Click fraud; is it the Achilles Heel of Online Advertising?

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Background

Online marketing communication encompasses all the major methods that online firms use to communicate to the consumer, or to create strong brand expectations, and drive sales. In some instances, marketing communications help to develop and strengthen a firm's brand by informing consumers about a particular feature of a firm's products and services. Marketing communications can also be used to promote sales directly by encouraging the consumer to buy products.

There are many different forms of online marketing, a paid message on a Web site, online service or any other interactive media. Online advertising is by far the most common and familiar marketing communication tool. In fact, companies spent an estimated $2.76 billion on advertising in 2005, and an estimated $12.9 billion of that amount online (PriceWaterhouse Copper, 2005; Universal McCann, 2005; e-Marketer, Inc., 2005).

Online advertising has grown rapidly, at well over 200% a year, while is next closest media cable television at 79% as reported by Elliot (2005). Other learned observers report there is solid evidence that advertisers are aggressively increasing online spending and cutting outlays on radio, television, and newspapers. The dominant industries in terms of dollars spent on online advertising are: retailers, financial service companies, entertainment enterprises, and computer manufacturers (Delaney, 2005). Online advertising has both advantages and disadvantages when compared to advertising in traditional media, such as television, radio, and print. Its biggest advantage is the ability to target advertising messages to narrow segments of a market, and track its performance or effectiveness in almost real time. This procedure is called Ad targeting, or the sending of market messages to specific subgroups of the population (Laudon & Guercio, 2007). Ad targeting is the enabling mechanism or foundation of price discrimination, the ability to charge different types of consumers different prices for the same product or service.

Online persuasive messages also provide greater opportunities for interactive, two-way communication between advertisers and potential customers.

The three most significant disadvantages associated with online advertising are: concern about its cost versus its benefits, the lack of an adequate mechanism with which to measure its effectiveness, and the availability of good venues to display the ads. Bialik (2004), studied this matter and reports that owners of Web sites who sell advertising space (publishers) do not have an agreed upon standard or routine to verify their claimed numbers as do other media outlets.

Marketers have a considerable number of forms of online advertisement at their disposal. Among the most important ones we could mention, display ads, search engine advertising, sponsorships, and referrals. The online advertising format that currently produces the highest revenue is paid search, followed by display ads. The fastest growing online ad formats, however, are rich media and then paid search (Price-Waterhouse-Cooper, 2005; e-Marketer, 2005).

Online advertising has many interesting features, For instance, banner ads. A banner ad displays a promotional message in a rectangular box at the top or button of a computer screen. A banner ad is similar to a traditional ad in a printed publication, however, if clicked on, it can bring a potential customer directly to the advertiser's Web site. A banner ad is also dynamic as compared to a traditional ad, since it can present multiple images or otherwise change its appearance.

Once an advertiser decides to incorporate this new development to its marketing strategy he has several options from which to choose, when he places a banner ad on the Web. He can choose from banner swapping or banner exchange programs, or participating in an ad network, or dealing with the publisher(the Web site that will post the advertisement) directly. A banner swapping arrangement among firms allows each firm to have its banners displayed on other affiliate sites, at no cost. Banner exchanges, a special type of intermediary, arrange for banner swapping particularly for small firms that cannot afford expensive network like Double Click.

The most significant change in online marketing in recent times is the explosive growth of in search engine marketing. Search engine marketing has grown from 1% of total spending in 2000 ($108 million) to over 40% in 2005 ($5.75 billion) according to authorized sources (Sempo. Org, 2006; e-Marketer, Inc., 2005). The search engine audience is huge, almost as big as the e-mail user population. On any given day in the United States, around 60 million Americans will use a search engine, as documented by Pew Internet & American Life Project (2005). To serve this cluster of customers there are hundreds of search engines available on the Internet. The top three search engine providers are Google, Yahoo, and MSN according to (Luadon, & Guercio, 2007), with over 95% of all searches.

As part of their operating procedures, many search engines obtain their results from search engine providers, which are firms that sell their search results to other search engines. The most popular search engine provider is Goggle, with an estimated world market share of about 50% during 2005 as reported by Nielsen/Net Ratings (Integrated Resource Management, 2005).

Laudon & Guercio (2007), relate that search engines at first performed unbiased searches of the Web's huge collection of Web pages and derived most of their revenue from banner advertisements. Since 1998, search engine sites have been slowly transforming themselves into digital yellow pages, where firms pay for their inclusion in the search engine index and/or pay for special placement in the report of available services. These paid inclusion programs guarantee a Web site is in the list of search results, more frequent visits by its Web crawler, and suggestions for improving the results of organic searching. Yahoo and MSN claim these payments, at the rate of $49 a page per year, do not influence the ranking of a Web site in search results, merely inclusion in the results (Mangaliwdan, 2004).

There are other search engine marketers that rely on selling keywords in online auctions. Keyword advertising (what Goggle call Adsense and Overture Content Match account for most of the revenue growth in search engine marketing(Laudon & Guercio, 2007). In keyword advertising, merchants purchase keywords through a bidding process at the search sites. Bid winners rest assured that whenever a consumer searches for the particular word their advertisement shows up somewhere on the page. The more a merchant pays, the higher the rank and greater the visibility of their ads on the page. Network keyword advertising, introduced by Goggle, presents a different type of marketing strategy. In order to succeed, the search engine first creates a network of publishers by offering to pay them for accepting ads placed by Goggle on their sites. In return for allowing Google to place the ads the network pays the network participants most of the click-through fee, but retains a portion for itself. Goggle adjust the nature of the ads content of the participating Web site by reading the content with a software program based primarily on keywords that appear on the network publisher's site. Once the network is established Goggle sells this service to merchants in the form of Adsense keywords. Merchants in turn pay Goggle on the basis of clicks from the ads, and Goggle passes most of this income on to the publishers to compensate them for the use or their own site (Laudon & Guercio, 2007).

Many merchants consider search engine marketing the ideal mechanism for sales promotion because shoppers are looking for a specific product or service when they use the search engine. These cyber visitors are generally considered good prospects; who are looking for information on a product or service they intend to buy. Moreover, search engines charge for click-through a site, and merchants do no have to pay for ads that won't work. Lastly, participating merchants do not have to be at the mercy of search engine rankings and listings.

Consumers benefit from search engine marketing because advertising messages for merchants appear only when consumers are looking for a specific product. There are no pop-ups, flash animations, e-mails, or other irrelevant and irritating communication to deal with. Search engine marketing is growing because it saves consumers cognitive energy, and also because it allows obtaining only the information they are interested in and looking for.

II Problem

Businesses have no complaint about their participation in the pages of important providers such as Goggle or Yahoo. The trouble arises when Google and Yahoo in order to boost their profits recycle these ads to million of other sites, ranging from the familiar ones, such as CNN.com, or ESPN.com, to dummy web sites like insurance1472.com, which display list of ads and nothing else. When somebody clicks on these recycled ads, marketers get billed, even if the clicks appear to come from an unknown region of the world. This questionable behavior is seriously affecting online advertising and in the eyes of many in the industry constitutes an Achilles heal of this growing communication alternative. Click fraud, as this conduct has been characterized, occurs when a competitor hires third parties to fraudulently click on competitor ad. (Glow & Elgin, 2006), consider this spreading scourge the single biggest threat to Internet online advertising. It is a concern for advertisers and also a nettlesome question facing Google and Yahoo the dominant players in the market.

Anyone can click on search engine ads, driving up a merchant's costs without purchasing anything. A very eloquent testimony on this matter is provided by Martin Fleischmann who relied in online advertising to build up his company Most Choice.com, which offers consumers rate quotes and other information on insurance and mortgages. In 2005, he paid Yahoo and Google a total of $2 million in advertising fees. Grow and Elgin (2006), claim the promise that the advertiser will only pay when a customer click on an ad was not fulfilled since a number of puzzling clicks were traced to far away destinations like Bostowana and Syria. This seemed strange to Fleischman since his company direct customers to insurance and mortgage brokers only in the U.S.

Unfortunately, some fraudsters have developed sophisticate click bots that automatically click on ads from hundreds of different International Protocol addresses, and utilize zombie computers (unprotected clients on the Web that have been captured by Adware programs) to generate untraceable clicks. David Struck and his wife Renee, say they dabbled in click fraud more than $4,000 in four months. The couple set up dummy sites filled with recycled Yahoo and Google advertisements, then they paid others small amounts to visit the sites and click away on the ads (Grow & Elgin, 2006).

Jim Hill, a retailer of athletic gear from Eugene, Oregon, was only marginally aware of click fraud until several month ago, when his advertising budget for a new campaign based on one word searching was depleted in just one day, as a result of incessant clicks. Although he incurred in a couple hundred dollars loss, he admits his faith in online advertising was shaken (De Baise, 2006).

Internet scavengers are active on a worldwide scale. Assaf Nehuray's online ad campaign bogged down in Germany. The European businessman runs a Web marketplace for cargo firms. During 2003-2004 he attracted customers to its site by putting links on the major search engines. His online advertising campaign worked flawlessly until the summer of 2004, when he decided to penetrate his local market Germany, he found that his site was getting lots of new visitors but unusually few paying customers. An analysis on his internet logs revealed that someone had written a simple software program that relentlessly clicked on his ads, running his ad budget and pushing him out of the search sites by noontime each day (Stone, 2005).

Brad Stone(2005), reports that Google, Overture and many smaller search sites get paid by advertiser's each time a visitor clicks on an ad link, as so, it is not surprising that the Internet has attracted a new breed of swindlers that clicks on those links not to buy the advertised product, but to accelerate a rival's ad spending or even to collect part of the fee themselves, This can be accomplished by using Goggle's Adsense Program, a Website publishers can run ads posted by Google and share the revenue.

Solution

Online advertising firms are urgently trying to address the problem. Greg Stuart, CEO of the Interactive Bureau (IAB), a trade group, says that ad buyers lack of confidence is very serious (Stone, 2005). This group is running a measurement task force that is working on developing a single standard to measure real clicks, and weed out fake ones.

Concurrently, many advertisers are starting to get antsy. In late September 2006, a coalition of such major brands as Interactive Corp's Expedia.com Travel Site and mortgage brokers Lending Tree are planning to go public with its unease over click fraud. They intent to form a group to share information in order to pressure Google and Yahoo so they are more forthcoming (Grow & Elgin, 2006). In June 2006, researcher Outsell, Inc., released a blind survey of 400 advertisers, 37% of which said they had reduced or where planning to reduce their pay-per-click budget because of fraud concern (Grow and Elgin, 2006).

Nevertheless, supporters of search marketing say click-fraud is easily detectable, and both media owners and agencies can track it by monitoring their advertising campaign web log and web sites (Bonello, 2006). Experts say business can mitigate the cost of click-fraud by regularly monitoring their pay-per-click accounts for unusual click activity. And there are a host of companies that will do the monitoring for them. These click detention firms rely on clues like numerical addresses that computers provide when they connect to eliminate fraudsters (Bonello, 2006).

Click Forensic Experts provides a click-fraud monitoring service free of charge to business whose online advertising campaign generate fewer than 100,000 clicks a month. This company, which makes the bulk of its revenue providing the service for a fee to large advertisers, says it uses special technology to detect every click to an advertiser's Website and tracks it through the exit page. Click Forensic uses click-fraud data to publish a monthly click fraud index, which measures the frequency of click fraud in online advertising campaigns (De Baise, 2006).

Click Facts, another expert, has developed proprietary auditing software to help advertisers detect click fraud. It charges about 1% of the cost of the click for its service. The cost of fraudulent clicks can quickly add up. Pay per click advertising typically costs anywhere from 10 cents a click to as much as $10, with the average click running about $1 to $2. (De Baise, 2006).

For other respected sources, the best way to fight click fraud is to avoid advertising where it tends to happen most. That means listing ads only on search engines and not on third party ad networks like Google's popular AdSense, which allows external sites to host ads and share profits. They say a third party site can be driven by greed to use a software program or pay cheap labor in foreign developing nations to re relentlessly click on ads in order to get more commission from clicks (De Baise, 2006).

A different alternative in combating click fraud is defended by other well-versed participants; they point out to a potential new pricing model that makes it harder to commit click-fraud in the first place. Search engine operators are studying one method called cost-per-action advertising, where an advertiser pays only when a click-through leads to a product purchase sales lead. Professor Tuzhling from Stern School of Business indicates this new approach is safer for advertisers but at the same time riskier for search engine companies. If such a system were adopted, most probably the loss of revenue from pay-per-click could prompt search engines to charge more for cost-per-action ads (De Baise, 2006).

Randal S. Hansen, a professor of marketing at Stetson University in Orlando, Florida, sees a bright future for this industry as more mainstream advertising make the Internet a bigger part of their ad budget. Nevertheless, he warns that if the industry cannot fix the click and fraud problem, then it is going to scare away further development of the Internet as an advertising medium (Laudon & Guercio, 2006).

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