Chapter 5.33
Online Advertising Fraud

Robert S. Owen
Texas A&M University – Texarkana, USA

INTRODUCTION

This article discusses illegitimate activities associated with online promotion activities, specifically those related to *click-through fraud*. Whether one is starting a new brick-and-mortar restaurant, managing a charity organization, or building an online information portal, prospective customers, donors, or users must be informed, persuaded, and reminded of the features and benefits that are offered by the business. Online promotion has some unique and advantageous characteristics over traditional promotion media, but those characteristics create a potential for abuse. Click-through fraud, more commonly termed *click fraud*, is a relatively recent and evolving problem that currently has few deterrents. This article outlines why and how click fraud is done, and suggests some measures that can be taken to at least recognize the potential for click fraud.

The interactive nature of the Web would seem to make it an ideal advertising medium with a potential to completely eliminate advertising *waste*. Newspaper ads for, say, a pet store reach many people who do not have pets: the number of people in this category is termed as *waste*. With online advertising, it is possible—in an ideal world—to place an ad and to pay for the ad space only when a prospective customer shows interest by clicking on a linked advertisement that transports him/her to the advertiser's online place of business. This *pay-per-click* (PPC) pricing model would seem to completely eliminate advertising waste.

Unfortunately, advertisers, ad hosts, and fraudsters are discovering that the PPC model is open to abuse. Those who click on an online advertisement could include:

- Prospective customers who actually have an interest in the product
- Competitors who want to generate high advertising costs for the advertiser
- Ad hosts who earn a commission from displaying pay-per-click advertising

The latter two categories consist of entities that have absolutely no interest in the advertiser's offerings and absolutely no intention of ever performing any *target actions* such as purchasing a product. These fraudulent *click-throughs* or *debiting clicks* could turn an ad campaign from one that has almost no waste into one that has almost

100% waste. In a survey of advertisers, the Search Engine Marketing Professional Organization found that a quarter of respondents have tracked fraud as a problem (SEMPO, 2004).

BACKGROUND

Contextual advertising is one way of increasing the likelihood that an ad is reaching people in its target audience. In Web-based advertising, contextual advertising would include banner ads or search engine links that are displayed on a page that has a context that is related to the ad; people on that page are already searching for or browsing through ad-related content. Better reaching the target audience in this way should result in less waste and, in the case of online advertising, in a higher *click-through rate* (cf. Newcomb, 2003; Smith, 2004; Sullivan, 2004).

Search engines engage in contextual advertising through the *pay-per-click* (PPC) or *cost-per-click* (CPC) pricing model. When someone does a search, many search engines not only return links to pages that have been indexed on the search terms, but also return *sponsored links* to pages that the advertiser has paid to have listed at high ranking (cf., Brendler, 2005). When someone clicks on a sponsored link in the PPC model, this *click-through* is a *debiting click* that subtracts from the advertiser's prepaid advertising click budget. The price per click is set by a bidding process, whereby the advertiser who bids to pay the most for particular keywords will be ranked the highest in the list of *sponsored links* returned by the search engine (cf., Alchemist Media, n.d.). The Fathom Online Keyword Price Index shows that in March 2005, advertisers in the consumer retail industry were paying an average of $0.51 per click, while advertisers in the mortgage industry were paying an average of $5.39 per click (Fathom, 2005). Bids on some keywords can reach into the fifty-dollar range (cf., Associated Press, 2005a; Bruce Clay, n.d.).

Both advertisers and ad hosts have experienced fraud under the PPC advertising model, but legal action is relatively new at the time of this writing. In February 2005, the gift shop Lane's Gifts and Collectables filed suit against Google, Yahoo, and others for allegedly billing for inflated click-throughs for PPC advertising, charging that many click-throughs were not generated by *bone fide* potential customers (Associated Press, 2005b). But just a few months earlier, Google had itself filed one of the first click fraud lawsuits against one of its advertising affiliates who displayed Google-generated sponsored links on its own Web site. The affiliate, Auctions Expert, contracted with Google to display PPC links, but then allegedly clicked on those links itself in order to generate a commission (Olsen, 2004). In March 2004, Michael Bradley was arrested by the U.S. Secret Service in association with his Google Clique software that he claimed could be used to generate false clicks for Google affiliates (Nariane, 2004).

ADVERTISING CLICK FRAUD

Before looking at why and how click fraud is done, we need an understanding of some basic cost or pricing methods used in online advertising.

Pricing Models

Traditional Model: CPM and Pay-Per-Impression Advertising

A traditional measure of advertising cost for print and broadcast media has been *CPM*, or "cost-per-thousand." In traditional media, this is the cost of reaching 1,000 individuals or households with the advertising message in a given medium. With online advertising, CPM tends to be associated with the cost of 1,000 *impressions*, or actual exposures to a particular advertisement. In *pay-per-impression* advertising, the advertiser pays for some predetermined number of ad impressions.

Related Content

E-Commerce Adoption Barriers in Small Businesses and the Differential Effects of Gender
Robert C. MacGregor (2009). *Selected Readings on Electronic Commerce Technologies: Contemporary Applications (pp. 429-451).*
www.irma-international.org/chapter/commerce-adoption-barriers-small-businesses/28598

Trademark Infringement in Pay-Per-Click Advertising
Peter O'Connor (2009). *Contemporary Research in E-Branding (pp. 148-160).*
www.irma-international.org/chapter/trademark-infringement-pay-per-click/7065

A Model Building Tool to Support Group Deliberation (eDelib): A Research Note
Tony Elliman, Ann Macintoshand Zahir Irani (2007). *International Journal of Cases on Electronic Commerce (pp. 33-44).*
www.irma-international.org/article/model-building-tool-support-group/1518

Understanding the Behavioral Determinants of M-Banking Adoption: Bruneian Perspectives
Afzaal H. Seyal, Mahbubur Rahimand Rodney Turner (2011). *Journal of Electronic Commerce in Organizations (pp. 22-47).*
www.irma-international.org/article/understanding-behavioral-determinants-banking-adoption/68371

Influences of Search Engine Optimization on Performance of SMEs: A Qualitative Perceptive
Stella Tomasiand Xiaolin Li (2015). *Journal of Electronic Commerce in Organizations (pp. 27-49).*
www.irma-international.org/article/influences-of-search-engine-optimization-on-performance-of-smes/131468