"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*."
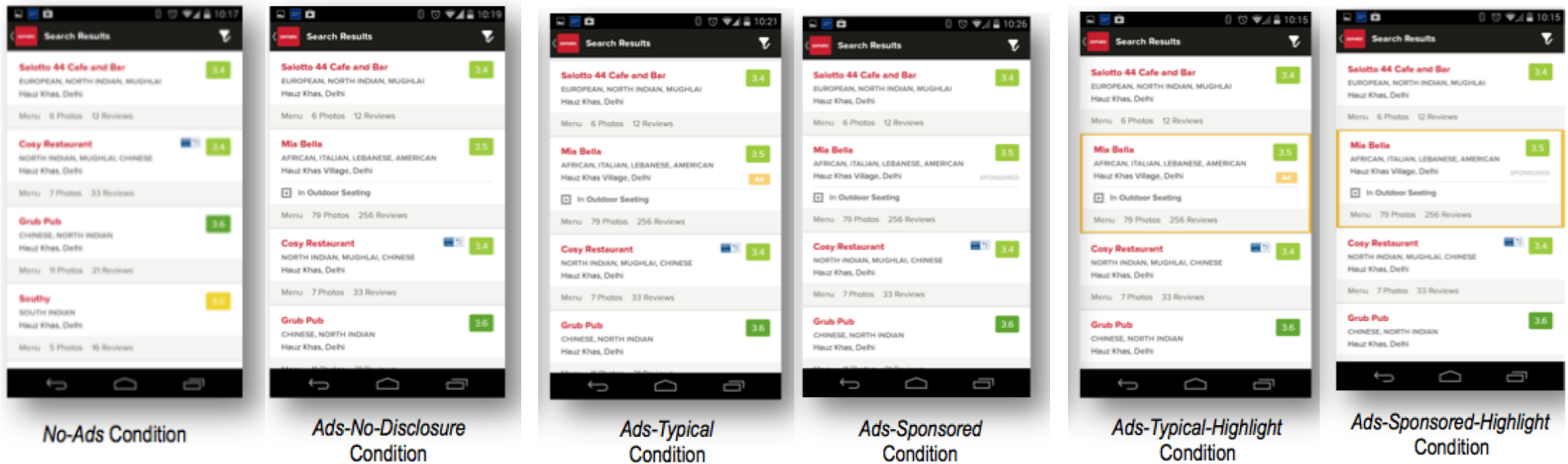
Harm from Deception

- **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?
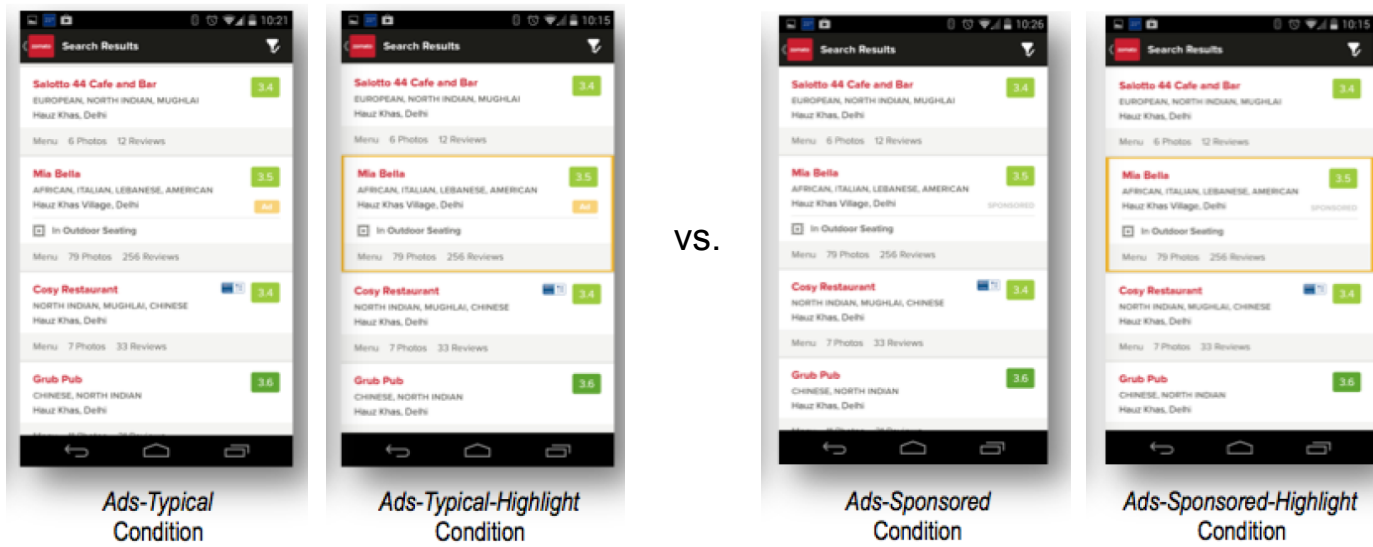
Experiment: Between subjects design

No-Ads Condition   Ads-No-Disclosure Condition   Ads-Typical Condition   Ads-Sponsored Condition   Ads-Typical-Highlight Condition   Ads-Sponsored-Highlight Condition
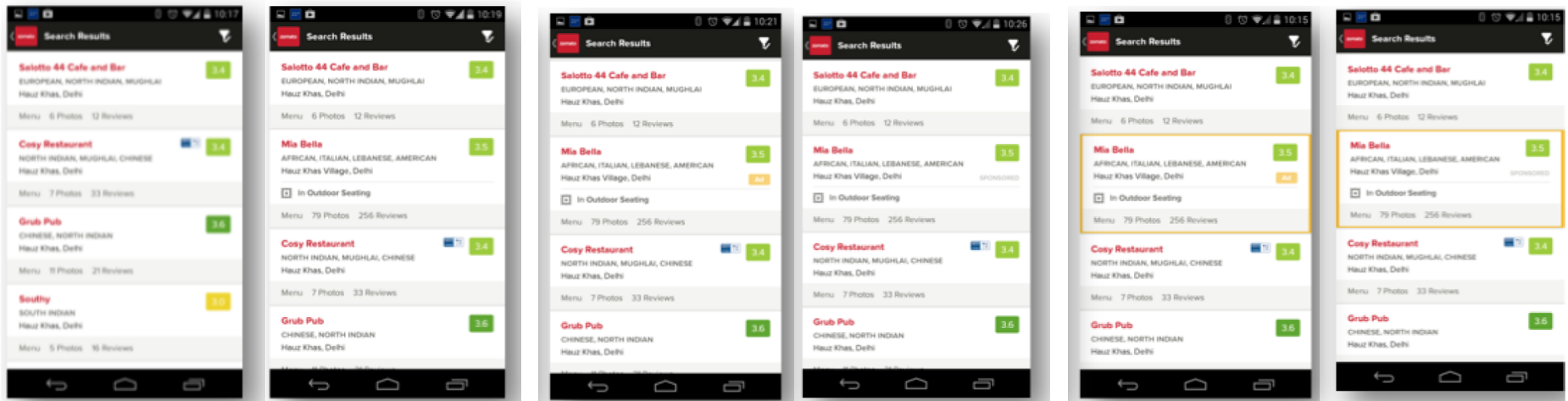
Premise behind experimental design
- highlighting makes the ad "hard to miss"
- sponsored label is more ambiguous than ad label

Does the type of native ad sign matter? No!

Ads-Typical
Condition

Ads-Typical-Highlight
Condition

vs.

Ads-Sponsored
Condition

Ads-Sponsored-Highlight
Condition

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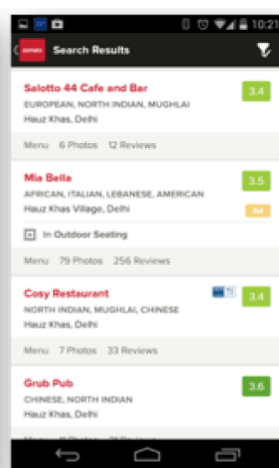
Is the native ad "deceptive"?

No-Ads Condition
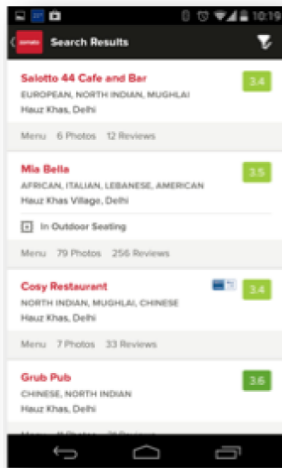
(no-ad)

Ads-No-Disclosure Condition

(deception)

Ads-Typical Condition

Ads-Sponsored Condition

(native)

Ads-Typical-Highlight Condition
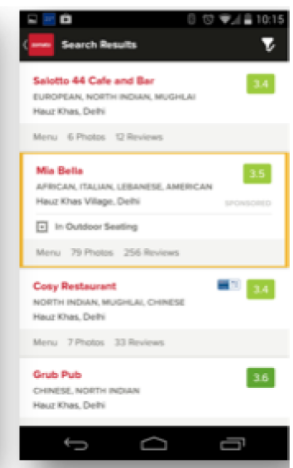
Ads-Sponsored-Highlight Condition

(full information)

Is the native ad "deceptive"?

No-Ads Condition   Ads-No-Disclosure Condition   Ads-Typical Condition   Ads-Sponsored Condition   Ads-Typical-Highlight Condition   Ads-Sponsored-Highlight Condition

(deception)   (native)   (full information)
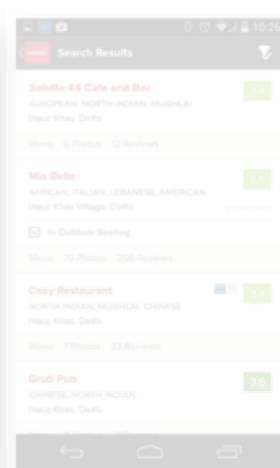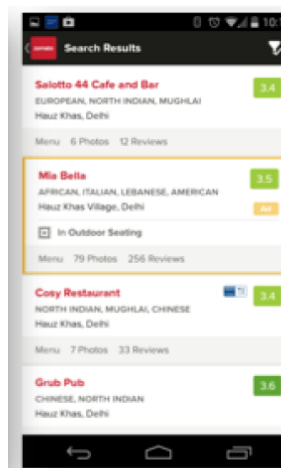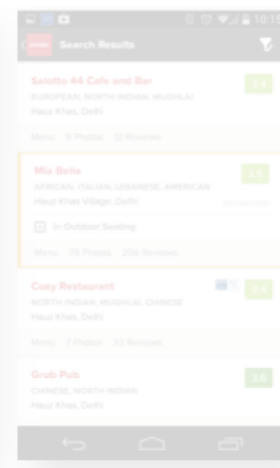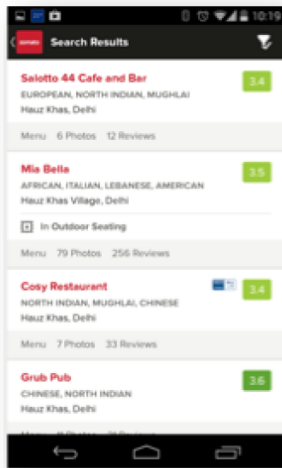
Is the native ad "deceptive"?
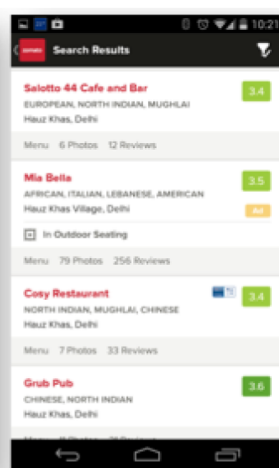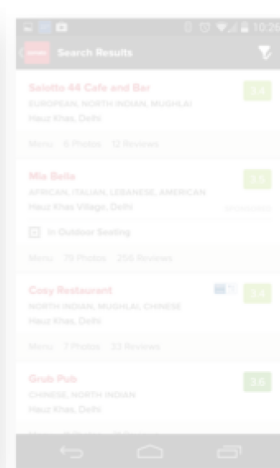

No-Ads Condition | Ads-No-Disclosure Condition | Ads-Typical Condition | Ads-Sponsored Condition | Ads-Typical-Highlight Condition | Ads-Sponsored-Highlight Condition

(deception)   (native)   (full information)

Is the native ad "deceptive"?

vs.

vs.

Ads-No-Disclosure Condition

Ads-Typical Condition

Ads-Typical-Highlight Condition

Ads-Sponsored-Highlight Condition

- No effect on visiting restaurant's page

- Disclosure increases odds of calling the restaurant
  - highlighting has no further effect
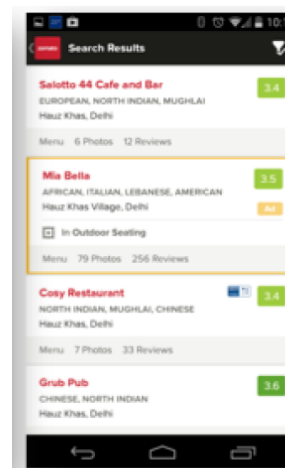
Is the native ad "deceptive"?
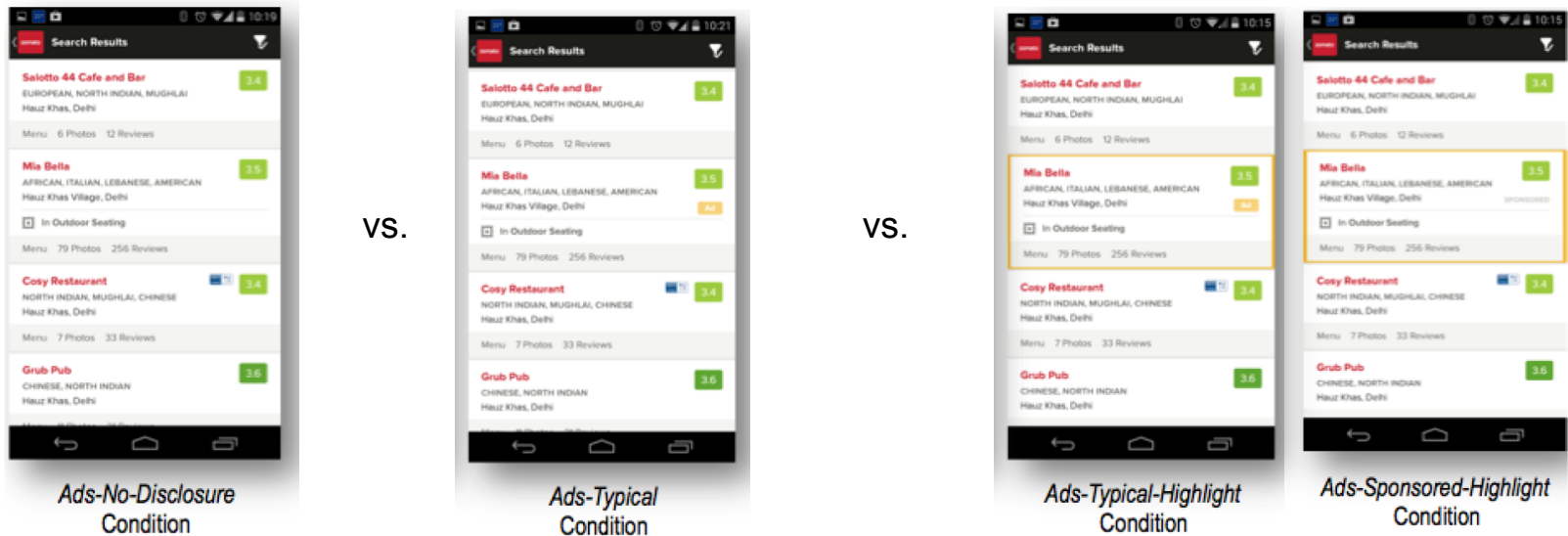
Ads-No-Disclosure Condition

vs.

Ads-Typical Condition

vs.

Ads-Typical-Highlight Condition

Ads-Sponsored-Highlight Condition

- 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
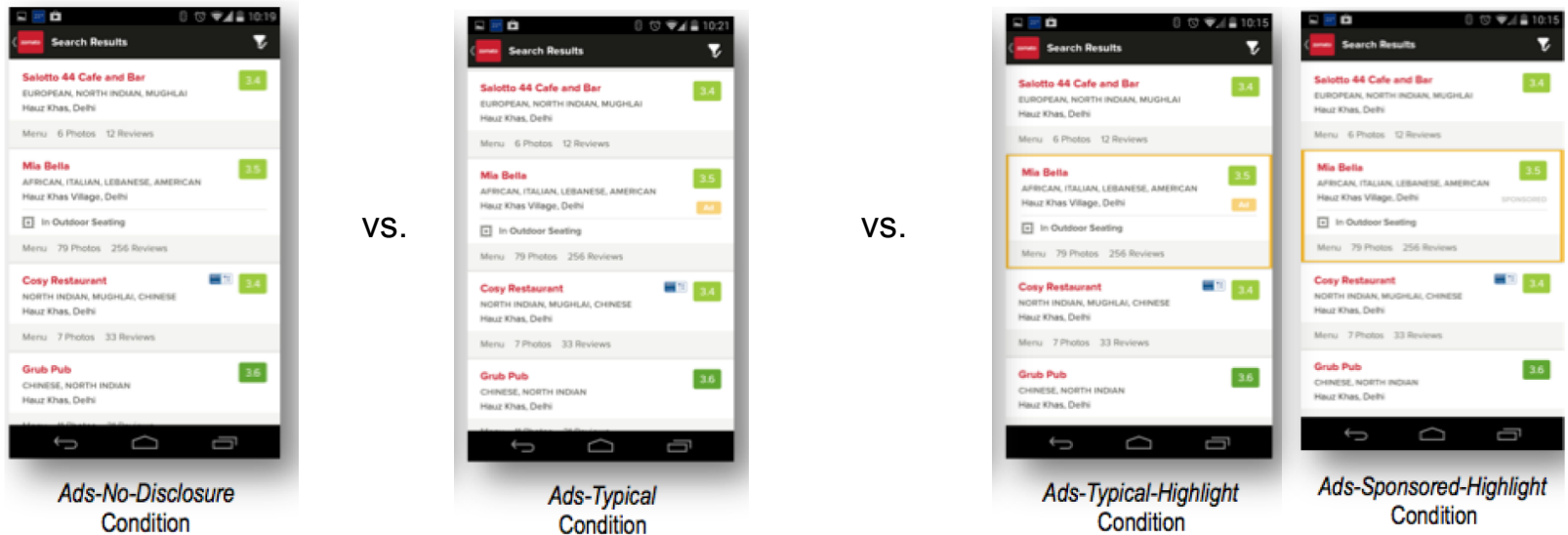
Disclosure changes the type of restaurants called

- **Within-restaurant, across conditions regression analysis**

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

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

	Dependent measure: Number of calls to the restaurant		
	Coefficient	Std. Error	p-value
Ads-Highlighted × Rating	-0.001	0.003	0.79
Ads-Highlighted × Number of Ratings	0.002	0.003	0.59
Ads-Highlighted × Price Index	-0.004	0.003	0.13
Ads-No-Disclosure × Rating	**-0.008**	**0.004**	**0.04**
Ads-No-Disclosure × Number of Ratings	**0.009**	**0.004**	**0.05**
Ads-No-Disclosure × Price Index	0.004	0.003	0.25
Ads-No-Disclosure	-0.034	0.026	0.19
Ads-Highlighted	0.022	0.021	0.30
Intercept	0.403	0.004	<0.01
Fixed effect for each restaurant?		Yes	
Number of restaurants		10,843	
Number of observations		10,843×5	

Is the native ad "deceptive"?

vs.

vs.

Ads-No-Disclosure
Condition

Ads-Typical
Condition

Ads-Typical-Highlight
Condition

Ads-Sponsored-Highlight
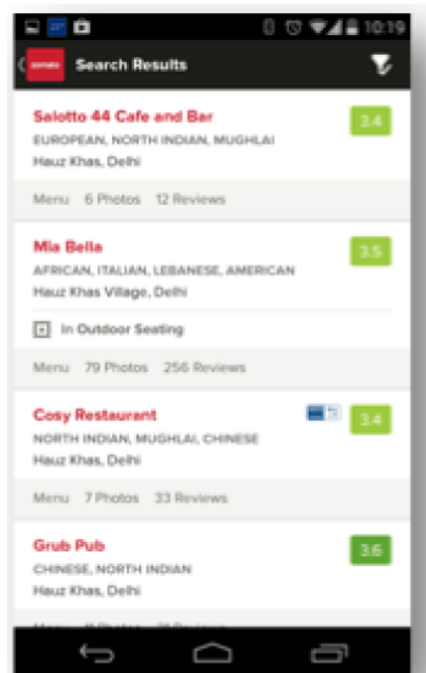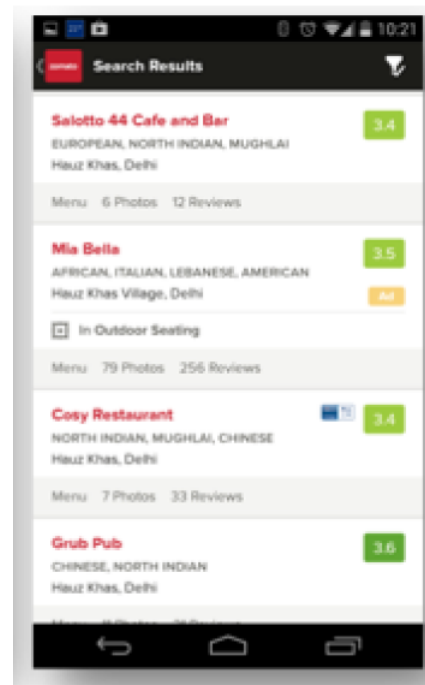Condition

- 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-No-Disclosure
Condition

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