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Google's 'click fraud' settlement disappoints many advertisers

Negotiated refund is less than expected

By MICHAEL LIEDTKE
Associated Press

SAN FRANCISCO — John Thys still hasn't figured out how much his company has paid Google Inc. for bogus sales referrals caused by "click fraud" — a sham aimed at a perceived weakness in the Internet search leader's lucrative advertising network.

But Thys says he has uncovered enough of it to conclude that Google is trying to shortchange his company and thousands of other advertisers by offering refunds totaling $60 million to settle a lawsuit.

"It's almost like an insult that they expect us to take this token money," said Thys, director of Internet marketing for Radiator.com.

Google also expects to pay $30 million to the lawyers who settled the case on behalf of advertisers, raising the settlement's total value to as high as $90 million. Still, that's a fraction of the more than $10 billion in cash held by the Mountain View, Calif.-based search company.

An Arkansas judge is expected to consider the proposed class-action settlement in late July.

The refunds, which will be provided in the form of advertising credits, are meant to compensate Google's customers for undetected click fraud, which contributed to the $13.3 billion in ad revenue that has poured into the company since 2001.

Google's offer works out to a $4.50 refund on every $1,000 spent in its vast advertising network over the past 4¼ years.

Meanwhile, independent studies assert that anywhere from $100 to $400 of every $1,000 stems from click fraud. If those estimates prove correct, Google might be on the hook for $1 billion-$5 billion in advertising refunds.

Click fraud takes different shapes, but the end result is usually the same: Merchants are billed for fruitless traffic generated by scam artists and mischief makers who repeatedly click on an advertiser's Web link with no intention of buying anything.

THYS

Based on a monthlong analysis of the traffic that Google ads referred to Radiator.com, Thys suspects that click fraud may have accounted for 35 percent of the Web site's $20,000 ad bill.

Google maintains that its class-action settlement represents a fair offer that underscores how well it has shielded advertisers from the costs of click fraud.

The class-action settlement of the Arkansas lawsuit probably will test advertisers' faith in Google. The company is supposed to send out notices of the settlement later this month, giving advertisers until late June to reject or protest the refund offer. Radiator.com has decided to reject the offer.

If the entire deal is rejected, lawyers then go back to the negotiating table; individual advertisers also can declare that they won't participate, freeing them to file their own lawsuits or join a separate one pending in California.

Miller County Circuit Court Judge Joe Griffin is scheduled to decide whether to approve the settlement in a two-day hearing beginning July 24.

Meanwhile, Yahoo Inc. — owner of the Internet's second-largest advertising network — is fighting similar click-fraud allegations in the same Arkansas court, as well as in a federal court in California. A click-fraud lawsuit filed against Google in that same federal court was suspended while its Arkansas settlement is reviewed.

The Google settlement has focused more attention on click fraud. The shady activity produces revenue for Google, Yahoo and a long list of Web sites that display the ads because the clicks trigger sales commissions even if a referral doesn't produce a sale.

Suspected motives vary. Sometimes Web merchants try to deplete a rival's advertising budget. In other instances, the owners of small Web sites participating in the marketing networks run by Google and Yahoo are believed to click on ads to generate more commissions for themselves.

Complicating the click-fraud issue even further, search engine advertising isn't subjected to independent auditing like the advertising done in newspapers, magazines and broadcast media. In search advertising, Web site owners sign contracts obligating them to pay for all valid clicks — and the search engine has discretion over what is valid.

San Antonio-based Click Forensics Inc. recently set up a free service that intends to issue quarterly reports on the frequency of click fraud, compiling information from more than 1,000 advertisers.

The index's initial findings, released in late April, estimated that Google and Yahoo suffered a click-fraud rate of 12 percent, translating to more than $1.5 billion of Google's ad revenue.

Given those findings, the settlement amount in the Arkansas class action "was very surprising to us," said Tom Cuthbert, Click Forensics' chief executive. "If I were an advertiser, I would take great care in studying that settlement." ■