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## Ad Tech Spotlight: The battle against spiraling fraud costs

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This is the fourth installment of a multi-part series on developments in the advertising technology market. [Part 1](#) introduced a renewed push in targeted TV advertising, while [part 2](#) explored private equity interest in the market. [Part 3](#) addressed Google and Facebook's duopoly in the market.



When concerns over ad fraud forced Procter & Gamble, one of the world's biggest advertisers, to trim its digital budget by up to \$140 million, the cutback's minimal impact on results prompted questions about the real value of digital advertising.

In fact, fourth-quarter organic sales for the three months ending June 30 grew by 2%, outperforming analyst estimates. Net sales at the consumer product giant were unchanged at \$16.1 billion.

The episode sent a damning message to the digital advertising industry and its flurry of ad-tech intermediaries, amid an unprecedented surge in ad fraud, questionable metrics and poor viewability plaguing the market.

Fraud remains one of the ad-tech industry's major adversaries, according to Matt Nally, founder and managing partner at programmatic consulting firm Labmatik.

"There is a tremendous amount of waste due to ad fraud," Nally said in an interview.

While a lot of verification technology in the market does provide automated fraud detection and prevention, it only captures a "fairly small portion" of all fraud, he added.

Illegitimate traffic, generated by clicks from bots and other automated software, is expected to cost brands an estimated \$16.4 billion globally this year, a joint study by fraud detection firm Adloox, WPP Plc-backed The&Partnership and its media arm m/SIX revealed.

The report, published in March of this year, said nearly 20% of digital expenditure in 2016 was wasted, at a cost of \$12.48 billion. That figure dwarfs previous estimates by the Association of National Advertisers (ANA) which pegged the total cost of ad fraud last year at around \$7.2 billion.

It takes the right analytic and measurement resources to get fraud down to an acceptable tolerance level. But in the advent of automation and artificial intelligence, observers believe the human touch still matters, particularly when it comes to discerning and purchasing high-value media.

"The industry has been a little too reliant on the ecosystem to solve the issue of the fraud," Nally said.

"What's actually needed [to tackle] fraud is a data scientist and people bringing human eyes to the analytical process [to help] pick up the rest of the fraud," he added.

Balancing core programmatic technology with the human element would thus greatly impact the mobile advertising space, where the consequences of fraud have been particularly damaging.

A recent study by Aki Kinetic and Marketing Science based on one billion ad impressions from nearly 1,000 mobile apps found that 43% of those impressions were fraudulent.

In this regard, unlocking the human touch could go a long way toward helping marketers vet the quality of the publisher traffic more closely, agreed Robert Brill, founder and CEO of Los Angeles-based marketing firm BrillMedia.co.

"There are lots of great tools to combat fraud and we need to continuously test these new solutions for their effectiveness," Brill began.

However, "the best way to combat fraud, improve brand safety and to make sure ads are viewable is to have qualified senior level individuals buying the advertising," he argued.

The merits of a human approach were demonstrated when it was revealed that of the 12,000 websites carrying JPMorgan Chase ads that were manually clicked on by an intern over a 30-day period, 7,000 did not meet the bank's criteria. As a result, the bank limited its display ads to around 5,000 pre-approved websites.

At the same time, as [Alphabet Inc.](#)'s [Google Inc.](#) and [Facebook Inc.](#) increase their grip on the digital ad ecosystem, the proliferation in digital ad fraud is an opportunity for investors targeting the new wave of businesses emerging in the fraud detection market, according to Chris Kane, founder at programmatic consultancy Jounce Media.

"Fraud has pushed down some of the revenue and valuations of companies like MediaMath and AppNexus that are in the transaction space, but it has also created opportunities for companies like Integral Ad Science (IAS)," Kane pointed out, adding this has led to some standout M&A deals in the sector.

For instance, enterprise software group [Oracle Corp.](#) acquired New York-headquartered ad measurement agency Moat in April of this year for a reported \$850 million. Other ad monitoring firms and potential beneficiaries of the rise in fraud include New York-based DoubleVerify and publicly traded comScore.

And despite growing questions over the effectiveness of digital advertising, observers believe Oracle's big bet on preventing fraud in the sector ultimately speaks volumes about the necessity of a digital strategy.

The reality is, for a professional marketer or big advertiser to reach an audience, you have to be in the digital marketplace, Brill argued.

"It is probably the most scalable way to reach audiences without spending a ton of money on television and other expensive mediums," he added.