

# PMGUIDE

2016 PERFORMANCE MARKETING GUIDE

## Affiliate Marketing

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## At the core of performance marketing is the channel where some say it all began: affiliate marketing.

Comprising of publishers, advertisers and networks, affiliate marketing is a performance-based digital marketing channel which rewards affiliates (also known as publishers) for delivering sales, leads and customers to merchants (also known as advertisers).

The concept of affiliate marketing was first introduced in 1996 when Amazon kick-started its affiliate programme in the US. However, the technology at the time was very limited, and very few merchants invested in the channel.

The first affiliate networks came in 1998 with the launch of Commission Junction and Clickbank, who offered payment solutions and facilitated exchanges between merchants and affiliates.

Fast forward 20-something years and it's now a channel that no digital merchant can go without. Readings from the [IAB's annual valuation of the channel](#) point to a worth of £1.3 billion in the UK alone during 2015, but it's the figures for return that really stand out.

With an ROI of £13 for every £1 spent on acquiring a lead, sale or click, merchants are getting huge value out of the commission they allocate to affiliates – groups that are becoming enterprises in their own right thanks to the amount of activity they drive.

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### How does it work?

Most merchants choose to run their affiliate activity via an affiliate network, which provides access to technical solutions like conversion tracking, reporting and managed payment solutions.

Working with an affiliate network also gives merchants instant access to publishers signed up with that network, so there's no need to spend time and resources building up a good bank of sites to work with. Here is the process adhered to on many programmes:

- Affiliates sign up to the merchant's programme.
- Affiliates use links or creative supplied by the advertiser to promote their brand.
- Technology supplied by the network records traffic sent from publishers to the merchant's site, and a cookie is dropped on the user's browser, which remains for an agreed number of days.
- If a transaction is processed within the timeframe, the transaction tracks as a sale in the network, and gives details on its value and the commission generated for that publisher. Of course, things work quicker when the advertiser is paying for a single click.

For merchants, consideration needs to be given to how they will manage the channel, as another option is to invest in technology that allows them to run their programme in-house.

In these cases an in-house affiliate manager will be tasked with the end-to-end management of the programme. Alternatively, for some it is more cost effective to employ the services of an affiliate management agency to run the programme on their behalf.

Whether the programme is kept in-house or handed over to an agency, an affiliate manager will communicate regularly with publishers, keeping them informed of the key marketing messages they should be promoting as well as recruiting new sites onto their programme.

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## A broader mix

Anyone that's come across affiliate marketing should be aware of some of the publisher demographics that are involved in the channel. The key ones are as follows:

- **Incentive publishers:** These include the cashback and voucher sites which have been known to dominate affiliate programmes in recent years. In the case of the former, affiliates split the commission they receive from the advertiser with the person buying a product, while voucher sites gain commission from people redeeming discounts on items.
- **PPC:** Pay-per-click affiliates utilise the wonders of paid-for search listings to position their links at the top of queries fielded by web users. Good publishers in this regard operate on large scales with lots of advertisers on their books.
- **Content:** Put simply, content sites use affiliate marketing tools like banners and text links to monetise their productions. Recently these publishers have been rewarded on the 'influence' they contribute, as they are largely seen as an introductory mechanism.
- **Price comparison:** The likes of Comparethemarket and Moneysupermarket are just two of the many price comparison sites that get paid for referrals. These sites are well-used in the insurance, finance and utility verticals among others.
- **Shopping:** Most users have come across shopping portals although very few will be aware that when they buy a product through the site, or visit a retailer to complete their purchase, an action is tracked and commission is paid.

It's common for affiliate marketing to be known as a channel dependent on a very small number of publishers to work, with incentive sites driving the bulk of activity.

However, there are signs of this ecosystem growing amid a period of maturity for the channel.

Content publishers in particular have grown to contribute significantly to programmes, and it's no surprise to see affiliate networks launching tools and marketing campaigns to get more bloggers involved with this method of monetisation.

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## Payment models

In terms of how these publishers get paid, there are a number of very similar options for their commission.

A large number of programmes work on the basis of a cost per acquisition/sale (CPA), where for every transaction driven by the affiliate, they get paid an agreed amount of commission.

The systems for cost per lead (CPL) and cost per click (CPC) work in the same way, but with a different action triggering a payment.

There is also the option of a fixed-cost package or 'tenancy' agreement for valuing the amount of reach a merchant is likely to gain by having their placement listed on a site. These are very specific agreements and a worthwhile initiative for publishers that have users on their sites for prolonged periods.

It is worth mentioning that a lot of campaigns work on the basis of a last-click payment model for rewarding only the final touchpoint on the user's path to conversion, whatever that might be. Of course, the user may have gone through a number of sites on this journey, which is why things like tenancy agreements are being seen as a good way of promoting fairness in rewarding.

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## Why use it?

Aside from affiliate being a channel that delivers solely on results, the most obvious benefit to merchants is the ability to have their brand advertised on hundreds, if not thousands, of websites covering all consumer demographics.

Versus other marketing channels, the cost per action on these placements can be significantly lower than other forms of marketing, especially paid search.

To summarise, the key benefits are:

- You only pay on results, meaning very little is at stake.
- Instant broadcasting on thousands of sites.
- Complete measurability in terms of campaign performance.

On perhaps a lesser scale, the advantages of affiliate marketing are:

- Visibility even when a click or sale isn't delivered.
- Potential SEO benefits from reputable sites linking to your brand.

When effectively managed by an in-house expert or a specialist affiliate marketing agency, an optimised affiliate programme can be responsible for around 20% of a retailer's monthly online revenue, although rates of contribution can vary, depending on the commitment to the channel.

Recent trends

Affiliate marketing has consistently grown year on year, but those involved are not resting on their laurels. A number of trends are cropping up in terms of campaign management and publisher usage, with some of these made to preserve affiliate's future for good.

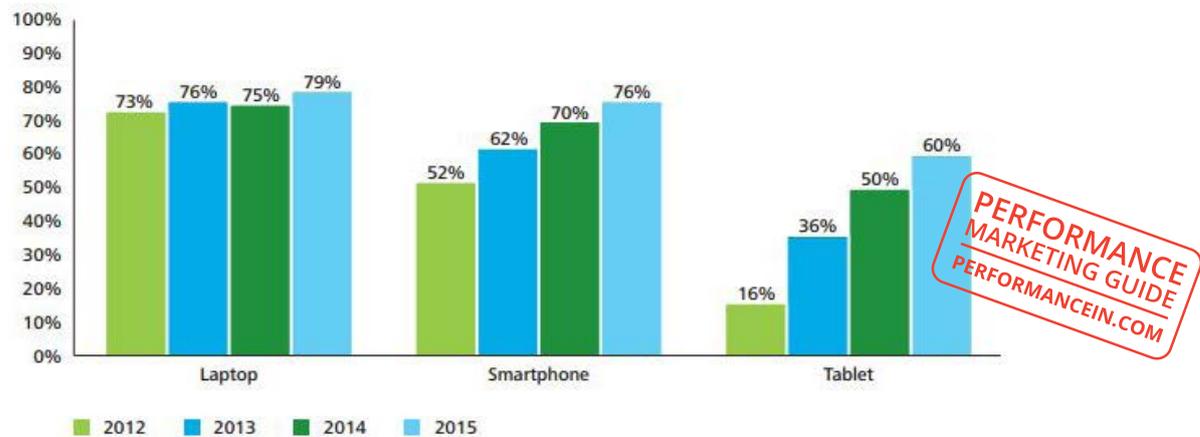
Mobile movements

More recently there has been significant investment made in cross-device tracking to accurately measure traffic in our mobile-first world.

This has become all the more important with the rise in smartphone and tablet ownership, as seen below which in the UK is forcing marketers to re-align more of their spend towards mobile-friendly ad formats.

Deloitte global mobile consumer survey 2015

Figure 5. Laptop, smartphone and tablet ownership among UK adults, 2012-15  
Question. Which, if any, of the following devices do you own or have ready access to?



It's widely reported that on average, over 50% of traffic to a website is accessed via a mobile device and affiliate networks have been increasingly keen to develop and implement technology to identify consumers using the affiliate channel and engaging across multiple devices. Key to success in this area will be the reliability of these tools, as well as their appropriate use by campaign managers.

Publisher usage

Voucher-centric publishers still maintain their position as a prominent force in the affiliate channel, although merchants are now looking at other publisher types to bolster their performance.

In some cases this is placing a greater reliance on the loyalty sector to encourage repeat visits and sales from existing customers. Affiliates like Nectar that offer ‘points for purchases’ are incentivising people in different ways, with an eye on keeping people interested in the brands they serve.

Bloggers are another key point of focus for brands at the minute, and the challenge for merchants and networks will be to create and adopt ways of measuring their true value on a programme. This is on a backdrop of a reduction in last-click rewarding which, although still dictating payments on the vast majority of programmes, may become less prevalent as the years go on.

Technology providers are now also key on a number of campaigns and deliver a huge chunk of affiliate sales through pre-targeting, on-site optimisation, remarketing and basket abandonment technology.

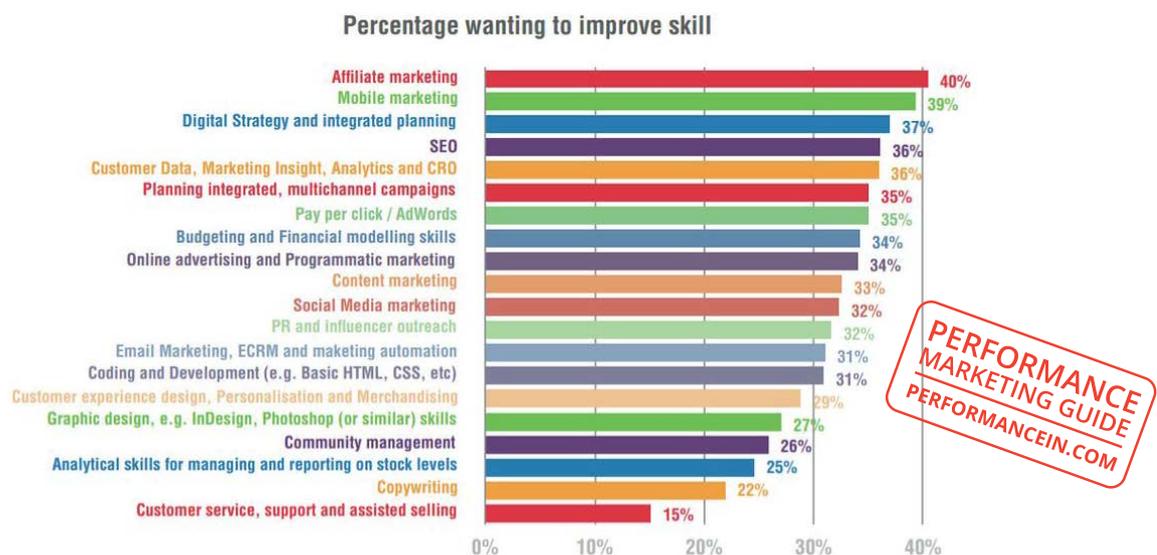
Education

For the majority, running an affiliate programme remains a ‘bolt-on’ to the existing marketing mix, with very few retailers unleashing the channel’s full potential.

This is made all the more surprising when looking into affiliate’s comparably low acquisition costs against other digital channels, like paid search. Still, debates over a lack of education rage on.

The question of whether affiliate marketing can reach its potential will depend largely on the people within it, and there are signs that things might improve. Take the example of research from [Smart Insights](#), which named affiliate marketing as the skill that marketing professionals wanted to improve on the most in 2015.

As the image shows, affiliate is placed top of some illustrious competition:



Even now there is a lack of understanding in the potential of affiliate marketing and the publishers within. But with investment growing and growing, few can argue about the general level of adoption.

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## Conclusion

Looking to the future, affiliate marketing can only strive to become all the more prominent in the budget line-up.

It's hoped that networks will bring forward new innovations aimed at enhancing the channel's efficiency, and many have touted the programmatic advertising model as something that could improve the process in some areas.

There may well be more consolidation of publishers as competition intensifies, whilst online celebrities and 'vloggers' are expected to represent the next generation of publishers in years to come.

Ad blocking is attracting big news in the display and video advertising circles, and will play a major part in the channel's innovation as publishers and tech providers scramble for alternatives.

And on the campaign front, we're anticipating brands to invest in a management strategy for their affiliate programme, particularly from specialist agencies to make up the lost ground from competitors already embracing the industry.

For the agencies, merchants, publishers and networks, it's now time to look to the next 20-something years with optimism and anticipation for what else is in store.



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## Interested to find out more?

Affiliate Marketing will be covered at our upcoming  
Performance Marketing Insights: London  
on 25–26 October 2016, Westminster Park Plaza

Gain expert knowledge from industry leaders on ROI-driven disciplines including affiliate marketing, display advertising, programmatic, paid search and paid social for a complete rundown of what it means to embrace performance marketing today.

Gather with 1000+ of your peers to take advantage of breakfast briefings, networking drinks and our infamous after-party to strike up new business conversations and reconnect with existing partners.

With over ten years of experience PMI: London is the place to be for those in the Performance Marketing Industry.

[View the full agenda and speaker lineup here](#)

Click here to **Save 10%** off your ticket if you book now