Is Click Fraud Really a Problem?

by: Tommy Maric

Click fraud is currently a major topic in online advertising. Many argue that it presents a threat to the stability and viability of pay-per-click (PPC) advertising, the key revenue generator for both Google and Overture. In actuality, click fraud is not a significant issue at all.

Click fraud occurs when ads are clicked for reasons other than a genuine interest in learning more about the product or service advertised. Click fraud occurs in two forms. In one instance, fraud arises from competitors trying to sabotage each other. One competitor clicks on the ads of another just to drain the budget of that company. The other instance occurs when webmasters (or people associated with the webmaster) repeatedly click Google AdSense ads (which are syndications of others' ads) on their own web pages in order to generate more revenue. While both Overture and Google have developed sophisticated technologies to detect click fraud, their systems are, and may never be, foolproof.

The real question is how much does click fraud actually damage the PPC industry? Gross fraud, i.e., when one person or technology consistently and repeatedly clicks on an ad, aside, which Overture and Google can easily detect, we believe that click fraud has no real impact on the industry. The following explains why.

Efficient market theory says that it is impossible to "beat a market" because prices already incorporate and reflect all relevant information. As the PPC industry has matured, efficiency has begun to take root. That is, the price of each keyword has been driven up to the point where it reflects the highest price an advertiser is willing to pay for a click.

For instance, a book retailer may pay $1.00 per click based on internal metrics. These metrics dictate, for example, that on average 30% of clickers purchase a book and the average profit per sale is $4.00. So, for every 100 clicks ($100 cost), they make 30 sales ($120 revenue) and generate a $20.00 (20%) profit. Note that years ago, the same retailer may have been able to pay only $0.50 per click, but as the market matured and more retailers began advertising, competitive bidding forced the price up to $1.00 where the highest return the most advertisers can make is 20%.

The key point is that click fraud is already taken into effect when advertisers select the highest amount they will bid. For instance, there is no difference whether an advertiser pays $0.83/click for 121 clicks with 21 being fraudulent, or $1.00/click for 100 clicks when there is absolutely no fraud. In either case, the advertiser pays $100 and generates a profit of $20, and Overture and/or Google make $100. What changes is the advertiser's yield (e.g., the percent of clickers who purchased the book) which in turn effects their highest bid price. That is, with fraud, 30 out of 121 clickers (24.8%) purchased the book, and without fraud 30 out of 100 clickers (30%) purchased it. Without fraud, the bid price in an efficient market will rise from $0.83 to $1.00.

In summary, online advertisers must focus on analyzing and improving their internal metrics (e.g., conversions) and not worry about click fraud as it is already incorporated into keyword bid prices. Hopefully, the frivolous lawsuits and refund requests spawned by apparent click fraud will end as those in the industry recognize this undeniable fact.

About the author:

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Tommy Maric is the manager of TopPayingKeywords.com TopPayingKeywords.com is designed to help webmasters maximize their profits using Google's Adsense™ program. Through extensive research, TopPayingKeywords.com develops up-to-date databases of the most popular keywords and their accompanying bid prices. For more information, please visit http://www.toppayingkeywords.com