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'Click Fraud' Threatens Foundation of Web Ads

Google Faces Another Lawsuit by Businesses Claiming Overcharges

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From her home surrounded by cornfields in Dow City, Iowa, Jackie Park spends hours each day on her computer, earning half a penny every time she clicks on an Internet advertisement.

By the end of the day, she usually tallies a few hundred clicks, yielding about $300 a year. It's not much, but it adds up for the 35-year-old mother of five who became disabled three years ago.

"You don't make tons of money," Park said. "But once you start clicking and you get actual payments, it becomes an addiction."

Park is one of thousands of people around the world who receive e-mailed lists of Web sites every day to click on for cash. Operators of these fast-growing "pay to read" networks and similar "pay to click" rings say they provide a genuine audience for advertisers, but Internet fraud experts disagree. They say the networks fuel click fraud, which means using bogus clicks to pump up revenue artificially for search engines and their affiliated Web sites.

In the past year, industry analysts say, new forms of click fraud have emerged from the shadows of masked operations into plain view on the Internet. Dozens of Web sites offer to pay people to sit and click on ads, or to type certain words into search engines for hours at a time. Some sites have forums where people swap click-fraud tips.

Advertisers, who often pay for online ads only when someone clicks on them, have been crying foul and complaining to federal regulators. They've also sued the Internet's largest ad networks, Google Inc. and Yahoo Inc., which earlier this year settled class-action lawsuits by advertisers.

A new lawsuit was filed last month in Pennsylvania seeking class-action status against Google. The FBI, the Securities and Exchange Commission and the U.S. Postal Inspection Service are investigating click fraud.

Google and Yahoo, which together handle more than 70 percent of all Web searches in the United States, say they have click fraud under control through technology that identifies suspicious clicks. But industry analysts are skeptical.

Search engines "have a problem that defies controls," said Chuck Richard, a media analyst with Outsell Inc. who has studied the issue.

The Yankee Group research firm recently concluded that if more aggressive measures are not put in place to validate clicks, fraud could undermine the entire business model of Internet search engines by causing advertisers to lose confidence. While search engines have taken steps to "self-regulate and police" their ad networks, Yankee Group analyst Jennifer Simpson wrote, "to date these efforts have been insufficient."

Yankee Group estimated that fraudulent means are involved in 1 of every 10 clicks on text ads, which translated to a $500 million problem last year, when pay-per-click ads generated a total of $5 billion. Other consultants estimate that click fraud is much larger, perhaps a $1 billion problem affecting 12 percent to 30 percent of all ad clicks.

No one knows for sure. Search engines have declined to release their estimates of bogus clicks, although Google said it amounts to less than 10 percent.

Google and Yahoo say they are working to fight each new fraud method that appears.

"It's like that kids' game, Whac-A-Mole, where you whack the mole one place and then we can be finding that mole somewhere else," said John Slade, director of Yahoo's click-fraud protection efforts.

Slade said advertisers must help search engines thwart fraud by sharing more information about what visitors do on their sites after clicking on ads. "We believe click fraud is a serious but manageable challenge," he said.

Not all Internet ads are targets for click fraud, only those using the pay-per-click method of charging advertisers. Pioneered four years ago by search engines that placed tiny text ads next to their search results, the pay-per-click model is popular with advertisers because they pay only when people click on their ads. About 40 percent of all Internet ads fall into the category; others are display ads for which fees are based on how many times they are viewed.

Many advertisers try to correlate clicks they receive on their ads with sales and other activity on their Web sites. And some report seeing bizarre patterns: sudden floods of activity followed by sharp drops.

Miriam L. Kauterman, owner of Premier Homes Real Estate LLC, a vacation rental home and sales firm in Avalon, N.J., said she spent more than $27,000 advertising with Google for two years, but stopped in August after she saw a suspiciously high number of clicks. When she asked Google to investigate, the search engine refunded her only $56 -- much less than what she thought she was owed. She has joined the lawsuit filed against Google last month in Pennsylvania. "I feel like I've been robbed and there's nothing I can do about it," she said. "It's infuriating."

Google said it works with local law enforcement to shut down click-fraud rings. Shuman Ghosemajumder, Google's product manager for trust and safety, said the firm employs about three dozen people to monitor click fraud, 20 of whom respond to advertisers who report anomalies on their sites. Google keeps lists of hundreds of sites associated with pay-to-click networks, most of which he said target less-known search engines with weaker security controls. Google said it issues refund credits to advertisers when its technology detects irregular click activity, but it would not disclose how much is refunded.

Experts think click fraud is especially prevalent on sites affiliated with search engines. Those sites display ads on behalf of large search engines and include many popular Web logs and mom-and-pop businesses.

Here's how affiliate programs work: Google and Yahoo place millions of small text ads on the bottom, top or side margins of pages at other sites, labeled "Ads by Google" or "Sponsored links by Yahoo!" Every time a visitor clicks on those ads, the advertiser pays the search engine, which shares the revenue with the site owner. Depending on the ad, each click generates a few pennies to several dollars.

It is a rapidly growing business for the search giants: 39 percent or $1.04 billion of Google's revenue in the third quarter came from its affiliate network. Yahoo does not break out affiliate revenue in its financial results. Some advertisers are hurt more than others: Mortgage, insurance, real estate, legal and travel businesses tend to get hit more by click fraud because they pay more for each click, according to analysts.

In New Delhi, small companies place ads in the top English-language newspapers every week looking to hire people who will use their home computers to click on text ads on certain Web sites. One ad offers the equivalent of several hundred dollars a day for spending two hours on the Internet.

A visit to the company that placed the ad, Shipranet, leads to a small windowless apartment converted to an office. What was the kitchen is piled high with files and papers. "What we do . . . well, is a sort of e-marketing," said Rupesh Kumar, an employee of the firm. "Certain companies provide us incentives for visiting certain sites. What we have to do is basically account for a certain number of minimum hits and based on that, payment is directly made to the person clicking."

Kumar would not say which Web sites employees visit. "That's a professional secret."

In the United States, the SEC filed fraud charges this year against operators of 12dailypro.com, a site that allegedly operated a pay-to-read advertising network that the SEC called a Ponzi scheme. It raised more than $50 million from 300,000 investors. Last month, a federal grand jury indicted Zhihong Zeng in U.S. District Court for the Western District of Pennsylvania for allegedly operating a pay-to-click network that allegedly used click fraud.

In Rockville, Doug Stevens runs a Web site called Mutualhits.com, which encourages Web site owners to form a network to click on each other's ads. The group has more than 2,000 members, many of whom live outside the United States, he said. When asked whether the traffic network was illegal or violated Google's rules, Stevens said it wasn't.

"It's an opportunity for people to market their Web site to other community members," said Stevens, who bought Mutualhits.com on eBay this year for $2,000. "We can't guarantee results."

Big advertisers are pushing search engines behind the scenes to fight click fraud more aggressively, but many are afraid to criticize them publicly because they wield such clout. "Sixty percent of new customers come through Google. [Advertisers] can't afford to upset that channel, regardless of whether there's fraud," said Jason Clement, an associate director at Carat Fusion, a New York ad agency.

This summer, Google, Yahoo, Microsoft Corp. and Ask.com executives agreed to form a click fraud working group to develop industry standards. Their first task is to define and agree on the definition of an authentic click.

Special correspondent Muneeza Naqvi in New Delhi and news researcher Richard Drezen contributed to this report.

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