A Comparison of Approaches to Advertising Measurement: Evidence from Big Field Experiments at Facebook

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Abstract

We examine how common techniques used to measure the causal impact of ad exposures on users’ conversion outcomes compare to the “gold standard” of a true experiment (randomized controlled trial). Using data from 12 US advertising lift studies at Facebook comprising 435 million user-study observations and 1.4 billion total impressions we contrast the experimental results to those obtained from observational methods, such as comparing exposed to unexposed users, matching methods, model-based adjustments, synthetic matched-markets tests, and before-after tests. We show that observational methods often fail to produce the same results as true experiments even after conditioning on information from thousands of behavioral variables and using non-linear models. We explain why this is the case. Our findings suggest that common approaches used to measure advertising effectiveness in industry fail to measure accurately the true effect of ads.

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1 Introduction

1.1 The industry problem

Consider the situation of Jim Brown, a hypothetical senior marketing executive. Jim was awaiting a presentation from his digital media team on the performance of their current online marketing campaigns for the company’s newest line of jewelry. The team had examined offline purchase rates for the new line and tied each purchase to a consumer’s exposure to online ads. Figure 1 showed the key findings:

![Figure 1: Conversion rate by ad behavior](image)

The digital media lead explained the graph to Jim: “We compared the sales conversion rate during the last 60 days for consumers who (a) were not exposed to our ads, (b) were exposed to our ads, (c) were exposed to our ads and clicked on the ads. The conversion rate of those who were not exposed was only 0.02% and forms the baseline against which we measure the incremental effect of the ads. Exposure to the ads led to a 0.9% conversion rate. When consumers clicked on the ads, the sales conversion increased to 2.8%”. The digital media lead continued: “We can learn two things from these data. First, our ads seem to be really working. Second, engagement with the ads—meaning clicking—drives conversions. These findings show that clicking makes consumers more likely purchase by engaging them. We think that future ads should be designed to entice consumers to click.”

Jim sat back and thought about the digital media team’s presentation. He was re-evaluating his marketing strategy for this line of jewelry and wondered how these results fit in. Something seemed off – Jim felt like he needed to know more about the consumers who had recently purchased these
items. Jim asked his team to delve into their CRM database and characterize the consumers in each of the three groups in Figure [1].

The next day, the team reported their findings. There were startlingly large differences between the groups of consumers who had seen no ads, had been exposed to ads but had not clicked, and consumers who had both seen and clicked on ads. Almost all of the unexposed consumers were men whereas the large majority of consumers who were exposed to the ads were women. Jim knew that men were unlikely to buy this particular jewelry line. He was certain that even if they had been shown the ads, very few men would have purchased. Furthermore, Jim noticed that 14.1% of consumers who clicked on ads were loyalty club members compared to 2.3% for those who had not.

Jim was no longer convinced of the digital media team’s conclusions that the ads were working and that clicking drove purchases. He wondered whether the primary reason the sales conversion rates differed so much between the left two columns of Figure [1] could be that most of the unexposed consumers were men and most of the exposed non-clicker consumers were women. Also, did the clickers have the highest purchase rate because the ad had induced them to click or because, as members of the loyalty program, they were most likely to favor the company’s products in the first place?

Jim Brown’s situation is typical: Marketing executives regularly have to interpret and weigh evidence about advertising effectiveness in order to refine their marketing strategy and media spend. The evidence used in the above example is merely one of numerous types of measurement approaches used to link ad spending to business-relevant outcomes. But are there better and worse measurement approaches? Can some approaches be trusted and others not?

In this paper we investigate how well commonly-used approaches for measuring ad effectiveness perform. Specifically, do they reliably reveal whether or not ads have a causal effect on business-relevant outcomes such as purchases and site visits? Using a collection of advertising studies conducted at Facebook, we investigate whether and why methods such as those presented to Jim reliably measure the true, causal effect of advertising. We can do this because our advertising studies were conducted as true experiments, the “gold standard” in measurement. We can use the outcomes of these studies to reconstruct a set of commonly-used measurements of ad effectiveness and then compare each of them to the advertising effects obtained from the randomized experiments [1].

Two key findings emerge from this investigation:

• There is a significant discrepancy between the commonly-used approaches and the true experiments in our studies.

Our approach follows in the spirit of Lalonde (1986) and subsequent work by others, who compared observational methods with randomized experiments in the context of active labor market programs.

1Our approach follows in the spirit of Lalonde (1986) and subsequent work by others, who compared observational methods with randomized experiments in the context of active labor market programs.
• While observations approaches sometimes come close to recovering the measurement from true experiments, it is difficult to predict a priori when this might occur.

• Commonly-used approaches are unreliable for lower funnel conversion outcomes (e.g., purchases) but somewhat more reliable for upper funnel outcomes (e.g., key landing pages).

Of course, advertisers don’t always have the luxury of conducting true experiments. We hope, however, that a conceptual and quantitative comparison of measurement approaches will arm the reader with enough knowledge to evaluate measurement with a critical eye and to help identify the best measurement solution.

1.2 Understanding Causality

Before we proceed with the investigation, we would like to quickly reacquaint the reader with the concept of causal measurement as a foundation against which to judge different measurement approaches.

In everyday life we don’t tend to think of establishing cause-and-effect as a particularly hard problem. It is usually easy to see that an action caused an outcome because we often observe the mechanism by which the two are linked. For example, if we drop a plate, we can see the plate falling, hitting the floor and breaking. Answering the question “Why did the plate break?” is straightforward. Establishing cause-and-effect becomes a hard problem when we don’t observe the mechanism by which an action is linked to an outcome. Regrettably, this is true for most marketing activities. For example, it is exceedingly rare that we can describe, let alone observe, the exact process by which an ad persuades a consumer to buy. This makes the question "Why did the consumer buy my product—was it because of my ad or something else?" very tricky to answer.

Returning to Jim’s problem, he wanted to know whether his advertising campaign led to higher sales conversions. Said another way, how many consumers purchased because consumers saw the ad? The “because” is the crucial point here. It is easy to measure how many customers purchased. But to know the effectiveness of an ad, one must know how many of them purchased because of the ad (and would not have otherwise).

This question is hard to answer because many factors influence whether consumers purchase. Customers are exposed to a multitude of ads on many different platforms and devices. Was it today’s mobile ad that caused the consumer to purchase, yesterday’s sponsored search ad, or last week’s TV ad? Isolating the impact of one particular cause (today’s mobile ad) on a specific outcome (purchase) is the challenge of causal measurement.

Ideally, to measure the causal effect of an ad, we would like to answer: “How would a consumer behave in two alternative worlds that are identical except for one difference: in one world they
see an ad, and in the other world they do not see an ad?" Ideally, these two “worlds” would be identical in every possible way except for the ad exposure. If this were possible and we observed a difference in outcomes (e.g. purchase, visits, clicks, retention, etc.), we could conclude the ad caused the difference because otherwise the worlds were the same.

While the above serves as a nice thought experiment, the core problem in establishing causality is that consumers can never be in two worlds at once - you cannot both see an ad and not see an ad at the exact same time. The solution is a true experiment, or “randomized controlled trial.” The idea is to assign consumers randomly to one of several “worlds,” or “conditions” as they are typically referred to. But even if 100,000 or more consumers are randomly split in two conditions, the groups may not be exactly identical because, of course, each group consists of different consumers.

The solution is to realize that randomization makes the groups “probabilistically equivalent,” meaning that there are no systematic differences between the groups in their characteristics or in how they would respond to the ads. Suppose we knew that the product appeals more to women than to men. Now suppose that we find that consumers in the “see the ad” condition are more likely to purchase than consumers in the “don’t see the ad” condition. Since the product appeals more to women, we might not trust the results of our experiment if there were a higher proportion of women in the “ad” condition than in the “no-ad” condition. The importance of randomizing which customers are in which conditions is that if the sample of people in each group is large enough, then the proportion of females present should be approximately equal in the ad and no-ad conditions. What makes randomization so powerful is that it works on all consumer characteristics at the same time – gender, search habits, online shopping preferences, etc.. It even works on characteristics that are unobserved or that the experimenter doesn’t realize are related to the outcome of interest. When the samples are large enough and have been truly randomized, any difference in purchases between the conditions cannot be explained by differences in the characteristics of consumers between the conditions—they have to have been caused by the ad. Probabilistic equivalence allows us to compare conditions as if consumers were in two worlds at once.

For example, suppose the graph in Figure 1 had been the result of a randomized controlled trial. Say that 50% of consumers had been randomly chosen to not see campaign ads (the left most column) and the other 50% to see campaign ads (the right two columns). Then the digital media lead’s statement “our ads are really working” would have been unequivocally correct because exposed and unexposed consumers would have been probabilistically equivalent. However, if the digital marketing campaign run by our hypothetical Jim Brown had followed typical practices, consumers would not have been randomly allocated into conditions in which they saw or did not see ads. Instead, the platform’s ad targeting engine would have detected soon after the campaign
started that women were more likely to purchase than men. As a result, the engine would have started exposing more women and fewer men to campaign ads. In fact, the job of an ad targeting engine is to make consumers’ ad exposure as little random as possible: Targeting engines are designed to show ads to precisely those consumers who are most likely to respond to them. In some sense, the targeting engine “stacks the deck” by sending the ad to the people who are most likely to buy, making it very difficult to tell whether the ad itself is actually having any incremental effect.

Hence, instead of proving the digital media lead’s statement that “our ads are really working,” Figure 1 could be more accurately interpreted as showing that “consumers who are not interested in buying the product don’t get shown ads and don’t buy (left column), while consumers who are interested in buying the product do get shown ads and also buy (right columns).” Perhaps the ads had some effect, but in this analysis it is impossible to tell whether high sales conversions were due to ad exposure or preexisting differences between consumers.

The non-randomization of ad exposure may undermine Jim’s ability to draw conclusions from the differences between consumers who are and are not exposed to ads, but what about the differences between columns (b) and (c), the non-clickers and the clickers? Does the difference in sales conversion between the two groups show that clicks cause purchases? In order for that statement to be true, it would have to be the case that, among consumers who are exposed, consumers who click and don’t click are probabilistically equivalent. But why would some consumers click and others not? Presumably because the ads appealed more to one group than the other. In fact, Jim’s team found that consumers who clicked were more likely to be loyalty program members, suggesting that they were already positively disposed to the firm’s products relative to those who did not click. Perhaps the act of clicking had some effect, but in this analysis it is impossible to tell whether higher sales conversions from clickers were due to clicking or because consumers who are already loyal consumers—and already predisposed to buy—are more likely to click.

In the remainder of this paper we will look at a variety of different ways to measure advertising effectiveness through the lens of causal measurement and probabilistic equivalence. This will make clear when it is and is not possible to make credible causal claims about the effect of ad campaigns.

2 Study design and measurement approach

The 12 advertising studies analyzed in this paper were chosen by two of the authors (Gordon and Zettelmeyer) for their suitability for comparing several common ad effectiveness methodologies and for exploring the problems and complications of each. All 12 studies were randomized controlled trials held in the US. The studies are not representative of all Facebook advertising, nor are they intended to be representative. Nonetheless, they cover a varied set of verticals (retail, financial
services, e-commerce, telecom, and tech). Each study was conducted recently (January 2015 or later) on a large audience (at least 1 million users) and with “conversion tracking” in place. This means that in each study the advertiser measured outcomes using a piece of Facebook-provided html code, referred to as a “conversion pixel,” that the advertiser embeds on its web pages. This enables an advertiser to measure whether a user visited that page. Conversion pixels can be embedded on different pages, for example a landing page, or the checkout confirmation page. Depending on the placement, the conversion pixel reports whether a user visited a desired section of the website during the time of the study, or purchased.

To compare different measurement techniques to the “truth,” we first report the results of each randomized controlled trial (henceforth an “RCT”). RCTs are the “gold standard” in causal measurement because they ensure probabilistic equivalence between users in control and test groups (within Facebook the ad effectiveness RCTs we analyze in this paper are referred to as a “lift test.”).

### 2.1 RCT design

An RCT begins with the advertiser defining a new marketing campaign which includes deciding which consumers to target. For example, the advertiser might want to reach all users that match a certain set of demographic variables, e.g., all women between the ages of 18 and 54. This choice determines the set of users included in the study sample. Each user in the study sample was randomly assigned to either the control group or the test group according to some proportion selected by the advertiser (in consultation with Facebook). Users in the test group were eligible to see the campaign’s ads during the study. Which ad gets served for a particular impression is the result of an auction between advertisers competing for that impression. The opportunity set is the collection of display ads that compete in an auction for an impression. Whether eligible users in the test group ended up being exposed to a campaign’s ads depended on whether the user accessed Facebook during the study period and whether the advertiser was in the opportunity set and was the highest bidder for at least one impression on the user’s News Feed.

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2. We use “conversion pixel” to refer to two different types of conversion pixels used by Facebook. One was traditionally referred to as a “conversion pixel” and the other is referred to as a “Facebook pixel”. Both types of pixels were used in the studies analyzed in this paper. For our purposes both pixels work the same way (see https://www.facebook.com/business/help/460491677353570).


4. The advertising platform determines which ads are part of the opportunity set based on a combination of factors: how recently the user was served any ad in the campaign, how recently the user saw ads from the same advertiser, the overall number of ads the user was served in the past twenty-four hours, the “relevance score” of the advertiser, and others. The relevance score attempts to adjust for whether a user is likely to be a good match for an ad (https://www.facebook.com/business/news/relevance-score).
Users in the control group were never exposed to campaign ads during the study. This raises the question: What should users in the control group be shown in place of the focal advertiser’s campaign ads? One possibility is not to show control group users any ads at all, i.e., to replace the advertiser’s campaign ads with non-advertising content. However, this creates significant opportunity costs for an advertising platform, and is therefore not implemented at Facebook. Instead, Facebook serves each control group user the ad that this user would have seen if the advertiser’s campaign had never been run.

We illustrate how this process works using a hypothetical and stylized example in Figure 2. Consider two users in the test and control groups, respectively. Suppose that at one particular instant, Jasper’s Market wins the auction to display an impression for the test group user, as seen in Figure 2a. Imagine that the control group user, who occupies a parallel world to the test user, would have been served the same ad had this user been in the test group. However, the platform, recognizing the user’s assignment to the control group, prevents the focal ad from being displayed. As Figure 2b shows, instead the second-place ad in the auction is served to the control user because it is the ad that would have won the auction in the absence of the focal campaign.

Of course, Figure 2 is a stylized view of the experimental design (clearly there are no two identical users in parallel worlds). For users in the test group, the platform serves ads in a regular manner, including those from the focal advertiser. The process above is only relevant for users in the control group and if the opportunity set contains the focal ad on a given impression. If the focal ad does not win the auction, there is no intervention—whatever ad wins the auction is served because the same ad would have been served in the absence of the focal advertiser’s campaign. However, if the focal ad wins the auction, the system removes it and instead displays the second-place ad. In the example, Waterford Lux Resorts is the “control ad” shown to the control user. At another instant when Jasper’s Market would have won the auction, a different advertiser might occupy the second-place rank in the auction. Thus, instead of their being a single control ad, users in the control condition are shown the distribution of ads they would have seen if the advertiser’s campaign had not run.

A key assumption for a valid RCT is that there is no contamination between control and test groups, meaning users in the control group cannot have been inadvertently shown campaign ads, even if the user accessed the site multiple times from different devices or browsers. Fortunately for us, users must log into Facebook each time they access the service on any device, meaning that campaign ads were never shown inadvertently to users in the control group. This allowed us to bypass a potential problem with cookie-based measurements: that different browsers and devices cannot always be reliably identified as belonging to the same consumer.\footnote{In addition, a valid RCT requires the Stable Unit Treatment Value Assumption (SUTVA). In the context of our}
Figure 2: Determination of control ads in Facebook experiments

(a) Step 1: Determine that a user in the control would have been served the focal ad

(b) Step 2: Serve the next ad in the auction.
2.2 Ad effectiveness metrics in an RCT

To illustrate how we report the effectiveness of ad campaigns, suppose that 0.8% of users in the control group and 1.2% of users in the test group purchased during a hypothetical study period. One might be tempted to interpret this as “exposure to ads increased the share of consumers buying by 0.4 percentage points, or an increase in purchase likelihood of 50%.” This interpretation, however, would be incorrect. The reason is that not all consumers who were assigned to the test group were exposed to ads during the study. (This could be because, after they were assigned to the test group, some users did not log into Facebook; because the advertiser did not win any ad auctions for some users; because some users did not scroll down far enough in their newsfeed to where a particular ad was placed, etc.). Hence, the test group contains some users who cannot have been affected by ads because they did not see them.

Continuing the example, suppose that only half the users in the test group saw the ads. This means that the 0.4% difference between the 0.8% conversion rate in the control group and the 1.2% conversion rate in the test group must have been generated by the half of users in the test group who actually were exposed to the campaign ads—the effect of an ad on a user who doesn’t see it must be zero. To help see this, we can express the 0.4% difference as a weighted average of (i) the effect of ads on the 50% of users who actually saw them (let’s call this the “incremental conversion rate” due to the ads or “ICR”) and (ii) the 0 percent effect on the 50% of users who did not see them:

$$0.5 \times \text{ICR} + 0.5 \times 0\% = 0.4\% \quad (1)$$

Solving this simple equation for ICR shows that the incremental conversion rate due to ad exposure is 0.8%.

$$\text{ICR} = \frac{0.4\%}{0.5} = 0.8\% \quad (2)$$

The interpretation of this incremental conversion rate is that consumers who were exposed to campaign ads were more likely by 0.8 percentage points to purchase the product than they would have been had they not been exposed to these ads during the study period.\[6\]

Continuing with our example, suppose that we examine the sales conversion rate of the consumers in our test sample who were exposed to the ads and find that it is 1.8%. At first, this might seem puzzling: If the sales conversion rate for the half of the test group that saw the ads is 1.8%, study this means that the potential outcome of one user should be unaffected by the particular assignment other users to treatment and control groups (no interference). This assumption might be violated if users use the share button to share ads with other users, which was not widely observed in our studies.

\[6\]The ICR is also commonly referred to as the “average treatment effect on the treated.”
and the sales conversion rate for the whole test group is 1.2%, then the sales conversion rate for the half of the test group who did not see the ads must be 0.6%. (This is because 0.6% is the number that when averaged with 1.8% equals 1.2%: \(0.5 \times 1.8\% + 0.5 \times 0.6\% = 1.2\%).) This means that the unexposed members of the test group had a lower sales conversion rate than the control group. What happened? Did our randomization go wrong?

The answer is no—there is nothing wrong with the randomization. Remember that we can randomize whether an individual is in the test or control group, but we can’t randomize whether or not a person sees the ad. This depends in part on the targeting mechanism (which, as we have already discussed, will tend to show ads to people who are likely to respond and to avoid showing ads to people who are unlikely to respond) and in part on the person’s own behavior (someone who is trekking in Nepal is unlikely to be spending time on Facebook and also unlikely to be making online purchases). Said another way, the set of people within the test group who actually see the ad is not a random sample but a “selected” sample. There are several different “selection mechanisms” that might be at work in determining who in the test group actually sees the ad. The targeting engine and vacations are two we have already mentioned (we will discuss a third later).

The reason for using the incremental conversion rate as the measure of the effect of the ad is to account for the possibility that the test group members who saw the ad is a selected (rather than random) subset of the test group. The results of our RCT were that the sales conversion rate in the test sample, at 1.2%, was higher by 0.4 percentage points than the sales conversion rate in the control sample, at 0.8%. As we described above, this difference must be driven by half of the test group who saw the ads, which means that the incremental effect of the ads must be to have increased the sales conversion rate within this group by 0.8 percentage points. The actual sales conversion rate in this exposed group was 1.8%, which implies that if the exposed group had not seen the ads, their sales conversion rate would have been 1.0% (equal to the 1.8% sales conversion rate minus the 0.8% calculated incremental conversion rate).

The power of the RCT is that it gives us a way to measure what we can’t observe, namely, what would have happened in the alternative world in which people who actually saw the ad didn’t see the ad (see figure 3). This measure, 1.0% in our example, is called the counterfactual” or “but for” conversion rate—what the conversion rate would have been in the world counter to the factual world, or what the conversion rate would have been but for the advertisement exposure.

The incremental conversion rate (ICR) is the actual conversion rate minus the counterfactual conversion rate, 1.8%-1.0% in our example. The measure we that we will use to summarize outcomes of the Facebook advertising studies, which is what Facebook uses internally, is “lift.” Lift simply
expresses the incremental conversion rate as a percentage effect

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\text{Lift} = \frac{\text{Actual conversion rate} - \text{Counterfactual conversion rate}}{\text{Counterfactual conversion rate}}
\] (3)

In our example, the lift is \( \frac{1.8\% - 1.0\%}{1.0\%} = 0.8 \) or 80\%. The interpretation is that exposure to the ad lifted the sales conversion rate of the kind consumers who were exposed to the ad by 80%.

3 Alternative measures of advertising effectiveness

In this section we will describe the various advertising effectiveness measures whose performance we wish to assess in comparison to randomized controlled trials. In order to be able to talk about these measurement techniques concretely rather than only generally, we will apply them to one typical advertising study (we refer to it as “study 4”). This study was performed for the advertising campaign of an omni-channel retailer. The campaign took place over two weeks in the first half of 2015 and comprised a total of 25.5 million users. Ads were shown on mobile and desktop Facebook newsfeeds in the US. For this study the conversion pixel was embedded on the checkout confirmation page. The outcome measured in this study is whether a user purchased online during the study and up to several weeks after the study ended.\(^7\) Users were randomly split into test and control groups in proportions of 70\%, and 30\%, respectively.

\(^7\)Even if some users convert as a result of seeing the ads further in the future, this still implies the experiment will produce conservative estimates of advertising’s effects.
3.1 Results from a Randomized Controlled Trial

We begin by presenting the outcome from the randomized controlled trial. In later sections, we will apply alternative advertising effectiveness measures to the data generated by study 4. To preserve confidentiality, all of the conversion rates in this section have been scaled by a random constant.

Our first step is to check whether the randomization appears to have resulted in probabilistically equivalent test and control groups. One way to check this is to see whether the two groups are similar on variables we observe. As Table 1 shows for a few key variables, test and control groups match very closely and are statistically indistinguishable (the p-values are above 0.05).

Table 1: Randomization check

<table>
<thead>
<tr>
<th>Variable</th>
<th>Control group</th>
<th>Test group</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average user age</td>
<td>31.7</td>
<td>31.7</td>
<td>0.33</td>
</tr>
<tr>
<td>% of users who are male</td>
<td>17.2%</td>
<td>17.2%</td>
<td>0.705</td>
</tr>
<tr>
<td>Length of time using FB (days)</td>
<td>2,288</td>
<td>2,287</td>
<td>0.24</td>
</tr>
<tr>
<td>% of users with status “married”</td>
<td>19.6</td>
<td>19.6</td>
<td>0.508</td>
</tr>
<tr>
<td>% of users status “engaged”</td>
<td>13.8</td>
<td>13.8</td>
<td>0.0892</td>
</tr>
<tr>
<td>% of users status “single”</td>
<td>14.0</td>
<td>14.0</td>
<td>0.888</td>
</tr>
<tr>
<td># of FB friends</td>
<td>485.7</td>
<td>485.7</td>
<td>0.985</td>
</tr>
<tr>
<td># of FB uses in last 7 days</td>
<td>6.377</td>
<td>6.376</td>
<td>0.14</td>
</tr>
<tr>
<td># of FB uses in last 28 days</td>
<td>25.5</td>
<td>25.5</td>
<td>0.172</td>
</tr>
</tbody>
</table>

As Figure 4 shows, the incremental conversion rate in this study was 0.045% (statistically different from 0 at a 5% significance level). This is the difference between the conversion rate of exposed users (0.104%), and their counterfactual conversion rate (0.059%), i.e. the conversion rate of these users had they not been exposed. Hence, in this study the lift of the campaign was 77% (=0.045%/0.059%). The 95% confidence interval for this lift is [37%, 117%].

We will interpret the 77% lift measured by the RCT as our gold standard measure of the truth. In the following sections we will calculate alternative measures of advertising effectiveness to see how close they come to this 77% benchmark. These comparisons reveal how close to (or far from) knowing the truth an advertiser who was unable to (or chose not to) evaluate their campaign with an RCT, would be.

3.2 Individual-based Comparisons

Suppose that instead of conducting a randomized controlled trial, an advertiser had followed customary practice by choosing a target sample (such as single women aged 18-49, for example) and

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8See the technical appendix for details on how to compute the confidence interval for the lift.
made all of them eligible to see the ad. (Note that this is equivalent to creating a test sample without a control group held out). How might one evaluate the effectiveness of the ad? In the rest of this section we will consider several alternatives: comparing exposed vs. unexposed users, matching methods, and model-based adjustment techniques.

### 3.2.1 Exposed/Unexposed

One simple approach would be to compare the sales conversion rates of exposed vs. unexposed users. This is possible because even if an entire set of users is eligible to see an ad not all of them will (because the user doesn’t log into Facebook during the study period, because the advertiser doesn’t win any auctions for this user, etc.). We can simulate being in this situation using the data from study 4 by using data only from the test condition. Essentially, we are pretending that the 30% of users in the target segment of study 4 who were randomly selected for the control group do not exist.

Within the test group of study 4, the conversion rate among exposed users was 0.104% and the conversion rate among unexposed users was 0.020%, implying an ICR of 0.084% and a lift of 416%. This estimate is more than five times the true lift of 77% and therefore greatly overstates the effectiveness of the ad.

It is well known among ad measurement experts that simply comparing exposed to unexposed consumers yields problematic results. Many of the methods we describe in the following subsection were designed to improve on the well-known failings of this approach. In the remainder of this
subsection we will delve into why this comparison yields problematic results in the first place. The answers are helpful for understanding then other analysis on this paper.

Recall that one can attribute the difference in conversion rates between the groups solely to advertising only if consumers who are exposed and unexposed to ads are probabilistically equivalent. In practice, this is often not true. As we have discussed above, exposed and unexposed users likely differ in many ways, some observed and others unobserved.

Figure 5 depicts some of the differences between the exposed and unexposed groups (within the test group) in study 4. The figure displays percentage differences relative to the average of the entire test group. For example, the second item in Figure 5 shows that exposed users are about 10% less likely to be male than the average for the test group as a whole, while unexposed users are several percentage points more likely to be male than the average for the whole group. The figure shows exposed and unexposed users differ other ways as well. In addition to having more female users, the exposed group is slightly younger, more likely to be married, has more Facebook friends, and tends to access Facebook more frequently from a mobile device than a desktop. The two groups also own different types of phones.

These differences warn us that a comparison of exposed and unexposed users is unlikely to satisfy probabilistic equivalence. The more plausible it is that these characteristics are correlated with the underlying probability that a user will purchase, the more comparing groups that differ in these characteristics will confound the effect of the ads with the differences in group composition. The inflated ICR of 416% generated by the simple exposed vs. unexposed comparison suggests that there is a strong confounding effect in study 4. In short, exposed users converted more frequently than unexposed users because they were different in other ways that made them more likely to convert in the first place, irrespective of advertising exposures. This confounding effect—the differences in outcomes that arise from differences in underlying characteristics between groups are attributed instead to differences in ad exposure—is called selection bias.

One remaining question is why the characteristics of exposed and unexposed users are so different. While selection effects can arise in various advertising settings, there are three features of online advertising environments that make selection bias particularly significant.

First, an ad is delivered when the advertiser wins the underlying auction for an impression. Winning the auction implies the advertiser out-bid the other advertisers competing for the same impression. Advertisers usually bid more for impressions that are valuable to them, meaning more likely to convert. Additionally, Facebook and some other publishers prefer to show ads to consumers they are more likely to enjoy. This means that an advertisers’ ads are more likely to be shown to users who are more likely to respond to its ads, and users who are less likely to respond to the other advertisers who are currently active on Facebook. Even if an advertiser triggers little selection bias
based on their own advertising, it can nevertheless end up with a selected exposure because of what another advertiser does. For example, Figure 5 shows that in study 4, exposed users were more likely to be women than men. This could be because the advertiser in study 4 was placing relatively high bids for impressions to women. But it could also be because another advertiser who was active during study 4 was bidding aggressively for men, leaving more women to be won by the advertiser in study 4.

A second mechanism that drives selection is the optimization algorithms that exist on modern advertising delivery platforms. Advertisers and platforms try to optimize the types of consumers that should be shown an ad. A campaign that seeks to optimize on purchases will gradually refine the targeting and delivery rules to identify users who are most likely to convert. For example, suppose an advertiser initially targets female users between the ages of 18 and 55. After the campaign’s first week, the platform observes that females between 18 and 34 are especially likely to convert. As a result, the ad platform will increase the frequency that the ad campaign enters into the ad auction for this set of consumers, resulting in more impressions targeted at this narrower group. These optimization routines perpetuate an imbalance between exposed and unexposed test group users: the exposed group will contain more 18-34 females and the unexposed group will contain more 35-55 females. Assessing lift by comparing exposed vs. unexposed consumers will
therefore overstate the effectiveness of advertising because exposed users were specifically chosen
on the basis of their higher conversion rates.\(^9\)

The final mechanism is subtle, but arises from the simple observation that a user must actually
visit Facebook during the campaign to be exposed. If conversion is purely a digital outcome (e.g.,
online purchase, registration, key landing page), exposed users will be more likely to convert simply
because they happened to be online during the campaign. Lewis, Rao, and Reiley (2011) show that
consumer choices such as this can lead to activity bias that complicates measuring causal effects
online.

We have described why selection bias is likely to plague simple exposed vs. unexposed compar-
isons, especially in online advertising environment. However, numerous statistical methods exist
that attempt to remedy these challenges. Some of the most popular ones are discussed next.

3.2.2 Exact Matching and Propensity Score Matching

In the previous section, we saw how comparing the exposed and unexposed groups is inappropriate
because they contain different compositions of consumers. But if we can observe how the groups
differ based on characteristics observed in the data, can we take them into account in some way
that improves our estimates of advertising effectiveness?

This is the logic behind matching methods. For starters, suppose that we believe that age and
gender alone determine whether a user is exposed or not. In other words, women might be more
likely to see an ad than men and younger people more likely than older, but among people of the
same age and gender, whether a particular user sees an ad is as good as random.

In this case a matching method is very simple to implement. Start with the set of all exposed
users. For each exposed user, choose randomly from the set of unexposed users a user of the same
age and gender. Repeat this for all the exposed users, potentially allowing the same unexposed
user to be matched to multiple exposed users. This method of matching essentially creates a
comparison set of unexposed users whose age and gender mix now matches that of the exposed
group. If it is indeed the case that within age and gender exposure is random, then we have
constructed probabilistically equivalent groups of consumers. The advertising effect is calculated
as the average difference in outcomes between the exposed users and the paired unexposed users.\(^10\)

\(^9\)Facebook’s ad testing platform is specifically designed to account for the fact that targeting rules for a campaign
change over time. This is accomplished by applying the new targeting rules both to test and control groups, even
though users in the control group are never actually exposed to campaign ads.

\(^10\)In practice, the matching is not usually a simple one-to-one pairing. Instead, each exposed user is matched
to a weighted average of all the unexposed users with the same age and gender combination. This makes use of
all the information that can be gleaned from unexposed users, while adjusting for imbalances between exposed and
We applied exact matching on age and gender to study 4. Within the test group of study 4, there were 113 unique combinations of age and gender for which there was at least one exposed and at least one unexposed user. Using this method, which we’ll label “Exact Matching,” exposed users converted at a rate of 0.104% and unexposed users at 0.032%, for a lift of 221%. This estimate is roughly half the number we obtained from directly comparing the exposed and unexposed users.

Matching on age and gender has reduced a lot of the selection bias, but this estimate is still almost three times the 77% measure from the RCT, so we haven’t eliminated all of it. An obvious reason for this is that age and gender are not the only factors that determine advertising exposure. (We can see this for study 4 by looking at Figure 5). In addition to age and gender, one might want to match users on their geographic location, phone type, relationship status, number of friends, Facebook activity on mobile vs. desktop devices, and more. The problem is that as we add new characteristics on which to match consumers, it gets harder and harder to find exact matches. This becomes especially difficult when we think about the large number of attributes most advertisers observe about a given user.

Fortunately there are matching methods that do not require exact matching, many of which are already commonly used by marketing modelers. At a basic level, matching methods try to pair exposed users with similar unexposed users. Previously we defined “similar” as exactly matching on age and gender. Now we just need a clever way of defining “similarity” that allows for inexact matches.

One popular method is to match users on their so-called propensity score. The propensity score approach uses data we already have on users’ characteristics and whether or not they were exposed to an ad to create an estimate, based on the user’s characteristic, of how likely that user is to have been exposed to an ad. The idea is that the propensity score summarizes all of the relevant unexposed users.

It would have been possible to create as many as 120 age-gender combinations but seven combinations were dropped because that combination was absent from either the exposed or unexposed group. A total of 15 users were dropped for this reason. A lack of comparison groups is a common problem in matching methods. There is no guarantee a good match for each exposed user will always exist. In our case, for example, there was a 78-year-old male who was exposed to advertising but there were no 78-year-old males in the unexposed group. The general recommendation in these situations is to drop users that do not have a match in the other group, which is known as enforcing a common support between the groups. We cannot make a reliable inference about the effect of exposure on a user who does not have a match in the unexposed group. Of course, we could pair a 78-year-old male with a 77-year-old male but the match would not be exact. Other matching methods, such as propensity score matching and nearest-neighbor matching, permit such inexact matches, and we discuss these methods shortly.

For these result we used the weighted version of exact matching described in footnote 10, rather than the one-to-one matching described in the main body of the text.

Calculating the propensity score for each user is easy and typically done using standard statistical tools, such as logistic regression. More sophisticated approaches based on machine learning algorithms, such as random forests,
information about a consumer in a single number. Said another way, propensity scores enable us to collapse many dimensions of consumer attributes into a single scale that measures specifically how similar consumer are in their propensity to be exposed to an ad. With this measure in hand, we just match people using their propensity scores in much the same way as we did earlier. For each exposed user, we find the unexposed user with the closest propensity score, discarding any individuals that don’t have a close enough match in the other group. Advertising effectiveness is estimated as the difference in conversion rates between the matched exposed and unexposed groups. The key assumption underlying this approach is that, for two people with the same (or very close) propensity scores, exposure is as good as random. Hence, for two consumers who both had propensity scores of 65%, one of whom was actually exposed while the other was not, we are assuming it’s as if a coin flip had determined which user ended up being exposed. By pairing users with close propensity scores, we can once again construct probabilistically equivalent groups to measure the causal effect of ad exposure.\textsuperscript{14}

We calculated propensity scores for the exposed and unexposed users in the test group from study 4 using a logistic regression model and then created propensity score matched samples of exposed and unexposed users. The upper part of panel (a) of Figure 6 shows the distributions of the propensity scores for all exposed and unexposed users (i.e. before matching). The lower part of panel (a) shows the distributions of the matched sample. Prior to matching, the propensity score distribution for the exposed and unexposed users differ substantially. After matching, however, there is no visible difference in the distributions, implying that matching did a good job of balancing the two groups based on their likelihood of exposure.\textsuperscript{15}

Propensity score matching matches users based on a composition of their characteristics. One might wonder how well propensity-score matched samples are matched on individual characteristics. In panel (b) of Figure 6, we show the distribution of age for exposed and unexposed users in the unmatched samples (upper) and in the matched samples (lower). Even though we did not match directly on age, matching on the propensity score nevertheless balanced the age distribution between exposed and unexposed users.

An important input to propensity score matching (PSM) is the set of variables used to predict

\textsuperscript{14}As with the exact matching, there are propensity score methods that work by attributing greater weight to unexposed users that are more similar in propensity score to exposed users rather than implementing one-to-one matching. In the results we present, we use one of these weighted propensity score methods. See the appendix for details.

\textsuperscript{15}This comparison also helps us check that we have sufficient overlap in the propensities between the exposed and unexposed groups.
the propensity score itself. We tested three different PSM specifications for study 4, each of which used a larger set of inputs.

PSM 1: In addition to age and gender, the basis of our exact matching (EM) approach, this specification uses common Facebook variables, such as how long users have been on Facebook, how many Facebook friends the have, their reported relationship status, and their phone OS, in addition to other user characteristics.

PSM 2: In addition to the variables in PSM 1, this specification uses Facebook’s estimate of the user’s zip code of residence to associate with each user nearly 40 variables drawn from the most recent Census and American Communities Surveys (ACS).

PSM 3: In addition to the variables in PSM 2, this specification adds a composite metric of Facebook data that summarizes thousands of behavioral variables. This is a machine-learning based metric used by Facebook to construct target audiences that are similar to consumers that an advertiser has identified as desirable\textsuperscript{[16]} Using this metric bases the estimation of our propensity score on a non-linear machine-learning model with thousands of features\textsuperscript{[17]}

\textsuperscript{[16]}See \url{https://www.facebook.com/business/help/164749007013531} for an explanation.
\textsuperscript{[17]}Please note that, while this specification contains a great number of user-level variables, we have no data at the user level that varies over time within the duration of each study. For example, while we know whether a user used Facebook during the week prior to the beginning of the study, we don’t observe on any given day of the study whether the user used Facebook on the previous day or whether the user engaged in any shopping activity. It is possible that using such time-varying user-level information could improve our ability to match. We hope to explore this in a future version of the paper.
Table 2 presents a summary of the estimates of advertising effectiveness produced by the exact matching and propensity score matching approaches. As before, the main result of interest will be the lift. In the context of matching models, lift is calculated as the difference between the conversion rate for matches exposed users and matched unexposed users, expressed as a percentage of the conversion rate for matched unexposed users. Table 2 reports each of the components of this calculation, along with the 95% confidence interval for each estimate. The bottom row reports the AUCROC, a common measure of the accuracy of classification models (it applies only to the propensity score models).

Note that the conversion rate for matched exposed users barely changes across the model specifications. This is for the most part we are holding on to the entire set of exposed users and changing across specifications which unexposed users are chosen as the matches.

What does change across specifications is the conversion rate of the matched unexposed users. This is because different specifications choose different sets of matches from the unexposed group. When we go from exact matching (EM) to our most parsimonious propensity score matching model (PSM 1), the conversion rate for unexposed users increases from 0.032% to 0.042%, decreasing the implied advertising lift from 221% to 147%. PSM 2 performs similarly to PSM 1, with an implied lift of 154%. Finally, adding the composite measure of Facebook variables in PSM 3 improves the fit of the propensity model (as measured by a higher AUCROC) and further increases the conversion rate for matched unexposed users to 0.051%. The result is that our best performing PSM model estimates an advertising lift of 102%.

When we naively compared exposed to unexposed users, we estimated an ad lift of 416%. Adjusting these groups to achieve balance on age and gender, which differed in the raw sample, suggested a lift of 221%. Matching the groups based on their propensity score, estimated with a rich set of explanatory variables, gave us a lift of 102%. Compared to the starting point, we have gotten much closer to the true RCT lift of 77%.

Next we apply another class of methods to this same problem, and later we will see how the collection of methods fair across all the advertising studies.

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18 See the appendix for more detail on implementation.
20 Exposed users are dropped if there is no unexposed user that has a close enough propensity score match. In study 4, the different propensity score specifications we use do not produce very different sets of exposed users who can be matched. This need not be the case in all settings.
21 As we add variables to the propensity score model, we must drop some observations in the sample with missing data. However, the decrease in sample size is fairly small and these dropped consumers do not significantly differ from the remaining sample.
Table 2: Exact Matching (EM) and Propensity Score Matching (PSM 1-3)

<table>
<thead>
<tr>
<th></th>
<th>EM</th>
<th>PSM 1</th>
<th>PSM 2</th>
<th>PSM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Est. 95% CI</td>
<td>Est. 95% CI</td>
<td>Est. 95% CI</td>
<td>Est. 95% CI</td>
</tr>
<tr>
<td>Conversion rates for matched unexposed users (%)</td>
<td>0.032 [0.029, 0.034]</td>
<td>0.042 [0.041, 0.043]</td>
<td>0.041 [0.040, 0.042]</td>
<td>0.051 [0.050, 0.052]</td>
</tr>
<tr>
<td>Conversion rates for matched exposed users (%)</td>
<td>0.104 [0.097, 0.109]</td>
<td>0.104 [0.097, 0.109]</td>
<td>0.104 [0.097, 0.109]</td>
<td>0.104 [0.097, 0.110]</td>
</tr>
</tbody>
</table>

* Slight differences in the number of observations are due to variation in missing characteristics across users in the sample. Note that the confidence intervals for PSM 1-3 on the conversion rate for matched unexposed users and the lift are approximate (consult the appendix for more details).

### 3.2.3 Regression Adjustment

Regression adjustment (RA) methods take an approach that is fundamentally distinct from matching methods. In colloquial terms, the idea behind matching is “If I can find users who didn’t see the ad but who are really similar in their observable characteristics to users who did see the ad, then I can use their conversion rate as a measure of what people who did see the ad would have done if they had not seen the ad (the counterfactual).” The idea behind regression adjustment methods is instead the following: “If I can figure out the relationship between the observable characteristics of users who did not see the ad and whether they converted, then I can use that to predict for users who did see the ad, on the basis of their characteristics, what they would have done if they had not seen the ad (the counterfactual).” In other words, the two types of methods differ primarily in how they construct the counterfactual.

A very simple implementation would be the following. Using data from the unexposed members of the test group, regress the outcome measures (e.g. did the consumer purchase) on the observable characteristics of the users. Take the estimated coefficients from this specification and use them to extrapolate for each exposed user a predicted outcome measure (e.g., the probability of purchase). The lift estimate is then based on the difference between the actual conversion rates of the exposed users and their predicted conversion rates.\(^{22}\)

---

\(^{22}\)More generally, one would start by constructing one model for each “treatment level” (e.g., exposed/unexposed). Next, one would use these models to predict the counterfactual outcomes necessary to estimate the causal effect. Suppose we want to predict what would have happened to an exposed user if they had instead not been exposed. For this exposed user, we would use the model estimated only on all unexposed users to predict the counterfactual outcome for the exposed user had they been unexposed. We repeat this process for all the exposed users. The causal
It turns out we can improve on the basic RA model by using propensity scores to place more weight on some observations than others. Suppose a user with a propensity score of 0.9 is, in fact, exposed to the ad. This is hardly a surprising outcome because the propensity model predicted exposure was likely. However, observing an unexposed user with a propensity score of 0.9 would be fairly surprising, with a 1:10 odds of occurrence. A class of estimation strategies leverages this feature of the data by placing relatively more weight on observations that are “more surprising.” This is accomplished by weighing exposed users by the inverse of their propensity score and unexposed users by the inverse of one minus their propensity score (i.e., the probability of being unexposed). This approach forms the basis of inverse probability-weighted estimators (Hirano, Imbens, and Ridder 2003), which can be combined with RA methods to yield an inverse-probability-weighted regression adjustment (IPWRA) model (Wooldridge 2007).

We estimated three different regression adjustment models using the propensity scores calculated for PSM 1-3 in the previous section. Table 3 presents the results. The results are similar to those obtained using PSM: including additional variables reduces the estimated lift from 145% to 107%.

![Table 3: IPWRA](image)

<table>
<thead>
<tr>
<th></th>
<th>IPWRA 1</th>
<th>IPWRA 2</th>
<th>IPWRA 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Est.       CI</td>
<td>Est.       CI</td>
<td>Est.       CI</td>
</tr>
<tr>
<td>Conversion rate for exposed users if unexposed as predicted by RA model (%)</td>
<td>0.045 [0.037, 0.046]</td>
<td>0.045 [0.039, 0.046]</td>
<td>0.049 [0.044, 0.056]</td>
</tr>
<tr>
<td>Actual conversion rate of exposed users</td>
<td>0.104 [0.097, 0.109]</td>
<td>0.102 [0.096, 0.107]</td>
<td>0.104 [0.097, 0.110]</td>
</tr>
<tr>
<td>Lift %</td>
<td>145 [120, 171]</td>
<td>144 [120, 169]</td>
<td>107 [79, 135]</td>
</tr>
</tbody>
</table>

Note that the key assumption is the following: Exposure to ads is independent of the outcome after conditioning on all user characteristics. This is the standard assumption made in all regression analysis if one wishes to interpret a right-hand side variable in a causal manner—otherwise a regression can only measure correlations between variables and one cannot draw a causal inference. In our context, this assumption is also equivalent to requiring that the exposed and unexposed groups are probabilistically equivalent after we have controlled—via the regression—for observed differences between the groups and how these differences may contribute to a user’s conversion.

IPWRA jointly models a user’s exposure probability and conversion outcomes. This IPWRA is a doubly robust estimation technique, meaning the estimation results are consistently estimated even if one of the underlying models—either the propensity model or the outcome model—turns out to be misspecified. See Wooldridge (2007) for more details.
3.2.4 Summary of individual-based comparisons

We summarize the result of all our propensity score matching and regression methods for study 4 in Figure 7.

Figure 7: Summary of lift estimates and confidence intervals

As the figure shows, propensity score matching and regression methods perform comparably well. Both methods tend to overstate lift, although including our complete set of predictor variables—especially the composite Facebook variable—produce lift estimates that are statistically indistinguishable from the RCT lift. However, if one ignores the uncertainty represented in confidence intervals and focuses on the point estimates alone, even a model with a rich set of predictors overestimates the lift by about 50%.

3.3 Market-based comparisons

In many cases in which it would be difficult to randomize at the individual consumer level (necessary for an RCT), it is possible to randomize at the geographic market level. This is commonly referred to as a “matched market test.” Typically an advertiser would choose a set of, for example, 40 markets and assign 20 of these markets to the test group and the remaining 20 markets to the control group. Users in control markets are never exposed to campaign ads during the study. Users in the test markets are targeted with the campaign ads during the study period. The quality of this comparison depends on how well the control markets allow the advertiser to measure what would
have happened in the test markets, had the ad campaign not taken place in those markets. Not surprisingly, the key to the validity of such a comparison is to assign the available markets to test and control groups such that consumers in test and control markets are as close to probabilistically equivalent as possible.

There are two basic ways to achieve this goal. First, one can find pairs of similar or “matched” markets based on market characteristics and then, within each pair, assign one market to the test group and the other market to the control group. Alternatively, as long the number of markets is sufficiently large, one can randomly assign markets to test and control groups, without first choosing matches pairs.

All the studies used in this paper assigned individual users to test and control groups. However, we can still assess what would have happened if, instead, the assignment had been at the market level. Since each consumer in an advertiser’s target group for a campaign was randomly assigned to either the test or control group prior to the study, each geographic market contains both users in the test group and users in the control group. Moreover, the randomization ensures that both the test and and the control group users in each market are representative of targeted Facebook users in that market. This means that the behavior of users in the control group in a market is representative of the behavior of all users in the advertiser’s target group in that market, had the entire market not been targeted with campaign ads. Similarly the behavior of users in the test group in a market is representative of the behavior of all users in the advertiser’s target group in that market, had the entire market been targeted with campaigns ads. We can therefore simulate a matched market test by assigning each market to be either a test market or a control market, and using the data only from the corresponding set of study users in that market.

We define geographic markets using the US Census Bureau’s definition of a “Core Based Statistical Area” (CBSA). There are 929 CBSAs, 328 of which are “Metropolitan Statistical Areas” (MSAs) and the remaining 541 of which are “Micropolitan Statistical Areas.” For example, “San Francisco-Oakland-Hayward,” “Santa Rosa,” and “Los Angeles-Long Beach-Anaheim” are CBSAs.

To construct our matched market test we selected the 40 largest markets in the U.S. by population (see Table 4). We picked 40 because Facebook ad researchers reported that this was typical for the number of markets requested by clients for conducting matched market testing. Next, we found pairs of similar markets based on market characteristics. We considered three sets of market characteristics. First, we used a rich set of census demographic variables to describe consumers.  

24See Figure A-1 in the appendix for a map of CBSAs in California. Maps for other states can be found at [https://www.census.gov/geo/maps-data/maps/statecbsa.html](https://www.census.gov/geo/maps-data/maps/statecbsa.html)
in each market (we refer to this as “demographics-based matching”). Second, we proxied for an advertiser’s relative sales in each geographic market by using the conversion percentages derived from the advertiser’s conversion pixel in the month prior to the beginning of the study (we refer to this as “sales-based matching”). Third, we combine census data and conversion percentage data in calculating the best match between markets (we refer to this a “sales- and demographics-based matching”).

We need to choose some rule for how markets should be matched before dividing them into control and test groups. One objective we might choose is to minimize the total difference between markets across all pairs by some metric. This is referred to as “optimal non-bipartite matching” (Greevy, Lu, Silber, and Rosebaum 2004). When we perform this procedure for the 40 largest markets in the US, demographics-based matching yields the matched pairs shown in Table 4. To perform a matched market test we need to assign, for each optimally matched pair, one CBSA to the test group and one CBSA to the control group. In practice, an ad measurement researcher randomizes one CBSA in each pair to the test group and the other CBSA in each pair to the control group. Of course, to the degree that matching does not yield probabilistically equivalent groups of consumers across market, the choice of which CBSA ends up in the test and control groups can matter for measurement. In our case we can estimate how sensitive measured lifts are to this choice. This is because the RCT design produced consumers in both test and control groups for each market. Hence, across all pairs, we can draw many different random allocations of CBSAs to test and control and report the resulting lift for each allocation.

Recall from the discussion on page 9 that we derive the incremental conversion rate or ICR by dividing the difference between the conversion rate in the test group and the control group by...
Table 4: Optimal matched markets using demographics-based matching (40 largest markets)

<table>
<thead>
<tr>
<th>Pair 1: Atlanta-Sandy Springs-Roswell, GA</th>
<th>Pair 2: Cincinnati, OH-KY-IN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dallas-Fort Worth-Arlington, TX</td>
<td>Detroit-Warren-Dearborn, MI</td>
</tr>
<tr>
<td>Pair 3: Austin-Round Rock, TX</td>
<td>Indianapolis-Carmel-Anderson, IN</td>
</tr>
<tr>
<td>Pair 4: Cleveland-Elyria, OH</td>
<td>Kansas City, MO-KS</td>
</tr>
<tr>
<td>Pair 5: Denver-Aurora-Lakewood, CO</td>
<td>Los Angeles-Long Beach-Anaheim, CA</td>
</tr>
<tr>
<td>Pair 6: Houston-The Woodlands-Sugar Land, TX</td>
<td>Miami-Fort Lauderdale-West Palm Beach, FL</td>
</tr>
<tr>
<td>Pair 7: Chicago-Naperville-Elgin, IL-IN-WI</td>
<td>Milwaukee-Waukesha-West Allis, WI</td>
</tr>
<tr>
<td>Pair 8: Charlotte-Concord-Gastonia, NC-SC</td>
<td>Nashville-Davidson-Murfreesboro-Franklin, TN</td>
</tr>
<tr>
<td>Pair 9: Boston-Cambridge-Newton, MA-NH</td>
<td>New York-Newark-Jersey City, NY-NJ-PA</td>
</tr>
<tr>
<td>Pair 10: Minneapolis-St. Paul-Bloomington, MN-WI</td>
<td>Philadelphia-Camden-Wilmington, PA-NJ-DE-MD</td>
</tr>
<tr>
<td>Pair 11: Orlando-Kissimmee-Sanford, FL</td>
<td>Portland-Vancouver-Hillsboro, OR-WA</td>
</tr>
<tr>
<td>Pair 12: Louisville/Jefferson County, KY-IN</td>
<td>Providence-Warwick, RI-MA</td>
</tr>
<tr>
<td>Pair 13: Pittsburgh, PA</td>
<td>St. Louis, MO-IL</td>
</tr>
<tr>
<td>Pair 14: Las Vegas-Henderson-Paradise, NV</td>
<td>San Antonio-New Braunfels, TX</td>
</tr>
<tr>
<td>Pair 15: Phoenix-Mesa-Scottsdale, AZ</td>
<td>San Diego-Carlsbad, CA</td>
</tr>
<tr>
<td>Pair 16: Baltimore-Columbia-Towson, MD</td>
<td>San Francisco-Oakland-Hayward, CA</td>
</tr>
<tr>
<td>Pair 17: Columbus, OH</td>
<td>Seattle-Tacoma-Bellevue, WA</td>
</tr>
<tr>
<td>Pair 18: Riverside-San Bernardino-Ontario, CA</td>
<td>Tampa-St. Petersburg-Clearwater, FL</td>
</tr>
<tr>
<td>Pair 19: Sacramento–Roseville–Arden-Arcade, CA</td>
<td>Virginia Beach-Norfolk-Newport News, VA-NC</td>
</tr>
<tr>
<td>Pair 20: San Jose-Sunnyvale-Santa Clara, CA</td>
<td>Washington-Arlington-Alexandria, DC-VA-MD-WV</td>
</tr>
</tbody>
</table>

the fraction of users who were exposed in the test group. One problem in a traditional matched market test is that the advertiser may not know how many users in each market were exposed to the ad. (For a Facebook ad, exposure could be tracked even in a matched market test, but this would not be true generally for online advertising.) To reflect this common reality, we calculate lift based on the difference between the conversion rate in the test group and the control group without adjusting for rates of exposure.\footnote{The difference between the conversion rate in the test group and the control group is referred to as an “intent to treat” estimate or ITT.} For example, continuing the example on page 9, suppose that 0.8% of users in control markets and 1.2% of users in test markets purchased during the study period. Then the lift associated with the matched market test would be

\[
\text{Lift} = \frac{1.2\% - 0.8\%}{0.8\%} = \frac{\text{Conversion rate of test group} - \text{Conversion rate of control group}}{\text{Conversion rate of control group}} \tag{4}
\]

If 100% of users are exposed to ads, this measure is identical to the ICR-based lift measure we have used so far and is described on page 9. If less than 100% of users are exposed to ads, this lift measure will “diluted” (i.e., smaller than the ICR-based lift measure). Hence, the lift we will report below will always be smaller than the ICR-based lift we could calculate if we were to use
Figure 8: Histogram of lifts*

* For top 40 largest markets, demographics-based matching, 10,000 random allocations of CBSAs in each matched market pair to test and control markets.

information on how many users in each market were exposed to the campaign ads. Recall that in study 4 the ICR-based lift measure was 77%. If we calculate lift according to equation 4 we obtain an estimate of 38%, with a 95% confidence interval of [29%, 49%]. This is the measure of lift that is analogous to what we will report for the matched market results.

In Figure 8 we show a histogram of the lifts generated from matched market tests for each of 10,000 random allocations of CBSAs to test and control markets. These allocations hold fixed the pairings between markets and randomize over which market is assigned to test and control. If we use the data from just these 40 markets we can calculate the true (RCT-based) lift in those 40 markets, which is 33%. The dashed lines on the left and the right of the histogram bracket 95% of the lift measurements across the 10,000 random allocations of CBSAs. Notice that the dashed lines do not correspond to a traditional confidence interval due to sampling of observations (we will add those in the next subsection). Instead, they represent the middle 95% of lift estimates when CBSAs, within matched market pairs, are randomly allocated to test and control markets.

Figure 8 shows both good news and bad news for the validity of matched market tests in the context of online advertising. The good news is that the matched market test appears to neither systematically overstate nor systematically understate the true lift (the true lift of 33% is close to the middle of the distribution in Figure 8). This is small consolation to the ad measurement researcher, however, because Figure 8 shows that any individual matched market test is likely to
produce a result that is quite far off from 33%—95% of the time the researcher will estimate a lift between -2% and 80%. If the researcher had the luxury of running 10,000 version of the matched market test, he or she could tell from the distribution what the true lift is likely to be. But a single matched market test seems unlikely to produce a reliable result.

Next, we explore whether we can reduce the variance of the lift estimates by using sales-based or sales- and demographic-based matching. Figure 9 shows the results for the 40 largest markets using sales-based matching (left histogram) and sales- and demographics-based matching (right histogram). Notice that sales-based matching and sales- and demographics-based matching somewhat improve the lift estimates. However, the variance of the lift estimates remains large.

We also explore whether we can reduce the variance of the lift estimates by increasing the number of markets used for the matched market test. We increase the number of markets to 80 and use sales- and demographics-based matching since it produced the smallest variance in lifts for 40 markets. The results in Figure 10 show that matched market tests for this study yield estimates of lift that can be surprisingly far off from the result of the RCT, even with 80 markets. In summary, this study suggests that the ad campaign lifts from matched market tests can be significantly lower or higher than the true lift, even using sales- and demographics-based matching and a large number of markets.

Instead of matching, we can also randomly assign markets to test and control groups. The results are in the online appendix in Figure A-2. As in the matched market case, the ad campaign lifts from matched market tests can be significantly lower or higher than the true lift.

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So far we have not estimated traditional confidence intervals around each individual lift estimate. Doing so accounts for sampling-based uncertainty (the ever-present uncertainty that arises when researchers don’t observe the entire population) in addition to the uncertainty generated by which markets are assigned to treatment and control. We illustrate the compounded uncertainty in Figure 11 for the top 40 markets. To read the figure, notice that the right panel of the graph is the histogram in the left panel of Figure 10 laid on its side. The y-axis of the histogram displays the lift for different random allocations of CBSAs in each matched market pair to test and control markets. A horizontal line marks the true lift of 33%. The left side of the graph shows the confidence interval for each of the 10,000 random allocations of CBSAs in each matched market pair to test and control markets. To read the confidence interval, find the lift of interest on the y-axis on the right panel of the figure and read off the corresponding confidence interval measured along the x-axis of the left panel.

To illustrate, suppose that a researcher’s random allocation of CBSAs to test and control markets yielded a lift estimate equal to the true lift of 33%. (This is a purely a thought exercise given that one cannot do this in a traditional matched market test). The graph then shows that the sampling-based confidence interval would be between about -10% and 75%. However, if a different random allocation of CBSAs to test and control markets yielded a different lift, the confidence intervals would be shifted considerably, meaning that the true uncertainty associated with a matched markets test is greater than what is indicated by a traditional sampling-based confidence interval.

To account that the assignment of users to treatment and control groups happened by market we cluster the standard errors at the CBSA level.
4 Evidence from additional studies

In section 3 we presented the results of a variety of different observational approaches to estimate the lift of study 4. In this section we summarize the findings of using the same approaches to estimate the lift for all 12 studies. The studies were conducted for advertisers in different verticals and ranged in size from about 2 million observations to 140 million (see Table 5).

Table 5: Summary statistics for all studies

<table>
<thead>
<tr>
<th>Study</th>
<th>Vertical</th>
<th>Observations</th>
<th>Test</th>
<th>Control</th>
<th>Impressions</th>
<th>Clicks</th>
<th>Conversions</th>
<th>Outcomes*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retail</td>
<td>2,427,494</td>
<td>50.0%</td>
<td>50.0%</td>
<td>39,167,679</td>
<td>45,401</td>
<td>8,767</td>
<td>C, R</td>
</tr>
<tr>
<td>2</td>
<td>Finan. serv.</td>
<td>86,183,523</td>
<td>85.0%</td>
<td>15.0%</td>
<td>577,005,340</td>
<td>247,122</td>
<td>95,305</td>
<td>C, P</td>
</tr>
<tr>
<td>3</td>
<td>E-commerce</td>
<td>4,672,112</td>
<td>50.0%</td>
<td>50.1%</td>
<td>7,655,089</td>
<td>48,005</td>
<td>61,273</td>
<td>C</td>
</tr>
<tr>
<td>4</td>
<td>Retail</td>
<td>25,553,093</td>
<td>70.0%</td>
<td>30.0%</td>
<td>14,261,207</td>
<td>474,341</td>
<td>4,935</td>
<td>C</td>
</tr>
<tr>
<td>5</td>
<td>E-commerce</td>
<td>18,486,000</td>
<td>50.0%</td>
<td>50.0%</td>
<td>7,334,636</td>
<td>89,649</td>
<td>226,817</td>
<td>C, R, P</td>
</tr>
<tr>
<td>6</td>
<td>Telecom</td>
<td>141,254,650</td>
<td>75.0%</td>
<td>25.0%</td>
<td>590,377,329</td>
<td>5,914,424</td>
<td>867,033</td>
<td>P</td>
</tr>
<tr>
<td>7</td>
<td>Retail</td>
<td>67,398,350</td>
<td>17.0%</td>
<td>83.0%</td>
<td>61,248,021</td>
<td>139,471</td>
<td>127,976</td>
<td>C</td>
</tr>
<tr>
<td>8</td>
<td>E-commerce</td>
<td>8,333,319</td>
<td>50.0%</td>
<td>50.1%</td>
<td>2,250,984</td>
<td>204,688</td>
<td>4,102</td>
<td>C, R</td>
</tr>
<tr>
<td>9</td>
<td>E-commerce</td>
<td>71,068,955</td>
<td>75.0%</td>
<td>25.0%</td>
<td>35,197,874</td>
<td>222,050</td>
<td>113,531</td>
<td>C</td>
</tr>
<tr>
<td>10</td>
<td>Tech</td>
<td>1,955,375</td>
<td>60.0%</td>
<td>40.0%</td>
<td>2,943,890</td>
<td>22,390</td>
<td>7,625</td>
<td>C, R</td>
</tr>
<tr>
<td>11</td>
<td>E-commerce</td>
<td>13,339,044</td>
<td>50.0%</td>
<td>50.0%</td>
<td>11,633,187</td>
<td>106,534</td>
<td>225,241</td>
<td>C</td>
</tr>
<tr>
<td>12</td>
<td>Finan. serv.</td>
<td>16,578,673</td>
<td>85.0%</td>
<td>15.0%</td>
<td>23,105,265</td>
<td>173,988</td>
<td>6,309</td>
<td>C</td>
</tr>
</tbody>
</table>

* C = checkout, R = registration, P = page view
Table 6: Lift for all studies and measured outcomes

<table>
<thead>
<tr>
<th>Study</th>
<th>Outcome</th>
<th>Pct Exposed</th>
<th>RCT Lift</th>
<th>Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Checkout</td>
<td>76%</td>
<td>33%</td>
<td>[19.5% 48.9%]</td>
</tr>
<tr>
<td>2</td>
<td>Checkout</td>
<td>46%</td>
<td>0.91%</td>
<td>[-4.3% 7.2%]</td>
</tr>
<tr>
<td>3</td>
<td>Checkout</td>
<td>63%</td>
<td>6.9%</td>
<td>[0.02% 14.3%]</td>
</tr>
<tr>
<td>4</td>
<td>Checkout</td>
<td>25%</td>
<td>77%</td>
<td>[55.4% 108.2%]</td>
</tr>
<tr>
<td>5</td>
<td>Checkout</td>
<td>29%</td>
<td>418%</td>
<td>[292.8% 633.5%]</td>
</tr>
<tr>
<td>6</td>
<td>Checkout</td>
<td>26%</td>
<td>-3.6%</td>
<td>[-20.7% 19.3%]</td>
</tr>
<tr>
<td>7</td>
<td>Checkout</td>
<td>6%</td>
<td>2.5%</td>
<td>[0.2% 4.8%]</td>
</tr>
<tr>
<td>8</td>
<td>Checkout</td>
<td>65%</td>
<td>0.6%</td>
<td>[-13.8% 16.3%]</td>
</tr>
<tr>
<td>9</td>
<td>Checkout</td>
<td>6%</td>
<td>9.8%</td>
<td>[5.8% 13.8%]</td>
</tr>
<tr>
<td>10</td>
<td>Checkout</td>
<td>40%</td>
<td>2.5%</td>
<td>[0.2% 101.2%]</td>
</tr>
<tr>
<td>11</td>
<td>Registration</td>
<td>65%</td>
<td>789%</td>
<td>[696.0% 898.4%]</td>
</tr>
<tr>
<td>5</td>
<td>Registration</td>
<td>29%</td>
<td>900%</td>
<td>[810.0% 1001.9%]</td>
</tr>
<tr>
<td>8</td>
<td>Registration</td>
<td>29%</td>
<td>61%</td>
<td>[12.3% 166.1%]</td>
</tr>
<tr>
<td>10</td>
<td>Registration</td>
<td>58%</td>
<td>8.8%</td>
<td>[0.4% 18.2%]</td>
</tr>
<tr>
<td>2</td>
<td>Page View</td>
<td>76%</td>
<td>1617%</td>
<td>[1443.8% 1805.2%]</td>
</tr>
<tr>
<td>5</td>
<td>Page View</td>
<td>46%</td>
<td>601%</td>
<td>[538.6% 672.3%]</td>
</tr>
<tr>
<td>6</td>
<td>Page View</td>
<td>26%</td>
<td>14%</td>
<td>[12.9% 14.9%]</td>
</tr>
</tbody>
</table>

RCT Lift in red: statistically different from zero at 5% level. Confidence intervals obtained via bootstrap.

The studies also differed by the conversion outcome that the advertiser measured; some advertisers tracked multiple outcomes of interest. In all studies but one, the advertiser placed a conversion pixel on the checkout confirmation page, therefore gaining the ability to measure whether a Facebook user purchased from the advertiser. In four studies the advertiser placed a conversion pixel to measure whether a consumer registered with the advertiser. In three studies the advertiser placed a conversion pixel on a (landing) page of interest to the advertiser. Table 6 presents the results of the RCTs for all studies.

Note that lifts for registration and page view outcomes are typically higher than for checkout outcomes. The reason is as follows: Since specific registration and landing pages are typically tied to ad campaigns, users who are not exposed to an ad are much less likely to reach that page than users who see the ad, simply because unexposed users may not know how to get to the page. For checkout outcomes, however, users in the control group lead to a checkout outcome simply by purchasing from the advertiser—it does not take special knowledge of a page to trigger a conversion pixel.[31]

---

[31] One might ask why lifts for registration and page view outcomes are not infinite since—as we have just claimed—users only reach those pages in response to an ad exposure. The reason is that registration and landing pages are often shared among several ad campaigns. Therefore, users who are in our control group might have been exposed to a different ad campaign which shared the same landing or registration page.
4.1 Individual-based Comparisons

We summarize the results of the exact matching specification (EM), the three propensity score matching specifications (PSM 1-3), and the three regression adjustment specifications (IPWRA 1-3) using the same graphical format with which we summarized study 4 (see Figure 7). Figures 12 and 13 summarize results for the eleven studies for which there was a conversion pixel on the checkout confirmation page.

• In study 1, the exact matching specification (EM), the first two propensity score matching specifications (PSM 1 and 2), and the first two inverse-probability-weighed regression adjustment specifications (IPWRA 1 and 2) yield lift estimates between 85% and 117%, which are statistically higher than the RCT lift of 33%. Including the composite metric of Facebook data that summarizes thousands of behavioral variables (PSM 3 and IPWRA 3) lowers the lift estimate to 59%, which is not statistically different from the RCT lift. Hence, study 1 shows a similar pattern to the one we observed in study 4.

• The results for study 2 look very different. The RCT shows no significant lift. Nonetheless, the EM and all PSM specifications yield lift estimates of 116 to 535%, all of which are statistically higher than the RCT estimate of 0.91%. The lift estimates of the IPWRA specifications are between 65 and 72%, however, they are also very imprecisely measured and therefore statistically not different from the RCT estimate.

• Study 3 follows yet another pattern. The RCT lift is 6.9%. EM, PSM 1, PSM 2, IPWRA 1, and IPWRA 2 all overestimate the lift (34-73%). PSM 3 and IPWRA 3, however, significantly underestimate the RCT lift (-12 to -14%).

• Study 4 was already discussed in section 3.

• In study 5 all estimates are statistically indistinguishable from the RCT lift of 418%. The point estimates range from 515% for EM to 282% for PSM 3.

• Study 6 did not feature a checkout conversion pixel.

• In study 7 all estimates are different from the RCT lift of 3.5%. EM overestimates the lift with an estimate of 38%. All other methods underestimate the lift with estimates between -11 and -18%.

• Moving to Figure 13 study 8 finds an RCT lift of -3.6% (not statistically different from 0). All methods overestimate the lift with estimates of 23 to 49%, except for IPWRA3 with a lift of 16%, which is not statistically different from the RCT lift.
• The RCT lift in study 9 is 2.5%. All observational methods massively overestimate the lift; estimates range from 1413 to 3288%.

• Study 10 estimates an RCT lift of 0.6% (not statistically different from 0). The point estimates of different methods range from -18 to 37%, however, only the EM lift estimate (37%) is statistically different from the RCT lift.

• Study 11 estimates an RCT lift of 9.8%. EM massively overestimates the lift at 276%. PSM 1, PSM 2, IPWRA 1, and IPWRA 2 also overestimate the lift (22-25%), but to a much smaller degree. PSM 3 and IPWRA 3, however, estimate a lift of 9.4 and 3.5%, respectively. The latter estimates are not statistically different from the RCT lift. PSM 3 in study 11 is the only case in these 12 checkout conversion studies of an observational method yielding a lift estimate very close to that produced by the RCT.

• In study 12 we did not have access to the data that allowed us to run the “2” and “3” specifications. The RCT lift is 76%. The observational methods we could estimate massively overstated the lift; estimates range from 1231 to 2760%.

Figure 14 summarizes results for the four studies for which there was a conversion pixel on a registration page. Figure 15 summarizes results for the three studies for which there was a conversion pixel on a key landing page. The results for these studies vary across studies in how they compare to the RCT results, just as they do for the checkout conversion studies reported in Figures 12 and 13.

We summarize the performance of different observational approaches using two different metrics. We want to know first how often an observational study fails to capture the truth. Said in a statistically precise way, “For how many of the studies do we reject the hypothesis that the lift of the observational method is equal to the RCT lift?” Table 7 reports the answer to this question. We divide the table by outcome reported in the study (checkout is in the top section of Table 7, followed by registration and page view). The first row of Table 7 tells us that of the 11 studies that tracked checkout conversions, we statistically reject the hypothesis that the exact matching estimate of lift equals the RCT estimate. As we go down the column, the propensity score matching and regression adjustment approaches fare a little better, but for all but one specification, we reject equality with the RCT estimate for half the studies or more.

We would also like to know how different the estimate produced by an observational method is from the RCT estimate. Said more precisely, we ask “Across evaluated studies of a given outcome, what is the average absolute deviation in percentage points between the observational method estimate of lift and the RCT lift?” For example, the RCT lift for study 1 (checkout outcome) is
Figure 12: Results for checkout conversion event, studies 1-7

[*] Lift of method significantly different from RCT lift at 5% level; [**] at 1% level.

[RCT Lift in red]: statistically different from zero at 5% level.
Figure 13: Results for checkout conversion event, studies 8-12

[*] Lift of method significantly different from RCT lift at 5% level; [**] at 1% level.

[RCT Lift in red]: statistically different from zero at 5% level.
Figure 14: Results for registration conversion event

[S1 Registration]

[S5 Registration]

[S8 Registration]

[S10 Registration]

[*] Lift of method significantly different from RCT lift at 5% level; [**] at 1% level.

[RCT Lift in red]: statistically different from zero at 5% level.
Figure 15: Results for key page view conversion event

[S2 Page View]

[S5 Page View]

[S6 Page View]

[*] Lift of method significantly different from RCT lift at 5% level; [**] at 1% level.

[RCT Lift in red]: statistically different from zero at 5% level.
33%. The EM lift estimate is 117%. Hence the absolute lift deviation is 84 percentage points. For study 2 (checkout outcome) the RCT lift is 0.9%, the EM lift estimate is 535%, and the absolute lift deviation is 534 percentage points. When we average over all studies, exact matching leads to an average absolute lift deviation of 661 percentage points relative to an average RCT lift of 57% across studies (see the last two columns of the first row of the table.)

As the table shows, inverse probability weighted regression adjustment with the most detailed set of variables (IPWRA3) yields the smallest average absolute lift deviation across all evaluated outcomes. For checkout outcomes, the deviation is large, namely 173 vs. an average RCT lift of 57%. For registration and page view outcomes, however, the average absolute lift deviation is relatively small, namely 80 vs. an average RCT lift of 440%, and 94 vs. an average RCT lift of 744%.

In general, observational methods to a better job of approximating RCT outcomes for registration and page view outcomes than for checkouts. We believe that the reason for this lies in the nature of these outcomes. Since unexposed users (in both treatment and control) are comparatively unlikely to find a registration or landing page on their own, comparing the exposed group in treatment to a subset of the unexposed group in the treatment group (the comparison all observational methods are based on) yields relatively similar outcomes to comparing the exposed group in treatment to the (always unexposed) control group (the comparison the RCT is based on).

### 4.2 Market-based comparisons

In this subsection we summarize across all studies the uncertainty in lift estimates introduced by performing a matched market test. This uncertainty is generated by the random allocation of markets in matched market pairs to treatment and control. We present results in two tables. Table 8 presents the studies for which we were able to perform sales- and demographics-based matching. Table 9 presents studies for which we did not have sales-relevant information prior to the beginning of the study. Therefore, we could only perform demographics-based matching. Each table describes the middle 95% of lift estimates when CBSAs, within matched market pairs, are randomly allocated to test and control markets. We also report the true lift of the ad campaign in the selected markets. The left three columns present this information for the largest 40 markets; the right three columns present this information for the largest 80 markets.

As Tables 8 and 9 show, for most studies matched market testing introduces substantial uncertainty in lift estimates in addition to traditional sampling-based uncertainty (the latter is not reported).
5 Additional Methods of Evaluation: 

PSAs and Time-Based Comparisons

This section briefly discusses two other common approaches to advertising measurement: using public service announcements (PSAs) as control ads and comparing conversion outcomes before and after a campaign. Both approaches have their own distinct shortcomings, which help to further illustrate the inherent challenges of ad effectiveness measurement.

5.1 PSAs

In an RCT performed by an advertiser, test group users are shown ads from that advertiser and control group users are not. But what should the control group users be shown in place of the ads of the advertiser? This seemingly innocuous question actually has critical implications for interpreting advertising measurements using randomized experiments.

One possibility noted in Section 2.1 is not to show control users any ads at all, i.e., to replace the ad with non-advertising content. However, this compares showing an ad to an unrealistic
Table 8: Uncertainty in lift estimates due to random allocation of matched markets to treatment and control (sales- and demographics-based matching)

<table>
<thead>
<tr>
<th>Study</th>
<th>Outcome</th>
<th>40 markets</th>
<th></th>
<th></th>
<th>80 markets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5th percentile</td>
<td>True Lift</td>
<td>95th percentile of lift estimates</td>
<td>5th percentile</td>
<td>True Lift</td>
<td>95th percentile of lift estimates</td>
</tr>
<tr>
<td>S1</td>
<td>Checkout</td>
<td>13</td>
<td>31</td>
<td>50</td>
<td>.98</td>
<td>29</td>
<td>62</td>
</tr>
<tr>
<td>S3</td>
<td>Checkout</td>
<td>-37</td>
<td>6.2</td>
<td>72</td>
<td>-27</td>
<td>6.1</td>
<td>51</td>
</tr>
<tr>
<td>S4</td>
<td>Checkout</td>
<td>3.3</td>
<td>33</td>
<td>72</td>
<td>9.1</td>
<td>32</td>
<td>59</td>
</tr>
<tr>
<td>S8</td>
<td>Checkout</td>
<td>-42</td>
<td>-6.8</td>
<td>50</td>
<td>-37</td>
<td>-2.8</td>
<td>49</td>
</tr>
<tr>
<td>S9</td>
<td>Checkout</td>
<td>-16</td>
<td>.071</td>
<td>19</td>
<td>-11</td>
<td>.26</td>
<td>12</td>
</tr>
<tr>
<td>S11</td>
<td>Checkout</td>
<td>-21</td>
<td>8.8</td>
<td>51</td>
<td>-19</td>
<td>8.9</td>
<td>46</td>
</tr>
<tr>
<td>S1</td>
<td>Registration</td>
<td>534</td>
<td>643</td>
<td>769</td>
<td>554</td>
<td>653</td>
<td>773</td>
</tr>
<tr>
<td>S8</td>
<td>Registration</td>
<td>-40</td>
<td>-.61</td>
<td>61</td>
<td>-26</td>
<td>5.5</td>
<td>49</td>
</tr>
</tbody>
</table>

Table 9: Uncertainty in lift estimates due to random allocation of matched markets to treatment and control (demographics-based matching)

<table>
<thead>
<tr>
<th>Study</th>
<th>Outcome</th>
<th>40 markets</th>
<th></th>
<th></th>
<th>80 markets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5th percentile</td>
<td>True Lift</td>
<td>95th percentile of lift estimates</td>
<td>5th percentile</td>
<td>True Lift</td>
<td>95th percentile of lift estimates</td>
</tr>
<tr>
<td>S2</td>
<td>Checkout</td>
<td>-80</td>
<td>-.17</td>
<td>391</td>
<td>-82</td>
<td>.0015</td>
<td>482</td>
</tr>
<tr>
<td>S5</td>
<td>Checkout</td>
<td>110</td>
<td>146</td>
<td>190</td>
<td>109</td>
<td>140</td>
<td>175</td>
</tr>
<tr>
<td>S7</td>
<td>Checkout</td>
<td>-11</td>
<td>-.2</td>
<td>12</td>
<td>-8.4</td>
<td>.63</td>
<td>10</td>
</tr>
<tr>
<td>S10</td>
<td>Checkout</td>
<td>-12</td>
<td>.23</td>
<td>15</td>
<td>-10</td>
<td>.73</td>
<td>15</td>
</tr>
<tr>
<td>S2</td>
<td>Key Page</td>
<td>396</td>
<td>848</td>
<td>2283</td>
<td>407</td>
<td>887</td>
<td>2533</td>
</tr>
<tr>
<td>S5</td>
<td>Key Page</td>
<td>192</td>
<td>217</td>
<td>245</td>
<td>199</td>
<td>219</td>
<td>239</td>
</tr>
<tr>
<td>S6</td>
<td>Key Page</td>
<td>2.8</td>
<td>11</td>
<td>21</td>
<td>3.4</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>S5</td>
<td>Registration</td>
<td>305</td>
<td>336</td>
<td>369</td>
<td>308</td>
<td>336</td>
<td>365</td>
</tr>
<tr>
<td>S10</td>
<td>Registration</td>
<td>-1.3</td>
<td>6.9</td>
<td>16</td>
<td>-.0037</td>
<td>7</td>
<td>14</td>
</tr>
</tbody>
</table>

counterfactual. Instead, the publisher is likely to show the ad of another advertiser instead. Hence, we would like to answer the question: “How well does an ad (the “focal ad”) perform relative to the user being shown the ad that would have appeared had the focal ad not been shown?”

One common choice is to use PSAs as the ads shown to the control group. The key feature of a PSA is that its message is viewed as being neutral relative to the focal ad. For example, Nike may not object to showing control group users an ad for the American Red Cross, but it certainly wouldn’t want to pay for ad impressions from Reebok. Sometimes an agency or advertising network partner will partly fund the cost of PSA impressions in order to deliver an estimate of the campaign’s effectiveness.

In fact, the ad inserted as the PSA does not have to be an actual PSA—anym ad from an unrelated company could fulfill this purpose. We will refer to such ads as “PSAs” even though,
strictly speaking, they don’t have to be for a charity or non-profit.

Despite the industry’s reliance on PSAs as control ads, this approach presents at least two problems. First, the PSA control ad does not correspond to the question of interest to the advertiser. Comparing the test and control group measures the effect of showing the focal ad relative to showing the PSA ad. But suppose the advertiser, say Nike, never implemented the campaign in the first place, would the users still have seen the PSA ad? Probably not. Instead, they might have seen an ad from Reebok, which implies that the PSA ad experiment doesn’t compare the Nike ad to the appropriate counterfactual and therefore fails to yield a causal estimate of Nike’s ad effectiveness.

The second problem from the perspective of advertising research is that most modern advertising platforms (including Facebook) implement some type of performance optimization in their ad delivery algorithm (also discussed at the end of section 3.2.1). These algorithms automatically adjust the delivery of impressions for both the focal ad and the PSA depending on the types of users who are most likely to click, visit, or purchase after exposure. The issue is that these algorithms can lead to violations of probabilistic equivalence between the test and control groups, if not properly accounted for. Recently, Google has implemented a methodology that circumvents these challenges on its online display network (Johnson, Lewis, and Nubbemeyer 2015).

Figure 16: Constructing a PSA Experiment

We can illustrate this measurement issue using two of our studies, study 6 and study 7. Both studies have distinct messages and calls-to-action but they target a large overlapping set of about 50 million users. As Figure 16 shows, users can fall into one of four bins depending on their assignment to test and control groups in each study. Our interest is the roughly 30 million users that are in groups A and B, i.e., who are in the test group of one study and the control group for the other study.

Suppose we are interested in running a PSA test for study 6. We need to compare outcomes of users who are shown ads for study 6 to a PSA control group that is shown a neutral ad. Then
we can compare outcomes of Group A, our “test group,” to the outcomes of Group B, our “control group” who is not shown any ads from study 6 but is shown ads from study 7. In this way the study 7 ads effectively serve the same role as a PSA ad. A similar comparison can be made by examining the outcomes from study 7 and reversing the roles of each group. If study 7 is the focal advertiser, the “test group” switches to Group B and the “control” group becomes Group A.

In both cases, the advertising platform will optimize ad impression delivery to maximize the conversion rate of each campaign. To the extent that this results in changes in the mix of users receiving impressions, the PSA-based lifts might diverge from the RCT-based lifts.

The results appear in Table 10. As in the section on matched market tests, we calculate lift based on the difference between the conversion rate in the test group and the control group without adjusting for rates of exposure (see page 26). As a baseline, for both studies we report the RCT lift based on the restricted set of users who were in both studies. The first row reports a test using study 6 as the focal advertiser and study 7 as the PSA; we find that the PSA lift is similar to the RCT lift. However, when the studies are flipped, there is a striking difference. The RCT finds a positive lift of 1.8% (p-value < 0.02) but the PSA test estimates a negative lift of -4.2% (p-value < 0.05). Using PSA’s as control ads for this study would lead the advertiser to draw the incorrect conclusion that the campaign actually hurt conversion rates.

Table 10: PSA Tests*

<table>
<thead>
<tr>
<th>Focal Study</th>
<th>PSA Study</th>
<th>Lift</th>
<th>p-val</th>
<th>CI</th>
<th>Lift</th>
<th>p-val</th>
<th>CI</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>7</td>
<td>12.1%</td>
<td>&lt;1e-4</td>
<td>[10.7%, 13.5%]</td>
<td>11.6%</td>
<td>&lt;1e-4</td>
<td>[8.3%, 15.0%]</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
<td>1.8%</td>
<td>0.0183</td>
<td>[0.0%, 3.5%]</td>
<td>-4.2%</td>
<td>0.0492</td>
<td>[-0.7%, -7.7%]</td>
</tr>
</tbody>
</table>

* All statistics are specific to the set of users in both studies, hence the RCT conversion results may differ from those reported in Table 6. p-val is the p-value associated with the null hypothesis that a lift is not significantly different from zero. CI is the 95% confidence interval on the lift.

5.2 Time-based Comparisons

Another way to measure the effect of advertising is to perform a time-based comparison, or a before/after. An advertiser might, for example, compare conversion outcomes during a period immediately before the beginning of a campaign (the control period) with the outcomes during the duration of campaign (the test period). Time-based comparisons rely on the assumption that outcomes during the control period allow the advertiser to infer what would have happened in the test period, had the ad campaign not been run during test period. This assumption (called “time-invariance”) is met if, in the absence of ads, conversion outcomes are stable over some (reasonably)
short period of time.

We can directly test this assumption in our studies by examining conversion outcomes of individuals in the control group over the duration of the study. Since these individuals were never exposed to campaign ads, it should be the case—if the time-invariance assumption is right—that there should be no difference in conversion outcomes for control users between the first and the second half of the campaign period.\footnote{One concern for implementing this test is that Facebook’s targeting algorithm selects different users as potential targets during the first and second half of the study. To avoid this potential concern we restrict our sample to users in the control group who were selected by the targeting algorithm as potential targets during the first day of the study. We can do this because our data contains information on when a user was first selected as a target, even if that user was in the control group and therefore never received an ad.}

Table \ref{tab:11} reports, for each conversion outcome and each study, the conversion rates in the first and second halves for control users.\footnote{All conversion rates have been scaled by the same random constant as in previous sections.} As the table shows, we reject the hypothesis that there is no difference in conversion outcomes for control users between the two halves of the study for all but one study in each of the conversion outcomes. This suggests that for these studies a purely time-based comparison would yield incorrect lift measures of ad effectiveness.

**Table 11: Time-based comparison**

<table>
<thead>
<tr>
<th>Study</th>
<th>Outcome</th>
<th>Conversion rate during first half</th>
<th>Conversion rate during second half</th>
<th>Difference in percentage points</th>
<th>Difference in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>Checkout</td>
<td>0.113%</td>
<td>0.096%</td>
<td>-0.017%</td>
<td>-15%</td>
</tr>
<tr>
<td>S2</td>
<td>Checkout</td>
<td>0.104%</td>
<td>0.000%</td>
<td>-0.104%**</td>
<td>-100%</td>
</tr>
<tr>
<td>S3</td>
<td>Checkout</td>
<td>0.155%</td>
<td>0.303%</td>
<td>0.148%**</td>
<td>95%</td>
</tr>
<tr>
<td>S4</td>
<td>Checkout</td>
<td>0.012%</td>
<td>0.020%</td>
<td>0.0076%**</td>
<td>63%</td>
</tr>
<tr>
<td>S5</td>
<td>Checkout</td>
<td>0.004%</td>
<td>0.007%</td>
<td>0.0034%**</td>
<td>94%</td>
</tr>
<tr>
<td>S7</td>
<td>Checkout</td>
<td>0.135%</td>
<td>0.125%</td>
<td>-0.0091%**</td>
<td>-7%</td>
</tr>
<tr>
<td>S8</td>
<td>Checkout</td>
<td>0.009%</td>
<td>0.027%</td>
<td>0.018%**</td>
<td>200%</td>
</tr>
<tr>
<td>S9</td>
<td>Checkout</td>
<td>0.217%</td>
<td>0.125%</td>
<td>-0.091%**</td>
<td>-42%</td>
</tr>
<tr>
<td>S10</td>
<td>Checkout</td>
<td>0.041%</td>
<td>0.114%</td>
<td>0.073%**</td>
<td>177%</td>
</tr>
<tr>
<td>S1</td>
<td>Registration</td>
<td>0.058%</td>
<td>0.053%</td>
<td>-0.0053%</td>
<td>-9%</td>
</tr>
<tr>
<td>S5</td>
<td>Registration</td>
<td>0.033%</td>
<td>0.064%</td>
<td>0.031%**</td>
<td>93%</td>
</tr>
<tr>
<td>S8</td>
<td>Registration</td>
<td>0.002%</td>
<td>0.006%</td>
<td>0.0037%**</td>
<td>160%</td>
</tr>
<tr>
<td>S10</td>
<td>Registration</td>
<td>0.092%</td>
<td>0.264%</td>
<td>0.172%**</td>
<td>188%</td>
</tr>
<tr>
<td>S2</td>
<td>Page View</td>
<td>0.014%</td>
<td>0.012%</td>
<td>-0.0017%</td>
<td>-13%</td>
</tr>
<tr>
<td>S5</td>
<td>Page View</td>
<td>0.032%</td>
<td>0.072%</td>
<td>0.040%**</td>
<td>127%</td>
</tr>
<tr>
<td>S6</td>
<td>Page View</td>
<td>0.523%</td>
<td>0.348%</td>
<td>-0.175%**</td>
<td>-34%</td>
</tr>
</tbody>
</table>

* Difference is statistically significant at a 5% level.

** Difference is statistically significant at a 1% level.
6 Summary of Results

Estimating the causal effect of advertisements, especially in digital settings, can be challenging. We hope this article provides the reader with a better understanding of causal measurement and an appreciation for the critical role that randomized controlled trials serve in advertising measurement. Randomization of a treatment—whether it be an advertisement, an email message, or a new pharmaceutical drug—across probabilistically equivalent test and control groups is the gold standard in establishing a causal relationship. In the absence of randomization, observational methods try to estimate advertising lift by comparing exposed and unexposed users, adjusting for pre-existing differences between these groups. Naturally, this leads to the question: How accurate and reliable are such methods at recovering the true advertising lift?

To this end, we have explored how several common observational techniques for advertising measurement compare to results obtained using an RCT. This comparison relies on 12 large-scale randomized experiments from Facebook that spanned a mix of industry verticals, test/control splits, and business-relevant outcomes. Using individual-level data, we compared conversion rates (i) between exposed and unexposed users, (ii) after reweighing the groups by matching exactly on age and gender, (iii) using propensity matching to flexibly model exposure likelihoods, and (iv) with regression-based methods that incorporated both outcome and exposure models. We chose to investigate these methods because they are well-accepted and commonly employed in the industry and academia.

Our results present a mixed bag. In some cases, one or more of these methods obtained ad lift estimates that were statistically indistinguishable from those of the RCT. However, even the best method produced an average absolute deviation of 173% relative to an average RCT lift of 57%, with most of the methods yielding upwardly biased estimates. The variance in the performance of the observational methods across studies makes it difficult to predict when, and if, these methods would obtain reliably accurate estimates. Given this, a manager should hesitate in trying to establish a rule-of-thumb relationship between the observational and RCT estimates.

We have also found unsettling results when trying approaches that use aggregate data. While matched market tests appears to neither systematically overstate nor understate the RCT lift, any individual matched market test is likely to produce a results that is quite far off from the RCT lift. As a result, we find that a single matched market test seems unlikely to produce reliable results. We also find evidence that before/after comparisons would have been problematic in our studies. The time-invariance assumption on which time-based comparisons rely is violated in most studies, even over the course of just a few weeks.

Finally, we have found some evidence that PSA’s as controls would lead an advertiser to draw
the incorrect conclusion about the true lift of an ad campaign.

In summary, two key findings emerge from this investigation:

• There is a significant discrepancy between the commonly-used approaches and the true experiments in our studies.

• While observations approaches sometimes come close to recovering the measurement from true experiments, it is difficult to predict a priori when this might occur.

• Commonly-used approaches are unreliable for lower funnel conversion outcomes (e.g., purchases) but somewhat more reliable for upper funnel outcomes (e.g., key landing pages).

These findings should be interpreted with the caveat that our observational approaches are only as good as the data at our disposal allowed us to make them. It is possible that better data, for example time-varying user-level data on online activity and generalized shopping behavior, would significantly improve the performance of observational methods.

In the next section we offer some recommendations. When firms are able to employ RCTs, we offer some suggestions on best practices to help managers get the most out of their measurement. In the case that RCTs aren’t practical or feasible, we highlight the circumstances under which different observational methods might be best.

7 Recommendations FAQ

Question 1: I want to run experiments! The platform on which I want to advertise uses a “control group” to measure the effects of ads. What recommendations do you have for evaluating or interpreting these experiments?

Congratulations, you are on the path to great measurement! But first you have to make sure your proposed experiment is indeed an RCT and does not just masquerade as one. Even if your ad platform uses “control groups,” it may not be running RCTs. Our recommendation is to ask any advertising platform the following questions:

• How do you create control and test groups? Do you randomly assign users into each group, or do you use “forensic” control groups?

• If you randomize, how exactly is the randomization performed? Does your randomization lead to probabilistically equivalent test and control groups?

• Do you randomize at the identity-level or the cookie-level (see question 6)?
If the advertising platform convinces you they are randomizing at the identity-level and are creating probabilistically equivalent test and control groups, they are probably running an RCT. If they randomize at the cookie-level, they are trying to run an RCT—but be aware that test and control groups might overlap, which will make results less reliable.

If the advertising platform uses “forensic” control groups, they are using what we have called observational methods in this white paper. These are not RCTs. Even given this serious limitation, there are still questions you can ask to assess the quality of their observational method:

- What variables or features do you use to create the forensic control group?
- Can you provide these variables or features so I can verify that users in control and test groups match on these variables?

**Question 2:** I understand that RCTs are the gold standard in measurement. But how can I make sure that whatever I learn from an RCT is useful beyond this specific campaign?

Don’t rely on data alone to improve advertising. If you want generalizable results you also need good theories of behavior—that is, strong beliefs about how advertising works, and what mechanisms affect what.

Use these theories to guide the questions your RCTs should be testing. Your ultimate goal should be to decide which competing hypotheses or explanation is correct. Perhaps you believe that display advertising works better than search advertising for a given campaign. Ask yourself: Why might that be the case?

Only if you begin to understand why can you begin to use data from one campaign to inform another campaign. Because RCTs rely on much weaker assumptions than observational methods, they are preferable to answering these kinds of questions—as long as they are feasible to implement.

This question ties into a recent debate of what RCTs can and cannot do. You can read our take on this debate in section 8.

**Question 3:** I can run an RCT! How many users do I need to target to determine whether my ad campaign worked?

You may need to bring in an expert to help you determine the appropriate sample size for your RCT; depending on what you are trying to do, these calculations can be tricky.
As a general guideline, the further down the funnel your conversion outcome is, the larger the sample size will have to be. You can get away with a smaller sample size when you want to measure conversion outcomes like page views than if you want to measure purchase outcomes. Offline conversion outcomes usually require the largest sample sizes of all, easily reaching several millions of users.

Question 4: I understand that RCTs provide a more accurate measurement of lift than observational methods. However, all I want to know is whether my campaign worked or not. Are observational methods good enough for that?

Our analyses suggest that they are not. Our best approaches incorrectly determined whether a campaign achieved positive lift 40-50% of the time for checkout conversion outcomes and about 30% of the time for registration and page view outcomes. This strikes us as a relatively high rate of error. A caveat is that we only analyzed a relatively small number of campaigns and that they were not necessarily representative of all Facebook advertising.

Question 5: I understand that RCTs are more reliable than observational methods. However, I can only run RCTs on one advertising platform but not on others. If so, is it worth running RCTs at all?

We think it is. It is true that unless two platforms both enable RCTs it will be tough to make comparisons across platforms. However, by running RCTs on one platform you can at least learn something about that platform—as well as, more generally, what kind of ads work and why. And that sure beats not learning anything.

Question 6: I can run RCTs on several advertising platforms. Can I directly compare the results?

Not necessarily. It depends on how the RCTs were implemented, how the results were reported, and whether you targeted the same consumers. Pay particular attention to two issues: First, make sure that the randomization into test and control groups was performed at the same level. Typically, randomization occurs either at the “identity-level” or at the “cookie-level”. Identity-level randomization is better because it ensures that users are in test or control groups irrespective of the device or browser they use. Cookie-level randomization can lead to a user being both in test and control groups. As a result, identity- and cookie-level randomization can give different lift estimates, even if the campaign has the same effect.

Second, make sure that the results are reported in the same way. There are two standard ways to report lift: The first is based on the difference in conversion rates between users in test vs. control groups. This measure is sensitive to the percent of users in the test group
who were exposed to the ad. If few users in the test group saw the ad, even if the ad had a big effect, the overall difference in the conversion rate between test and control groups will be small. The second way to report lift compares the conversion rate of exposed users in the test group with the conversion rate they would have had, had they not been exposed. Both methods are correct and easy to compute; however they answer different questions. The first measures the effect of targeting a group of users with an ad, while the second measures the effect of actually exposing a group of users to the ad (as we report in this white paper). When you compare RCTs across platform, make sure to compare the same measure.

**Question 7:** My advertising platform says they can run an RCT! However, they suggest exposing the control group to a public service announcement (PSA). Is this good practice?

Using PSAs presents at least two problems. First, it changes the nature of what you are measuring. Suppose an advertiser, say Nike, never implemented the campaign in the first place. Instead of seeing that PSA, users in the control group might have seen an ad from Reebok. This implies that the PSA ad experiment doesn’t compare the Nike ad to the correct counterfactual. In other words, you are measuring something correctly, but it might not be what you are interested in.

The second problem with PSAs is that most modern advertising platforms (including Facebook) implement some type of performance optimization in their ad delivery algorithm. These algorithms automatically and adjust the delivery of impressions for ads, depending on the types of users who are most likely to click, visit, or purchase after exposure. Since the algorithm treats the focal ad and the PSA as two separate ads, these algorithms can break probabilistic equivalence between the test and control groups, if not properly accounted for. Please check out the long WP for an example of this problem.

You should ask your advertising platform for a detailed explanation of how they deal with these challenges.

**Question 8:** Is there a reliable scaling factor I can use to translate the lift from an observational method to the lift from an RCT?

When we started this project we hoped there would be. For example, suppose an observational method such as propensity score matching systematically produced lift measures that were 40% too high. Then one could divide all lift numbers by 1.4 and avoid having to run RCTs. Regrettably, neither we nor any researchers we know of can reliably come up with a scaling factor to arrive at true ad effectiveness based on an observational method.
It might be that the same advertiser or product would get the same scaling factor over time. At the moment, however, we don’t know.

**Question 9: I understand that RCTs are more reliable than observational methods. However, the platform on which I want to advertise is not enabled for RCTs. What should I do?**

Don’t despair! There is a lot you do without RCTs to get to good measurement as long as you plan ahead before you run your ad campaign. They key to good observational measurement is to strategically engineer variation in the data. The core idea is to roll out your advertising campaign in a way that—although you could not run an RCT—you can interpret the data as if you had. This takes some planning but is often very doable.

Let us explain with an example: Colleagues of ours, Tom Blake, Chris Nosko, and Steve Tadelis of eBay wanted to find out whether paid non-brand search advertising for effective for eBay (see [http://faculty.haas.berkeley.edu/stadelis/BNT_ECMA_rev.pdf](http://faculty.haas.berkeley.edu/stadelis/BNT_ECMA_rev.pdf)). They could not run an RCT because they had no control over the exposure of ads on Google or other search engines at the individual level. All they could do is to bid or not bid for keywords. Luckily, Google allows advertisers to place bids by DMA. Blake, Nosko, and Tadelis used this to strategically engineer variation in the data. Their idea was to take 65 randomly chosen DMAs and continue eBays’ standard practice of bidding for thousands of keywords. For the remaining 65 DMAs, however, they stopped all non-brand keyword advertising for six weeks.

Notice that comparing sales between the 155 DMAs with non-brand keyword advertising and the 65 DMAs without such advertising does not quality this experiment as an RCT: the randomization was not done at the level of individual consumers (or cookies). Instead, the randomization was done at the DMA level and there are too few DMAs to ensure that the consumers in both DMA groups are probabilistically equivalent.

To deal with this problem Blake, Nosko, and Tadelis looked not just across DMA groups but also over time. Here is the idea: Instead of just comparing the two DMA groups during the 6 weeks where the 65 DMAs did not get any eBay ads, they also compared sales in the two groups before the study started (i.e. while eBay was still bidding for keywords in all DMAs).

Here are the results (sales are disguised to preserve confidentiality):

<table>
<thead>
<tr>
<th></th>
<th>65 DMAs</th>
<th>155 DMAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before experiment</td>
<td>Search ads</td>
<td>Search ads</td>
</tr>
<tr>
<td></td>
<td>Sales=100</td>
<td>Sales=98.8</td>
</tr>
<tr>
<td>During experiment</td>
<td>No ads</td>
<td>Search ads</td>
</tr>
<tr>
<td></td>
<td>Sales=115</td>
<td>Sales=114.4</td>
</tr>
<tr>
<td>Growth in Sales</td>
<td>15.0%</td>
<td>15.8%</td>
</tr>
</tbody>
</table>
If we just compare sales during the experiment in the 65 DMAs without ads (115) to the DMAs with search ads (114.4) we find not statistically significant difference. However, does this mean that the search ads have no causal effect? Perhaps not, because it could been that sales in the 65 DMAs without search ads would have been much higher had we advertised. This is where it helps us to see how the two DMA groups compared before the experiment where search ads were shown in all DMAs, namely 100 vs. 98.8. This shows that the sales in the 65 DMAs were not significantly higher than in the 155 DMAs, even when we were advertising in all DMAs. In other words, switching ads off did not lead to a noticeable decrease in sales relative to DMAs where advertising remained unchanged.

The lesson is this: By being clever about rolling out ads over time and over regions one can create variation in advertising so that one can get close to causal measurement. However, this has to be planned. Blake, Nosko, and Tadelis could not have done this analysis if they had simply switched off search ads across the entire US all at once.

**Question 10: Are there situations where RCTs are less important—or even unnecessary?**

RCTs are not necessary if a conversion outcome simply cannot occur unless you have been exposed to the ad campaign, for example, launching a brand new startup with a majority (or even all) of the marketing occurring through one platform. Could you just compare consumers who were exposed to the ad with those who were not? In section 3.2.1, “Exposed/Unexposed,” we find that this comparison massively overstated lift in most studies we analyzed. The reason was that the type of consumers who were unexposed were much less likely to buy than exposed consumers, even if these exposed consumers had not been exposed. If consumers never buy unless they were exposed (as in the startup example), this problem goes away because the conversion probability in a control group is zero, regardless of whether that control group was probabilistically equivalent or simply consisted of consumers who were part of the original target group but happened not to be exposed to the ad.

Not running RCTs is also less problematic for conversion outcomes on pages where consumers are unlikely to go on their own, for example, some registration or landing pages. As our results show, observational methods do a better job of approximating RCT outcomes for such pages than for checkouts. Since unexposed users (in both treatment and control) are unlikely to visit such pages on their own, comparing the exposed group to the unexposed group in treatment (the comparison all observational methods are based on), yields similar outcomes to comparing the exposed group to the unexposed group in control (the comparison the RCT is based on).
Question 11: I want to run RCTs but my organization does not see the value. What do I do?

This is a hard one because to understand the need for RCTs your co-workers need to understand something about data science. A start is to have someone read the first two sections of long WP. You can also recommend the following Harvard Business Review article to them, written by one of colleagues at Kellogg: A Step-by-Step Guide to Smart Business Experiments (https://hbr.org/2011/03/a-step-by-step-guide-to-smart-business-experiments).

Another idea is to find champions for experiments inside your organization. For example, traditional mail-order departments typically have understood how essential experimentation is. Finally, feel free to reach out to us—we have experience talking to leaders about how important experiments are.

Question 12: Do you have any other recommendations?

We believe that any decision maker in advertising needs to have a “working knowledge of data science.” This means being familiar with concepts such as probabilistic equivalence, causality, incrementality, RCTs, observational methods, matching, control groups, etc. By no means do we think that decision makers need to become data scientists. However, these concepts are so fundamentally tied to measuring advertising effectiveness that becoming familiar with them is necessary for evaluating and overseeing advertising research and vendors.

8 What RCTs can and cannot do

A common critique of RCTs is that one can only test relatively few advertising strategies relative to the enormous possible variation in advertising; which creative? which publisher? which touchpoint? which sequence? which frequency? This critique of RCTs is not unique to advertising effectiveness research. For example, Angus Deaton, a recent winner of the Nobel Prize in Economics made a similar point about evaluating initiatives in development economics.

To understand the critique, consider an example made by the economist Ricardo Hausman. Suppose we wanted to learn whether tablets can improve classroom learning. Any RCT would need to hypothesize a certain test condition that specifies exactly how the tablets are used: how should teachers incorporate them into the classroom, how should students interact with them, in what subjects, on what frequency, with what software, etc. An RCT would tell us whether a particular treatment is better than the control of no tablets. However, the real goal is to find the best ways to use tablets in the classroom.

34 See Deaton (2010) or https://youtu.be/y1qBMIea1RU?list=PLYZdiPCblNEULWpJALSk_nNlJcnS1bazU
35 https://www.project-syndicate.org/commentary/evidence-based-policy-problems-by-ricardo-hausmann-2016-02
This points to two problems that would equally apply to advertising effectiveness research. First, with such a large design space, an RCT testing a small number of strategies would be too slow to be useful. Second, whatever we learn from the RCT might not transfer well if the strategy is extended to a different setting (this is referred to as external validity).

However, this is not really a critique of RCTs as opposed to using other observational method for measuring advertising effectiveness—the exact same critique applies to any observational method, including the ones we have evaluated in this paper. Instead, this critique points to the deficiency of using data alone (through RCTs or observational methods) to discover what drives advertising effectiveness. Instead, generalizing from such data fundamentally requires a theory of behavior, i.e. the mechanism by which advertising works on consumers, that implies that the proposed advertising will change outcomes a certain way. For example, theories of consumer behavior tell us what types of advertising creative tend to produce larger responses (e.g., fear appeals do well in political advertising). While RCTs are the gold-standard for accurately assessing the proposed advertising, RCTs cannot tell you what advertising should be tested in the first place (of course, neither can any observational methods).

In some contexts, theories are not very important because technology allows for “brute empiricism.” This applies, for example, to web site optimization where thousands of tests allow for the publisher to optimize the color, page features, button placement, etc. However, in advertising, the set of possible choices is much too large relative to the amount of tests that are feasible to. This highlights one potential benefit of observational methods, which is that, relative to RCT’s, much more data for high-dimensional problems is typically available because the data are generated more easily and by more actors. The usual issues of selection bias, suitable controls, etc., must be addressed, and of course this is exactly what observational methods try to do. However, our paper shows that in the setting of online advertising—with the data we had at our disposal—these methods do not seem to reliably work.

Overall, we think this discussion has important implications for advertising research. We list these in response to Question 2 in section 7.
References


## Matched Markets

Table A-1: Optimal matched markets using sales-based matching (40 largest markets)

<table>
<thead>
<tr>
<th>Pair</th>
<th>First CBSA in pair</th>
<th>Second CBSA in pair</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>Houston-The Woodlands-Sugar Land, TX</td>
<td>Louisville/Jefferson County, KY-IN</td>
</tr>
<tr>
<td>Pair 2</td>
<td>Indianapolis-Carmel-Anderson, IN</td>
<td>Miami-Fort Lauderdale-West Palm Beach, FL</td>
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<td>Pair 3</td>
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<td>Pair 5</td>
<td>Las Vegas-Henderson-Paradise, NV</td>
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</tr>
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<td>Pair 6</td>
<td>Dallas-Fort Worth-Arlington, TX</td>
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</tr>
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<td>Chicago-Naperville-Elgin, IL-IN-WI</td>
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<td>Charlotte-Concord-Gastonia, NC-SC</td>
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<td>Pair 13</td>
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<tr>
<td>Pair 20</td>
<td>Boston-Cambridge-Newton, MA-NH</td>
<td>Washington-Arlington-Alexandria, DC-VA-MD-WV</td>
</tr>
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</table>

## Lift Confidence Intervals

Below we have copied equation (3) from section 2 that defines lift:

\[
\text{Lift} = \frac{\text{Actual conversion rate} - \text{Counterfactual conversion rate}}{\text{Counterfactual conversion rate}}
\]

To facilitate exposition, we rewire the above with some notation:

\[
\text{Lift} = \frac{y_e(e) - y_e(u)}{y_e(u)}
\]

where \( y_e(e) \) is the conversion rate of the exposed users assuming they had actually been exposed and \( y_e(u) \) is the conversion rate of exposed users had they instead been unexposed. The former is directly observed in the data whereas the latter requires a model to generate the counterfactual prediction. Next we can rewrite this equation another way, using the fact that the counterfactual conversion rate is the difference between the actual conversion rate and the estimated average.

Appendix-1
Table A-2: Optimal matched markets using sales- and demographics-based matching (40 largest markets)

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The treatment effect on the treated (ATT), which is \( y_e(u) = y_e(e) - ATT \), and gives us:

\[
\text{Lift} = \frac{y_e(e) - y_e(u)}{y_e(u)} = \frac{y_e(e) - (y_e(e) - ATT)}{y_e(e) - ATT} = \frac{ATT}{y_e(e) - ATT}
\]

To determine the confidence interval on the lift, we require the standard error of the numerator and the denominator. The standard error of the ATT is available in each of the methods we consider. In the denominator, the standard error on \( y_e(e) \) is straightforward to calculate because, unlike the ATT, the term does not rely on a model to estimate it. That is, given the set of relevant exposed users, we calculate the standard error on their conversion rates using the usual formula for a standard error. However, the tricky issue is that the numerator and denominator are clearly not independent. This implies we must calculate the covariance between the numerator and denominator to estimate the standard error on the lift. The exception is when we can performing a bootstrap is feasible and the standard error can be calculated from the bootstrapped samples. We discuss our procedures for estimating the standard errors for each method below.

- RCT Lift. Rather than estimating the covariance explicitly, we implement a nonparametric bootstrap to calculate the confidence intervals for the RCT lift estimates. We use the method...
in Andrews and Buchinsky (2000) to choose a suitable number of bootstrap draws to ensure an accurate estimate of the confidence interval. This approach has the advantage that it automatically integrates uncertainty about $y_e(e)$, the ATT, the share of exposed users, and the ratio statistic.

- **IPWRA.** We recover the covariance for the estimates through the covariance matrix estimated from the GMM procedure in Stata. This output contains separate estimates of the ATT and $(y_e(e) - ATT)$, estimates for the standard errors of each term, and the covariance estimate. We can substitute these point estimates for the means, standard errors and covariance into the following approximation (based on Taylor expansions) for the variance of the ratio of two (potentially dependent) random variables:

$$Var\left(\frac{x}{y}\right) \approx \left(\frac{E(x)}{E(y)}\right)^2 \left(\frac{Var(x)}{E(x)^2} + \frac{Var(y)}{E(y)^2} - 2\frac{Cov(x, y)}{E(x)E(y)}\right)$$

The interested reader should refer to Stuart and Ord (2010).

- **PSM.** The standard errors for the ATT are computed using the methods explained in Abadie and Imbens (2015) to account for the uncertainty in the propensity score estimates. The standard error for the conversion rate of exposed matched users $(y_e(e))$ is calculated directly from the data using the standard formula. However, no formal results exist to estimate the covariance between the ATT and conversion rate of exposed users. Instead, we implement a subsampling procedure (Politis and Romano 1994) to generate multiple estimates of the ATT and the conversion rate of the exposed users, since bootstrapping is invalid in the context of matching procedures (Abadie and Imbens 2008). We calculate the covariance based on these results and use it to construct the standard error on the lift using the approximation above. In general, the covariance is small enough relative to the standard error of each term that both the quantitative and qualitative conclusions of the various hypothesis tests are unaffected.
Figure A-1: CBSAs in for California
Figure A-2: Random matching for 40 and 80 markets

* Histogram of lifts for 10,000 random allocations of CBSAs in each matched market pair to test and control markets.