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Click fraud rattles web marketing budgets

By Chris Nuttall in San Francisco
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Radiator.com, a website selling car radiators, found its marketing budget was boiling over using **Google's** pay-per-click advertising system.

It began advertising in 2001, paying about \$1,000 a month, but soon increased this to \$20,000, then \$30,000 a month, as more users searching for car radiator companies on Google were led to its site.

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But when John Thys took over as director of its internet operations, he became alarmed by logs showing that 30 per cent of the clicks on Radiator's ads were bogus.

"That really made us look at what we were paying. We cut back the budget about 35 per cent – our expenses had gotten way out of line," he says.

"Click fraud" happens when ads appearing on search results pages are clicked on by someone with no interest in the product advertised. The clicks, often automated, can be aimed at depleting the marketing budget of a competitor.

Under the "pay-per-click" business model used by most search engines, advertisers bid to pay so much per click for their ads to figure prominently when users search for terms related to their businesses.

A survey of more than 400 online advertisers published by the Outsell media research group this month suggested that 14.6 per cent of the clicks they were paying for were fraudulent. This was after Google and others had themselves filtered out clicks their detection systems had identified as bogus.

In Radiator.com's case, Mr Thys found himself in the middle of an argument between Google and the click-fraud monitoring group he had hired, with both disputing each other's methodologies.

"Reimbursement is pretty much a joke. We're spending \$20,000 a month, but the most we've ever received as a refund is a few hundred dollars a quarter," he says.

Nevertheless, Google is earning 99 per cent of its revenues from advertising, and its financial results suggest its customers are getting enough of a return on their marketing investment to continue to use it, in spite of the levels of click fraud.

Analysts expect Google to announce revenues of \$1.63bn when it reports second-quarter results on Wednesday, up from \$890m a year ago.

However, advertisers may be willing to spend even more with Google and other search engines if the uncertainty and debate over click fraud can be removed.

Outsell, whose survey suggested 37 per cent of advertisers were going to spend less on pay-per-click because of fraud, recommended partnering with third-party audit bureaux.

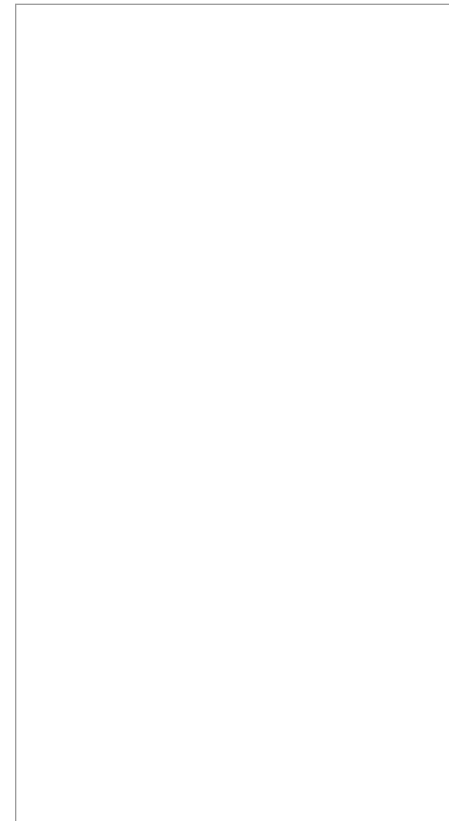
"Our belief is that it is the right solution for the industry. With people passing their data on, it could be like the service Nielsen provides for TV ratings," says Tom Cuthbert, chief executive of Click Forensics, a monitoring firm. His company has gathered data from more than 1,300 advertisers for its Click Fraud Index.

This estimates the rates of click fraud at 14.1 per cent in the second quarter. Advertisers with "tier one" search providers Google and **Yahoo** reported 12.8 per cent fraud rates, and those with "tier two" and "tier three" providers suffered 20.3 per cent and 27.1 per cent rates, respectively.

Some companies are exploring other forms of online advertising. Radiator.com is trying Ingenio's pay-per-call, where users call a phone number on the ad if they want more information. The number is unique to the search site where the ad appears, so advertisers can better track where their leads are coming from and avoid click fraud.

Advertisers are willing to pay more for such leads, where one in three callers are converted to business. Ingenio's average is more than \$10 per call.

Banner advertising, the colourful newspaper-style ads that date back to the web's earliest days, is growing faster than search advertising, according to Tom Chavez, chief executive of Rapt, which optimises banner ad sales for networks such as Yahoo, **AOL** and MSN.



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"The advertiser has control over what volume of ads gets placed and what prices they will pay in advance. A lot of it is about building brand awareness but purchases can take place as well," he says.

Google has launched a different model with its new Checkout service.

A small green shopping trolley icon next to an ad means users can type in an e-mail address and password on the retailers' website and have their credit card details and shipping information automatically inserted to accelerate ordering.

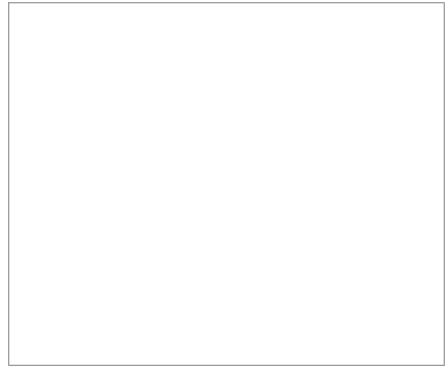
Google could use the data it collects to identify just the clicks on ads that led to actual sales and charge more on this "cost per action" basis. At the same time, any fraudulent clicks would be automatically eliminated.

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