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THE JOURNAL REPORT: TECHNOLOGY

E-Commerce

When the Cookies Crumble

Consumers are starting to revolt against the software Web sites use to track them. But that leaves companies in a bind.

By DAVID KESMODEL
Staff Reporter of THE WALL STREET JOURNAL
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Internet users are increasingly saying no to cookies -- much to the dismay of online merchants.

Cookies -- small files of text that track users' surfing habits -- help companies determine which online ads, email promotions and other content are most effective at drawing customers and generating revenue.

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But fears that these files are similar to viruses or spyware, which can filch personal information or change user settings, are prompting consumers to

increasingly zap cookies from their PCs or prevent them from being downloaded in the first place. And this is bad news for online retailers, since fewer cookies means there is less consumer information available.

To help online retailers halt this trend, providers of tracking software are revamping their tools and offering technology that, they hope, will make consumers feel more at ease about being "watched."

One major change is the switch to first-party cookies from the commonly used third-party cookies. First-party cookies are placed on a user's PC by the actual site the user is visiting, whereas third-party cookies are placed by an outside company -- such as one of the Web analytics firms frequently used by online retailers.

Many people automatically set their Web browsers to block cookies from names they don't recognize. Some PC users also are concerned that, in some cases, third-party cookies can be used to monitor a user's surfing behavior on multiple Web sites.

A Matter of Trust

While both types of cookies allow Web analytics companies to track surfers' using habits, the key difference, Web analytics firms say, is

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that the retailer is now the one loading the cookies -- and, therefore, is viewed as the information gatherer. So with first-party cookies users will now see the name of a company they recognize or have done business with before -- which may make them comfortable having their Web use monitored.

Customers are "much more inclined to trust a first-party cookie, because it is from a trusted source," says Greg Drew, chief executive of Portland, Ore.-based [WebTrends Inc.](#), a company that helps merchants track how people use their sites.

THAT'S THE WAY. . .

Some steps surveyed consumers had taken on their primary computer in the past 12 months that frustrate the use of "cookies" to track consumer activity.

- Installed, updated or ran antispyware software: **58%**
- Deleted cookies myself: **52%**
- Installed, updated or ran firewall: **41%**
- Changed cookies accepted or blocked: **28%**
- Installed, updated or ran software that deletes cookies: **27%**
- Blocked cookies from being set: **25%**

Source: *Jupiter Research*

Third-party cookies also are a far bigger target of the companies that make antispyware software. Over the past year, PC users increasingly have used such software to rid their computers of spyware. Many antispyware programs flag third-party cookies and either delete them automatically or give users the option to do so. Makers of antispyware software say cookies are

generally harmless compared with spyware, but that some customers want to be made aware of files that track their behavior.

Eric Peterson, an analyst with New York-based Jupiter Research, said in a report earlier this year that as many as 39% of online users may be deleting cookies monthly. Several technology vendors also report that more PC users have been choosing privacy settings on their Web browsers that keep third-party cookies from being downloaded in the first place. According to WebTrends, 13% of users of its customers' Web sites were rejecting third-party cookies in July, up from 3% about 18 months ago. For first-party cookies, the rejection rate was below 4%.

With those third-party cookie rejections on the rise, providers of tracking and analysis software are now offering technology that deploys first-party cookies.

One such company is Coremetrics Inc., which charges about \$10,000 a month for its services. Customers that want to switch to Coremetrics' first-party product must pay a one-time setup fee of \$1,000. John Squire, vice president of product strategy, says the first-party system costs \$100 more per month than the third-party system because it's more difficult to make sure first-party cookies work properly. Coremetrics has 450 clients; 70 of those are newer customers that used the first-party product from the start. Of the other 380, 90 have made the switch and another 75 plan to do so.

Earlier this year, Home Decor Products Inc., a Coremetrics client, switched to first-party cookies after noticing that customer reports were becoming less reliable because an increasing number of users were deleting the retailer's third-party cookies. The percentage of cookie deleters had been in the single digits in the past, but had steadily risen in January, February and March to about 15%, says Jeremy Dalnes, director of marketing at the Edison, N.J., company.

"Once you cross that 10% threshold, it really becomes a question of reliability," he says. "Are you getting enough data to make the most reliable decision?"

Since the switch in April, Home Decor Products has failed to observe surfing behavior for just 0.5% of its users, Mr. Dalnes says. For online merchants, he says, "third-party cookies are no longer an option."

[Oakley Inc. \(OO\)](#)

PRICE	17.45
CHANGE	0.06
U.S. dollars	9/9

[WebSideStory Inc. \(WSSI\)](#)

PRICE	17.75
CHANGE	0.00
U.S. dollars	9/9

[International Business Machines Corp. \(IBM\)](#)

PRICE	81.44
CHANGE	0.64
U.S. dollars	9/9

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Home Decor Products, which sells household goods on several of its Web sites, uses cookies to tell such things as whether its users clicked on a particular ad before visiting a site or whether they previously had visited a site and bought something. But like most companies, Home Decor Products says it doesn't use cookies to track any personal information about users, such as names or phone numbers.

Sunglasses maker [Oakley Inc.](#) also just started using Coremetrics' first-party product because of higher rates of cookie blocking. They were "unable to track somewhere between 10% and 15% of our user population," says Ryan Erwin, general manager of Oakley Direct, Oakley's online arm. "It's been steadily creeping up over the last year, and I'm sure it's a trend that [would] continue."

Since implementing the first-party product in late August, Oakley has found that it can analyze the Web surfing of all but about 0.5% of its users.

As Recommended

WebTrends says more than 400 of the 2,800 customers using its subscription-based service have switched to the first-party system in recent months, based in part on the company's recommendations. Customers pay anywhere from \$200 to \$10,000 a month for its service, depending on the customer's size and the amount of Internet traffic that is analyzed. The company doesn't charge extra for its first-party system.

Among the customers making the switch: La Quinta Inn & Suites, a unit of La Quinta Corp., PC Mall Inc., Gibson Guitar Corp. and recreational-vehicle maker Thor Industries Inc.

Carfax Inc., which uses [WebSideStory Inc.](#) as its Web analytics provider, made the switch in the past few months and says it has noticed a 15% increase in the number of users it has been able to track. Cookies are vital to helping the Fairfax, Va.-based company measure which ads placed on search engines like Google are attracting visitors, says David Silversmith, chief technology officer at Carfax, which sells vehicle-history reports.

Whether merchants see a problem with increased cookie-deletion rates sometimes depends on the type of customers they have. CompUSA Inc., for instance, recently decided to switch to first-party cookies because it believed many of its best customers -- hard-core PC users -- were responsible for higher deletion rates.

"My gut feeling tells me it's the tech buff that is blocking more than anyone else, and I really want to know what [they] think of our site," says Steve Fernandez, analytics manager for the e-commerce division of the Dallas-based computer retailer. "It's a different demographic than an apparel online site."

Other companies, meanwhile, are making the move to first-party cookies as a preventive measure.

SurfAid, another provider of Web analytics software, hasn't detected any of its customers having "any concern about the validity of the data" they're getting lately, says Mike Nichols, chief architect for SurfAid, which is a part of [International Business Machines Corp.](#) Still, "we're taking proactive steps to migrate anybody that is on third-party cookies" to the first-party kind at no cost. SurfAid wouldn't disclose which clients were switching. The cost of SurfAid's service starts at \$1,500 a month and depends on the amount of traffic on the client's Web site.

'Not Alarmed'

Some companies, however, don't think cookie rejections are significant enough to warrant changes.

WebSideStory says only about 10 of its clients, including Carfax, have switched to its first-party system in the past year, though the San Diego-based firm has recommended the tool. WebSideStory has about 1,000 customers, and 100 of those are newer customers that have used first-party cookies from the start. The company says the price for its service starts at about \$1,250 a month but varies widely, with some companies paying well into the six figures.

"By and large, our customers are telling us they are not alarmed by the deletion data," says Rand

Schulman, chief marketing officer for WebSideStory.

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