

Marketing Colloquia

2020 Fall

Navdeep Sahni

Associate Professor of Marketing
Stanford University, GSB

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Zoom
12:00 PM to 1:20 PM

ARE CONSUMERS AVERSE TO SPONSORED MESSAGES? THE ROLE OF SEARCH ADVERTISING IN INFORMATION DISCOVERY

ABSTRACT: We analyze a large-scale randomized field experiment in which a search engine varied the prominence of search ads for 3.3 million US users: one group of users saw the status quo, while the other saw a lower level of advertising (with prominence of search ads decreased). Revealed preference data reject that users are, overall, averse to search advertising targeted to them across a diverse set of searches. At the margin, users prefer the search engine with the higher level of advertising. On the supply side, newer websites are more likely to advertise. Going from the lower to the higher level of advertising increases traffic to newer websites, with the newest decile of websites gaining traffic by 10%. Users also respond more positively to advertising when local businesses in their state create new websites.

Taken together, patterns in our data are consistent with an equilibrium in which advertising compensates for important information gaps in organic listings: it conveys relevant new information, which is hard for the search engine to gather, and therefore missed by the organic listings algorithm. Viewing search ads, at the margin we study, makes consumers better off on average.