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E-COMMERCE/MEDIA

What Part of 'Cancel' Don't You Understand?

Regulators Crack Down on Internet Providers, Phone Companies That Make It Hard to Quit

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Breaking up is getting harder to do.

From AOL to EchoStar, a growing number of U.S. companies are coming under fire from regulators who claim they are deliberately thwarting customers' efforts to cancel their service contracts.

The regulators are targeting a range of tactics used to keep people from dropping cellphone plans, magazine subscriptions and satellite TV services. The methods under scrutiny include billing customers for service after they quit, and levying hefty contract-cancellation fees on departing customers.

Last month, Ohio's attorney general filed suits against America Online Inc. and its subsidiary CompuServe Interactive Services Inc., alleging that the companies continued to bill customers for Internet service after they canceled their accounts. The Federal Trade Commission settled similar charges against AOL for billing to canceled accounts earlier this year, and at least one suit seeking class-action status is pending.

Other regulatory actions target the growing use of "early termination fees" that companies use to discourage customers from canceling a service. In September, the California Public Utilities Commission proposed a \$12 million fee against Cingular Wireless over a \$150 cancellation fee. Cingular, which has since modified its policy, is appealing the fine. And in May, **EchoStar Communications Corp.** reached a settlement with 13 states that charged the company with slapping customers with a \$240 cancellation fee when they tried to cancel their contracts with its Dish Network satellite TV division. The complaint alleged the fee wasn't properly disclosed to customers when they registered for service.

MEDIA & MARKETING

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I WANT OUT!

To make sure your cancellation request gets heard:

- **When canceling**, note the date and time, and the name and ID number of the rep.
- **If you have auto-pay**, tell your bank not to allow further withdrawals by the company.
- **Use the words 'cancel'** and 'disconnect' to make sure your request is understood.
- **If a problem persists**, file written complaints with state attorneys general and public utility commissions – copying in the company.

Many of the complaints have surfaced in highly competitive service industries like telecommunications that are reeling from losses due to high rates of customer turnover, known as "churn." For companies, it is far cheaper to retain existing customers than to win new ones: In the cellphone industry, for example, winning a single new customer costs about \$339, according to Yankee Group, a technology research firm.

To stem defections, companies are doing everything in their power to lock in customers. Until recently, for instance, MCI routinely required customers to show a death certificate when canceling phone or Internet service for a deceased relative, though it loosened the policy last month. Many companies have also retrained phone reps who handle cancellation calls to try to "save" customers who phone in to quit.

But the system can backfire when the reps are under extreme pressure to prevent defections. According to the FTC, that is what happened at AOL. The company has lost two million customers over the past year as dial-up subscribers headed to rival cable and high-speed Internet providers. To slow the departures, AOL customer reps were offered incentives to win back customers who phoned to cancel. The pressure, combined with a lack of management oversight, may have meant the reps listed some customers who called to cancel as "saves," according to the FTC. As a result, the customers continued to receive bills even though they had canceled.

A spokesman for AOL, a **Time Warner** unit, says the company has adjusted its cancellation process as part of the FTC settlement. Now, the company sends a written letter to people who call to cancel, confirming their decision. The spokesman says the company strongly disagrees with the Ohio complaint, filed in Franklin County Common Pleas Court, and says there are many ways for customers to cancel, including 24-hour phone lines, fax and mail.

Overbilling problems are a growing concern as more customers pay their bills through automatic debit arrangements in a wide range of industries. The payment option lets companies withdraw funds directly from customers' bank accounts and credit cards each month. That access means companies may be able to continue to withdraw money, even after a service is canceled. "Once they get your credit-card number, you're stuck," says Ohio Attorney General Jim Petro.

Consumers have also lodged complaints against Sam Goody music stores, and Time Warner's magazine division, for failing to disclose the cancellation policies in magazine-subscription offers.

In August, consumers filed a lawsuit against closely held Musicland Group Inc., which owns retail chains including Sam Goody and Suncoast. The Minnesota suit claims the company failed to disclose the full terms of "free" Entertainment Weekly magazine subscriptions. According to the lawsuit, customers who agreed to the free trial offer weren't adequately alerted that their credit- or debit-card information would be passed along to the magazine's publisher, AOL's Time Inc. In addition, the suit alleges they weren't told that they would have to proactively cancel the subscription to avoid being charged. As a result, hundreds of customers claim they were hit with unexpected charges when the free trial ended.

Time Inc., which isn't a subject of the lawsuit, says the subscription terms were clearly explained

in its brochure.

Musicland says the lawsuits have no merit. The company is also under new management after **Best Buy** Co. sold the company to Sun Capital Partners in June.

Other magazine-industry sales tactics are drawing the attention of regulators. To fight churn, many publishers, including Time Inc., are switching to a "self renewing" subscription model, which means the publisher automatically charges subscribers' credit cards for another year, unless customers proactively cancel their subscriptions. At Time Inc., about 20% of subscriptions, including many popular titles such as Sports Illustrated, Fortune and Money, are sold on this continuous subscription model. (Some **Dow Jones & Co.** publications, including The Wall Street Journal and The Wall Street Journal Online, are sold on a continuous subscription model.)

Time Inc.'s marketing practices have drawn the attention of the Florida attorney general's office, which opened an investigation into the company's billing practices after complaints began to pile up in 2000. The office has received about 250 complaints, and subpoenaed Time Inc. billing records last year. Thirteen states have joined Florida's probe.

A Time Inc. spokesman says the company is cooperating with the investigation and continuing to discuss their subscription renewal practices with the attorney general's office.

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