

Dear Friends:

Whether you're dealing with a fraudulent operator looking for free advertising or a scammer trying to bilk your customers, fraud can take an expensive toll on both your reputation and your bottom line. And, with more people conducting business over the Internet, the opportunities for fraud are growing. This issue's feature discusses ways to protect your company—and your customers—from becoming its victim.

Speaking of the Internet, the Szabo Web site has undergone some changes recently. All Szabo employees—bios and pics—are now included in the "Our People" section, a fun way to "get the scoop" on your friendly Szabo representative. Also, more and more of our customers are placing claims via our Web site and are very pleased with this fast, easy, and safe way to do business.

Szabo hosted an employee-only Christmas party and gift exchange at the Sheraton Hotel in Atlanta on December 23rd. It was a wonderful opportunity to celebrate a great year and express appreciation for our talented crew.

We'll attend the Broadcast Cable Credit Association convention on February 17th through the 19th in Seattle, Washington. Hope to see many of you there!

Best wishes for the year 2000!



Pete Szabo, President
Szabo Associates, Inc.

Protect Yourself from Fraud!

Fraudulent business operators always seem to find a good number of businesses ready to become their unwitting victims, and no wonder. In a highly competitive and fast-paced business arena, companies are eager to "get the order" and "get it fast." On the other side, con artists are adept at presenting themselves as creditworthy and upstanding in order to procure your services.

Additionally, as if businesses seeking credit for air time or ad space without ever intending to pay were not enough to worry about, media also must concern themselves about fraudulent operators whose primary intended victims are consumers. A television station that airs a commercial for a product that will never be delivered or a newspaper that runs an ad for a fraudulent "get rich scheme" runs the risk of losing its audience, its honest advertisers, and its reputation.

Of course, often these two types of fraud overlap. Businesses that are unscrupulous enough to try to get "something for nothing" from your media property are certainly unscrupulous enough to try to get "something for nothing" from consumers who respond to the advertising. Guarding your organization against fraud involves, therefore, two lines of defense—one that identifies operators with bad or non-existent credit, and one that identifies operators who attempt to

defraud your customers.

Credit-related fraud can be largely identified and avoided if you regard the following with a super-critical eye:

Ownership. Is the owner or principal very young, with no business background or credit history? Is the principal older or retired? He or she may be used as a respectable "front" for a shady operation. Insist on checking on the business backgrounds of the principals and management. Are their backgrounds difficult to check out? Verify ownership. Sometimes businesses are quietly sold and the old owner is kept on for appearances while the new owners run up credit and steal profits. Be suspicious of claims that the business is affiliated with a much larger business with hefty resources or has difficult-to-confirm foreign ownership. Get the address and phone numbers of claimed affiliates and check corporate charter information with the Secretary of State.

Credit references. Does the reference praise your prospective customer immediately, without looking up records to check the credit history? Were you requested by your applicant to "ask for Lou" when you call a bank or business reference? Fraudulent operators often provide names of friends or relatives who pretend to be bank or trade references. What authority has the contact person to know and

—continued on page 2

Protect Yourself —

—continued from page 1

provide information? Ask for the credit manager instead of the person whose name was provided by the applicant. Does a reference have an 800 number? If so, ask for the local number and call it to confirm its location. Call directory assistance to check on a company's phone number. Were you given a number of hard-to-trace fax numbers for references? The fax numbers may all lead to one location where one person can respond to reference checks using a variety of business names.

“Drop-in-your-lap” customers. Unsolicited orders deserve special scrutiny. Is the customer unrestrained when talking about how great his business opportunity is but reticent about giving hard information about the company?

Unlikely addresses. Low-rent addresses, “mini-warehouse” locations, addresses not appropriate to the type of business, and mail drops are often used by fraudulent businesses.

Amount of buy. Is your buy consistent with or much higher than those of other media references? Also be wary if you suddenly get a flood of calls from other companies for credit references on a new customer.

Consumer fraud has been around forever, but there are some scams that are currently “popular” because of new technologies that make them possible or because they purport to solve new problems. It is in your best interests to keep up-to-date on fraudulent practices, not only to protect your customers but also to

protect your company. Allowing fraudulent operators to advertise with your media property can do irreparable harm to your public image. Additionally, your company could find itself challenged for improper advertising practices.

When asked about the responsibility of media regarding deceptive advertising, Joel C. Winston, Assistant Director for Advertising Practices, Bureau of Consumer Protection, FTC, issued the following statement: “There is no exemption for the media in the laws governing deceptive advertising. However, as a matter of policy and practice, the Commission has generally refrained from prosecuting the media in which a deceptive ad appeared. For the past few years, we have conducted an aggressive campaign to sensitize the media to their responsibilities to their audience and the importance of screening out facially deceptive ads.”

A recent case illustrates the FTC's position on media responsibility. On November 23, 1999, the FTC announced that QVC, Inc. and the Quigley Corporation agreed to settle FTC charges that QVC, a national cable home shopping network, and Quigley, the manufacturer of Cold-Eeze brand zinc lozenges, made unsubstantiated advertising claims about the product. Many of the challenged claims were made both by QVC show hosts and by Quigley representatives appearing on QVC. The FTC also complained that Quigley made unsubstantiated claims in radio advertising and on the Internet. “These settlements will ensure that consumers are no longer being misled by unsubstantiated claims about these products,” said Jodie Bernstein, Director of the FTC's Bureau of Consumer Protection. “And they also will help remind marketers of their

responsibility to back up all advertising promises.”

Clearly, it is a good idea to keep abreast of currently popular scams that use media to advertise their “products and services.” Here are a few:

“Biz Op” Scams. Although they are cropping up on the Internet, most “biz op” (business opportunity) scams rely on classified ads promising high-profit vending opportunities, often for the sale of well-known brand-name products. According to the FTC, a recent federal/state survey of classifieds in more than 100 newspapers across the country (both in print and on the paper's Web site) found that almost half of all biz op ads make claims about how much money investors can make, but fail to make a key disclosure mandated by federal law for vending and display rack biz ops (and by many state statutes for all types of biz ops). The required disclosure—the number and percentage of prior purchasers who actually have made as much as the ad claims they can—indicates to readers how likely it is that they will earn as much as the ad claims.

The FTC's Bureau of Consumer Protection and participating agencies in 50 states have recently launched a partnership program with newspapers and the CatchScam Network to combat biz op fraud. The program asks partners to take three steps to educate readers about biz op scams and protect them from false claims: 1) Run one of the FTC's four model consumer notices at the top of the biz op listings. 2) Substitute generic descriptions for references to well-known brand names in the ads unless the advertiser provides evidence that the brand-name owner

has authorized use of the mark. 3) Delete specific dollar figures for sales, income, or profits unless the seller discloses in the ad the number and percentage of past purchasers who have made as much as or more than the claim.

Credit Repair. Scammers offer help—for a fee—to consumers to clean up their credit histories. According to the FTC, many of the claims these scammers make—that they can remove judgments, liens, and other negative information from credit records—are false. Any legitimate help they can provide can be gotten by consumers themselves at little or no cost.

Advance-Fee and Home Equity Loans. Scammers claim that for an advance payment, even consumers with bad credit histories can get a loan. Some scammers make money through the 900 numbers charged to consumers who call to inquire. Others charge consumers a fee for a

loan they never receive. Targeted to consumers with good credit and poor cash flow, home equity scams make money either on serial refinancing, which constantly adds costs for consumers, or by providing loans that customers cannot repay. Many consumers lose their homes to these schemes.

Travel Scams. Travel scams are scattered among several categories of fraud—biz ops, pyramid schemes, work-at-home plans, and auctions. Of special concern, according to Phillip McKee, Coordinator, Internet Fraud Watch of the National Consumers League, is a particular combination travel scam—the sale of tickets, vouchers and travel-related services in online auctions. A scammer may claim he bought a nonrefundable but transferable ticket and is now unable to use it. Or, a scammer claims that his frequent flyer miles are about to expire and that he will use them to buy a ticket for the highest bidder. In each case, the victim gets a useless travel voucher or nothing.

Another type of scam involves contests for vacations, which require the victim to fill out an entry form. Included in the form is a hard-to-find authorization to change long distance phone carriers to an exorbitantly expensive one. Or, the entrant is notified she has won a vacation for a heavily discounted price. She pays, but never receives the opportunity to book the trip prior to its expiration period.

Internet Fraud. Although the Internet is a medium for fraud rather than a type of fraud, we give it special attention here because it is such a wonderful medium for criminals. Anyone can put up a good-looking Web site, and the average consumer has difficulty determining which sites are legitimate. Also, the nature of the Internet makes it cheaper than ever for a fraudulent operator to contact consumers.

Most of the same kinds of fraud promoted in other media can also find a home on the Internet. Early this year, the Internet Fraud Watch listed the top 10 online frauds. Numbers 2 through 10 were general merchandise sales, computer equipment/software, Internet services, work-at-home, business opportunities/franchises, multilevel marketing/pyramids, credit card offers, advance fee loans, and employment offers. One type of fraud, however, is more particular to and facilitated by the nature of the Internet. At the top of the IFW list, with a commanding lead, was online auction fraud. Online auction fraud complaints have increased 600% since 1997. According to IFW Director Susan Grant, the majority of fraudulent payments—a whopping 98%—were made “offline” by check or money order sent to the



"YOUR AD SAYS YOU CAN 'CLEAN UP MY Y2K PROBLEMS.' WELL WE HAD ONE HECKUNA NEW YEAR'S EVE PARTY AND WE COULD SURE USE SOME HELP!"

—continued on page 4

Protect Yourself —

—continued from page 3

company. "Requesting cash is a clear sign of fraud," says Grant. She advised consumers to "pay the safest way. If possible, pay by credit card because you can dispute the charges if there is a problem." Since many online auction sales are made by individuals who are not equipped to take credit card payments, IFW recommends that buyers use escrow services, which take payment from buyers and pass the money to the sellers only after verification that the goods or services were satisfactory. Additionally, some auction companies have programs to insure transactions, usually for a small fee.

Combating fraud will always be a challenge; however, the media industry can protect itself and help eradicate fraudulent businesses through a

combination of good company credit policies, cooperation with government enforcement efforts, and participation in self-education and consumer education about fraudulent practices. The FTC's Web site (www.ftc.gov) is full of useful information for those seeking to familiarize themselves with the laws enforced by the FTC and to protect themselves from illegal practices. The site also includes some state-specific information. The National Consumers League, which founded the National Fraud Information Center in 1992 to fight the growing threat of telemarketing fraud, expanded its efforts in 1996 with the creation of the NFIC Web site (www.fraud.org) and the Internet Fraud Watch (www.fraud.org/ifw.htm), through which consumers can report fraud through online forms. The site receives more than 120,000 visits and 1500 e-mails per week from con-

sumers worldwide. It also provides tips, articles, bulletins, and other information that consumers can use to avoid fraud, protect their privacy, and navigate the Net safely. Additionally, the site has direct links to other useful resources.

We would like to thank for their assistance: Holly Anderson, IFW, National Consumers League; Claudia Bourne Farrell, Office of Public Affairs, FTC; Joel C. Winston, Bureau of Consumer Protection, FTC; and Gary H. Bugge, owner of Screening for Profit, a credit reporting and fraudulent advertising investigative agency in Reston, Va. which administers the CatchScam Network, designed for print media classified advertising departments.



Collective Wisdom® is a publication of
Media Collection Professionals,
3355 Lenox Rd., Suite 945, Atlanta, Georgia 30326
Tel: 404/266-2464, Fax: 404/266-2165
Web site: www.szabo.com
e-mail: info@szabo.com

©Szabo Associates. Inc. 1999. All rights reserved. Materials may not be reproduced or transmitted without written permission.

BULK RATE
U.S. Postage
PAID
Atlanta, GA
Permit No 747