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## **So Many Hits, So Few Sales**

Click fraud is fast becoming a problem for small businesses advertising online

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Just when pay-per-click advertising made it easier for small businesses to get more bang for their advertising buck, along comes a potential budget drainer: click fraud.

Pay-per-click advertising -- where an advertiser pays only when users click on an ad that links them to the business's Web site -- has fast become an affordable way for small businesses to reach a big audience on search engines and third-party Web sites.

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The problem is that not all clicks are made with the intent to potentially buy something -- or with any good intent at all.

Sometimes, a competitor will click on a company's ad numerous times to blow the company's advertising budget out the window, since the business will have to pay for each of those clicks. Other times, a Web-page owner, who gets a commission from search engines to host a pay-per-click ad, will repeatedly click on the listing to boost his or her commission.

And many companies don't even know they are the victims of click fraud. A lot of small businesses "are probably thinking, 'Wow, I am getting all these clicks for people to visit my Web site.' They have no idea they are not buyers," says Gene Fairbrother, lead small-business consultant for the National Association for the Self-Employed, a trade group based in Dallas.

But experts say businesses 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 start-ups popping up that will do the monitoring for them -- some even at no charge. These so-called click-detection firms rely on clues like numerical addresses that computers provide when they connect to weed out fraudsters. Small businesses can then take the information to the search companies to request a refund or credit for any fraudulent clicks.

## Costs Add Up

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. So if a small business is the victim of hundreds of fraudulent clicks, the financial damage can be steep.

And it's not just the small business that could feel the sting. Click fraud also affects the search engines, whose business models rely heavily on pay-per-click advertising.

Earlier this year, for instance, **Google** Inc. agreed to pay as much as \$90 million in legal fees and advertising credits to settle a click-fraud lawsuit brought by Lane's Gifts, a Texarkana, Ark., retailer, on behalf of a class of advertisers that claimed they were improperly billed for clicks that didn't lead to genuine customers.

**Yahoo** Inc. also agreed earlier this year to pay roughly \$5 million in legal fees and review advertiser click-fraud complaints since 2004 to settle a class-action lawsuit brought last year by private-investigation firm Checkmate Strategic Group Inc. of Delray Beach, Fla. Checkmate had alleged breach of contract and unfair business practices, claiming that Yahoo didn't adequately protect advertisers from click fraud.

## On the Watch

Both Google and Yahoo say they have systems in place that filter out invalid clicks -- often, by detecting rapid, successive clicking from the same user or IP address -- and that the majority of advertisers don't ever have to deal with click fraud.

Google says thuggery, when it comes to online advertising, has been exaggerated. The company estimates that less than 10% of clicks over its entire system are fraudulent. The problem is manageable, and the search engine has an incentive "to work with our advertisers and make them as happy as possible," says Shuman Ghosemajumder, Google's manager for trust and safety.

John Slade, Yahoo's director of global product management, says that "if our filters say that a click looks problematic, we give it away for free."

Yahoo and Google say they provide businesses with free software that shows if a user who clicked on an advertisement ultimately ended up buying a product or service. If small businesses notice any problems, the search engines say, they should notify them.

"If we find cases that are click fraud, we'll refund it," says Yahoo's Mr. Slade. "If it's hard to tell, we'll offer" a credit for the cost of the click.

Some in the small-business community complain that the search engines were slow to acknowledge that click fraud was even a problem. The lawsuit settlements have eased many concerns since they brought the problem to light. But some advertisers still believe

that the search engines will never be able to do enough and that click fraud will always be a problem.

So what steps can small businesses themselves take to combat click fraud?

Marketing experts, small-business advocates and the search engines themselves agree that the most important thing a business can do is to closely monitor its advertising campaigns, especially logs that show click results.

If, on a given day, click-through traffic is 10 times heavier than usual, then ask a few common-sense questions: Did an article about my business come out? Was there something in the news?

"If there is no answer, that might be a good indication that fraud is occurring," says Andrea Peiro, president of the Small Business Technology Institute, a San Jose, Calif., nonprofit that trains small-business owners on technology skills.

### **Seek Outside Help**

Many small-business owners, however, don't have the time or inclination to sift through logs. And that's where click-detection firms come in. Among them: Click Forensics LLC, of San Antonio; Click Defense Inc., Fort Collins, Colo.; ClickDetective Ltd., of the United Kingdom; WhosClickingWho, San Jose, Calif.; and ClickFacts, of San Francisco.

Click Forensics provides a click-fraud monitoring service free of charge to businesses whose online advertising campaigns generate fewer than 100,000 clicks a month. The 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 Web site and tracks the visit through to the exit page. In return for providing the service, Click Forensics uses click-fraud data to publish a monthly Click Fraud Index, which measures the frequency of click fraud in online advertising campaigns.

Another firm, ClickFacts, has developed proprietary auditing software to help advertisers detect click fraud. It charges small businesses about 1% of the cost of a click for its service. For instance, "if you're buying clicks that are \$1 a click and you spend \$100 for 100 clicks, we will charge you one dollar," says Mikhail Ledvich, ClickFacts' chief strategy officer.

Jim Hill, owner of SportHill, a Eugene, Ore., retailer of athletic gear, was only marginally aware of click fraud until several months ago -- when his advertising budget for a new campaign based on one word search was depleted in a day as a result of incessant clicks.

Although he lost only a couple of hundred dollars, Mr. Hill says his faith in the advertising model was shaken. "It's definitely been a drag on my enthusiasm for advertising on the Internet," he says. In business for 20 years, Mr. Hill says he has relied on the Internet over the past five or six years to expand his clientele.

So after the click-fraud incident, Mr. Hill decided to start monitoring his advertising campaigns using ClickFacts' service. "It's happening every month, and we're tracking it," he says.

Mr. Hill says between 7% and 15% of his clicks on any given day are fraudulent -- a small but significant amount, and one that easily could have gone unnoticed. In a few months' time, he plans to add up the losses and ask the search engines that run his ads, including Yahoo and Google, for a refund.

## Other Options

Some experts say the best way to fight click fraud is to avoid advertising where it tends to happen most. That, they say, 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 developing nations to repeatedly click on ads in order to get more commissions from clicks.

"Generally, where we see a high volume of click fraud is not [in] Google directly but those other affiliates," says Jim Collins, chief executive of **Affinity Internet**, a Fort Lauderdale, Fla., firm that advises small businesses on ad campaigns.

Google says that there's no greater chance of fraud if your ad runs on a third-party site, and that if anything, a small-business owner might lose out on valuable exposure. "Making decisions about where to invest your advertising dollars out of fear is not the best way to set up your campaign," says Mr. Ghosemajumder.

Other experts, meantime, point to potential new advertising pricing models that may make it harder to commit click fraud in the first place. Search engines are studying one method, called cost-per-action advertising, where an advertiser pays only when a click-through leads to a product purchase or sales lead.

"It's safer for the advertiser, but then it's more risky for the search engines" because they would likely lose easy revenue from simple clicks, says Alexander Tuzhilin, professor of information systems at New York University's Stern School of Business. If such a system were adopted, he says, the loss of revenue from pay-per-click could prompt search engines to charge more for cost-per-action ads.

Yahoo says search engines are looking at ways to give advertisers more choice, but it's not anything the company can talk about in any detail right now.

Google's Mr. Ghosemajumder says, "We're always looking for new ways to provide effective and useful features to advertisers, publishers, and users. As part of these efforts we are currently testing a cost-per-action pricing model to give advertisers more flexibility and provide publishers another way to earn revenue through AdSense."