as Acxiom, to provide the matching service between a file to be mailed and the Postal Service's National Change of Address database. This arrangement has assured maximum distribution of this service to the mailing industry. It is important to note that when information is maintained by a government agency and needs to be distributed to a large sector of the business community, such as the Federal Trade Commission's new Do-Not-Call Registry, that similar license arrangements are the most efficient means of serving the best interests of the business community and the consumer.

There are, however, shortcomings with using this service as a comprehensive source of address changes. First, the service is available only to businesses that intend to send a piece of mail to the individual and thus not available for other accuracy needs. Second, the registry contains only about three quarters of the actual moves that take place each year. Private sector services which gather move information from a wider variety of sources, rather than just one, and which can be used regardless of whether the business intends to send a piece of mail or not, provide a more complete, accurate and effective solution for businesses to keep addresses on their customers current. In an ideal world where we weren't operating under the current legal restrictions imposed on the Postal Service, the NCOA information would be aggregated with other sources to fill in the missing moves and made available for correcting customer records regardless of whether they are going to be mailed or not.

For businesses the improvements in efficiency and cost-savings resulting from information-based address correction can be significant. Acxiom sees thousands of files every year that give us a good sense of both the challenge and the opportunity. For example, in an analysis of over 400 million supposedly accurate records maintained by a cross-section of our clients, we identified over 21 million with undeliverable addresses

and over 9 million with erroneous names. By leveraging information from third parties, we were able to correct 35.5 percent of the undeliverable addresses and supply missing apartment or suite numbers for 42.8 percent.

The complete results of this study are provided in Attachment 1, the Acxiom Data Quality Analysis, offering statistics for a wide range of industries on over 163 client files containing over 400 million records. This report reflects the kind of inaccuracies typically found in various industries, and how some of these errors can be corrected through the use of third party data. An excerpt from the attachment is provided below.

<b>Acxiom Data Quality Analysis</b>						Mar-03
	<b>Number of Files</b>	<b>Verified Name at Address</b>	<b>Duplicates Found</b>	<b>Bad Matches</b>	<b>Deceased</b>	<b>Marketing Dollars Wasted Annually</b>
<b>Retail</b>	38	90.35%	6.03%	0.91%	1.49%	\$1,313,008,464
<b>Financial Services</b>	32	90.05%	5.76%	8.91%	1.49%	\$1,139,507,813
<b>Insurance</b>	20	90.57%	5.03%	7.81%	2.59%	\$411,300,000
<b>Travel/Entertainment</b>	18	87.55%	6.07%	5.63%	1.44%	\$248,560,000
<b>Other Industries</b>	18	90.65%	6.52%	1.42%	2.25%	\$417,861,111
<b>Automotive</b>	9	91.23%	8.93%	0.10%	1.65%	\$85,327,778
<b>Telecommunications</b>	9	87.94%	6.39%	0.41%	1.77%	\$668,722,222
<b>Publishing</b>	8	89.94%	3.70%	N/A	2.95%	\$206,081,250
<b>Technology</b>	7	89.91%	1.03%	3.16%	0.69%	\$370,150,000
<b>Health Care</b>	4	87.33%	5.73%	N/A	5.46%	\$97,800,000
<b>Totals/Averages</b>	<b>163</b>	<b>88.87%</b>	<b>6.18%</b>	<b>4.99%</b>	<b>1.83%</b>	<b>\$4,958,318,637</b>

Explanations of each column can be found in Attachment 1.

The estimated cost of widespread data inaccuracies to direct marketers alone is a staggering number approaching \$5 billion annually. On average, more than 10 percent of the records in a typical business file contain name and address errors. These errors result in the file containing on average more than 6 percent duplicates. In some cases individual files can contain many more. In addition, an average of almost 5 percent of

the records in a file have been incorrectly identified as duplicates. For example, if the suffixes for John Smith Jr. and John Smith Sr. are not accurate, it is easy to see how these two different individuals can be mistaken for the same person. Finally, there was an average of almost 2 percent of the individuals on these lists who were deceased.

The benefits of the type of address correction that Acxiom provides are significant. In one promotional mailing of 3.5 million pieces by a major U.S. financial corporation, by eliminating records that could not be delivered, we saved the business more than \$1 million and helped them achieve a 10-fold improvement in the company's returned mail.

Access to third-party data can also help clean up consumer records by helping to honor a consumer's preference not to be contacted. For example, Acxiom provides a suppression service that allows a business one-stop shopping for access to over 25 State Do-Not-Call lists. We very much hope that the new Federal Do-Not-Call Registry will allow service providers like Acxiom to distribute the list to businesses that are required to use it, much in the same way the Postal Services uses service providers to help distribute its NCOA product.

Finally, International Data Corporation, a worldwide market research, analysis, and consulting firm, estimated in a recent study that accurately and rapidly integrating new data is the most critical part of effectively managing and using customer databases, taking up to 70 percent of an organization's total resources directed to such efforts.

These examples show how significant the challenge a business faces in accurately identifying individual consumers. In 2003 *Computerworld* magazine reported: "A single piece of dirty data might seem like a trivial problem, but if you multiply that 'trivial' problem by thousands or millions of pieces of erroneous, duplicated or inconsistent data, it becomes a prescription for chaos."<sup>6</sup>

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<sup>6</sup> Tommy Peterson, "Data Scrubbing," *Computerworld*, Feb. 10, 2003, at 32.

In the words of one of Acxiom's large publishing clients "Since direct mail is crucial to our success, it was imperative that the company's database be as clean as possible in order to contain postage costs. Postage rate increases have a huge impact on us. We mail 270 million promotions a year. Increases of a penny or two mean nearly \$9 million in additional postage expense that nets us nothing. The reasons we chose Acxiom included their ability to help offset inevitable postage increases, to eliminate duplication and to achieve our vision of growing our knowledge about our customers. After processing 70 million names in our database, Acxiom discovered 16 million duplications. That was really an eye-opener for us. It was very significant. The impact of duplicated, wasted and misguided promotions is serious for our business. The monetary impact for us is millions of dollars of savings in mailings alone."

This type of dramatic savings is also being realized in many other industries. A leading telecommunications provider saved \$27 million in costs in its first year of utilizing an Acxiom solution that improved its name and address quality. A national department store chain showed a savings of \$31 million a year in postal costs alone due to a 5.2 percent improvement in the identification of duplicates and the correction of undeliverable addresses. And, a top five consumer lender eliminated 3.5 percent of its total mailings while increasing its response rate by 15 percent.

It is not surprising that one of the globally embraced privacy principles is "accuracy". From a policy perspective, verification and correction services must be allowed to continue to help businesses manage their data accuracy issues. Everyone wins. Restrictions on data should be focused on how accurate information is used, not inhibiting a business's ability to get the data right in the first place.

## **Relationship Management**

In today's information-based economy, businesses grow by exceeding the expectations of their customers with quality service and competitive products. Despite technological advances, businesses do not instinctively know what their customers want and need. To

be successful, businesses need to understand their customers beyond what they learn about them in the normal course of doing business.

In order to grow their business beyond their current customer base, they also need information to help identify consumers who are not customers but who likely may have an interest in or need for their products or services. While new technologies, such as the Internet, have reshaped the mechanics of how commerce is conducted, the basic strategy of marketing remains constant – the need for businesses to focus their marketing energy on those most likely to have an interest or need in their products or services.

By bringing the right information to the business problem, businesses have been able to achieve such accomplishments as:

- A top 10 global bank with 5 million U.S. customers achieved \$80 million in incremental annual profit, which is an ROI of over 600 percent. At the same time, the institution cut customer attrition by 60 percent.
- One large national retailer with more than 1,400 store locations achieved incremental revenue of \$90 million in a single merchandise category in the first year because it understood its market better with enhanced information about its customers.
- A top five U.S. bank with over 23 million credit cards that mails 600 million solicitations per year showed in its first quarter of 2001 a 24 percent increase in credit card earnings.

Information also provides the intelligence needed for a business to focus its marketing efforts on reaching consumers who are likely to have an interest or need for its products or services.

- A kitchen and bath store used age to identify elderly customers in order to let them know about a new senior-lifestyle product line which included – shower grips, bath stools, large print stove dials, large print clocks and better grip door-knob covers.
- A publisher used the indication of presence of small children in a household to identify households and offer them a new publication for kids co-branded with Crayola.
- A large software company used the knowledge that certain households had a computer to effectively promote in home access to educational software.
- A catalog company used the knowledge that certain households were miles from major shopping centers to offer these households a catalog of products that would otherwise require miles of driving to get.
- An educational publisher offered non-English speaking families in rural areas a literacy program in English.

These real life examples show the values and benefits created when Acxiom, and other information companies like us, offer products to augment the customer information a business already has so that they may more effectively reach the right potential customers and grow the relationship with existing customers. Poorly targeted offers do not build trust and fail to solidify the relationship between a business and its customers, but relevant and well-targeted offers do.

If a marketer's access to accurate information is limited, two different consequences can result. One is to just mass market, bombarding the consumer with far too many irrelevant offers that cause frustration and irritation. Or a business could just not market, which would also have negative consequences for those consumers who rely on distance

shopping. Few consumers would consider either of these alternatives good consumer-friendly business decisions.

And there is a substantial impact to charitable fund raising. A study by Dr. Michael Turner, President and Senior Scholar with The Information Policy Institute, showed that the decreased flow of third party information, which would occur if the opt-out system we enjoy today was changed to an opt-in system, would cost U.S. charities \$16.5 billion a year - reducing 21 percent of the total amount raised by these charities in 2000. <sup>7</sup>

A senior vice president of marketing at a top five financial institution recently said, "Acxiom has a proven history of producing consistent and predictable results for retail banks, and we are a case-in-point. In the five years we have worked with Acxiom, our database marketing program has seen a strong Return on Investment. In fact, the cost of our entire database marketing program broke even in less than six months after initial implementation with Acxiom."

A director for a dominant international software company said, "The first targeted campaign we implemented after incorporating Acxiom's solutions in to our Customer Relationship Management strategy resulted in over \$3 million in revenue. Furthermore, we saw a complete return on the company's investment in Acxiom's solutions within six months of implementation. And being able to obtain a holistic view of our consumer customers paid off with a staggering 1,500 percent Return on Investment."

Finally, information sharing helps ensure that there is a healthy competitive market. It allows new businesses to cost effectively enter a market, thus creating more competition. This has an obvious positive impact on our society and our economy. Two good examples of this are the stories of how L. L. Bean launched its business with an initial catalog mailing and the story of how AOL broke into the Internet marketplace by mailing to lists of computer owners, offering them its new online service.

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<sup>7</sup> Consumers, Citizens, Charity and Content: Attitudes Toward Teleservices Study Prepared by: Michael A. Turner, Ph.D. June 4, 2002 (available at [www.infopolicy.org](http://www.infopolicy.org)).

## **Risk Management**

Finally, with the increase in fraud and identity theft and the growing number of regulations placed on businesses to prevent or limit marketing or to honor the preferences expressed by consumers, such as do-not-call requests, businesses are looking to service providers like Acxiom for help. More businesses are interested in, or even required by law, to verify the identity of a new customer before they open an account or establish a relationship.

Another advantage of information sharing is to honor the privacy preferences expressed by consumers. If an individual has registered with any of the state do-not call lists or the any of the Direct Marketing Association's preference lists indicating that he or she does not wish to receive certain kinds of solicitations, the only way to honor that preference is to correctly link it to the right person. This can be a major hurdle because of the difficulty of linking the John Brown at 135 Oak Street who signed up with the Direct Marketing Association's Mail Preference Service with the J. Brown at 135 Oak whose name appears on a solicitation list. They could be same person or they could be John Brown at 135 Oak St, Apt 4 and Jane Brown at 135 Oak St, Apt 42. It's critical that businesses know the difference.

Having additional information beyond basic name and address, such as Social Security number as discussed earlier, can add intelligence to identity verification and effective compliance. Even knowing the approximate age of the individual could help correctly identify J. Brown and John Brown as two different individuals if the former is 24 years old and the latter is 65 years old.

Also, the use of data to accurately identify a consumer and develop an understanding of what risks the individual may pose to the business is essential to reducing losses from fraud and identity theft. Some examples include:

- Quickly verifying the identify of consumers applying for credit or accessing confidential account information;
- Accurately linking information about relevant events such as a bankruptcy or a recent default with the right customer record, even if the customer has moved since the event occurred;
- Rapidly identifying patterns of fraudulent activity such as a sharp increase in activity or returning shoplifted merchandise for a refund; and
- Complying with the 2001 USA PATRIOT Act's verification and reporting rules which require a financial institutions to verify the identity of a individual opening a new account and to check whether the person in on any list of known or suspected terrorists or terrorist organizations.

Information has played an extremely important role in identifying and reducing fraud in many industries for years. As these risks grow, businesses are interested in more information that is predictive and helps them effectively mitigate their losses.

### **Respecting Consumer Privacy**

I started my comments by saying that for 30 years I have strongly supported a balanced approach to the use of personal information. Now, let me share with you how Acxiom approaches this balance to assure that consumers gets just as much benefit from information flows and uses as businesses do.

Acxiom has a long-standing tradition and ingrained culture of respecting consumer privacy in the development and marketing of our information products. This was one of the reasons Acxiom was among the first companies in America to appoint a chief privacy officer. Jennifer Barrett has been employed by the company for 29 years, and responsible

for privacy oversight since 1990. Privacy has been her full-time job for the past five years.

Since Acxiom does not have a customer relationship with individual consumers, we do not routinely have direct contact with the individuals about whom we hold information. Therefore, we educate our clients about a best-practice approach when responding to and caring for consumer inquiries regarding information use and ask that they refer to Acxiom individual consumers who may require additional research to resolve their concerns. Since 1997, we have posted our privacy policy on our Website. We maintain a Consumer Care Department to handle consumer inquiries. We also provide consumers who contact us in writing, through our Website, or by calling our toll-free Consumer Hotline the option to opt-out of all of our marketing information products and the chance to get a copy of the information we hold on them that is used in our risk mitigation products.

Our privacy policy adheres to federal, state, and local laws and regulations on the use of personal information. In addition, Acxiom follows the industry self-regulatory guidelines of a number of trade associations in which we are active members, including the Direct Marketing Association and the On and Offline Privacy Alliance. We are also certified under the BBBOnline Privacy Seal program and the European Union Safe Harbor. These guidelines include posting a notice that describes what data we collect, how we use it, to whom we sell it, and what the consumer's choices are regarding the use of that data. Finally, the Mailing Industry CEO Council that has taken on privacy as a key Industry issue.

Acxiom is also an active member of the National Business Coalition on E-Commerce and Privacy and the Coalition for Sensible Public Record Access. We believe that consumers should be educated about how businesses use information. To that end, we publish a booklet, entitled "*Protecting Your Privacy in an Information Age*," which is available on our Website and upon written or telephone request.

Acxiom takes its responsibility toward protecting consumer information seriously. Above and beyond the federal and state laws and industry accepted guidelines, which we follow, we have established our own company guidelines, which are more restrictive than industry standards. For example, we do not provide Social Security numbers or personally identifiable information about children in any of our marketing products. Moreover, we selectively capture the specific information required to meet our customers' information needs, discarding the remaining data, when we compile information from public records. These voluntary information best practices are internally and externally audited on a regular basis.

Finally, it must be noted that Acxiom undertakes exceptional security measures to protect the information we maintain for our own information products and around the information we process for our clients to ensure that information will not be made available to any unauthorized person or business. We use a variety of multi-level security systems to control access to our services and information products. All users at client locations, as well as all Acxiom associates, must be expressly authorized to access certain data and applications and have the appropriate access codes.

Acxiom conducts risk assessments and regular audits of our internal and external information systems to ensure the integrity of client data and Acxiom data. Our enterprise security operations center maintains real-time monitoring for information system vulnerabilities and unauthorized access attempts into internal systems. We also maintain rigorous physical security for our facilities and limit access to certain critical areas of the business.

### *Categories of Acxiom Products*

Acxiom offers both information management services and information products.

Our information management services include offerings that identify data that is in error, correct it where possible, and accurately recognize individuals so data can be properly

integrated between disparate sources. We also provide customized IT services to build, maintain and access enterprise wide data warehouses containing our client's customer information. These services generate about 85 percent of Acxiom's annual revenue.

Our information product offerings, which generate the remaining 15 percent of Acxiom's revenue, include four broad types of products: directory products, customer file enhancement products, list products, and verification and risk assessment products used for both customer relationship and risk mitigation. These information products add intelligence and information to both customer relationship management and risk mitigation decisions.

*Directory Products for Both Customer Relationship Management and Risk Mitigation:*

Containing name, address, and telephone number, Acxiom's line of directory products are compiled from the white and yellow pages of published U.S. and Canadian telephone directories – 5,900 different directories in the U.S. alone.

We license our directory products to companies as an inexpensive form of directory assistance and to Websites that provide free nationwide directory assistance. The Web-based directories benefit consumers in many ways, such as providing help in finding friends or family members with whom individuals may have lost touch.

In such directory products, Acxiom respects consumers' choices regarding unpublished numbers. The names and numbers we compile are derived only from those consumers who have elected to have their information made publicly available with their local telephone carrier. Moreover, Acxiom offers consumers who contact us in writing, through our Website, or by calling our toll-free Consumer Hotline the option to opt-out of this service if, for instance, the consumer wants to keep a published number in the local printed telephone book, but not have it available on a Web-based directory sourced from Acxiom.

*Enhancement Products for Customer Relationship Management:*

Axiom also offers businesses lifestyle, demographic, and interest data on their customers to enhance a business's knowledge and provide a better understanding of their customer's preferences, needs, and changing characteristics. Demographic data includes such information as the makeup of the household – single, married, with or without children. Lifestyle data might include such information as the fact that a household lives in an upper income neighborhood, owns their home, or is retired. Interest information would identify an interest in cooking, music or golf.

This demographic, lifestyle and interest information is added to a company's already-existing customer files. The information is general in nature. We do not provide detailed transactional information. We license enhancement information to qualified businesses through a menu-oriented approach. Businesses license only the data needed for a particular business decision or process. In many cases, we have pre-packaged information sets to meet common or recurring business needs for specific industries.

How might a business use enhancement information? First, it is used to better understand the interests and needs of current customers. Second, enhancement data is employed to identify the best new products to offer customers to expand the relationship. Finally, demographic, lifestyle, or interest data can help identify characteristics common in a business' best customers in order to target similarly situated prospective customers who may be more likely to have an interest or need for the business's products or services.

*List Products for Acquiring New Customers:*

Axiom offers prospect lists as a third type of information product. These lists are built from a variety of information sources that I will discuss momentarily, and represent broad coverage of the population. Prospect lists, which contain some of the same type of information contained in our enhancement products (including demographic, lifestyle, and interest information), differ from a particular company's customer lists in so far as

prospect lists contain information about prospective customers with whom the company has had no prior relationship.

Prospect lists allow businesses to take the intelligence developed from analyzing their best customers and apply that knowledge to identifying likely households of potential new customers. Acxiom sells prospect lists to businesses, not-for-profit organizations, political parties, and political candidates.

*Verification and Risk Mitigation Products:*

Acxiom offers verification and risk mitigation products as a fourth type of information product. These products identify information the client has that is correct and correlates to the rest of the information provided by a consumer. For example, our system would tell a business whether the telephone number the consumer provided matches the name and address they provided, or whether the Social Security number is a valid number for a particular individual.

In other cases, these products will match a business's customer file to a compliance file such as a state do-not-call list, the Direct Marketing Association's Mail Preference list, or the government provided money-laundering list.

These products provide the intelligence a business needs to better evaluate the risk they are taking on in entering into a business arrangement with a consumer.

***Information Product Development***

Acxiom is regularly asked where it gets its data. I want to answer this by first telling you a little bit about our product development process.

We begin our information product development with the identification of a marketplace need. For example, in order to achieve growth and product objectives, businesses may

need to know something about the characteristics of a household, such as -- is it a single adult household, or is it a married couple? Do they have children, and if so, are they small children, teenagers, or college aged? Other relevant characteristics might include whether the household has an interest in certain hobbies, such as cooking or gardening, or participates in certain activities – do they play tennis, golf, or both? Such characteristics are extremely relevant in determining whether a consumer may want to learn more about certain products or services.

Once the business information need has been identified, Acxiom compiles or acquires the relevant information from hundreds of sources and aggregates it by household. This is a complex process that varies on a product-by-product basis. However, in all such efforts, the data collected is general in nature and *not specific* to transactions or events. It *does not* include details on specific actions that an individual has taken. Once the data is collected, Acxiom must clean, integrate, and package the information into a product that meets the marketing needs and information demands of businesses. We have invested significant time and resources – hundreds of millions of dollars - in developing these products. Finally, a successful information product provides Acxiom’s customers with the right information to solve the specific business problem or need.

Acxiom does not sell to individuals. Neither do we sell data on a single individual or a household to businesses. And we do not sell information to the general public. Instead, Acxiom provides information in large record sets, typically with no fewer than several thousand records, to qualified businesses to address specific business needs or solve specific business problems. We verify and perform a credit check on all prospective clients. Once we are satisfied about our clients’ qualifications, we require them to sign a contract that binds their use of the information acquired from us for specifically articulated purposes. Acxiom and our clients typically enter into long term contracts – one, three, five years or even longer – for use of a particular information product.

## ***Data Sources for Acxiom's Information Products***

The information we acquire to build our information products is obtained from four general types of sources – public information, self-reported information, information from companies that have consumers as customers, and information from Credit Reporting Agencies. Acxiom compiles or acquires this information from hundreds of carefully chosen sources with which we have cultivated and maintained long-term contractual relationships.

*Public Information:* Public records and publicly-available information are the foundation of Acxiom's information products. The types of data that Acxiom acquires or compiles include: published telephone directories and other types of publicly-available directories, real property records, and other state and county public records. This information provides names, addresses, and general demographic information, such as home ownership, profession, and in some cases the age of members of a household.

*Self-Reported Information:* Surveys and questionnaires are an additional source for demographic information and provide much of the lifestyle and interest information we acquire. In these instances, consumers voluntarily complete surveys from a variety of companies providing lifestyle and interest information. In these cases, the consumer is typically provided the opportunity to opt-out of further use of the information beyond that by the company conducting the survey.

*Information from Merchants:* Acxiom acquires some information directly from companies that sell products and services to consumers. This information is either contact information, including name, address and phone number, or summarized and derived information. In these instances, we ensure that the consumers have received an opportunity to opt-out of their information being shared with a third party, such as Acxiom. Also, we receive only very general information that indicates possible lifestyle or interest data. We never receive

detailed transaction information. Instead, the general information that we acquire is used to extrapolate lifestyle or interest characteristics. For example, knowing that a household subscribes to a magazine on golf would indicate that the household has an interest in golf, just as the fact that a household has made a purchase from a Website would indicate that the household is Web-enabled.

*Information from Credit Reporting Agencies:* Acxiom acquires certain information from Credit Reporting Agencies where permitted by law. Such information is used in our risk mitigation, risk assessment and verification applications.

In some cases, Acxiom compiles information directly from the source, such as published telephone directories and real property records. In other cases, Acxiom acquires this information from other reputable information providers, that do the original compilation, or we acquire it directly from the business that has the relationship with the consumer. Acxiom carefully screens all information providers and businesses from which we acquire information to assure that the information has been legally obtained and is appropriate for the use to which we will put it.

One important fact to note is that the information Acxiom has on an individual or a household is always incomplete. Acxiom does not have information on every individual, and we do not have the same kind of information on all individuals. For example, we may or may not have the telephone number of a household. We may or may not have real property information. We may or may not have lifestyle or interest information. Our goal as an information provider is to provide sufficient coverage of various data elements to meet the market needs for that particular piece of information.

### **Myths about Information Providers**

Now that I have outlined the full picture of Acxiom's business operations to better explain what we do, I believe it is important to close by reiterating for you what Acxiom

*does not* do. Over the years, a number of myths have developed about the information industry that require clarification. These include:

- Acxiom *does not* have one big database that contains detailed information about all individuals. Instead, we have many databases developed and tailored to meet the specific needs of our business clients – entities who are screened and with whom we have legally-enforceable contractual commitments.
- Acxiom *does not* provide information on a particular individual to the public. The information we sell is provided only to qualified businesses and government entities for specific legitimate business purposes. I cannot call up from our databases a detailed dossier on any of you, let alone me.
- The information products Acxiom provides *cannot be used* for decisions of credit, insurance underwriting, or employment. These activities are regulated by the Fair Credit Reporting Act and such uses are prohibited under our contracts.
- Acxiom *does not* contribute to the nation’s identity theft problem. We *do not* sell Social Security numbers or credit card numbers to individuals or the public. Acxiom *does not* develop any information products used for marketing purposes containing what might be considered sensitive information. We define sensitive information as personal information about children, medical information, and detailed financial information.
- Acxiom *does not* sell detailed or specific transaction related information on individuals or households, such as what purchases an individual made on the Web or which Web sites they visited. All the purchase related information we have is general in nature and not specific to an individual purchase or transaction. For marketing purposes businesses need information about the

household, not the individual, since wives buy golf clubs for their husbands, and husbands buy cooking gadgets for their wives, and both buy tennis rackets for their children.

## **Conclusion**

A study that will be published later this summer by Fred H. Cate, a Distinguished Professor at the Indiana University School of Law, and Michael E. Staten, a Distinguished Professor at the McDonough School of Business, provides even more examples and references on how businesses increasingly rely on personally identifiable information from third parties to support their most basic activities.<sup>8</sup>

And as attested by Acxiom's clients, the information management services and the information products that Acxiom provides bring significant economic value to both the businesses that are our clients and to the consumers who are their customers. Furthermore, service companies play an important role in helping government agencies distribute compliance information.

Unfortunately, we have seen a disturbing trend in recent years to curtail the flow of information between businesses. While these efforts to draft laws and regulations that protect the consumer may have had a protective effect, in many cases they have also had unintended negative consequences by restricting or eliminating beneficial flows of information. For example, when motor vehicle information became more tightly regulated, major insurance companies could no longer identify which consumers own recreational vehicles. That led many of these companies to quit selling RV insurance directly, making the marketplace less competitive and making it much less convenient for RV owners to get insurance.

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<sup>8</sup> The Role of Third-Party Consumer Data in the Twenty-First Century Economy: A Case Study of Acxiom Corporation, written by Fred H. Cate and Michael E. Staten, to be published summer 2003.

Drafting effective privacy legislation and regulation is not easy. A careful study of all the uses of information should be undertaken before restrictions are imposed to assure the desired result will be achieved and to avoid unintended negative consequences.

Commissioner Muris, on behalf of our 5,000 associates, Acxiom appreciates the opportunity to appear today to share with the Federal Trade Commission an overview of our business and the issues that we deal with daily. We also wish to thank you, for holding this workshop to better inform the debate about the benefits to both businesses and consumers that the robust information economy we enjoy today provides.

# Attachment 1

## Axiom Data Quality Analysis

Mar-03

	Number of Files Analyzed	Verified Name at Address	Duplicates Found	Bad Matches	Deceased	Bad Names	Identifiable Address	Undeliverable Addresses	Secondary Numbers Applied	Total Addresses Corrected	Estimated Marketing Dollars Wasted Annually
Retail	38	90.35%	6.03%	0.91%	1.49%	1.59%	97.97%	4.57%	43.32%	33.01%	\$1,313,008,464
Financial Services	32	90.05%	5.76%	8.91%	1.49%	1.31%	97.90%	5.44%	43.09%	34.74%	\$1,139,507,813
Insurance	20	90.57%	5.03%	7.81%	2.59%	5.72%	98.41%	3.59%	46.34%	34.45%	\$411,300,000
Travel and Entertainment	18	87.55%	6.07%	5.63%	1.44%	3.45%	98.03%	9.11%	35.72%	36.52%	\$248,560,000
Other Industries	18	90.65%	6.52%	1.42%	2.25%	0.86%	97.74%	5.44%	43.76%	38.85%	\$417,861,111
Automotive	9	91.23%	8.93%	0.10%	1.65%	2.35%	98.34%	3.98%	43.87%	35.06%	\$85,327,778
Telecommunications	9	87.94%	6.39%	0.41%	1.77%	3.71%	97.89%	2.71%	41.83%	43.87%	\$668,722,222
Publishing	8	89.94%	3.70%	N/A	2.95%	1.76%	98.21%	4.58%	44.26%	45.23%	\$206,081,250
Technology	7	89.91%	1.03%	3.16%	0.69%	0.63%	96.28%	10.59%	44.45%	19.88%	\$370,150,000
Health Care	4	87.33%	5.73%	N/A	5.46%	0.45%	97.85%	5.87%	42.54%	48.92%	\$97,800,000
<b>Totals/Averages</b>	<b>163</b>	<b>88.87%</b>	<b>6.18%</b>	<b>4.99%</b>	<b>1.83%</b>	<b>2.27%</b>	<b>97.92%</b>	<b>5.31%</b>	<b>42.85%</b>	<b>35.53%</b>	<b>\$4,958,318,637</b>

<b>Number of Files Analyzed</b>	The number of client files included in this analysis.
<b>Verified Name at Address</b>	Percent for which the name could be verified at the address provided.
<b>Duplicates Found</b>	Percent of duplicates found on the file.
<b>Bad Matches</b>	Percent that the client improperly identified as duplicates.
<b>Deceased</b>	Percent of the file which is no longer living.
<b>Bad Names</b>	Percent with incomplete or totally erroneous data in the name field.
<b>Identifiable Address</b>	Percent for which the address could be identified (some were identifiable but do not meet deliverability requirements)
<b>Undeliverable Addresses</b>	Percent identified as undeliverable according to USPS standards.
<b>Secondary Number Applied</b>	Percent of records requiring but missing a secondary number (e.g. apartment number) which could be corrected. Note: Almost 25% of all addresses require a secondary number.
<b>Total Addresses Corrected</b>	Percent of all the undeliverable addresses (regardless of cause) that could be corrected. Note: This includes data correction and moves to new addresses.
<b>Estimated Marketing Dollars Wasted Annually</b>	Based upon estimated direct mail solicitations and average mail cost per piece which includes cost of list, processing, paper, creative and postage.) Statistics based upon past 2 years of industry-level data quality assessments for the following categories (duplicates, deceased, undeliverable, out-dated).