



SSIGSIM
2021

#AD:
AMERICAN DREAM

BACKGROUND GUIDE

DIRECTOR: KARRIE CHOU

TABLE OF CONTENTS

<i>A letter from your Director</i>	3
<i>Background Information</i>	4
A brief history of trade, commerce, and marketing	4
Relationship marketing and social media	5
Relationship marketing and the influencer career	6
History of the Federal Trade Commission	7
Truth-in-advertising laws	8
History of the Better Business Bureau	9
<i>Committee-Specific Issues</i>	11
Creating a regulatory framework for online advertisement	11
Defining the criteria for “fair and transparent” online advertisement	11
Expanding the jurisdiction of the FTC and BBB.....	11
Raising awareness of new protocols and enforcement mechanisms	12
Questions to consider	12
Social media campaigns	12
Questions to consider	13
Establishing standards for ethical business practices	13
Multi-level marketing	14
Drop shipping	15
Loot boxes and gambling schemes	16
Questions to consider	17
<i>Additional Notes on the Committee</i>	18
Character assignments	18
Industry focus	18
<i>References</i>	19



A LETTER FROM YOUR DIRECTOR

Delegates,

It is my pleasure to welcome you to SSICsim 2021, and to the *#AD: American Dream* committee! My name is Karrie Chou and I will be your director, guiding you through the adventure that you will embark on over the next couple of days. Alongside me are several other people without whom I would imagine this committee to be lacking in a certain dynamism: your moderator, Tomer Zaidman, and your Crisis Analysts, Leo Teng and Yeji Ma.

I am a fourth-year student specializing in Finance and Economics through the Rotman Commerce program and minoring in Statistics at the University of Toronto. I have been doing Model UN for six years now. One of the reasons I continue to participate is that I simply cannot imagine who I would be today without it; Model UN has undoubtedly made me a more confident, resilient, and outgoing version of who I was when I went to my first conference. I hope that as a participant in the discussions we will have within and outside of the committee, you will undergo a meaningful personal transformation in some way regardless of if this is your first time in a Model UN setting, your fifth, or even your fiftieth. While Model UN is traditionally associated with opportunities to win awards and titles, there is so much potential for you to make new friends and create new memories to share with the world in this same environment. I hope you take advantage of those chances as we grow together and as individuals.

I want you to treat this background guide not as a roadmap of everything we will address in the committee either through front-room discussion or back-room Crisis scheming, but instead as a “wiki” with distinct items that you can make reference to in order to enrich your discourse and inform your research. *#AD* is inspired by my fascination with the world of digital advertisement and influencer marketing. While legislative bodies in much of the developed world such as the European Union have worked to rapidly draft and implement policies aimed at protecting consumers in an age where we are all trained to be wary of misinformation, it is amazing how staggeringly behind North American legislative bodies are regarding this same matter. We are at a point in history where it’s impossible to come up with one comprehensive set of rules to guide the digital advertising industry; so many legal- and commerce-oriented fields intersect in the discussion of regulating the online world that simply creating widely applicable rules is not enough. Thus, this grand and nebulous responsibility falls to you, as actors in this sandbox-style world that we have crafted for your exploration. I cannot wait to see what each of you have to offer in terms of your individual flair and storylines motivated not only by the characters that you play but also by your own values and what you want to see from consumer protection in the real world.

Until we meet,

Karrie Chou
Director, *#AD: American Dream*

BACKGROUND INFORMATION

A BRIEF HISTORY OF TRADE, COMMERCE, AND MARKETING

The birth and development of modern commerce is ultimately a product of Westernization. The rise of European global powers encouraged by the Industrial Revolution which started in the mid-1700s and the Americanization of the international community throughout the 1900s, which accelerated after World War II, heavily influenced today's trade relations, economic intuitions, and business philosophy. Product and service quality across industries was relatively standardized by the development of mass production and subsequent market saturation, and in an effort to differentiate themselves from their competition, companies who wanted to be disruptors in their respective industries began to capitalize on sales tactics to capture market share. Generally, this means that goods- and services-providing corporations shifted their focus towards fostering personal relationships with individual clients. Eventually, a host of tools dedicated to marketing analytics and evaluation was developed, with each component pushing brand owners and representatives to define their ideal target customers and find ways to reach or create that exact demographic. Examples of such mechanics include, but are not limited to:

- SWOT analysis – used by a company to assess its internal capacities and areas for growth.
- PEST analysis – used by a company to evaluate the effects of external factors on its potential future performance.
- Value proposition – used by a company to demonstrate through a concise statement how customers would be better off after working with it. This reasoning could include fulfilling certain aspirations or purchasing a higher quality product or service, among other motivations.
- Customer journey mapping – used by a company to understand how it will use its sales force to attract and retain a customer before, during, and after the decision to purchase and enter a transactional relationship has been made.

The above tools and more are still prominently featured in proposals for new advertisement opportunities even today. Corporate success in the modern business world hinges on customer relations; the intangible value of any company that lies in its brand perception and customer goodwill now makes up a substantial part of its estimated net worth. Companies have created brands with their own personalities and values to uphold, and customers define their own identities in their everyday lives through aligning with them. These brands are used to essentially communicate with customers in a way that equalizes dialogue; brands and brand representatives intuitively seem more relatable and personable than the executives behind them. Eventually, the body of marketing tactics and proposals employed by companies to maintain an ongoing para-social relationship with customers was officially defined in 1983 by former American Marketing Association president Leonard Berry under the umbrella term “relationship marketing”.¹ The evolution of relationship marketing eventually gave rise to the current intersection of social media, celebrity culture, and influencers to create a series of prime advertising channels for new product- and service-oriented companies, which this committee will explore over the duration of the conference.

¹ Leonard L Berry, “Relationship Marketing of Services – Growing Interest, Emerging Perspectives,” *Journal of the Academy of Marketing Science* 23, no. 4 (1995): 236–45, <https://doi.org/10.1177/009207039502300402>.

Relationship marketing and social media

It is difficult to imagine what the modern world would be like without social media. For millennials and younger generations, the online environment is simply perceived as a mere extension of reality. Nowadays, the ability to connect to anyone with access to the Internet is a common affair, while the same phenomenon was nothing short of a luxury only the most expansive and wealthiest organizations could afford only in the mid-20th century.

In the *International Journal of Global Business*, Matthew Kuofie, Kira Gholston, and Amy Cooper Hakim posit that social media today can be defined as a space where “people are able to freely interact, discuss, and share information using words, pictures, video, and audio”.² Various websites and functions, such as “blogs, forums, messaging boards, and social networks” allow individuals to participate in the use of social media in the aforementioned ways.³ Conversational forums had become part of university intranet services in the late 1970s with the creation of systems such as UseNet at Duke University and the University of North Carolina which allowed students from different institutions to communicate with each other.⁴ Blogging was made possible in 1997, coinciding with the size of the Internet exploding to one billion websites.⁵ Around this time, Internet accessibility was made much more open; everyday people were now able to create their own web pages, share original content, and craft their online personas. The social media giants of today were mostly conceived in the 2000s, with Facebook being started in 2004, Youtube in 2005, Twitter in 2006, Tumblr in 2009, Instagram in 2010, and the most recent viral phenomenon, TikTok, being born from a merger between Chinese companies Douyin and Musical.ly in 2018.

The Internet and social media provide everyday individuals a low-cost way of sharing anything they want with an audience. Traditionally, this privilege was reserved for entertainers, artists, academics, and celebrities who built their following by interacting face-to-face with others to build networks and have their talents spread by word of mouth. Today, this characteristic directly benefits companies who are looking to sell a product or service under their brand. By leveraging the ease of communication that social media provides its users, a given company is easily able to solicit feedback “in a direct and timely manner” from potential and existing customers to implement in future business decisions.⁶ Intuitively, customers who see their opinions and values reflected in a company’s branding, product, and service delivery will feel valued and eventually develop a personal attachment to that company. In essence, companies who use social media to reach their customers are effectively utilizing prior derived insights from relationship marketing in order to “[attract, develop, and retain] customer relationships” which are difficult for their competitors to replicate.⁷ Ultimately, the unique nature of these relationships between company and customer is what creates competitive advantage in a particular product or service industry and allows a company or brand to survive in the long term amidst a constantly evolving market and shifting consumer needs.⁸

² Matthew Kuofie, Kira Gholston, and Amy Cooper Hakim, “An Overview of Social Media for Marketing,” *International Journal of Global Business* 8, no. 2 (December 2015): 65–82, 68.

³ Ibid.

⁴ Ibid, 69.

⁵ Ibid.

⁶ Ibid, 72.

⁷ Anca Francisca Cruceru and Daniel Moise, “Customer Relationships through Sales Forces and Marketing Events,” *Procedia – Social and Behavioral Sciences* 154 (2014): 155–59, 156.

⁸ Ibid.

However, customer and market analytics are not the only benefits provided to companies who regularly interact with customers on social media. Today, we observe social media not just being used as an additional open line of communication, but also as a way for companies in their growth stage to start off with a heightened level of brand awareness than potential competitors. Digital platform monetization schemes have given rise to an influx of “social media brands”, or companies who rely entirely on social media reach to generate sales profit and expand their customer networks.⁹ With the simplest method of reaching customers on social media being digital display advertising, first implemented by Facebook, YouTube, and Twitter near their respective inceptions, these social media brands would find it relatively easy to build substantial followings with consistent content generation.¹⁰ Combining easily understandable functions with a monetization scheme which rewards consistency and audience engagement, it is no wonder that social media platforms have drawn the attention of advertisers and marketing executives. Nowadays, it is unlikely that one could scroll through any social platform and not see a sponsored post, where the creator or publisher generates revenue through the amount of traffic that post has directed to a web page or a product.

Relationship marketing and the influencer career

The monetization of social media content has provided incentives not only for companies, but also for individuals to create their own audiences and forms of entertainment online. The rise in prevalence of online personalities, who we refer to as a collective group of “influencers”, has encouraged yet another wave of disruption in online advertisement. Influencers have pioneered ways to bridge the gap between entertainment and advertisement through content creation. With influencers crossing into mainstream celebrity media, more consumers are turning towards them because they see influencers as “brand prescribers”, meaning that they see influencers as sources of information which can come in handy when making a purchasing decision for any particular product or service.¹¹ Consequently, companies who prioritize digital advertisement have harnessed the skill of “brand prescription” that is particular to the influencer career group in order to increase brand awareness and relatability among consumers.¹²

Companies who have been able to successfully capitalize on influencer marketing are those who understand the connection between utilizing influencers to promote products and services and the key tenets of relationship marketing. Carmen Berne-Manero and Mercedes Marzo-Navarro of the University of Zaragoza propose that long-term investment in influencer marketing has a positive effect on a company’s performance sustainability.¹³ This hypothesis holds regardless of whether companies take on sponsorship deals with macro- or micro-influencers, who are distinguished primarily by their audience sizes or subscriber counts.¹⁴ Social media marketing, and by extension relationship marketing, has

⁹ Susanne Kopf, “Rewarding Good Creators: Corporate Social Media Discourse on Monetization Schemes for Content Creators,” *Social Media + Society* 6, no. 4 (October 1, 2020): 2056305120969877, <https://doi.org/10.1177/2056305120969877>, 2.

¹⁰ IAS Ad Science, “The Evolution of Social Media Advertising,” *IAS Ad Science* (blog), December 19, 2017, <https://integralads.com/insider/evolution-of-social-ads/>.

¹¹ Ibid.

¹² Carmen Berne-Manero and Mercedes Marzo-Navarro, “Exploring How Influencer and Relationship Marketing Serve Corporate Sustainability,” *Sustainability* 12, no. 11 (May 27, 2020): 4392, <https://doi.org/10.3390/su12114392>, 2.

¹³ Ibid, 1.

¹⁴ Ibid, 2.

therefore shifted over time towards presenting influencers as individual “consultants” who can speak to a brand’s prestige and reputation and attract prospective customers to a company’s products or services.

HISTORY OF THE FEDERAL TRADE COMMISSION

The Federal Trade Commission (FTC), one of the main government-affiliated bodies represented in this committee, was established in 1914 by then-American president Woodrow Wilson with the signing of the Federal Trade Commission Act.¹⁵ Under this statute, the FTC is responsible for the following:

- [Preventing] unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce,
- [Seeking] monetary redress and other relief for conduct injurious to consumers,
- [Prescribing] rules defining with specificity acts or practices that are unfair or deceptive, and establishing requirements designed to prevent such acts or practices,
- [Gathering and compiling] information and [conducting] investigations relating to the organization, business, practices, and management of entities engaged in commerce, and
- [Making] reports and legislative recommendations to Congress and the public.¹⁶

The FTC is more closely connected to the general public than other government institutions. Today, the FTC’s most prominent responsibility is to field complaints from consumers on the above listed injurious practices through their fraud reporting system.¹⁷ Introduced in October 2020 as a response to the increasing diversity and spread of popular online scams and misinformation which lead to deceived consumers in the most mundane of cases and identity theft or loss of property in more extreme ones, this system aims to better protect consumers by aggregating negative experiences with certain corporations or individuals in order to build legal cases against malpractice.¹⁸ The sheer influx of misinformation perpetuated by viral social media posts within the past decade has previously been well documented by many sources and pertinent discussions, and online advertising and marketing tactics are not immune to this phenomenon.¹⁹

At the same time, the FTC is not only an organization which responds to public sentiment. Despite the FTC being primarily responsible for ensuring that consumers are informed in their purchasing decisions and protected from predatory business practices which can persuade them to make a decision that negatively impacts their own lives, the organization also works to define sustainable and appropriate business practices for companies of all sizes and industries. While the FTC does not mandate that businesses be completely transparent about their strategies and tactics, lest competition and economic

¹⁵ “Our History,” Federal Trade Commission, August 13, 2013, <https://www.ftc.gov/about-ftc/our-history>.

¹⁶ Federal Trade Commission, “Federal Trade Commission Act, Incorporating U.S. SAFE WEB Act Amendments of 2006,” n.d.

¹⁷ “Report Fraud to the FTC,” Federal Trade Commission, June 25, 2013, <https://www.ftc.gov/fag/consumer-protection/submit-consumer-complaint-ftc>.

¹⁸ Danica Noble and Sarah Shifley, “ReportFraud.FTC.Gov: New Consumer Fraud-Reporting Tool,” NWSidebar, November 5, 2020, <https://nwsidebar.wsba.org/2020/11/05/reportfraud-ftc-gov-new-consumer-fraud-reporting-tool/>.

¹⁹ Peter Suci, “Spotting Misinformation On Social Media Is Increasingly Challenging,” Forbes, August 2, 2021, <https://www.forbes.com/sites/petersuci/2021/08/02/spotting-misinformation-on-social-media-is-increasingly-challenging/>.

growth be stunted as a result, it does hold malicious companies accountable via the threat of legal action in response to infractions such as misleading advertisement of products or services and the active withholding of information about product or service quality from purchasing parties, among others. Policy pushed forth by the FTC dictates how corporations should act if they are to remain in line with the rules of fair competition within their industries. On top of this overarching goal, the FTC has also released notable statements on topics such as antitrust laws, intellectual property licensing, and advertisement guidelines.²⁰ All of these topics are areas of concern that this committee should aim to address and develop methods of enforcement and regulation for.

Truth-in-advertising laws

Since the FTC will be the main government body through which the committee disseminates information surrounding regulatory decisions regarding online advertisement, it is important that a foundational understanding of its previous work in this field is established. The most relevant subsection of FTC legislation to acknowledge for the purposes of this committee is truth-in-advertising laws: the set of legislation and enforcement process that ensures that all advertising is “truthful, not misleading, and, when appropriate, backed by scientific evidence”.²¹

Currently, the FTC stipulates that although it has the power to shut down untruthful advertising, the onus of ensuring that truth-in-advertising laws are followed lies on the public.²² The FTC does not intervene itself until a substantial volume of complaints against a particular company or individual has been submitted by consumers, consumer advocates, industry groups, and market competitors for the organization’s review.²³ At this point, the FTC will then pick out specific ads released by the infringing company or individual to review based on the content of those complaints and initiate discussions with that infringing party with the hope of reaching a settlement where the ad can be changed to fit FTC guidelines or removed.²⁴ In cases where such an agreement cannot be reached, the FTC may be pushed to file a lawsuit against the infringing party.

Truth-in-advertising laws are more strictly enforced for companies who operate in industries with products and services that “directly impact consumers’ health or [financial well-being]”.²⁵ As such, there is naturally an over-representation of rulings surrounding “food, over-the-counter drugs, dietary supplements, alcohol, and tobacco and on conduct related to high-tech products and the Internet”.²⁶ Existing literature on decision making reveals that there is only a certain volume of information that can be provided and considered helpful in a purchase decision; beyond this critical volume, additional information merely acts as noise which distorts one’s ability to objectively visualize decision outcomes.²⁷ In cases involving the purchase of a product or service meant to improve one’s health, companies will

²⁰ “Policy Statements,” Federal Trade Commission, accessed September 28, 2021, <https://www.ftc.gov/policy/policy-statements>.

²¹ “Truth In Advertising,” Federal Trade Commission, August 5, 2013, <https://www.ftc.gov/news-events/media-resources/truth-advertising>.

²² Federal Trade Commission, “FTC Fact Sheet: The Truth, the Whole Truth, and Nothing but the Truth,” n.d., 1.

²³ Ibid.

²⁴ Ibid.

²⁵ Federal Trade Commission, “Truth In Advertising.”

²⁶ Ibid.

²⁷ Gerd Gigerenzer, *Simply Rational: Decision Making in the Real World* (Oxford University Press, 2015), <https://doi.org/10.1093/acprof:oso/9780199390076.001.0001>, 2.

often aim to sell consumers on products using large numbers of scientifically worded claims and potentially misleading numerical figures regarding the efficacy of that product or service. While the reasoning behind the FTC choosing to focus its efforts on ensuring that industries such as healthcare and financial support is therefore understandable, it does not necessarily mean that there are other areas in which misleading or misrepresentative advertisement is not a pertinent concern. At the end of the day, the FTC is responsible for governing the rollout of truthful and consistent advertisement across all industries. Attention must be paid especially to emergent fields where market saturation has not necessarily been reached and therefore competition may not be fair.

In 2017, the FTC published a set of truth-in-advertising laws which have been adapted to better fit the social media advertisement environment. These laws are colloquially known as the Endorsement Guides.²⁸ The Endorsement Guides “set forth the general principles that the Commission will use in evaluating endorsements and testimonials, together with examples illustrating the application of those principles”.²⁹ Thus, they provide companies who are looking to primarily promote their product and services via influencer sponsorships a point of reference regarding how they can best abide by precedents for fairness and transparency in online advertising.

HISTORY OF THE BETTER BUSINESS BUREAU

The other organization with an interest in consumer protection which will play a substantial role in this committee’s trajectory is the Better Business Bureau (BBB), a non-profit league which links product- and service-selling companies throughout the United States, Canada, and Mexico. Created in 1913 in response to the rise in product claim scams from illegitimate businesses and product sellers in the medical industry, the BBB is composed of many independent Vigilance Committees who help set and enforce advertising standards in different geographic regions.³⁰ The BBB gained popularity during the rise in prominence of Wall Street activity in the 1920s, when local offices were responsible for rooting out illegitimate brokerage firms, known as bucket shops, who would take investors’ money and not provide any returns.³¹ Eventually, the growing saturation of BBB headquarters across the nation meant that in 1970, following a call to streamline communications, local offices amalgamated into the Council of Better Business Bureaus. This arrangement allowed all local offices to share in the handling of consumer complaints from across North America. Most notably, the increased productivity generated by the creation of the Council of Better Business Bureaus allowed the BBB system to expand its investigative scope beyond private companies but also to non-profit organizations and charities.³²

The BBB is a staple authority and promoter of topics such as encouraging proper investigation of personal investment opportunities such as through their 1930s War Savings Protection program, being aware of different types of sales scams as a consumer, and pushing for business self-regulation as opposed

²⁸ “The FTC’s Endorsement Guides: What People Are Asking,” Federal Trade Commission, September 7, 2017, <https://www.ftc.gov/tips-advice/business-center/guidance/ftcs-endorsement-guides-what-people-are-asking>.

²⁹ Federal Trade Commission, “Guides Concerning the Use of Endorsements and Testimonials in Advertising,” n.d., 12.

³⁰ Better Business Bureau, “The History of BBB,” accessed August 4, 2021, <https://www.bbb.org/cleveland/get-to-know-us/about-us/history/>.

³¹ Jessica Tharp, “90 Years of Business Ethics, Integrity and Self-Regulation,” Peoria Magazine, January 2011, <https://www.peoriamagazines.com/ibi/2011/jan/90-years-business-ethics-integrity-and-self-regulation>.

³² Better Business Bureau, “The History of BBB.”

to government intervention when it came to resolving conflict between companies and customers.³³ On top of its advocacy work, the BBB manages and defines a rating and accreditation system which allows consumers to better understand the integrity and transparency of a given company's practice.³⁴ For companies or brands to obtain BBB membership, they must pay an accreditation fee and also demonstrate that they have adhered to and will continue to meet several standards of integrity and honesty within their advertisement content.³⁵ Over time, as the BBB regularly monitors a company's operations and any incoming complaints from consumers, that company will receive a letter rating from A+ to F which accompanies their accreditation.³⁶ These ratings are generated based on a holistic review of the following aspects of a company's business:

- The company's past history of BBB complaints,
- The type of business that the company is in,
- The length of time the company has operated for,
- The degree to which a company is reasonably transparent about their business practices,
- The ability for a company to honour its commitments to the BBB, including accreditation requirements,
- Whether or not a company has maintained updated licensing to continue operating in its field, and
- Whether or not a company has worked to resolve concerns that the BBB has raised about its advertisement and business outputs.³⁷

It is important to note that because the BBB is not government-affiliated, it does not have the authority to make executive decisions regarding federal regulation of online advertisement. This restriction has been central to much of the criticism surrounding the BBB; consumers who rely on using their complaint filing system often do not understand that the BBB cannot legally "force a company to take action" and instead it merely acts as a source of information and a direct communication channel.³⁸ The North Carolina Consumers Council, among many other sources, states that BBB ratings, while they can provide relevant insight into a company's historical practices, do not accurately indicate whether or not a company is "trustworthy" or that they respond well to complaints.³⁹ Thus, the general public is often cautioned to do additional research to formulate their own opinions on a company's conduct towards upholding consumer protection instead of fully relying on BBB action and explicit statements to help them make informed purchasing decisions.

³³ Ibid.

³⁴ Better Business Bureau, "BBB Accreditation Standards," accessed August 4, 2021, <https://www.bbb.org/bbb-accreditation-standards>.

³⁵ Ibid.

³⁶ Better Business Bureau, "Overview of BBB Ratings," accessed August 4, 2021, <https://www.bbb.org/>.

³⁷ Ibid.

³⁸ North Carolina Consumers Council, "The Better Business Bureau (BBB) Isn't a Government Agency and Can't Force Companies to Act," accessed August 5, 2021, <https://www.nccconsumer.org/news-articles-eg/the-better-business-bureau-bbb-is-powerless-to-help-resolve-consumer-complaints.html>.

³⁹ Ibid.

COMMITTEE SPECIFIC ISSUES

CREATING A REGULATORY FRAMEWORK FOR ONLINE ADVERTISEMENT

Currently standing institutions play a relatively passive role in holding malpracticing companies and sponsored influencers accountable for misleading product or service advertisements. One of the questions this committee must address is how to revise the roles of organizations such as the FTC and BBB to make these institutions into more active decision makers and enforcement channels. From here, the actual processes for regulating and ensuring fair and transparent online advertisement need to be set. The committee is free to look at any relevant statutes or statements previously released by the FTC, specific concerns raised by the public, or past initiatives taken on by social media platforms to inform collective final decisions.

Below, some specific areas to pay attention to in committee discussion are listed.

Defining the criteria for “fair and transparent” online advertisement

The FTC and the BBB work to promote fairness and transparency in both online and offline business operations, and evidently this principle extends to advertising. The FTC’s stances on how to best follow established law, which change from industry to industry, combined with the BBB’s guidelines on how to achieve certain ratings which are rigid by comparison, lead to a general lack of consensus on what is considered appropriate to disclose in order to ensure legal adherence in an advertising campaign. At the same time, the FTC’s and the BBB’s hands-off approach to handling cases of morally “grey” advertising unless multiple complaints from consumers are brought forth may pose a threat to both organizations’ legitimacy in the public eye.

During discussion, one of the committee’s goals should therefore be to arrive at a consensus on how companies should be disclosing different aspects of business to their consumers, if at all, and what information consumers would need to know in order to make informed purchasing decisions. The committee should also establish how these disclosure requirements would change across specific industries and advertisement methods (for example, influencer sponsorship, ad placement on websites, or other means of reaching consumer markets).

Expanding the jurisdiction of the FTC and BBB

The FTC has taken note of the growing call from the public to take action on misleading online advertisement. For instance, the FTC has focused on advocating for proper advertisement and sponsorship disclosure on the part of influencers. Through a guide released in 2019 titled “Disclosures 101 for Social Media Influencers”, the FTC has made references to subjects such as knowing when sponsorship disclosure is appropriate and how to properly disclose a business relationship.⁴⁰ However, the FTC states that it is “[the influencer’s] responsibility to make these disclosures, to be familiar with the Endorsement Guides, and to comply with laws against deceptive ads”.⁴¹ The committee should consider whether or not these responsibilities being on an individual level is appropriate at all. Consequently, the main question

⁴⁰ Federal Trade Commission, “Disclosures 101 for Social Media Influencers,” n.d., 8.

⁴¹ Ibid, 2.



to address is if delegating the responsibility of ensuring that FTC law is being followed to corporations or to another entity would be more efficient and allow for better enforcement of disclosure and advertisement guidelines.

In addition to deciding who should be held accountable for ensuring that FTC- and BBB-initiated investigative efforts are minimized (due to low numbers of cases needing to be opened against companies), the committee should also make efforts to outline and implement measures to enforce cooperation with the law. Whether this means being more vigilant of organizational practices through requesting regular activity monitors or requiring a certain number of advertising campaigns to be screened for potential legal violation per time period, the committee should work to ensure that it is not only companies who have generated negative public sentiment who are punished for not complying with FTC regulations. Of course, the committee is also free to explore alternative enforcement options, especially those which are generated through productive discussion and collaboration.

Raising awareness of new protocols and enforcement mechanisms

While it is within the FTC and the BBB's duties to generate new legislative activity, it is unlikely that consumers are paying attention to every new statement that is released. The responsibility of publicizing these legislative and legally binding releases therefore falls to news outlets, social media platforms, and the individuals who work for them – and who are more connected to consumers as a result.

There are multiple ways in which the release of new legislation can be introduced into the ongoing news cycle and made into common knowledge. For instance, many online magazines and blogs exist which are dedicated to documenting FTC regulatory changes, and the authors behind them will often communicate regularly with their audience members. However, since this committee focuses on regulating the online world while paying attention to advertising and marketing ventures, an interesting approach to spreading awareness of new protocols would be to harness the same advertising tools that product- and service-oriented companies are using to promote their brands. As previously established, the ease of use of social media to generate content for advertisement purposes is the main advantage that the channel has over other marketing strategies. Being able to harness this capability could prove beneficial if the committee chooses to focus on raising awareness about changes and updates to FTC legislation.

Questions to consider

- Traditionally, how has the FTC and the BBB addressed concerns of consumer privacy?
- Are there any initiatives being taken on by state governments regarding consumer privacy protection which are worth incorporating into federal rulings?
- How would organizations like the FTC and the BBB work with social media platforms to encourage adherence to previously established guidelines?

SOCIAL MEDIA CAMPAIGNS

By now, it should be evident that one of the central focuses – if not the primary one – of this committee is the application of FTC and BBB regulations on social media advertising. While the committee may spend a substantial amount of time adjusting current legislation or drafting new pieces to properly regulate online advertisement, the committee also needs to consider how companies and content creators themselves should be advised to act under these new policies.



As previously established, the FTC and BBB are largely hands-off institutions by nature, acting on cases of unlawful advertisement only when enough awareness has been raised about them. If this reputation is to be upheld – or even if either organization becomes more active in their relationships between corporations or content creators – there should be standards set regarding other fields of legislation which may affect or dictate how corporations and content creators should act under the direction of FTC and BBB guidelines. Some of the issues that may be considered include, but are not limited to:

- How corporations should choose who to partner with for sponsorships of any nature,
- How corporations should evaluate whether or not sponsored content they commission adheres to FTC and BBB guidelines, if at all,
- If ownership of content created for the purpose of a sponsorship should by default be claimed by the content creator or by the corporation who requested it, or
- How content creators and corporations should approach situations where the other party in a sponsorship agreement becomes disgraced in the public eye.

FTC representatives will likely be responsible for final decision making under this topic and any relevant subjects. However, this does not mean that other actors in or outside of the committee do not have influence. For instance, representatives of social media platforms should consider ways to promote certain behaviours in content creators, such as responsible disclosure, content tagging, or licensing awareness. To address the other side of the sponsorship agreement, social media companies can leverage the need for corporations to use their platforms as advertising channels to encourage more transparency in areas regarding relationships with content creators. By pursuing actions such as developing and implementing new technologies in existing promotional user interfaces or adjusting the terms of use for certain methods of advertisement, there is much that can be done by social media companies to promote fair and transparent advertisement from both companies and content creators.

In addition to making reference to existing and new FTC and BBB guidelines when approaching this topic, the committee may find it useful to look into fields such as copyright and fair use law, and how policy in these legal spheres has developed over the past decade with the rise in prevalence of online content.

Questions to consider

- How should companies choose who to partner with? Should there be a standardized sponsor vetting method?
- How should sponsored content created by a third party be assessed?
- Who gets to claim ownership of sponsored content – the creator, or the sponsoring company?
- How should the committee advise that companies react when sponsors become disgraced in the public eye?
- How can social media platforms further the objective of promoting truthful and transparent advertising?

ESTABLISHING STANDARDS FOR ETHICAL BUSINESS PRACTICES

While much of this background guide – and intuitively, the content that the committee as a whole will address – centers on the marketing and advertising side of business, there is also a need to recognize



when certain business practices outside of this field are unethical or illegal in the first place. In recent years, substantial investigation on certain business models which have found their most profitable channels to be online ones has been conducted. In this section, a set of such practices will be outlined and the committee is tasked with identifying instances of such practices and coming up with adequate measures to ensure they do not harm the financial and personal well-being of at-risk and marginalized population groups. The committee should pay particular attention to the role of the BBB and other similar initiatives in mitigating the impact of such businesses on consumers and make concrete and actionable decisions on how these organizations can contribute to this cause.

In addition, the committee should work to identify ways in which different business operations, such as product manufacturing, project financing, or supply chain management are used as marketing points for product or service-oriented companies. Often, aspects of these practices are used as “touchpoints” for companies to better connect with their customers and target audiences through their brand identities and associated values. For instance, a company which works to demystify its raw material sourcing processes may be better able to attract consumers who prioritize ethical raw material sourcing in their purchasing decisions. The committee must remain aware of how companies justify making certain claims about their products or services in order to catch deceptive advertisement before it impacts larger consumer populations and influences their purchasing decisions, sometimes for the worse.

Multi-level marketing

Multi-level marketing, also known as network marketing, direct selling, or pyramid selling, is defined by the Government of Canada as “a plan with three or more levels (the operator and at least two levels of participants) that promotes the supply of a product [or service] to participants of the plan”.⁴² The multi-level marketing business model has gained a substantial amount of media attention in the past decade. However, multi-level marketing has existed in its current format since the 1930s, with the incorporation of the California Perfume Company in 1939.⁴³ This company would later go on to be known as Avon Products, and is still in operation today. In fact, many of today’s top-performing American multi-level marketing companies were incorporated before 2000; notable names include Amway, Mary Kay, Tupperware, and Primerica among others.⁴⁴ Sales force employees in multi-level marketing businesses are typically referred to as “distributors” in reference to the fact that while they promote themselves as independent business owners, they are retailing products that are manufactured and promoted by a company that they work for.

What differentiates multi-level marketing from a typical product- or service-selling company is its emphasis on the need for participants to recruit other participants into “levels” below them; this practice is commonly known as establishing a “downline”.⁴⁵ There are monetary bonuses typically associated with

⁴² Innovation Government of Canada, “Multi-Level Marketing Plans and Schemes of Pyramid Selling,” Guides; Legislation and Regulations; Policies (Innovation, Science and Economic Development Canada, April 29, 2009), <https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03035.html>.

⁴³ Network Experience, “MLM History,” accessed September 13, 2021, <http://network-experience.com/en/multi-level-marketing/mlm-history.php>.

⁴⁴ “2019 Top 50 MLM Companies in the U.S. (by Revenue),” MLM News Report, accessed September 13, 2021, <https://www.mlmnewsreport.com/2019-top-mlm-companies/>.

⁴⁵ Charity, “What’s a Downline? What Is an Upline?,” *MLM, Network Marketing, Direct Selling News, Videos, Articles, Legal Updates, and More.* (blog), July 18, 2013, <http://mlmlegal.com/MLMBlog/whats-a-downline-what-is-an-upline/>.



an employee being able to successfully recruit other individuals; as those individuals generate sales that employee will receive portions of their sales profit.⁴⁶ Employees in multi-level marketing models therefore derive the majority of their profits from these recruitment activities, rather than from selling products. This particular characteristic has resulted in many legislative bodies, such as the FTC itself, drawing parallels between multi-level marketing models and illegal pyramid schemes.⁴⁷ Multi-level marketing results in a “system in which the vast majority of the money earned goes to the salespeople at the top of the pyramid”.⁴⁸ Those who are at the so-called “bottom” of the pyramid will most likely find themselves making little to no profit, or even losing money, as they continue to participate in the business. Studies exist to back up this statement; in 1980, the Office of the Attorney General of Wisconsin investigated tax information from the top 200 Amway distributors in the state and found that “net income after subtracting operating expenses for [them] was about minus \$900”.⁴⁹

Multi-level marketing has garnered mainstream attention in recent times primarily from litigation. Complaints about product quality, exploitative policy, and deceptive advertising used to attract customers and distributors are all too common for businesses who operate using this particular model.⁵⁰ In fact, awareness about the dangers of participating in multi-level marketing is so widespread that the FTC, the BBB, and other high-profile organizations who are dedicated to consumer protection have established guidelines for how to avoid it in general.⁵¹

Drop shipping

Drop shipping is a common practice for emergent small businesses who may not necessarily have the capital or the desire to maintain high amounts of product inventory. Drop shipping businesses will typically “[purchase] the item from a third-party supplier and has it shipped directly to the customer”.⁵² Consequently, the product’s seller rarely has to handle the product itself, as the inventory pipeline is greatly shortened as the product travels from the supplier directly to the buyer. Drop shipping companies face low barriers to entry in their respective industries as a result of the ease of starting up operations, making the model extremely popular in the e-commerce age.

While drop shipping models provide businesses with operating efficiencies and a more accessible start-up process, they come with a whole host of complexities which leave consumers vulnerable to purchasing decision- and privacy-related concerns. In many cases when an individual makes a purchase from a company who drop ships their products, they will have little recourse in events where the purchasing experience is not up to their quality expectation. Customers do not have a direct line of

⁴⁶ Motley Fool Staff, “How Do Multilevel Marketing Companies Make Their Money?” The Motley Fool, May 16, 2019, <https://www.fool.com/investing/2019/05/16/how-do-multilevel-marketing-companies-make-their-m.aspx>.

⁴⁷ Federal Trade Commission, “Multi-Level Marketing Businesses and Pyramid Schemes,” Consumer Information, May 18, 2021, <https://www.consumer.ftc.gov/articles/multi-level-marketing-businesses-and-pyramid-schemes>.

⁴⁸ Ibid.

⁴⁹ Jon M. Taylor, “MLM’s Abysmal Numbers,” in *The Case (for and) against Multi-Level Marketing* (Federal Trade Commission, 2011), 49, https://www.ftc.gov/sites/default/files/documents/public_comments/trade-regulation-rule-disclosure-requirements-and-prohibitions-concerning-business-opportunities-ftc.r511993-00008%C2%A0/00008-57281.pdf, 2.

⁵⁰ Ibid.

⁵¹ Federal Trade Commission, “Multi-Level Marketing Businesses and Pyramid Schemes.”

⁵² Corey Ferreira, “What Is Dropshipping?,” Shopify Blog, June 2, 2021, <https://www.shopify.ca/blog/what-is-dropshipping>.

communication with product suppliers despite there being a link between the two in the order delivery process. Consequently, if an order is incorrectly fulfilled, customers would likely be unable to receive any sort of compensation from the seller for any inconveniences caused by the order.

Additionally, from a business' perspective, drop shipped products are much more difficult to sell based on the fact that there are only so many suppliers willing to produce unique private labelled items. Many of the suppliers that drop shipping companies work with have also unionized in order to seize bargaining power within their respective industries; this practice has been seen most prominently and recently in the garment and textile industries in the United States.⁵³ Consequently, competition among drop shipping businesses in any given industry is intense and highly saturated, which further removes customers from their right to make informed purchasing decisions. If many products being offered are not differentiable in any tangible way from one another, consumers will likely find it difficult to align themselves with one brand or company and will become disengaged with all companies as a whole. Thus, marketing becomes an important cornerstone of success for many drop shipping businesses; however, this means that more questions will be raised surrounding the fairness and transparency of advertisement campaigns released by dropshipping companies for many of the reasons previously outlined in this guide.

Loot boxes and gambling schemes

In early 2019, news articles slammed influencers such as Jake Paul and Brian 'RiceGum' Quang Le for "[promoting] gambling to kids".⁵⁴ While the headline is objectively sensational, there is some degree of merit to this characterization. The 'loot box' websites, such as Mystery Brand, that were being promoted in this wave of sponsorships were iterations of online scams which advertised chances to win extravagant prizes in exchange for various amounts of money, with higher-ticket items requiring larger payments in order to roll for them. While this is a classic example of a lottery, which typically requires its participants to be of age to participate in and comes with a whole host of restrictions – see the Ontario Lottery and Gambling (OLG) Corporation Player Agreement which all lottery participants are responsible for adhering to, for instance – the crux of the scandal lay in the fact that these influencers targeted their primary audiences, which typically included young children.⁵⁵

Advertisement to children has been historically criticized for its presentation as entertainment masking the actual intention to sell a product.⁵⁶ Naturally, this means that sponsored material included in media aimed at children should be scrutinized more closely to ensure proper disclosure. Yet, since the FTC and the BBB have very little agency over businesses, much less over independent content creators who are not necessarily contracted to a public relations firm or managed by a third party, there is very little at the moment that can be done regarding how to regulate sponsorship in children's content. It is important to note that a lot of the questions and issues this committee will address will also need to be separately acknowledged in cases where children will be exposed to advertising efforts.

⁵³ Jeremy Blasi and Jennifer Bair, "An Analysis of Multiparty Bargaining Models for Global Supply Chains," *Conditions of Work and Employment Series*, 105 (2019): 48, 12.

⁵⁴ Rebecca Jennings, "YouTube Mystery Brand Scandal: Jake Paul and Ricegum's Gambling Controversy - Vox," *Vox*, January 4, 2019, <https://www.vox.com/the-goods/2019/1/4/18167341/youtube-jake-paul-ricegum-mystery-brand>.

⁵⁵ OLG. "Player Agreement." OLG, July 7, 2021. <https://www.olg.ca/en/legal/player-agreement.html>.

⁵⁶ Matthew A. Lapierre et al., "The Effect of Advertising on Children and Adolescents," *Pediatrics* 140, no. Supplement 2 (November 1, 2017): S152–56, <https://doi.org/10.1542/peds.2016-1758V>, 1.

Questions to consider

- How can the committee raise awareness about some of the business models outlined above and encourage consumers to not participate in or contribute to them?
- What initiatives can the committee implement to reduce the amount of exposure that consumers have to the business models outlined above?
- What demographics are more at risk of falling victim to or being exploited by the above business models?



ADDITIONAL NOTES ON THE COMMITTEE

CHARACTER ASSIGNMENTS

The character assignment delegates will receive upon their agreement to participate in the committee will be based on a real person with an existing professional and historical background that they can make use of as they work to represent a certain perspective in the committee's dialogue and dynamic. Delegates are also free to treat their characters as avenues through which to represent the organizations or groups that they belong to or align with. However, this is not the only thing delegates should be expected to know about their characters. When delegates arrive in the first committee session, they will be provided with concise character briefs, and while some of the information on them may be researchable online or by other means, *not all of it will be*.

What does that mean? Wait until the conference to find out!

INDUSTRY FOCUS

While a lot of the content that will be addressed in each of the proposed committee topics from this guide is meant to apply to all companies who use digital advertising as one of their main channels to communicate with consumers, social media advertising is typically associated with a select few industries. Therefore, the events that will play out over the duration of the conference will pull inspiration from these specific industries. Delegates will be expected to address ongoing and new situations related to companies who operate by selling goods in the following product categories:

- Health and wellness (e.g. supplements, fitness regimens, diet plans, etc.)
- Beauty and personal care (e.g. cosmetics, skincare, etc.)
- Pharmaceuticals (e.g. OTC medicines, disease control, medical aids, alternative care, etc.)
- Children's products (e.g. parenting tools, toys or other things which specifically include children in target audiences, etc.)
- Financial services and instruments (e.g. bank account creation, investment advice – crypto trading, etc.)

In-depth knowledge about any of these industries is not required to do well in the context of the committee. However, having a basic understanding of the connections between the content within this background guide and each of these fields will allow delegates to more seamlessly navigate the tumultuous nature of the ongoing Crisis arc. By researching the precedent behaviour of various companies regarding advertising campaigns and public response, delegates will be better equipped to handle new developments.



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