



Click fraud looms as search-engine threat

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Merchants billed for repeated clicks on on-line ads - Like thousands of other merchants, Tammy Harrison thought she had struck gold when hordes visited her Web site by clicking on the small Internet ads she purchased from the world's most popular online search engines. It cost Harrison as much as \$20 for each click, but the potential new business seemed to justify the expense. Harrison's delight dimmed, though, when she realized the people clicking on her ads weren't really interested in her products.

She was being victimized by "click fraud," a scam that threatens to squelch the online advertising boom that has been enriching Google Inc., Yahoo Inc. and their many business partners.

The ruse has different twists, but the end result is usually the same: Merchants are billed for fruitless traffic generated by someone who repeatedly clicks on an advertiser's Web link with no intention of ever buying anything.

Harrison figures she has spent about 200 hours documenting the mischief that drained her budget and diverted customers to a competitor, costing her an estimated \$100,000 in sales. "Click fraud has gotten out of control," said Harrison, who sells computer software to doctors. "It's stealing money from my pocket. It's just as bad as someone walking into a store and taking a television."

Estimates vary widely on how much click fraud is going on in the \$3.8 billion search engine advertising market. "Click fraud exists, but it's mostly a big paranoia," said Chris Churchill, chief executive of Fathom Online, a San Francisco firm that studies the spending patterns on search engine ads.

Others believe anywhere from 10 percent to 20 percent of the clicks are made under false pretenses. "Click fraud is like a big elephant standing in the middle of the living room," said Lisa Wehr, president of Oneupweb, a search engine advertising consultant. "Everyone sees it and knows it's there, but no one is quite sure what to do about it."

Both Google and Yahoo acknowledge the perils of click fraud, but believe improved internal controls and the increased vigilance of advertisers will prevent the problem from escalating. "We are always worried about it, but it hasn't been a material issue so far," said Google chief executive Eric Schmidt.

After recently expanding its staff to patrol click fraud, Google broke up a scheme that had generated several thousand bogus transactions, chief financial officer George Reyes told analysts earlier this week.

Yahoo also has been shoring up click fraud protections, said Patrick Giordiani, a senior manager for the company's advertising subsidiary, Overture Services.

Such reassurances from search engine executives aren't surprising, given how much they stand to lose if advertisers curtail spending, said Jessie Stricchiola, president of Alchemist Media, which helps businesses detect problems and negotiate refunds. "There's some serious positioning and politicking going on," she said. "Click fraud isn't going to destroy the industry, but it's not going away either."



Harrison said she didn't know a thing about the problem until a former employee formed a rival firm and started to repeatedly click on her ads as a competitive tactic. The fraudulent clicks frequently exceeded spending limits Harrison had set, knocking her ads out of the display rotation.

Refunds issued

The search engines have issued refunds to cover the bogus clicks, but Harrison says those payments don't compensate for missed sales opportunities.

Stricchiola believes it's only a matter of time before advertisers become so exasperated with click fraud that they file a class-action lawsuit against a major search engine.

The incentives for click fraud have increased along with the money devoted to search engine advertising — a concept that didn't exist until Overture Services introduced it in the late 1990s.

Such advertising, Google calls it AdWords, works like this: The search engine auctions off the right to have advertising links displayed when designated words, such as "vacation Hawaii," are included in a search request. The top bids get the most prominent display on Web pages.

Once widely ridiculed, the idea has turned into a fast-spreading craze as more merchants realized substantially higher returns on search engine ads than on more traditional marketing campaigns conducted through the Yellow Pages, direct mail and newspapers.

By 2008, industry research firm eMarketer expects \$7.4 billion to be spent on search engine advertising, up from just \$108.5 million in 2000.

The success of search engine advertising has substantially raised prices, too. In mid-1999, advertisers paid Overture an average commission of 11 cents per click. By the end of last year, advertisers were paying an industrywide average of \$1.70 for the hundreds of keywords tracked by Fathom Online.

The cost of prized search terms runs much higher. For instance, the top price for mesothelioma, a cancer that spurred scores of lawsuits linking the illness to asbestos exposure, recently stood at \$51 per click, Fathom said.

Higher prices have turned click fraud into a cottage industry. Some swindlers have hired cheap overseas contractors to sit in front of computers and click on targeted links all day. Others are developing sophisticated software to help automate and conceal click fraud.

On the other side of the fence, entrepreneurs like Dmitri Eroshenko are trying to develop technology solutions to counteract click fraud.

"This has become a real cat-and-mouse game," said Eroshenko, who runs Clicklab in Miami. "Advertisers are going to have to accept a certain level of click fraud as a cost of doing business."