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Incorporating hidden costs of annoying ads in display auctions

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*INCORPORATING HIDDEN COSTS OF ANNOYING ADS IN DISPLAY AUCTIONS*Valeria Stourm and Eric Bax<sup>1</sup>

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**Abstract**

Media publisher platforms often face an effectiveness-annoyance tradeoff: more annoying ads can be more effective for some advertisers because of their ability to attract attention, but after attracting viewers' attention, their annoyance to viewers can decrease engagement with the platform over time. With the rise of mobile technology and ad blockers, many platforms are becoming increasingly concerned about how to improve monetization through digital ads while improving viewer experience.

We study an online ad auction mechanism that incorporates a charge for ad impact on user experience as a criterion for ad selection and pricing. Like a Pigovian tax, the charge causes advertisers to internalize the hidden cost of foregone future platform revenue due to ad impact on user experience. Over time, the mechanism provides an incentive for advertisers to develop ads that are effective while offering viewers a more pleasant experience. We show that adopting the mechanism can simultaneously benefit the publisher, advertisers, and viewers, even in the short term.

Incorporating a charge for ad impact can increase expected advertiser profits if enough advertisers compete. A stronger effectiveness-annoyance tradeoff, meaning that ad effectiveness is more strongly associated with negative impact on user experience, increases the amount of competition required for the mechanism to benefit advertisers. The findings suggest that the mechanism can benefit the marketplace for ad slots that consistently attract many advertisers.

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