Traffic Jam
In 'Click Fraud,'
Web Outfits Have A Costly Problem

Marketers Worry About Bills Inflated by People Gaming The Search-Ad System

Mr. McKelvey Turns Detective

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Nathan McKelvey began to worry about foul play when Yahoo Inc. refunded him $69.28 early last year. He grew more suspicious when a $16.91 refund arrived from Google Inc.

The refunds were for "unusual clicks" and "invalid click activity" and they suggested someone was sabotaging Mr. McKelvey's advertising strategy. He pitches his charter-jet brokerage the way companies increasingly do: contracting with Yahoo and Google to serve up small text ads to anyone searching the Web using certain words, such as "private jet" or "air charter." He pays the search companies a fee every time someone clicks on his ads.

But Yahoo and Google determined someone was clicking on CharterAuction.com Inc.'s ads with no intention of doing business, thus unfairly driving up the company's advertising costs. Mr. McKelvey, turning detective, combed through lists of "IP" addresses, the identifying codes supplied by computers when they access Web sites. He found several suspicious clicks from one address and about 100 more from one that was similar. They belonged to a New York-based rival, Blue Star Jets LLC, Mr. McKelvey says.

He had run into "click fraud," a term the industry uses to describe someone clicking on a search ad with ill intent. A fraudulent clicker can exploit the way Web ads work to rack up fees for a business rival, boost the placement of his own ads or make money for himself. Some people even employ software that automatically clicks on ads multiple times.

Click fraud is the latest problem plaguing the Internet, alongside spam, identity theft and online-auction fraud. Some believe about 20% of clicks are from people not necessarily interested in the product advertised, and therefore in the industry's view, fraudulent; others say the problem is less severe. What's clear is that if left unchecked, click fraud could damage the credibility of Google, Yahoo and the search-ad industry that spurred their meteoric growth.
Click fraud is "the biggest threat to the Internet economy," Google's chief financial officer, George Reyes, said during a December investors conference. "Something has to be done about this really, really quickly, because potentially it threatens our business model." In regulatory filings last month, search concern Ask Jeeves Inc., which recently agreed to be acquired by IAC/InterActiveCorp for $1.95 billion, said search-ad revenue might decline "if advertisers come to perceive click-fraud as a widespread and pervasive problem."

During his sleuthing, Mr. McKelvey discovered that his industry was rife with click manipulation. He and others in the jet-charter brokerage field say Yahoo and Google have been slow to help and vague on how they're tackling the problem. Other critics say search companies aren't forthcoming enough about click fraud's scope. Meanwhile, Mr. McKelvey has cut his search-ad spending to $1,000 a month from $20,000. "I'm skeptical of the whole thing now," he says.

Lane's Gifts & Collectibles LLC, a Texarkana, Ark., retailer, went a step further and in February filed suit in Miller County, Ark., circuit court against Google, Yahoo, Ask Jeeves and a number of other search companies. The suit, which is joined by another advertiser, alleges that search companies knowingly charged for fraudulent clicks. Ask Jeeves says it is evaluating the suit. The other companies declined to comment on the suit and on any other individual cases of click fraud. (See article.¹)

"Every industry will be hit by this unless [Google] puts in some safeguards," says Stuart Cauff, chief executive of Jet Network LLC, a Miami Beach, Fla., air-charter company. Jet Network believes up to 40% of its search-ad spending is wasted paying for fraudulent clicks. "The Coca-Colas and other companies are going to start getting aggravated when this happens to them," Mr. Cauff says.

Search companies, while acknowledging the problem, say they have adequate measures to catch fraudulent clicks and refund advertisers. Salar Kamangar, a Google product-management director, says the company has increased its anti-click-fraud efforts. He says Google automatically discounts rates when an advertiser's ads are clicked on a lot. Yahoo says it uses a complex system of filters and analysis to weed out fraudulent clicks.

"Anyone who says this is not a real challenge is kidding you," says John Slade, a senior director for product management at Yahoo's search-ad arm.

To understand click fraud, consider how search advertising works. When Web users search with Google or Yahoo, they often see small text ads alongside the results. A search for "digital cameras," for example, yields ads from camera retailers.

**Bidding for Location**

Advertisers make bids to have their ads shown next to results for specific words. The highest bidder for a word or phrase generally finds its ad on top of the list. Advertisers then pay the search company a fee, which can be as high as the amount bid, every time someone clicks on their ad. Payments average about 50 cents a click but can reach about $90 for sought-after terms, such as those valuable to class-action lawyers, including "mesothelioma," an asbestos-related cancer.
Google and Yahoo also place these text ads on other Web sites. For each site, the ads are selected using a computerized analysis of its content, so a camera ad goes on a site that discusses cameras. Google pockets some of the ad revenue and hands over, on average, about 80% to the site that carries the ad.

In theory, advertisers pay only when a person specifically interested in their product clicks their ad. For marketers accustomed to guessing whether consumers see TV spots and print ads, search ads have been a revelation. Search companies earned about $4 billion in the U.S. last year from keyword-triggered text ads.

But the business assumes that the people clicking are interested in the ads. Yahoo, Google and their customers are learning that isn't always true. Google believes some offending clickers are trying to generate ad revenue for themselves. In November, it sued Auctions Expert International LLC for clicking on ads Google supplied to the company's site. The suit, filed in California Superior Court in Santa Clara, alleges that Google was conned into paying commissions to the Houston-based company. Auctions Expert and executives named in the suit couldn't be reached for comment. The defendants, who have been served with papers, haven't made any formal appearances in the case so far.

Others have used "bot" software programs, short for "robot," that automatically click on ads thousands of times. That could rack up big commissions for a site carrying the ad and a big bill for the company that took out the ad.

Other new tactics crop up regularly, including a way of punishing an advertiser by not clicking on its ad. Google stops showing ads if the percentage of users who click after seeing an ad drops below a certain threshold. X1Services.com, a Philadelphia Web-hosting company, believes it fell victim to such an attack in February, when a fraudster repeatedly contrived to make its ads appear and then refrained from clicking. In response, the company froze its $400-a-month spending on Google ads. Google's Mr. Kamangar acknowledges the general problem but wouldn't comment on X1Services.

Google and Yahoo won't give a public estimate of the number of bad clicks. After Google's Mr. Reyes called click fraud a big threat, Google executives played down his comments during a meeting with analysts in February, comparing the problem to credit-card fraud. Advertisers "are getting the purchases, they're collecting the revenue, the money is in the bank," Google co-founder Sergey Brin told analysts.

Michael Yavonditte, chief executive of Quigo Technologies Inc., which handles search advertising for companies, estimates that between 5% and 13% of all clicks are fraudulent. Jorge Zuniga of Dallas-
based ClickAssurance LLC, a company that sells anti-click-fraud services, puts the average at between 10% and 20% but estimates that as many as 80% of clicks are fraudulent for some key words on certain search engines.

Before his click-fraud problems, Mr. McKelvey was a true believer in search ads. He started CharterAuction.com in Quincy, Mass., in 1999 with $60,000 in life savings and an office borrowed from his father. He built an online system that allows charter-jet owners to bid against each other to win business from travelers. In 2003, CharterAuction had $10.1 million in revenue.

From the start, Mr. McKelvey, now 35 years old, advertised only through search engines. When a consumer searched using words related to the charter-jet industry his ad would pop up, often first on the list. Business rushed in, Mr. McKelvey says, and he bid on about 200 phrases including "jet charter," "business jet," "executive jet" and "charter flights."

At the end of 2002, search ads were bringing in 70 customer registrations or information requests a day, Mr. McKelvey says. He spent $20,000 a month on search ads and as much as $20 per click for the most popular search terms.

His first doubts arose in 2003 when a prospective investor asked if search ads were effective. "Even raising the question got me a little defensive," says Mr. McKelvey. "I said 'Of course it works.' " Looking closely, he discovered he was booking fewer trips per lead than before. He slightly reduced spending and bought some magazine ads.

'Unusual Clicks'

In January 2004, Yahoo e-mailed to say it was refunding him for some "unusual clicks." Mr. McKelvey says he suspected a rival and contacted Yahoo. After he didn't hear back, Mr. McKelvey says he forgot about the matter.

In August, Google e-mailed him a refund notice, citing "invalid click activity by a third-party" and said it was investigating. Google told him in the e-mail it couldn't disclose any more details.

A month later, Mr. McKelvey was on the phone with Wayne J. Rizzi, the president and CEO of Air Royale International Inc., another charter-jet broker. Mr. Rizzi said he too had been hit by click fraud, but he had a clue: an IP address linked to a computer that had repeatedly clicked on his ads.

Mr. McKelvey's Web-hosting company used the information to trace dozens of clicks to an address belonging to an Internet-service provider called BridgeCom International Inc. BridgeCom manager Lennox Harris revealed it had assigned the IP address to Blue Star Jets, both men say. That was a lucky break for Mr. McKelvey because Internet-service providers typically keep such information private.

CharterAuction's own Web-hosting company traced 3,300 clicks to an IP address linked to Blue Star. About 100 had come through Google and Yahoo search ads, Mr. McKelvey says, and some were made within seconds of each other.

Mr. McKelvey says he asked Yahoo and Google to take action. In November, Yahoo refunded him an additional $392 for what it called a "technical error."

Howard Moses, chief marketing officer for Blue Star Jets, says some of Blue Star's staff and salespeople might have clicked on rivals' search ads looking for information. He denies the company engaged in any widespread, malicious clicking. "It's a little bit amusing to think that our staff is concentrating on driving their search-advertising spend up by $100 or something like that," Mr. Moses says.
Mr. McKelvey thinks the problem cost him more than the refunds he received. He believes there are more bad clicks he hasn't discovered. He says Yahoo and Google haven't helped. He contacted the Massachusetts attorney general's office, which he says decided not to take up the matter.

Michael Mayzel, a Google spokesman, says the company does its best to help customers "understand and resolve" these kinds of issues. Adds Yahoo's Mr. Slade: "We definitely take advertiser questions and queries very seriously."

By last summer, Mr. McKelvey had cut his monthly search-ad budget to $1,000. He shifted the remaining $19,000 into other outlets, including magazines and events. "I feel like I've been snookered," he says. "Am I willing to take the risk and stick my neck out there at maybe $15 or $20 a click? Not now."

For its part, Blue Star Jets says it's also a victim of click fraud. "Our expenses have gone through the roof," says Todd Rome, president of the closely held company, which says it spends about 25% of its marketing budget on search ads.

Some defend the use of clicking as a tactic. Tag Aviation Holdings SA executives were upset last year when Blue Star Jets bought search ads based on the phrase "Tag Aviation." In a meeting, Paul Class, vice president of charter sales in the U.S. for Swiss-based Tag, told the dozen or so staff to retaliate by clicking on those Blue Star search ads.

The idea was to use up the daily budget Blue Star sets for itself. After that limit is hit, ads generally drop off the list. Mr. Class calls the tactic "guerrilla warfare."

The tactic worked, according to Tag and it appears that Blue Star stopped buying ads based on that phrase. Blue Star's Mr. Moses declines to comment on the episode. As for Tag, it doesn't buy many search ads. The company says it doesn't consider them effective enough.

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