

Native Advertising Can Increase Business Appeal

Author : Harikesh Nair

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In Searches, Those Paid Ads Pay Off

Does knowing that a search listing is a paid ad make consumers evaluate a restaurant on a site like Yelp or **Zomato** more favorably or less favorably? The answer might surprise you.

Prevailing wisdom suggests consumers may not trust sponsored content, so revealing that content is sponsored may be detrimental to advertisers and media platforms. But our new research finds that making ads “native” – having them appear in the same format as regular listings but clearly identifiable as an ad – actually attracts more business.

This finding is quite relevant to consumers, advertisers, and media platforms: **Advertising**, it turns out, helps all three.

To gauge the effect of native **advertising**, we had to assure that consumers were responding merely to knowing a firm was **advertising**, as opposed to the quality of the ad. So we **designed** a field experiment in collaboration with [Zomato](#), a site that allows consumers to search on their phones for restaurants. The experiment involved 622 **advertising** restaurants and 265,975 people over about six weeks.

Our consumers were allocated randomly. Some saw a restaurant listing with no indication it was an ad; others saw the identical listing indicating it was an ad. We found that simply disclosing to a consumer that a listing was paid for by the restaurant increased calls to the restaurant by 77% relative to not disclosing it. These results suggest that ad disclosure in fact increases the restaurant’s appeal.

We then tested whether the effect of disclosure is even higher for users who are more uncertain about the restaurants, maybe because they are visiting an unfamiliar city. We found that these users visited restaurants’ pages at a significantly higher rate when **advertising** was disclosed.

We also saw that restaurants rated fewer times on the platform – presumably, those about which consumers were even more unfamiliar – benefited more from ad disclosure.

Separately, we found that restaurants that have more appeal to consumers (those with better ratings) and that are newer (presumably ones about which consumers are more uncertain) are more likely to advertise on **Zomato**. This suggests that restaurants seem to be using **advertising** to inform consumers of their appeal.

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Taken together, these results suggest that markets may work in a way consistent with “signaling theory,” which contends that **advertising** can “signal quality” to consumers. This theory posits that the very fact that a new firm spends significant amounts on **advertising** can signal to consumers that it is of high quality. And indeed, **advertising** seems to play a positive role in this market, helping consumers find what they were looking for and benefiting the **advertising** restaurant and the search platform.

Note that in our study, the ads were relevant to the consumer’s search, and therefore useful, not annoyingly irrelevant and disruptive. These results also build on [previous research](#) conducted by [Sahni](#) and colleagues who demonstrated the effectiveness of search and email **advertising**.

The implication of our findings for advertisers is they will benefit from clearly disclosed ads on search platforms because that serves to signal their quality. Further, even if consumers are aware of their products, such firms should continue to advertise, because it affects the quality perceptions of consumers. The implication for media platforms is that they should prominently disclose paid ads, because consumers respond positively to advertisements when they are useful and not annoying.

Restaurants that advertise openly might see a lift in business. | Above Photo: iStock/Andrew Cribb

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