THE ECONOMIC COST OF BAD ACTORS ON THE INTERNET

FAKE INFLUENCER MARKETING IN 2019

UNIVERSITY OF BALTIMORE

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THE ECONOMIC COST OF BAD ACTORS SERIES

The internet has heralded an economic revolution. The internet economy of the G20 countries alone is worth more than $4.2 trillion representing 5.3% of their total GDP. However, as Tim Berners Lee, the father of the internet has put it: ***''While the web has created opportunity, given marginalized groups a voice, and made our daily lives easier, it has also created opportunity for scammers, given a voice to those who spread hatred, and made all kinds of crime easier to commit.''***

In a series of reports, we reveal the monetary cost caused by bad actors on the internet. CHEQ has commissioned economist, Professor Roberto Cavazos at the University of Baltimore, to undertake the first ever in-depth economic analysis of the full scale of internet harm. For the first time, using economic analysis, statistical & data analysis, we measure the global economic price paid by businesses and society due to problems including ad fraud, online bullying, and fake news.

FAKE INFLUENCER MARKETING:

UNCOVERING A $1.3 BILLION PROBLEM

In this report, we focus on fake influencer marketing, a practice spawned after the digitalization of influencer marketing. Both prominent—and less well known—personalities buy fake followers and engagement via bots or click farms, which automatically like, comment and share social media posts.

In the following pages, we reveal that fake influencer marketing will cost advertisers $1.3 billion in 2019. Left unchecked the problem will continue to grow as complexity and activity in the sector, increases costing the global economy $1.5 billion by 2020. There are significant further indirect costs — notably erosion of trust and potential brand impact. These could damage this nascent industry if not tackled by all players in this nascent ecosystem.

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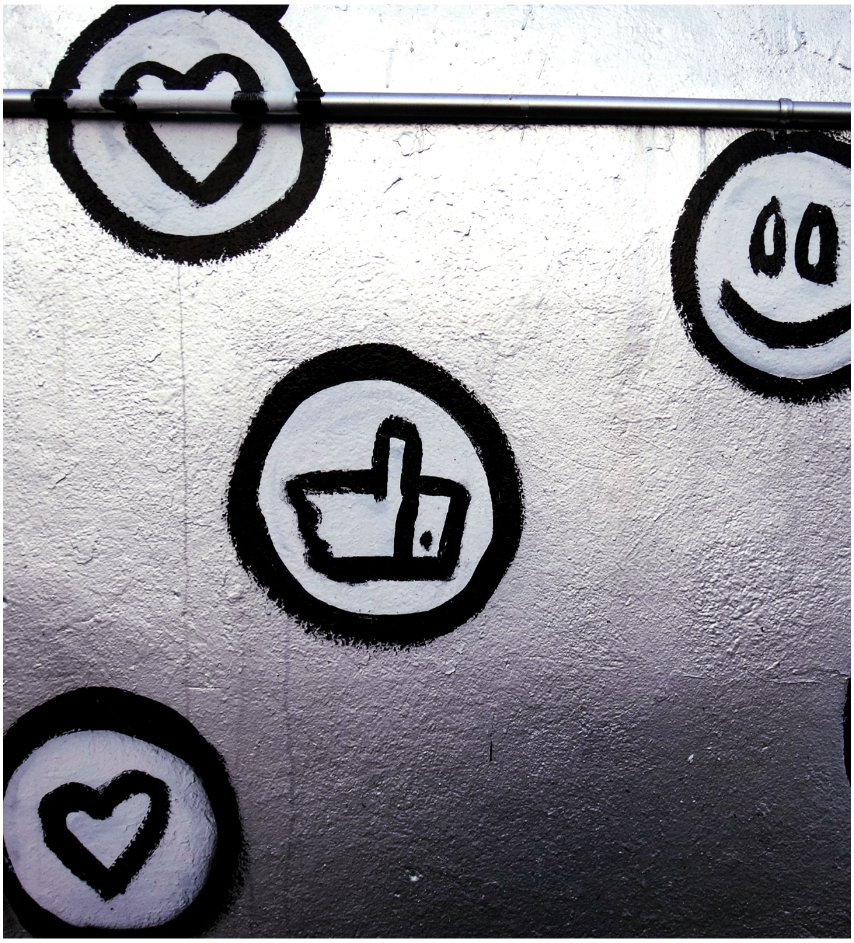
Professor Roberto Cavazos, Executive in Residence at the Merrick School of Business at the University of Baltimore, has over 25 years' experience in economic analysis, statistical & data analysis, project and program management and policy, and technology with extensive experience in financial, data and health care fraud analytics and analysis for government and private sector organizations.



THE CHALLENGE OF FAKE FOLLOWERS

The influencer marketing sector has grown so rapidly that even top marketing and advertising researchers have given it scant attention. Essentially, influencers are employed in several ways, including product placements, where they highlight brands in YouTube videos, Instagram or Twitter posts, in order to boost brand engagement or awareness.

In this framework, as influencers seek to educate, build awareness and drive sales among their target demographic, a focus on numbers of followers is inevitable. Indeed, academic research shows that influencers with more followers are perceived as more attractive, extraverted, trustworthy, approachable and possessing other socially desirable characteristics (Jin and Phua 2014).[2] This naturally sets influencers apart — with court documents revealing that Kim Kardashian receives between $300,000 and $500,000 per sponsored Instagram post.[3]

The need to demonstrate their reach to a large audience is so compelling that there are businesses which specialize in selling followers. This provides a cheap foothold to influencer fraud. Paquet-Coulson (2017) found that click farm clients pay an average of $49 for every 1000 YouTube followers, $34 for the same number for Facebook, $16 for Instagram and $15 for Twitter.[4] There are even vending machines in Russian malls selling fake Instagram likes (there the price is $17 for the equivalent likes).

COST PER 1000 FOLLOWERS ON INFLUENCER PLATFORMS

$49 $16 $15

In defining fraud, we consider the inflating of follower counts as blatant in estimating economic losses. However, there are also grayer areas of deception which add to the economic losses in less clear ways.

Firstly, there is the use of automation to carry out much of the underlying work to build followers to appear as if they are in the big leagues. Nik Speller, head of campaigns at influencer marketing agency Influencer says:

[1] What Every Marketer Needs to Know About Influencer Marketing and Buying Followers. Marketing New, February 2019

[2] https://www.tandfonline.com/doi/abs/10.1080/00913367.2013.827606

[3] See: https://www.tubefilter.com/2019/05/10/kim-kardashian-500000-per-sponsored-post/

[4] Can we trust social media data? Social Media Manipulation by an IOT Botnet https://dl.acm.org/citation.cfm?id=3097301

"They use automated services, to act on your behalf to follow people, unfollow them again, like content, comment on content, just to do all that underlying stuff that an account has to do sometimes to grow and do it in a turbo-charged way. In this way all of a sudden you follow 500 people, 200 follow you back, you unfollow them, you've got 200 followers and it looks like you are important because your follower number is bigger than the number of people you follow." Speller points out he believes this practice is fraudulent and certainly against social media network's terms of service as it consists of spamming.

Secondly, there are so-called "pods" allowing influencers to trade engagement back and forth on each other's posts, as part of a community. This operation involves one influencer commenting on, or liking, a certain number of posts, and is reimbursed in kind with comments on their own activity and posts. This is clearly not what brands have in mind when creating and paying for campaigns.

Thirdly, some wannabe influencers have resorted to publishing what purport to be sponsored posts on behalf of brands they are not actually working with. In some cases, they engage in this dubious behavior with fake sponsored posts to dupe brands into believing they have a proven track record – and in order to get hired for a future engagement.

Fourthly, even real followers can be problematic when audience inactivity on many networks is considered. In a situation where 30% of some social media accounts have been claimed to be inactive, digital analyst Brian Solis says: ***"Many influencers have no access to 90% of their audience simply because it no longer uses the social network where they were followed. This doesn't stop them from touting millions of followers, who will, of course, never see your content."***

THE $8.5 BILLION INFUENCER MARKETING SECTOR

Globally, influencer marketing spend is up to $8.5 billion in 2019 and the industry is forecast to hit up to $10 Billion in 2020 according to research by Mediakix.
The spend has grown up to twentyfold since 2015 when spend on social influencers globally was $500 million. Estimates of the industry may be larger still as investment and more players have streamed into a sector which attracted more than $118 million in funding for influencer tech platforms alone (see image) helping to connect brands to influencers seamlessly.

INFLUENCER TECH PLATFORMS FUNDING ROUNDS JULY 2018 TO JULY 2019

INFLUENCER TECH	DATE	FUNDING ROUND	AMOUNT RAISED
Cameo	June 2019	Series B	$50M
Zyper	June 2019	Series A	$6.5M
CreatorIQ	June 2019	Series B	$12M
Traackr	April 2018	Series B	$9M
Tribe	March 2019	Series A	$7.5M
Hiip	March 2019	Series A	Unknown
Sideqik	February 2019	Series A	$5M
Mavrck	October 2018	Series B	$5.8M
Buzoole	December 2018	Series A	$8.9M
Matchmade	November 2018	Series A	$4.8M
Upfluence	September 2018	Series A	$3.6M
SamyRoad	July 2018	Series A	$1.6M
Takumi	July 2018	Series B	$4M

ESTIMATES OF FRAUD LEVELS

There are various estimates of the extent to which influencer marketing reaches followers who are simply fake. In one study it was found that influencers hired by Ritz Carlton comprised 78% fake followers, P&G's Pampers (32%) and L'Occitane (39%). Sway Ops found that 50% of engagements on sponsored content are fake.

In the medium range, SocialChain, a metrics company auditing 10,000 influencers and finding 25% of followers are involved in some type of fraudulent activity. The Wall Street Journal cited a Points North Group study which found that midlevel influencers—those with between 50,000 and 100,000 followers—often have about 20% fake followers.
This analysis of followers is corroborated by the perceptions of marketers.

In a survey of 800 marketing agencies, brands, and other sector professionals, almost two thirds had experienced influencer fraud.[5]
Based on all available research and industry insiders' insights across all social media influencer platforms we argue that a 15% composite rate of total ad spend lost to influencer fraud reflects the mix of lower end and higher end ad campaigns. Based on the spending of $8.5 billion on influencers in 2019 this creates a conservative economic loss of $1.3 billion. Left unchecked, this will rise to $1.5 billion in 2020.

This is a direct cost borne by advertisers and it does not include the indirect costs associated with this fraud such as erosion of trust. However, this indirect cost could push the cost of this problem to an even more extreme level, as we now see.

[5] https://influencermarketinghub.com/influencer-marketing-2019-benchmark-report/

INDIRECT COSTS OF GROWING INFLUENCER MARKETING

Direct costs refer to the direct losses and damage as a result of the situation, while indirect costs are the losses and opportunity costs imposed on society by the fact that the fraud is carried out. The US government has suggested that to best understand the cost of crime, estimates should consider both the financial and non-monetary effects of harm—such as the impact on quality of life, increasing fear, or indirect effects, such as change in behavior. Some researchers have concluded that crime's most costly factors stem from these less tangible effects.[6]

Some indirect costs from fraudulent ads may include less trust among actors and thus less innovation. Advertiser clients may over time become less inclined to spend or buyers less willing to buy.

Trust is the cornerstone of commerce in a global interconnected economy. Like ad-fraud, fake influencer marketing not only takes money for producing nothing, it erodes trust in advertising and removes the "influence" from influencer marketing.

The indirect costs of fraud relating to the erosion of trust impact consumers, the industry, and threatens greater enforcement and regulation.

[6] https://www.gao.gov/assets/700/691895.pdf

INDIRECT COSTS FOR KEY PLAYERS

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1. CONSUMERS

Given the relatively early stage of this industry, the consumer effect of bad actors hijacking influencer marketing is not yet fully known. Research points to problems emerging. Only 4% of internet users trust what influencers are telling them on social media. A 2018 Bazaarvoice study found that 62% of people think that influencers take advantage of impressionable audiences, while 54% say they misrepresent real life.

The long-term impact effect of genuinely inauthentic communications and its effect on consumer trust remains challenging to quantify.

2. BRANDS

In the influencer marketing field, there have been notable instances of brands pulling out of advertising from influencers after some controversial content.
The Walt Disney Company severed ties with YouTube's biggest star PewDiePie after he posted a series of videos featuring antisemitic comments. It has led to brands returning to first principles of authenticity. Simon Sproule, Chief Marketing Officer, Aston Martin, says: ***''It's about relationships that add value to our customers, create new and exciting opportunities and relationships that are symbiotic. We're not interested in taking a well-known face and giving them a cheque, as we are always centered on authenticity and being true to our brand.''***

Keith Weed, former Chief Marketing and Communications Officer, at Unilever, which spends $7billion globally, said:
"At Unilever, we believe influencers are an important way to reach consumers and grow our brands. Their power comes from a deep, authentic and direct connection with people, but certain practices like buying followers can easily undermine these relationships." In a bid to fight the problem, the Influencer Marketing Council (IMC) introduced new guidelines to tackle the problem of fraud. This includes advising brands and agencies to check bot-inspired spikes, low engagement, follower to engagement rates, and the importance of having regular dialogue with your influencers.

3. SOCIAL MEDIA PLATFORMS

Platforms also face a damaging economic impact where trust is undermined. In the summer of 2018, Twitter began removing tens of millions of accounts in an effort to restore trust. In January 2018, a New York Times report found that one small Florida company sold fake followers to hundreds of thousands of people around the world. The political and business value of a widely followed twitter account is the reason why so may seek to push up the number of followers on twitter and other platforms.

By the same token, the fact that so many are using fakes can dilute the value of the platform. Officials at Twitter realized that ***"easy access to fake followers and the company's slowness in responding to the problem had devalued the influence accumulated by legitimate users, sowing suspicion around those who quickly attained a broad following"***. Instagram equally puts central to its mission a commitment to ***''upholding the integrity of our platform and to helping content creators and businesses create the best experiences for the Instagram community".***

4. TECHNOLOGY

As we have previously seen, there has been more than $65 million in funding for influencer tech platforms in the past year alone (see image). Nik Speller at specialist agency, Influencer, says the action of bad actors is creating a a grossly inflated influencer market and support services.

He says: ***"Brands come to us and say last year we worked with these five people and they had an audience of 2 million for $2000. I look at them and they are fake and worthless, but now they think they can buy that big number for small money, even though they were fake followers."***

5. REGULATORS

If the industry does not tackle the issues of trust, regulators may well step in. The U.S. Federal Trade Commission (FTC) has Issued warnings to 90 influencers and produced guidelines on how to make disclosures to ensure that consumers are not manipulated and fully understand where content is sponsored.

The guidelines provide that social media posts should contain information as per the relationship of the influencer and the brand, namely whether he or she has a contractual relationship or has received free products or another form of remuneration for publishing the post".[8]

Still, influencers inflating their followers or bots pretending to be real humans may well comply with the FTC rule. This practice could be contrived as misleading consumers through inflated numbers about their genuine popularity.

[7] https://mediatel.co.uk/newsline/2019/05/14/influencer-marketing-in-the-age-of-mistrust

[8] Twitter Purges Its Fake Followers to Restore the Power of Influence. (cover story)
Authors: CONFESSORE, NICHOLAS DANCE, GABRIEL J. X.
Source: New York Times. 7/12/2018, Vol. 167 Issue 58021, pA1-A13. 2p.

COMPLEXITY RISING

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Complexity is a well-known cause of fraud in many domains, as set out in our recent report on ad fraud that can have more than 20 transactions between a brand and a consumer. It is worth noting that ad fraud losses to the economy are expected to be more than 20-times the costs of Influencer marketing losses in 2019. However, the growing popularity of influencer marketing brings with it greater opportunities for fraud as the number of players increases and more players are involved around this economy across an expected 4.4 million influencer-promoted posts in 2019. The opportunities for accountability and monitoring diminish as the sector increases. In addition, the industry is moving towards greater depth and complexity through other means, with so-called micro influencers and nano-influencers joining the payroll of brands.

INFLUENCER PAYMENTS

MEGA INFLUENCER

= 1-2 MILLION

PER POST COST **$250,000**

LOSS TO FRAUD PER POST **$375,000**

MACRO INFLUENCER

100,000 - 1 MILLION FOLLOWERS =

PER POST **$25,000**

LOSS TO FRAUD PER **$3,750**

MICRO INFLUENCER PLUS

100k FOLLOWERS

PER POST COST **$2000**

LOSS TO FRAUD PER POST **$300**

MICRO INFLUENCER

10K FOLLOWERS

PER POST COST **$250**

LOSS TO FRAUD PER POST **$37.50**

NANO INFLUENCER

1 K FOLLOWERS

PER POST COST **$10-35**

LOSS TO FRAUD PER POST **$2**

PICO INFLUENCER

500 — 1 K FOLLOWERS

PER POST COST **$1.50**

LOSS TO FRAUD PER POST **20 CENTS**

Nano-influencers are used by companies to describe people who have as few as 1,000 followers and are willing to advertise products on social media. Their lack of fame is one of the qualities that make them approachable. For instance, fashion brand Zara employs roughly 2421 influencers of which 522 are now micro influencers. If this trend towards complexity and broadening across a wider social media population continues, opportunities for fraud naturally increase.

TRUST ECONOMICS AT THE HEART OF INFLUENCER MARKETING

Nobel prize winning economist Kenneth Arrow produced path-breaking work, much of it on the economics of trust. He noted that people understand "street ethics," and disbelieve used car salesman statements. However, we place trust on pilots, physicians, celebrities, and corporations. In the short run, there are clearly many economic benefits associated with telling lies or not being entirely candid, as illustrated by say Bernie Madoff but in the long run, other considerations come into play.

Arrow and economists generally promote good ethics based on "economic efficiency". Economic efficiency and profits increase when people transact business with one another based on "trust"; in the end, all society is better off. For example, Arrow notes the case of a physicians who betrays their patient's trust. If nothing is done to stop this people lose confidence in doctor and this leads to higher costs, fewer visits to doctors, lower revenue for the good doctors and more sick people. Public health would decline and all of society would suffer. While this example may seem dramatic, the same holds true in any sector or country. Sectors and countries with low trust, have slow growth, high cost of doing business and little innovation. Lower trust due to fake influencer marketing leads to erosion of trust. If we lack steps to address this issue, the value of influencers will decline along with that of other forms of online advertising.

Fewer will pay for influencer advertising, or pay much less, as the perception becomes widespread that numbers of followers are distorted. This leads to a decrease in revenues as well as many ultimately choosing not to use influencer campaigns.

CONCLUSION

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Assessing global economic damage can sometimes appear nebulous. However, the harm and costs for companies navigating influencer fraud can be very real, painful and costly.

This was shown most dramatically when influencers who were paid for the Fyre Festival were accused of delivering a stamp of approval for a fake festival that prosecutors claim has cost investors $26 million in losses. No less damaging, influencers – recognizing how powerful their personal brand is – have sought action against brands faking alleged endorsement on social media. Kim Kardashian West, among the most prominent social influencers, filed a $10 million lawsuit against a U.K. fast-fashion retailer for misappropriating her image on platforms.

Though there is no precise way of measuring the loss of consumer trust in influencer content, we suspect it's significant. Marketers lose receptive consumers and business marketing ROI diminishes. This highlights our view that fraud and loss of trust extend beyond the affected business and that entire sectors and economies are adversely impacted.

Clearly, momentum is with influencer marketing as 71% of brand marketers rate this channel as highly strategic, while 55% of plan to spend more on this strategy next year. For spending more than $250,000 on influencer marketing, the percentage of brands increasing their spend jumps to 67%.

With consumers continuing to mistrust companies or executives, the role of influencers assumes a significant role in bringing a rare authenticity to online marketing. Nevertheless, the problem of fraud must be tackled to ensure that this nascent channel is not severely undermined.