“Native Advertising, Sponsorship Disclosure and Consumer Deception: Evidence from Mobile Search-Ad Experiments”

(by Navdeep Sahni and Harikesh Nair)

Discussant: Yeşim Orhun

FTC-Marketing Science Conference
September 16, 2016
Harm from Deception

• FTC Policy Statement on Deception (1983)
  – A “material” representation, omission or practice likely to mislead a consumer who is acting reasonably.

• Would the consumer have chosen differently?
  – “The basic question is whether the act or practice is likely to affect the consumer's conduct or decision with regard to a product or service. If so, the practice is material, and consumer injury is likely, because consumers are likely to have chosen differently but for the deception.”
Harm from Deception

• FTC Policy Statement on Deception (1983)
  – A “material” representation, omission or practice likely to mislead a consumer who is acting reasonably.

• Would the consumer have chosen differently?
  – “The basic question is whether the act or practice is likely to affect the consumer’s conduct or decision with regard to a product or service. If so, the practice is material, and consumer injury is likely, because consumers are likely to have chosen differently but for the deception.”

• Field experiment: Revealed preference!
  – Chose differently…
    • Than what? No ads? Different kinds of ads?
Harm from Deception

- **FTC Policy Statement on Deception (1983)**
  - A “material” representation, omission or practice likely to mislead a consumer who is acting reasonably.

- **Would the consumer have chosen differently?**
  - “The basic question is whether the act or practice is likely to affect the consumer's conduct or decision with regard to a product or service. If so, the practice is material, and consumer injury is likely, because consumers are likely to have chosen differently but for the deception.”

- **Field experiment: Revealed preference!**
  - Chose differently…
    - Than what? No ads? Different kinds of ads?
  - Is the difference driven by deception?
    - Focus: Do native ads mislead reasonable consumers to think that they are not ads?
Experiment: Between subjects design

Premise behind experimental design
- highlighting makes the ad “hard to miss”
- sponsored label is more ambiguous than ad label
Does the type of native ad sign matter? No!

Chances of page visits / calls are the same
Is the native ad “deceptive”?

(no-ad)  (deception)  (native)  (full information)
Is the native ad “deceptive”? (deception) (native) (full information)
Is the native ad “deceptive”? 
Is the native ad “deceptive”?

- No effect on visiting restaurant’s page
- Disclosure increases odds of calling the restaurant
  - highlighting has no further effect

Regression analysis: Disclosure changes the type of restaurants called

Deception: For the decision to call, average ratings matter less, number of ratings matter more than in the case of disclosure

Conclusion: Typical native ad “closer” to “obvious” case
Is the native ad “deceptive”?

- No effect on visiting restaurant’s page
- Disclosure increases odds of calling the restaurant
  - highlighting has no further effect
- Disclosure changes the type of restaurants called
Disclosure changes the type of restaurants called

- Within-restaurant, across conditions regression analysis

\[
Calls_{rc} = Ads-Highlighted_{rc} \times (\beta_1 \text{Rating}_r + \beta_2 \text{Number of Ratings}_r + \beta_3 \text{Price Index}_r) + \]
\[
Ads-No-Disclosure_{rc} \times (\gamma_1 \text{Rating}_r + \gamma_2 \text{Number of Ratings}_r + \gamma_3 \text{Price Index}_r) + \]
\[
\delta_1 Ads-No-Disclosure_{rc} + \delta_2 Ads-Highlighted_{rc} + \psi_r + \epsilon_{rc}
\]

Table 7: Change in Consumer Calling Patterns with Advertising Disclosure.

<table>
<thead>
<tr>
<th>Dependent measure: Number of calls to the restaurant</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ads-Highlighted $\times$ Rating</td>
<td>-0.001</td>
<td>0.003</td>
<td>0.79</td>
</tr>
<tr>
<td>Ads-Highlighted $\times$ Number of Ratings</td>
<td>0.002</td>
<td>0.003</td>
<td>0.59</td>
</tr>
<tr>
<td>Ads-Highlighted $\times$ Price Index</td>
<td>-0.004</td>
<td>0.003</td>
<td>0.13</td>
</tr>
<tr>
<td>Ads-No-Disclosure $\times$ Rating</td>
<td>-0.008</td>
<td>0.004</td>
<td>0.04</td>
</tr>
<tr>
<td>Ads-No-Disclosure $\times$ Number of Ratings</td>
<td>0.009</td>
<td>0.004</td>
<td>0.05</td>
</tr>
<tr>
<td>Ads-No-Disclosure $\times$ Price Index</td>
<td>0.004</td>
<td>0.003</td>
<td>0.25</td>
</tr>
<tr>
<td>Ads-No-Disclosure</td>
<td>-0.034</td>
<td>0.026</td>
<td>0.19</td>
</tr>
<tr>
<td>Ads-Highlighted</td>
<td>0.022</td>
<td>0.021</td>
<td>0.30</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.403</td>
<td>0.004</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

Fixed effect for each restaurant? Yes
Number of restaurants 10,843
Number of observations 10,843×5
Is the native ad “deceptive”?

- No effect on visiting restaurant’s page
- Disclosure increases odds of calling the restaurant
  - highlighting has no further effect
- Disclosure changes the type of restaurants called
- Consumer response to native ad is “closer” to the obviously-ad case than to the deception case
Are consumers tricked into conversion?

- Compare behavior across (deception vs. disclosure) x (organic leads vs. ad leads)
  - continuation of search (low match value, keep searching)
  - calling (high match value, call restaurant)

Ads: all disclosure conditions (collapsed)
Are consumers tricked into conversion?

- Compare behavior across (deception vs. disclosure) x (organic leads vs. ad leads)
  - continuation of search (low match value, keep searching)
  - calling (high match value, call restaurant)

- Consumers are not “stuck” if they click on native ads
Are consumers tricked into conversion?

• Compare behavior across (deception vs. disclosure) x (organic leads vs. ad leads)
  – continuation of search (low match value, keep searching)
  – calling (high match value, call restaurant)

• Consumers are not “stuck” if they click on native ads

• Organic arrivals continue to search less than ad arrivals
  – Disclosure does not impact continuing to search after page-visit
Are consumers tricked into conversion?

• Compare behavior across (deception vs. disclosure) x (organic leads vs. ad leads)
  – continuation of search (low match value, keep searching)
  – calling (high match value, call restaurant)

• Consumers are not “stuck” if they click on native ads

• Organic arrivals continue to search less than ad arrivals
  – Disclosure does not impact continuing to search after page-visit
    • Organic links rank lower? (Rank not experimentally manipulated – realistic – but, need to control for rank?)
Are consumers tricked into conversion?

• Compare behavior across (deception vs. disclosure) x (organic leads vs. ad leads)
  – continuation of search (low match value, keep searching)
  – calling (high match value, call restaurant)

• Consumers are not “stuck” if they click on native ads

• Organic arrivals continue to search less than ad arrivals
  – Disclosure does not impact continuing to search after page-visit
    • Organic links rank lower? (Rank not experimentally manipulated – realistic – but, need to control for rank?)

• Calling only increases with disclosure if page visit was organic (ad-click: no difference)
  – Calling increases with disclosure due to signaling appeal
    • Why not valid when consumer reaches the page by an ad-click?
What I learned from the paper

1. The role of field experiments for identification of material deception / injury

2. Elements of design

3. Consumer response to native ads look nothing like their response to deceptive advertising