



**Chapter XIII**

**We Know Where You Are:  
The Ethics of LBS  
Advertising**

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**ABSTRACT**

*Privacy is the most significant and complex ethical issue facing LBS. While LBS is more than the combination of e-commerce and telemarketing, we use the ethical failures of those two media to show that consumers will seek legislative action to protect themselves from invasions of privacy using the new medium. The alternative is effective self-regulation by the industry; we conclude with a proposed model for such self-regulation, involving existing trade groups.*

**INTRODUCTION**

Just five years ago, there was very little notice of e-commerce and little advertising on the Web. When Hoffman and Novak wrote their article in 1996, they were introducing this advertising tool to marketing researchers. Now, Web advertising is the subject of numerous academic articles. A great deal of research

attention has focused on e-commerce and how it has changed, and is changing, both the marketing and the management of companies. We know, for example, that much of the allure of the World Wide Web lies in the exploitation of its “worldwide” capabilities: marketers have access to a large group of customers, regardless of their physical location. Service providers have made use of the technology to inform customers about their offerings, expedite responses to customer complaints, and facilitate reservations and purchases.

Little research attention has yet been paid, however, to the emergence of mobile commerce (m-commerce), which differs from e-commerce in providing a new way to market to local customer bases—and to consumers who are merely in transit through a particular location. With the m-commerce application of location-based services (LBS), the physical location of a moving customer is identified. Based upon that location, the customer is then directed to the nearest service provider. The “directing” takes place through portable, mobile devices designed to allow consumers to access the Internet whatever their location.

A primary reason why this new marketing tool has not yet been much studied is that, so far, its use is not well-advanced. Many companies worldwide are devoting much money and effort to making LBS m-commerce more ubiquitous, and once a standard protocol has been adopted it seems likely that this new technology soon will be at least as transformative of the marketing and management of companies as e-commerce has been.

In this chapter, we explain the three features that differentiate LBS m-commerce from e-commerce: mobile location identification, synchronous two-way communication, and provider power. Then, we argue that the most complex ethical issue confronting marketers as they begin to use this new tool is an escalated form of the ethical issue raised by telemarketing and by e-commerce: privacy. It is our belief that LBS will create for itself the same type of restrictive legislative environment that now constrains telemarketing if effective industry self-regulation does not take place. We conclude by articulating a model for self-regulation that we think will allow the industry to avoid otherwise inevitable legislative action.

We focus on the situation in the U.S. While privacy is an issue worldwide, three factors make it likely that the U.S. will be a testing ground for privacy in relation to LBS. First, the government’s mandate that location information be available for all cellular phone calls will mean that the ability to track location will soon exist in the U.S. Second, regulations on the use of consumer data are not as restrictive in the U.S. as in other countries. This opens the door to the possibility of unethical behavior by companies. Finally, many Americans believe that privacy is a right, and are perhaps more likely than citizens of other nations to take action to defend that right.

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