MASTER'S THESIS

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Affiliate Marketing

Perspective of content providers

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ABSTRACT

This thesis depicts how content providers (aka publishers or affiliates) use affiliate marketing, a performance oriented internet marketing. Three different content providers were interviewed in order to find out detailed information about their usage of affiliate marketing.

The thesis identifies main advantages and disadvantages of affiliate marketing for content providers and specifies conditions, under which affiliate marketing is more beneficial than other types of online advertising. Moreover, the process of selecting affiliate marketing program by content providers is described.

This paper concludes in a model of a typical affiliate marketing usage. Furthermore, the work proposes using different terminology for content providers, because it was found out that the term content provider does not cover all aspects of the business any more, as affiliate marketing can even be used without providing any content. Finally, recommendations for companies, that are planning to start a new affiliate program, are also added and the work suggests several topics for further research in this field.

PREFACE

There are many people who helped us a lot during studying and writing this thesis and deserve to be named here. Our very special Thank you! goes to the supervisor of our thesis, Rickard Wahlberg, who was always very helpful, provided us with excellent support and overall lead us quickly and efficiently to the finish line.

We would also like to thank Petr Sršeň, Thomas Wilkinson and Jan Petr for their willingness to share their experiences and knowledge about affiliate marketing.

And finally we are thankful to our families and friends that supported us, kept our thinking positive and altogether made our stay in Luleå, Sweden really special.

"Half the money I spend on advertising is wasted;
the trouble is I don't know which half."

John Wanamaker axiom

TABLE OF CONTENTS

LIST OF IMAGES

LIST OF TABLES

1 INTRODUCTION

Although the Internet existed since the end of 1960s, it was the introduction of *World Wide Web* (WWW), a new media for publishing information, which started its rapid growth (Chaffey, 2003:19, Hoffman et al., 1995). Since that, the Internet became the fastest spreading media in human history. While it took long 38 respectively 13 years for radio and television to reach 50 million users milestone, the Internet reached the same in just five years (Zeff, 1999:5).

The power of WWW was in the ability to bring easy-to-use media, which allowed consumers find information using a network of *web sites* (Chaffey, 2003:19). However, creating a website is only the first step to establish company's presence online, which needs to be followed by attracting Internet users to visit the website (Rowley, 2004).

It did not take long since the World Wide Web was introduced before the companies realized the marketing possibilities of the Internet (Zeff, 1999:1). Chaffey notes that from the merchants' point of view the Internet brings many opportunities, but also threats. Companies can take advantage of new technologies and improve their competitiveness, but on the other hand, they also need to face new start-up companies, some of them with purely virtual operations. Firms have to adjust their businesses to the new trends, otherwise they will not be able to survive (Chaffey, 2003:xi). Sarkar et al. argue that one such trend is emergence of new and diverse intermediaries in the value chain of the existing companies (Sarkar, Butler, Steinfield, 1995).

1.1 Emergence of Cybermediaries and Content Providers

With the rapid development of the Internet starting in 1990s, many authors (such as Chaffey, 2003:52; Hoffman, Novak, Chatterjee, 1995) argued that the introduction of the Internet would lead to disintermediation – eliminating intermediaries in the value chain between manufacturers and end customers. Jacobs claims that in the new economy, due to the new communication opportunities, distribution channel is moving from two or three intermediaries to zero or one intermediary allowing both cost savings and customization (Jacobs, 2002).

However, it was demonstrated that even if the Internet can decrease the number of intermediaries in some fields, companies can still exploit their expertise and adjust their activities to the new conditions in order to stay competitive at the market (Giaglis, Klein, O'Keefe, 2002).

Sarkar et al. remark that the Internet offers opportunities for *cybermediation* - emergence of new types of intermediaries operating at electronic markets (Sarkar et al., 1995). *Cybermediaries*, or sometimes also called *infomediaries* (Jacobs, 2002), are "organizations that perform the mediating tasks in the world of electronic commerce" and it is anticipated that their influence will increase (Sarkar et al., 1995).

Strauss, Adel and Frost (2006) define cybermediary as "an online organization that aggregates and distributes information". Online cybermediaries act as the middle-man between the buyer and the seller.

As Jacobs points out, cybermediaries introduced new possibilities of sales channel management and have become a potential competitive advantage for the companies cooperating with them, but on the other hand, they can also present a threat in the means of introducing new level of complexity. Thus, managers need to understand new methods in electronic channel management in order to be able to produce adequate decisions (Jacobs, 2002).

According to Sarkar et al., cybermediaries offer following services to the customers:

- Search and evaluation – facilitating choice of retailer, product or service.

- Needs assessment and product matching – identifying customers' needs and selecting the right product or service for them.

- Customer risk management - decreasing the level of perceived risk.

- Product distribution – physical distribution of the products or services. (Sarkar et al., 1995)

Also merchants benefit from the cybermediaries' operation in different ways and they purchase cybermediaries' services such as:

- Product Information Dissemination – informing customers about new products, services, special features etc.

- Purchase Influence – intermediaries can influence purchase decisions to a great extent.

- Provision of Customer Information – providing detailed information about customers and their buying behavior.

- Producer Risk Management – reducing producers' risk connected with selling products or services at electronic market place. (Sarkar et al., 1995)

In spite of growing importance of cybermediaries, their role in promoting products and services on the Internet is not explored sufficiently. OECD states in its report about impacts of electronic commerce that the role of intermediaries will be crucial in the future development and it should be more researched (OECD, 1999). Jacobs also mentions that little have been written in the area of marketing communication via cybermediaries and further research in this field should be conducted (Jacobs, 2002).

Cybermediaries offering online advertising to merchants (though links or product listings) are referred to as *content providers* (Sarkar et al., 1995). They are defined as people or companies that "distribute copyright content via the Internet" such as owners of websites, bloggers or forum members (Eisenmann & Brown, 2000). Content providers are sometimes also named *publishers*. (Wikipedia Affiliate Marketing, 2007).

Content providers vary in size. They range from big companies such as magazine and newspaper publishers, to physical persons, such as blog owners. According to Zeff, both big and small content providers can make use of online advertising as a revenue source. Big websites have high-volume audience, whereas small websites usually are able to deliver niche audience (Zeff, 1999:4-5). Duffy notes that the number of small content

providers is very large. They comprise of small companies and individuals that are familiar with possibilities that online advertising offers. (Duffy, 2005)

1.2   Online Advertising

There have been made many definitions of the term *Internet advertising*. A discussion had been held whether the Internet is another form of traditional advertising or its nature lies more in direct marketing. Over the years, the debate has resulted, according to Zeff, to a compromise: "Internet advertising is the convergence of traditional advertising and direct response marketing." (Zeff, 1999:12)

Chaffey refers to online promotion as *traffic building campaigns* – a method to increase the audience of a website. According to him, advertising takes place when "advertiser pays to place advertising content on another website" (Chaffey, 2003:331).

As in each industry, companies can be divided into categories based on their role in business transactions. Zeff mentions three parties that take part in on-line advertising. They are:

- Sellers
- Buyers
- Infrastructure

(Zeff, 1999:18-21)

Sellers

Sellers are content providers that produce websites with advertising space to sell. Many of them today are media companies. Because the content providers' inventory is harder to sell alone, they quickly formed ad networks. Networks offer experienced sales force and are easier to deal with for advertisers (ibid).

Buyers

Buyers are companies with products or services to promote. Often, buyers are represented by agencies, which manage their advertising campaigns (ibid).

Infrastructure

Infrastructure comprise of companies that run services to measure and audit campaigns, targeting and personalization companies, ad management software developers and providers of technological infrastructure (ibid).

Chaffey describes the simplest model of online advertising on figure 1. In the example, Ad site displays thousand times an ad, on which 10 visitors click (hence 1% clickthrough). Those visitors are taken to the Destination site, where 1 of them actually purchases the advertised goods. In this case, spending of £20 on displaying the ad resulted in one sale, thus the advertising cost per purchase was £20 (Chaffey, 2003:332). Detailed information about online campaigns efficiency and its calculation is described later in this paper.
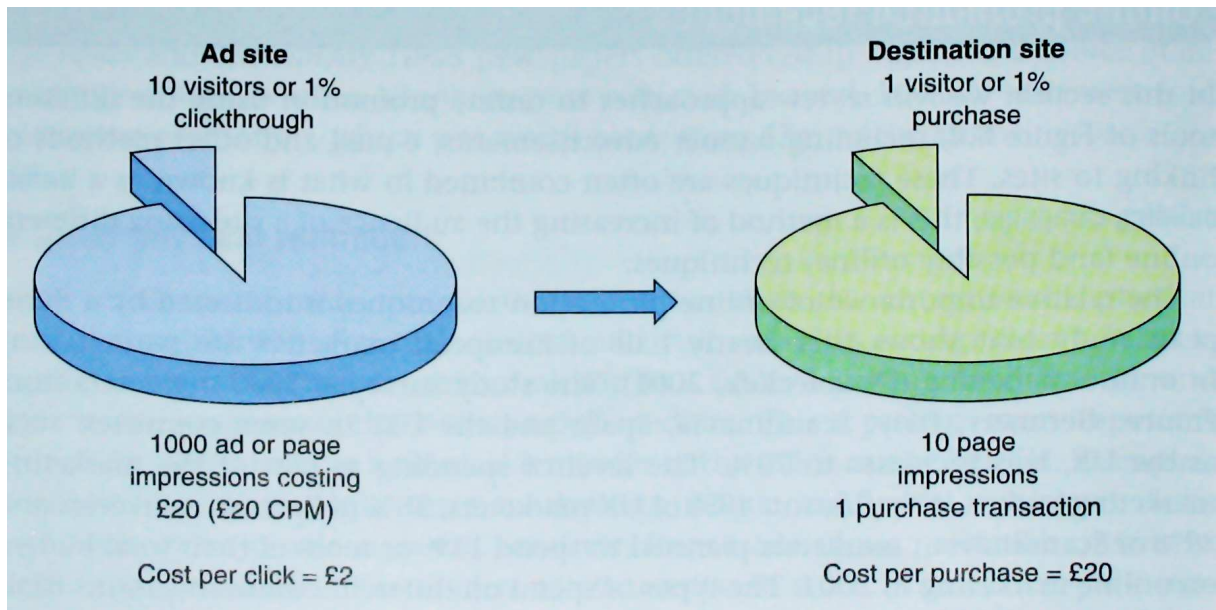
Figure 1 – Basic model of online advertising (Adapted from Chaffey, 2003:332)

As Zeff points out, first web ads on the Internet copied the world offline. A part of a website was assigned to advertisements, which usually had rectangular format and did not take more than about 10% of page space (Zeff, 1999:1). Later on, website visitors got used to the standard banners and it was necessary to employ new types of online advertising, so that the Internet users would be attracted (Benway & Lane, 1998).

Hoffman and Novak note that with the growing share of advertising expenditures allocated in the online advertising, companies started to examine, how many visitors, attracted by the ads on other websites, are finally turned into customers. After counting all costs, the sum needed to acquire one customer was in many cases even higher than his or her average lifetime value. As this situation was not sustainable in the long-run, it was necessary to adopt more efficient forms of customer acquisition. Based on this needs, the concept of affiliate marketing arose (Hoffman & Novak, 2000).

1.3   Affiliate marketing

According to Gallaugher et al., affiliate marketing is classified as a type of online advertising, where merchants share percentage of sales revenue generated by each customer, who arrived to the company's website via a content provider. Content provider, also referred to as *affiliate*, usually places an online ad (for example a banner or a text link) at its website. When visitors click at the ad, they are redirected to merchant's website and affiliation is tracked by a cookie stored on visitors' computers. (Gallaugher, Auger, Barnir, 2001)

Merchants, within online marketing called *advertisers*, pay for the content providers' services only when a visitor coming from their website executes a specified action. Such action can be a purchase of a product, filling in a form with personal data, subscription to a newsletter etc. (ibid.).

Duffy points out, that affiliates take the whole risk connected with marketing merchant's products. The concept is simple. If affiliate's marketing efforts work, affiliate makes

money. If they don't, affiliate does not make money and pays opportunity costs. There are no limitations for an affiliate how much money it can spend or earn (Duffy, 2005).

An agreement between the content provider and merchant is referred to as *affiliate program*. Chatterjee (Chatterjee, 2002) defines affiliate program as

> an arrangement between a company and many affiliate firms characterized by unidirectional linking with the purpose of generating traffic and transactions similar to 'instant access to salesforce of thousands.'

Chatterjee describes affiliate marketing as transaction oriented, without any commitment to joint future success or exclusivity restrictions. Affiliate programs require minimal effort and investment and may be terminated easily. (Chatterjee, 2002).

Employing affiliate marketing is advantageous for merchants from many perspectives. Hoffman and Novak claim that by employing affiliate marketing, merchants can let thousands of independent websites, called also content providers, to display ads for its products and only pay them when the ad would actually lead to a sale. Advertising costs move from fixed to variable costs, which can facilitate allocating money to advertising (Hoffman & Novak, 2000):

> In the revenue-sharing mode, the price of advertising is a function of the desired response by the market. Measurable market responses include key marketing objectives like unit sales, software downloads, qualified leads, product inquiries, and so on. Thus, the results-oriented model is the answer for marketing managers who are being asked to justify the sums earmarked in their budgets for Internet advertising.

As Hoffman and Novak demonstrated, affiliate marketing enables better targeting of online advertising which improve their effectiveness. Content providers have to choose affiliate programs very carefully, because of the opportunity cost connected with not employing competing programs. Therefore, they target the advertising even more precisely than merchants themselves, as otherwise they would not get optimal income. (Hoffman & Novak, 2000).

Recommendation of a product or service on a partner website can create halo effect and thus encourage the customers to purchase (Gallaugher et al., 2001). Apart from increasing the sales, employing the content providers for online promotion is also beneficial for enhancing the reach and creating broader exposure (Chatterjee, 2002). Moreover, through content providers, companies can gain customers that are usually very difficult to reach and save on online campaigns planning (Hoffman & Novak, 2000).

Gallaugher et al. add that using affiliate marketing is more cost-effective to the merchants than other forms of online advertising, because it diminishes the administrative costs connected with buying advertising. If the program is managed well, it can enable advertising on such a great amount of websites that would be otherwise impossible to acquire (Gallaugher et al., 2001).

Nevertheless, in order to get the exposure of merchants' ads at high number of websites, it is crucial to persuade content providers to join the affiliate program and to offer them sufficient incentives to remain using it (Chaffey, 2003). However, the literature does not provide answers for further questions about this topic – such as what are the

appropriate incentives or why should content providers prefer affiliate marketing to other forms of revenue sources.

1.4   Problem Discussion

The growth of affiliate marketing has been rapid in recent years. The major online seller Amazon, as a pioneer of affiliate marketing, has attracted over 1,000,000 content providers that have been cooperating with the company since their affiliate program was introduced in 1996 (Amazon, 2007). Rowley claims that quarter of Amazon's revenue is generated by affiliates (Rowley, 2004).

Nowadays, more and more companies have started their affiliate programs in order to efficiently acquire new customers. *Affiliate networks* have emerged and position themselves as intermediaries between content providers and merchants providing technical solutions to manage affiliate programs. Such networks are for example Commission Junction, Zanox or TradeDoubler. Affiliate networks introduce several new programs every day (Commission Junction, 2007; Zanox, 2007).

Even though merchants can select some content providers and offer them participation in an affiliate program, it is the content providers who decide what advertising they will add at their websites. With the growing number of affiliate programs available at the Internet, content providers have great variety to choose from. For example, only in their Travel sections Commission Junction offered in September 2007 175 different affiliate programs (Commission Junction, 2007) and Zanox 350 programs (Zanox, 2007).

These intermediary affiliate networks are valued by the merchants for having a good access to content providers that can generate desirable traffic to the merchants' websites and increase revenues substantially. Importance of affiliate networks is also appreciated in the market and grows constantly. In 2003 affiliate network Commission Junction was valued and sold for only $58 million (ValueClick, 2003). In January 2007, AOL bided $900 million to buy TradeDoubler – Sweden-based affiliate network of a similar size. This offer was not accepted by the shareholders who considered it as too low. (Lannin & Bolding, 2007)

1.4.1 Research Purpose

Several studies (such as Hoffman & Novak, 2000; Papatla & Bhatnagar, 2002) had been conducted focusing on the companies offering affiliate marketing programs, however none of the studies was concerned with the perspective of content providers. As demonstrated above, content providers can nowadays choose out of thousands of affiliate programs and marketing these programs towards content providers is crucial. If the merchants do not attract enough content providers into their affiliate programs, their links and banners will be exposed to fewer customers than their competitors', resulting in losing positions in the sales, brand management and product awareness (Hoffman & Novak, 2000).

As this work is a pioneering research in this area, we aim to study basic information regarding the perception of affiliate marketing by content providers. Therefore, the overall purpose of the thesis is to characterize the content providers' usage of affiliate marketing.

1.4.2 Research Questions

Bruner (2004) claims, that since 2004 it has become more difficult for merchants to advertise at the websites of attractive content providers. With the evolution of new types of online advertising and growing interest in online advertising, content providers have more options to choose from (ibid.).

While the advantages of affiliate marketing for merchants are theoretically defined (for instance Gallaugher et al., 2001; Hoffman & Novak, 2000; Chatterjee, 2002), benefits for content providers are not described properly. As Libai et al. note, content providers accept risk connected with employing affiliate marketing (Libai, Biyalogorsky, Gerstner, 2003). However, the question, why and when they prefer to take the risk instead of using other types of online advertising, has not been answered so far.

In order to cover the research purpose and characterize the usage of affiliate marketing by content providers, we need to find out, what persuade content providers to use affiliate marketing, how their usage starts and finally, when they prefer affiliate marketing to other types of online advertising.

Thus, this work aims to clarify the key benefits that persuade content providers to prefer affiliate marketing. As such assessment can be very subjective, this study will focus at content providers' perception of these benefits. By perception we mean judgments that people make when characterizing and evaluating their activities (Slovic, 1987). Moreover, the situations, when affiliate marketing is more beneficial for content providers, will be studied. The first and second research questions are therefore formulated as follows:

Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

According to Duffy, in order to ensure success of their affiliate programs, companies and content providers should create a win-win relationship that would lead to generating enough sales at the merchants' web sites and sufficient earnings for content providers (Duffy, 2005). Libai et al. claim, that setting an interesting commission rate and commission model is crucial for attracting content providers to an affiliate program (Libai et al., 2003).

On the contrary, Amazon succeeded to persuade a great number of content providers to advertise its products in its affiliate program, even though its main competitors (such as Barnes & Nobles) have implemented the programs as well and have been offering even higher commissions than Amazon (Hoffman & Novak, 2000). Amazon's basic commission is 4% from the order amount (Amazon, 2007), whilst Barnes & Nobles provides 5%. (Barnes & Nobles, 2007).

As we have shown in the example of Amazon, the commission rate is not necessarily the most important factor that plays role in content providers' selection of affiliate programs. However, the other factors influencing the selection process are not known and have

never been researched. Therefore, the thesis intends to provide an insight about the content providers' selection of affiliate programs and answer the following research question:

Research Question 3

How do content providers select affiliate marketing programs they intend to participate in?

2 LITERATURE OVERVIEW

The literature overview depicts available theories and models that will be used for answering the research questions. First, we will look into affiliate marketing in a broader scope of online advertising and explain the most common terms used in both online advertising and affiliate marketing to have an insight into both first and second research question. Furthermore, the advantages and issues connected with online advertising will be described as well as benefits connected to affiliate marketing in order to understand how content providers can view them and create framework for the first research question.

Then, types of online advertising and their connection to affiliate marketing will be depicted followed by available compensation models that give also an insight about different ways how to measure effectiveness in online advertising and affiliate marketing. This will provide a theoretical basis for answering the second research question.

Finally, as a theoretical basis for the third research question, concepts connected with supplier selection will be described, so that the process of selecting a provider of an affiliate program can be explicated.

2.1 On-line Advertising

Simply having a company website on the internet, although it is a form of promotion, is not considered as online advertising any more (Chaffey, 2003:310). Instead, advertising is the mean of attracting customers to that website - a form of *traffic acquisition* (Chaffey, 2003:324).

For content providers, online advertising is an important revenue stream. As we will show later in chapter 2.1.6, affiliate marketing, based on result-oriented compensation methods, is a special form of selling advertising space. To understand when it is beneficial, we need to understand advantages and disadvantages of other possibilities that content providers have.

According to Zeff, content providers have following four options how to sell the advertising space:

- **Direct selling**. Sell the advertising space directly through sales representatives.

- **Site representation firm**. Website hires a company to sell the advertising space. Such companies charge fees around 35-40 percent and often require a minimum of pageviews, validation and demographics survey in order to represent a website.

- **Ad networks**. Ad networks group together several websites in order to allow them easier access to advertisers.

- **Auctions**. Website can offer free advertising space in an auction.

 (Zeff, 1999:239-250)

Furthermore, Gallaugher et al. (2001) add one more option:

- **Affiliate marketing**.

2.1.1 Affiliate marketing

As was already described in the introduction chapter, affiliate marketing is an agreement between a merchant and content providers to promote merchants' products or services at their websites. Content providers get paid only if the visitors from their website execute a specified action (Chatterjee, 2002).

Thus, in affiliate marketing, the task of content providers is not only to deliver the advertisement, but also to persuade users to convert to customers. Affiliate marketing is therefore sometimes renamed to *performance marketing*. (Wikipedia Affiliate marketing, 2007)

According to Libai et al., affiliate marketing can be divided into two groups – One-to-one affiliate marketing and One-to-many affiliate marketing. In one-to-one programs, a merchant signs contract with a chosen affiliate. The terms of the contract are negotiable and do not influence contracts with other affiliates. This type of the affiliate program is used for big players at the market that can attract many new buyers to the merchant's website. (Libai et al., 2003)

When using one-to-many affiliate programs, the merchant sets the same conditions for all affiliates, who can decide, whether they join the program. One-to-many program is usually used, when the merchant cooperates with many affiliates and it would be too costly to negotiate contract terms with all of them. (Ibid)

According to Chaffey, affiliate marketing is particularly beneficial to small websites, as they would not have the chance of selling to major advertisers otherwise. These websites can especially take advantage of affiliate networks. (Chaffey, 2003:344)

Companies can decide to build a private affiliate program at their website or to join third-party networks and use their technological solutions. (Hoffman & Novak, 2000). Affiliate network is "a value-added intermediary providing services, including aggregation, for affiliate merchants and affiliates." (Marketing Terms, 2007)

Although individual programs offer merchants bigger control and possibility to adjust the terms to different affiliates, third-party networks usually provide latest technological solutions and reporting tools and have a wide base of content providers. (Oberndorf, 1999).

2.1.2 Advantages of Online Advertising

According to Zeff, online advertising has following four advantages:

- Targetability
- Tracking
- Deliverability and Flexibility
- Interactivity

(Zeff, 1999:13)

Targetability

Ability of precise targeting in online advertising is incomparable to the traditional media. Ads can be targeted according to language, geographic region, time of the day and platform to name few (Zeff, 1999:13).

Newly emerged advertising platforms, such as Google AdWords and AdSense, went far beyond common targeting and advertise extensive targeting possibilities as one of their key features. In Google AdWords, ads can be targeted according to:

- Language of the user
- Location of the user up to the level of a city
- Searched keywords on google.com and its partner websites, which include AOL, Netscape Netcenter, Shopping.com, Ask.com etc.
- According to context and topic of other websites.
- Website category or even particular websites using site targeted ads.

(Google AdWords Learning Center, 2007)

Google's AdWords service has received tremendous acceptance, boosting Google's revenues to USD 10.6 billion in 2006 (Google Press Release, 2007) and its stock price grew five times in three years since Google's IPO in fall 2004. (Yahoo Finance, 2007)

Affiliate marketing provides even further ways of targeting. According to Hoffman and Novak, whereas in traditional online advertising it is the merchant, who decides how to target the advertising, by employing affiliate marketing, content providers themselves asses which merchants and products best suit their audience (Hoffman & Novak, 2000). Nevertheless, merchants can still decide, which content providers they want to cooperate with. (TradeDoubler, 2007).

Tracking

Zeff states that whereas measurement of advertisement response has always been difficult in traditional media, with advertising online it is relatively easy and yet precise. Advertisers can measure number of times their ad was displayed, number of times it was clicked on, down to factual number of sales leads it generated (Zeff, 1999:13).

Today, there are software packages available that can track ad performance. For example, in Google Analytics, users can not only track web ad performance, but also relate it to a broad range of factors, including user location, language or search query. By

linking the performance directly to the product and its price, advertisers can optimize their advertising campaigns for best performance (Google Analytics Product Tour, 2007).

Affiliate marketing not only provides the above stated information, but according to Hoffman & Novak it also monitors the activity of the customer after clicking on the ad through a cookie, that is stored on his or her computer (Hoffman & Novak, 2000). Merchants usually track the customers' activity for several days or weeks and pay the commission to the content providers when the sale is executed during this period (Zanox, 2007).

Deliverability and Flexibility

As Zeff remarks, on-line advertising is much more flexible than traditional advertising. Campaign results can be seen immediately and the campaign can be changed in case the results do not meet expectations. Furthermore, the campaign is delivered nonstop (Zeff, 1999:14).

Interactivity

Zeff further states that the goal of advertisers is to promote a brand or a product. Online, consumer can interact with the product virtually, e.g. download a software demo and try it out. Internet is the media where information seekers can be turned into customers most easily. (Zeff, 1999:14)

Hoffman and Novak argue that affiliate marketing moves this concept even further, as content providers are paid only when the purchase or other specified action is executed. Therefore, it is up to them to seek innovative ways to increase the interactivity and persuade their visitors to buy an affiliated product or service. (Hoffman & Novak, 2000).

Advantages of Affiliate Marketing

There are two sides to which affiliate marketing is beneficiary: Merchants, who employ affiliate marketing as their marketing strategy, and content providers - affiliates, who actually present on their websites merchants' products and services (Hoffman & Novak, 2000). Benefits, that affiliate marketing offers to the merchants, were already discussed in the introduction chapter, thus we will now only focus on content providers' perspective.

Affiliate marketing gives content providers new opportunities for generating revenues from their websites and provides them with the opportunity to cooperate with large number of merchants, to which they would not have access otherwise (Duffy, 2004).

As Papatla and Bhatnagar proved, content providers benefit most from the participation in the affiliate program, if there is close connection between the website and products or services offered through the program. The connection does not only apply to product types, which should match website orientation, but also to brand perceptions, consumer loyalty etc. (Papatla & Bhatnagar, 2002).

Moreover, some content providers can participate in affiliate marketing programs, because they perceive it as a good service for their visitors such as providing sale coupons, updated information about new products etc. (Duffy, 2004).

2.1.3 Disadvantages of Online Advertising

Although online advertising is big step forward from traditional advertising and addresses many issues advertisers had to deal with, it still has some shortcomings.

Banner Blindness

Banner blindness is a phenomenon, where users tend to ignore banners and cannot recall the messages shown to them. According to Benway and Lane, who first described the problem, tendency to banner blindness seems to increase if the users are performing a particular task, whereas is lower if they just surf the web with no particular reason. (Benway, Lane, 1998)

Banner blindness could be well addressed in affiliate marketing, as content providers are those who know their customers best and also know, which advertising would be effective (Hoffman & Novak, 2000). Moreover, because affiliate marketing campaigns are paid per action (PPA), it is in best interest of content providers to avoid banner blindness.

Pricing Models

Hoffman and Novak were already in 2000 writing about inadequate pricing models that were used for online advertising. They argue that pricing was derived from traditional advertising media, such as magazines. Instead of the price being dependant on the number of readers, online content providers charged for number of visitors, i.e. for ad impressions (PPI, pay per impression). Although this model seemed to look fair, big advertisers soon realized that the costs they were paying was too high in comparison with their margins and lifetime value of acquired customers.

In the case study of CDNow.com (now part of Amazon.com), one of pioneers of affiliate marketing, Hoffman and Novak state that with common prices for on-line advertising $70 CPM, average click-through-rate of banners of 1% and conversion rate of 1%, they were paying about $700 for one acquired customer. Not many online retailers can allow such costs. With gross margin about 20%, a customer would have to spend more than $3500 over lifetime just to pay acquisition costs. After the launch of affiliate program of CDNow.com, called "Cosmic Music Network", affiliate marketing accounted for 15% of their customers, which cost only 2% of marketing budget. (Hoffman & Novak, 2000)

Nevertheless, as Libai et al. remark, content providers can be concerned with the ability of merchants to persuade visitors coming from the content providers' websites to perform the desired action. If the merchants fail, content providers will lose their commissions, even though they could not have influenced the conditions (Libai et al., 2003).

Rise of Prices

According to Bruner, whilst in early years of online advertising the offer of advertising space highly exceeded the demand for online advertising by merchants, the situation has changed in 2004. Prior 2004, online advertising was considered to be relatively cheap. In 2004, large media buys, especially within some industries, caused shortage of advertising space, which of course ended up in the rise of the online advertising price.

This spin-up of prices made the advertisers thoroughly inspect their advertising spending and implement complex measures how to evaluate the outcomes. Merchants are aware that some part of their advertising spending is generally wasted and they are searching for advertising models with better effectiveness. On the other hand, the overall growth of online advertising brings content providers wider variety of options how to sell their free advertising space and it is more difficult to attract them. (Bruner, 2004)

2.1.4 Types of Online Advertising

Overview of online advertising types

As shown later in chapter 2.2, online advertising is sometimes virtually the only source of revenue for content providers. In order to be able to understand their preferences in online advertising, it is necessary to outline what specific types of advertising content providers can use.

Zeff describes many means of advertising that were used on the internet since its beginning and categorized them into three main categories:

- Advertising via E-mail
- Advertising via the Web
- Ad Models outside the Box

(Zeff, 1999:26)

Further in this paper "ad models outside the box", such as cursors, screensavers, toolbars etc. will not be discussed, as these are nowadays either obsolete or became a standard media in advertising via the web.

Chyba! Nenalezen zdroj odkazů. gives a comprehensive view of types of online advertising and their relation to affiliate marketing. Figure shows all forms of online advertising that can be employed by merchants to acquire customers. Colored fields take advantage of a network of content providers, out of which dark green fields show, where affiliate marketing is applicable.

As indicated below, affiliate marketing can be employed in advertising via e-mail by inserting links with affiliate reference to the text of e-mail or newsletter. In advertising via the web, affiliate links can be connected to banners, textlinks, advertorials as well as interstitials. Sponsorship and microsites are not suitable, because visitors do not leave content providers' websites and performance based payment models are not applicable. Affiliate marketing can be also applied in search engine marketing as described later (Zeff, 1999:26-58; Chaffey, 2003; Janoschka, 2004:51-72).

Fiore remarks, that specific employment of affiliate marketing are storefronts, where content providers can sell other company's products or services at their own branded website using technological solution provided by the advertiser. Website visitors do not have to leave the content provider's website before finalizing the purchase (Fiore, 2001:122). Storefronts are often referred to as *white labels.*
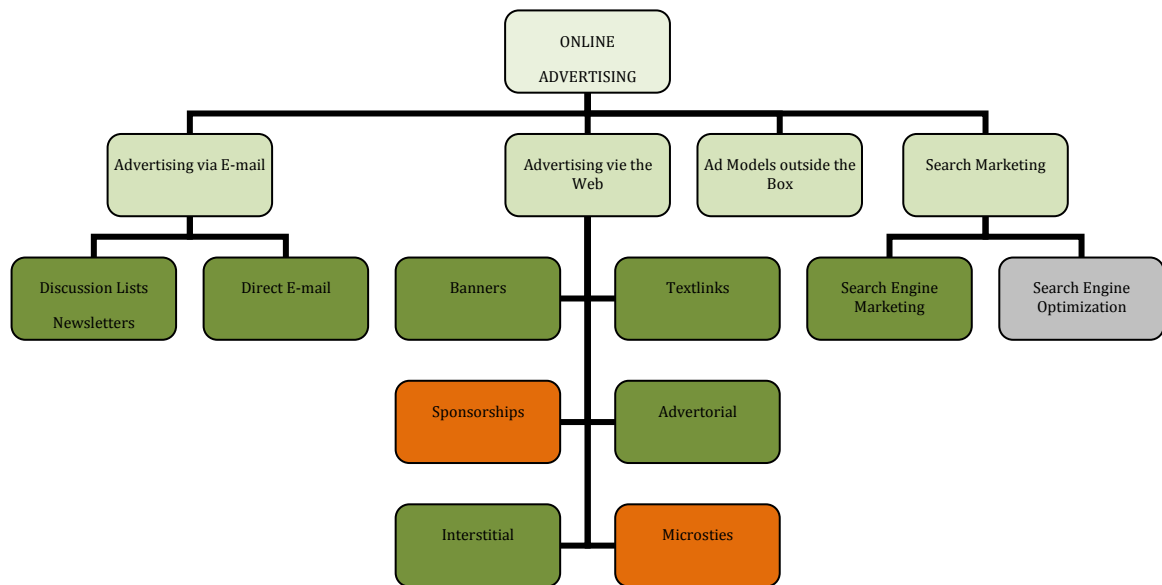
Figure 2 – Overview of online advertising and its relationship to affiliate marketing. Based on categorization by Zeff, 1999:26-58, Chaffey, 2003 and Janoschka, 2004:51-72

Advertising via E-mail

According to Janoschka, e-mail is usually the first thing that users check when they connect to the Internet. In the USA, 93% of internet users in 2004 used e-mail on a regular basis. (Janoschka, 2004:45) Although nowadays e-mail advertising is being considered as a synonym for unsolicited e-mail, i.e. *spam*, there are legal and ethical ways on how to use e-mail as an online advertising media. (Zeff, 1999:26-27)

Note: Some authors including Strauss et al. do not categorize E-mail in online advertising. Strauss et al. argue that by definition, direct e-mail messages, even if they contain multimedia, are considered direct marketing and not advertising. (Strauss et al., 2006:340-342) However, this polemic is out of the scope of this paper and e-mail will be further in the work referred to as a part of on-line advertising.

Discussion Lists and Newsletters

One way to use e-mail as an advertising media according to Zeff is the sponsorship of *discussion lists* and *newsletters*. Newsletters are created by websites in a form of online publication and users opt in to receive them. Content of discussion lists is created by users by sending a message to the discussion list. Commonly, discussion lists are called *newsgroups*. Discussion lists are hosted and moderated by a dedicated server. (Zeff, 1999:27-32)

In both examples, targeting is a key to success. Members of such list are people that are highly interested in the topic, as they had to take an action (subscribe) to become members of such a list. Usually, the sponsor message can either by textual or in a form of a banner (similar to website banners) (Ibid).

Direct E-mail

Zeff remarks that direct e-mail can also be used to send advertisements to users. Direct e-mail must not have a form of spam. The effectiveness of spam has proven very poor in the past and because people hate spam, it hurts the brand image too. (Zeff, 1999:32)

European Commission, in its directive "concerning personal data and the protection of privacy in the electronics communications sector" state recommendations on how member states should act against spam. Article 13 states that " The use of ... or electronic mail for the purposes of direct marketing may only be allowed in respect of subscribers who have given their prior consent." Among other rules, the user has to be always given the right to opt-out of the list and not receive any other unsolicited e-mail from a particular company. Moreover, it is up to national legislation, if opt-in principle is applied. In such case, a prior consent of the recipient is always required prior sending any unsolicited e-mail. (EU Directive, 2002)

Advertising via the Web

Banners, buttons, interstitials and other common advertising media are referred to as *Web ads*. According to Janoschka, web ad is a rectangular area, located on a page or in between pages, which displays text and graphics based advertising. When user clicks on a web ad, he/she gets redirected to a linked target website. (Janoschka, 2004:51)

Banners

Banners are the oldest form of advertising on the Internet. Banners have the advantage to blend text and multimedia, such as graphics, animation or sound.

Banners come in a variety of sizes, which are not standardized, however due to compatibility with existing website designs, there are some recommended sizes. The most common size is a *fullbanner*, sized 468x60 pixels; second most popular is *skyscraper* with dimensions 120x600. Other common sizes of banners are 234x60, 180x150, and 120x240. (Janoschka, 2004:51)

According to Strauss et al., web ads, especially traditional banner formats, are slowly disappearing in favor of other forms of on-line advertising. (Strauss et al., 2006:324) DoubleClick report states that market favors fewer large formats instead of large amounts of smaller formats. (DoubleClick, 2005)

Text Links

Surprisingly, the simplest form of advertising, text links or *text ads*, belong to the media that is most effective in online advertising. Moreover, text links are not intrusive and well accepted by users. (Zeff, 1999:47-50)

Cho et al. write about the topic that text ads were mainly used by search engines, which placed contextual text ads along the search results. The first successful implementation appeared on GoTo.com, later renamed to Overture and acquired by portal Yahoo!. Another search engine, Google, quickly incorporated similar model, named AdWords. Both companies now control vast majority of the market. (Cho et al., 2005)

Sponsorships

Zeff shows that a website sponsorship goes beyond just placing a banner on the website. Such campaign is usually aimed at brand image rather than just to attract visitors to the advertiser' website. By sponsoring a website, advertisers choose to merge their brands with the brands of sponsored websites. If the sponsored brand is trustworthy, customer trust can be gained too. (Zeff, 1999:50-51)

Advertorial

According to Zeff, advertorial is an editorial with a clear advertising purpose. Such advertorials have high response rate, because users tend to trust editorials. This approach can however backfire if the users would feel deceived by editorial, resulting in negative brand image. (Zeff, 1999:51-54)

Interstitials

Interstitials is a common name for pop-ups, e-mercials, over-the page, expandable, superstitials, screen-interrupts and other modern forms of multimedia advertising. According to Zeff, interstitials often take a long portion of the screen, sometimes the whole screen, disabling the user to view the page until a specific action is taken or the advertising pop-up times out. Advantage of interstitials is that the user's attention is guaranteed and not disturbed by other website content. Relatively complex messages can be broadcasted by interstitials, including sound or even video. A button or link is usually provided allowing the user to skip the advertisement. User, however, has no means of predicting, when the interstitial will appear again (Zeff, 1999:55-58).

According to some authors including Zeff and Strauss et al., disadvantage of interstitials is the possibility that the users will be upset by interstitials and will choose not to visit the server again. Because the format is very intrusive compared to normal forms of online advertising, interstitials may lead to negative brand image as well. (Zeff, 1999:55-58; Strauss et al., 2006:333; SPIR, 2007)

Microsites

Microsites, as defined by Chaffey, are a special form of advertising. When user clicks on the ad, he or she is not taken to the advertiser's website, but to a sub-page of current website with some detailed information about the advertiser or its products. In this case, user does not leave the content provider's website. (Chaffey, 2003:332)

2.1.5 Traffic Acquisition by Content Providers

According to Janoschka, there are three ways, how visitor can access a website:

- Type the address directly
- Use a search engine to find the website
- Use a hyperlink in a form of a text link or web ad

(Janoschka, 2004:44)

Typing directly an address is connected with loyalty of visitors to the websites and is out of the focus of this thesis. Using a hyperlink is a type of online advertising that was already discussed in the previous chapter, while employing search engines for traffic acquisition is slightly different from other forms of online advertising and is referred to as search marketing.

Search Marketing

As Duffy claims, search marketing is a very special form of online advertising. It is a technique of marketing a website using search engines (Duffy, 2005). According to DoubleClick, this marketing technique has recorded an astonishing growth in past years.

In 2001, keyword search formed only 4% of total advertising budget, but just two years later, in 2003, it already was 35% and the estimate for 2004 was already 40% (DoubleClick, 2005). Search marketing comprises search engine marketing and search engine optimization. (Strauss et al., 2006:328-329).

Search Engine Marketing

According to TradeDoubler, search engine marketing (SEM) is a term used for *keyword advertising*, sometimes also called *contextual advertising*. In this case, advertisers buy advertising space on page displayed to the user after he/she searched for a specific terms. For example, a hotel chain can advertise on the word "hotel", or specifically a hotel in Paris can advertise on a phrase "hotel Paris". (TradeDoubler Keyword Marketing, 2007)

Although search engine marketing may not seem related to affiliate marketing, merchants can actually allow content providers to take over their own search engine marketing activities. In this scheme, affiliates themselves decide on which keywords to bid, what price to pay and even what message to promote in search engines. Perhaps even more importantly, content providers pay for search engine listings themselves and only receive commission when a sale is realized. (Ibid)

Duffy remarks, that when content providers advertise on Google or Overture and attract traffics to their websites through SEM, it is crucial for them to precisely evaluate the conversion rate and set costs on a pay per click basis. (Duffy, 2005)

Search Engine Optimization

Search engine optimization (SEO) is another technique website owners undergo in order to promote the websites. Unlike search engine marketing, SEO is based on tuning organic search results, i.e. altering the website in a way that increases the probability of the website being displayed in top results for a particular keyword (Strauss et al., 2006:328-330).

According to Duffy, when using SEO, content providers optimize the content of their websites to be attractive for search agents like Google or Yahoo! and rely on traffic generated by natural search. This approach is slower, but does not require funding to build cash flow and is less risky (Duffy, 2005).

2.1.6 Compensation Models of Online Advertising

Measuring Campaign Effectiveness

This chapter will explain basic terms that are used for measuring online advertising campaigns and that are important to understand to become familiar with online advertising compensation models discussed further on. As in the world of traditional advertising, cost and effectiveness is an important criterion of online campaigns. Zeff (Zeff, 1999:Chapter 4) put together a glossary of common terms used in media buys and effectiveness evaluation, which is in detail supplemented by Chaffey (Chaffey, 2003:333,382-391).

Ad Views, Impressions, Page Views, Hits

All of the above terms are synonym for number of times an ad is displayed. Exact definition varies a little according to a particular website's methodology. Some websites measure at the point an ad is requested, some measure at the point the ad is completely downloaded by user. (Zeff, 1999:98)

Reach

Reach is similar to Ad views, but counting actual people instead of just hits. Reach should therefore be lower than number of ad views, as some people may view the ad multiple times (Chaffey, 2003:333).

Click-throughs

According to Zeff, click-throughs is the number of times the advertisement is clicked on. (Zeff, 1999:100).

CTR, Response rate

CTR is the rate between click-throughs and impressions, i.e. the number of times an ad is clicked on, divided by ad views.

CTR = Number of clicks / Number of impressions (Zeff, 1999:157-158).

CPM

Cost per mile, or cost per thousand is a price to pay for thousand impressions of an advertisement on a website. This pricing is commonly used by larger content providers, whereas smaller sites prefer fixed prices (Zeff, 1999:157,217).

CPA, CPL, CPC

Cost per action (or cost per lead) is price to pay whenever user does some action. Most commonly, such agreed action is a click on and ad, therefore CPC – cost per click. (Zeff, 1999) Affiliate marketing uses purely this type of pricing and defines action according to merchants needs. (TradeDoubler Business Model, 2007)

CPS

Cost per sale is used especially in affiliate marketing. Cost for advertising is calculated as a percentage of a sale value. (Wikipedia Compensation methods, 2007)

Conversion Rate

Percentage of visitors to company website that actually turn out to customers (Chaffey, 2003:397).

Effective Frequency

Effective frequency is described by Chaffey as: "The number of exposures or ad impressions (frequency) required for an advertisement to become effective". The actual number is believed to be lower than with traditional media. (Chaffey, 2003:333)

Compensation models

This chapter will cover basic models that are used on the internet to price the advertising as they are described by Chaffey (Chaffey, 2003:337) and supplemented from Wikipedia (Wikipedia Compensation Methods, 2007).

Compensation models are categorized into three groups:

- Per Time Period
- Per Exposure / Per View
- Result Based Models
  - Per Response
  - Per Action

Per Time Period

Paying for the advertisement on a time basis can be compared to hiring. Commonly, the price is based on a cost per mile (CPM) basis. Advertiser can choose whether the ad will run on the whole site or its section, or will be displayed whenever a visitor searches for a specific keyword. (Chaffey, 2003:337; Zeff, 1999:159) According to Hoffman and Novak, this method is not used any more (Hoffman & Novak, 2000).

Per Exposure / Per View / Per Impression

In this model, advertiser and content provider agree on a payment on a cost per mile (CPM) basis (Chaffey, 2003:337). This method is also known under the name *pay per impression* (PPI) (Wikipedia Compensation Methods, 2007).

Result-based models

Although content providers can prefer selling advertisements on a CPM basis, arguing that because they do not have control over the creative, they act solely as suppliers of viewers, there has been a significant rise of compensation models based on results (Chaffey, 2003:337). According to Chaffey, these comprise of:

- Per Response
- Per Action

(Chaffey, 2003:337)

Per Response

Response on an online advertisement is measured in clicks, thus the response is click. This model is also known as *Pay per click* (PPC) The cost is calculated according to the number of click-throughs – in this model, costs are measured in cost per click (CPC). (Wikipedia Compensation methods, 2007)

The most known example of pay per click compensation model is Google AdWords. In Google AdWords, advertiser only pays when the user actually clicks on the ad and lands on advertiser's website. On the side of content providers, CPC pricing is used in Google's twin service, AdSense. (Google AdWords Learning Center, 2007) As reported by Strauss et al., according to the keyword popularity, advertisers can spend between 10 to 500 thousand USD per month. (Strauss et al., 2006:328) Cho et al. state that the advertisers

pay in between 0.01 to 100 USD per click to Google in AdWords program (Cho et al., 2005).

To counteract unsuccessful ads, Google automatically chooses the best ad to display between many advertisers based on their willingness to pay higher price, their media click-through rate and allowed daily or monthly budget. The higher is the amount advertiser is willing to pay, the better is the ad placement and thus the probability being clicked on. In other words, Google is selling advertising in continuous auctions, separately for each keyword. (Cho et al., 2005; TradeDoubler Keyword Marketing, 2007)

Per Action

Duffy notes that although payment for clicks was a step forward from the merchant's point of view, they still do not deliver satisfying results. Often, clicks were not related to actual sales. Duffy further argues that the only win situation for merchant is actually the sale. (Duffy, 2005)

According to Chaffey, per action based pricing means that the payment is calculated from number of specific actions that were triggered by users that clicked a particular ad. The action can consist of downloading a product sheet, software trial, sales lead or even purchase. (Chaffey, 2003:337)

Wikipedia lists several methods, where per action compensation model is used:

- **Pay per sale** (PPS) – also called *Revenue share* – is a method when advertiser pays a percentage of a sale made by a customer coming from content provider's website. Respective pricing is called Cost per sale (CPS).

- **Pay per action** (PPA) and commonly used synonym Pay per lead (PPL) – are terms used for general per action pricing, where action can be anything from filling out a form to sign up. Respective costs are measured in Cost per action (CPA) or Cost per lead (CPL). On the contrary to pay per sale, the cost is fixed in this model (as sale cannot be measured). Common special forms of pay per action are pay per call and pay per install, where content provider is paid for customer's call to advertiser or download and installation of computer software.

(Wikipedia Compensation methods, 2007)

Result-based models, both per response and per action, are tricky for content providers when signing long term contracts. They make it is easier for them to sell advertisement space, but on the other hand, content providers lacks control of actual media that is used and product that is advertised. If a CTR (click-through-rate) is low, content provider is paid less for the same than with other compensation methods. (Zeff, 1999:157-159)

Compensation Models in Affiliate Marketing

According to Fiore, in affiliate marketing particularly, advertisers can choose from three above described compensation models in order to pay commissions to the content providers:

- **Pay per sale** (PPS) – commission is paid for each sale made by a visitor from the affiliate website.

- **Pay per lead** (PPL) – the affiliate is paid after a website visitor carries out a specified action – subscribes to a newsletter, fills in a questionnaire etc. Note: Pay per lead is also known as Pay per action (PPA)

- **Pay per click** (PPC) – content providers receive commission for every click at the link to advertiser's website. (Fiore, 2001:125)

According to the AffStat 2007 report cited by Wikipedia, Pay per sale accounts to 80% of affiliate programs, pay per action to 19% and all other models (PPC, PPI) account to only 1%. (Wikipedia, 2007)

The above mentioned three basic plans can be combined with other types. The most used combinations are *two-tier* and *residual* programs. Two-tier programs operate at the same basis as multilevel marketing, when affiliates are paid also for the activities of newly recruited affiliate. In residual programs, affiliates get commissions for all purchases carried out by previously referred visitors for a specific time period. (Harris, 2007; Wikipedia, 2007)

The commission, which merchants pay to affiliates, can be either set as a flat fee – the affiliate will get the same amount of money for each sale, or as a percentage of the sale value (Hoffman & Novak, 2000).

2.2 Business Models of Content Providers

In order to better understand how content providers position themselves in the online value chain and profit from their websites, it is crucial to comprehend their sources of revenue. Insight into the available business models is needed in order to be able to assess situations under which different forms of online advertising are more or less efficient, which will provide the framework for answering the second research question.

Gallaugher et al. list seven revenue streams for online content providers:

1. Online advertising

2. Subscription fee for online content

3. Online ordering of print publication

4. Syndication / revenue sharing with online services

5. Per-unit charges for online content

6. Online sale of non-content merchandise and services

7. Affiliate marketing

(Gallaugher et al., 2001)

The cited article however only dealt with magazine and newspaper companies, thus some of revenue streams are not applicable generally. A better understanding may provide model is presented by Strauss et al., who have categorized business models applicable to cybermediaries into following categories:

- Brokerage model
- Agent model
- Online retailing

(Strauss et al., 2006:302-308)

Brokerage Model

According to Strauss, in brokerage model, cybermediary acts as a provider of negotiations platform between buyers and sellers. Either the seller or buyer or both are charged a fee. Such companies operate on business to business, business to customer or customer to customer markets. Usually, they provide many value added services for both buyers and sellers. Within brokerage model, two models are common:

- Online exchange
- Online auction

(Ibid)

Agent Model

As described by Strauss, online agents represent either the buyer or the seller and act in their interests. Within Agent models, a following structure can be recognized:

- Models representing sellers
  - Selling agents
  - Metamediaries
  - Virtual malls
- Models representing buyers
  - Purchasing agents
  - Reverse auction
  - Buyer cooperative

(Ibid)

Selling Agents

Strauss depicts selling agents as cybermediaries that represent one or more companies and help them to sell their products. A commission model is usually applied through an affiliate program. In order to receive a commission, the agent has to refer a user that will conduct a purchase order or other specified action. Whereas in traditional marketing an agent usually represents one manufacturer, agents online often represent the whole industry and can offer competing products. (Ibid)

This model is very common within travel industry, where travel agents represent airlines, hotels, car rental companies etc. For customers, using such agents is beneficiary, as they can negotiate better deals and buying process is more convenient. (Ibid)

Another model represents *catalog aggregators*, which aggregate information about products into online catalogs from many producers. Customers can then choose

conveniently from many products and they have instant information about price and availability. This model is used mainly within B2B solutions. In the most advanced level, catalog aggregators can for example be directly linked to vendors' ERP (Enterprise Resource Planning) systems. (Ibid)

Metamediaries

According to Strauss, metamediary is a website that connects stakeholders related to a major event, such as purchase of asset or marriage. Metamediaries reduce customer's information search, assure quality of suppliers and provide relevant information. They can also facilitate transactions. Merchants, on the other hand, benefit from the traffic to their website, that metamediaries generate, and by co-branding. Metamediaries are based on commission models. Strauss et al. stress that trust is important in the relation between the metamediary and customers and that some of them may even choose not to use web ads in order to remain perceived unbiased. (Ibid)

Virtual Malls

Strauss describes virtual malls as online equivalent to brick-and-mortar shopping malls. Similar to the metamediaries model, stores get the advantage of virtual mall traffic and co-branding. Customers can benefit from having the same shopping cart in all stores and making on purchase at the end, loyalty programs, gift registries, search facilities and shopping suggestions, recommendations and product reviews. (Ibid)

Purchasing Agents

Purchasing agents gather orders from individual customers, which remain anonymous in many cases, and commit large volume orders in order to obtain better price from a vendor. Basically, in this case the customer is the one who set the price for which he/she wishes to buy a product. (Ibid)

Reverse Auction

Reverse auction is similar to purchasing agents, with the exception that the business is kept on the individual basis. Customer sets the price for which he/she undertakes to make a purchase and vendors bid to meet the price or get at least close enough to interest the buyer. (Ibid)

Buyer Cooperative

Buyer cooperative is an alternation of purchasing agents. Again, customers are grouped in order to lower the price, but in the case of buyer cooperative, there is a set relation between the amount of buyers and the price. Buyers, who already joined, know at any time how many other buyers they need to find in order to set the price lower. In this case, buyers themselves do the marketing to find other customers. Strauss et al. note however, that none of the big companies that used this model were able to make profit so far. (Ibid)

Online Retailing

Online retailers are synonym for online stores. They buy goods from vendors and sell them again to end customers. This area of study is very large and is not covered by this paper, because it is related neither to affiliate marketing nor content providers. (Ibid)

2.3   Affiliate program selection

Choosing of an affiliate program by a content provider is not covered at all in the literature, and there are also no models that are close to this problem. Nevertheless, it can be assumed, that the selection process is very similar to the process of choosing a supplier of a service.

Even though the content providers do not pay money for the service, they devote part of their advertising space to the affiliate program and they lose possibility to sell the space to other parties. Therefore, there is an opportunity cost connected with every affiliate marketing provider that has to be taken into account (Hoffman & Novak, 2000).

Thus, the theory explaining the selection process of the affiliate marketing programs will be based on the literature dealing with process of choosing suppliers. First, the buying process and buying situation will be depicted, in order to understand the background of the supplier selection process. Afterwards, two models describing this process will be discussed, in order to build the framework for answering the research question three.

2.3.1 Buying process

Before the purchase decision is made, the decision maker goes through several steps of buying process (Palmer, 2001).
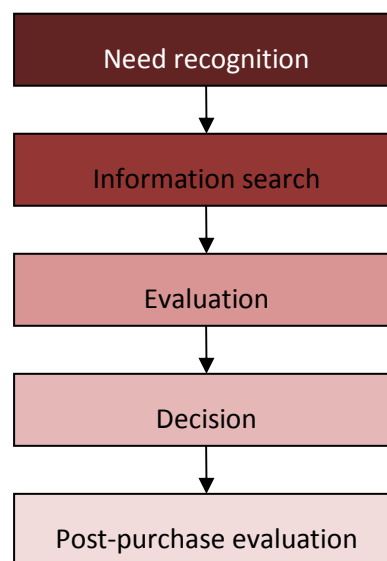
Figure 3 – Buying process (adapted from Palmer, 2001)

The process is started by identifying need, which is a motivator of an action that would satisfy the need. Then, the information are sought for in order to find the best solution. Subsequently, the alternatives are assessed and the final decision is made. After the purchase, the buyer evaluates it.

Fisk (1981) further developed a model of buying process for using in the service sector. The model divides buying process into three stages – pre-consumption, consumption and post-consumption stage. During the first stage, a decision-maker identifies the solution, which he or she expects to be the best. In the next stage, the service is consumed and the actual experience is matched with expectations raised in the previous stage. If the

expectations are not met, it leads to dissatisfaction. In the last stage, the service is evaluated and the satisfaction with the product or service increases the motivation to buy it again in the future or continue using it, whilst dissatisfaction leads to opposite results.
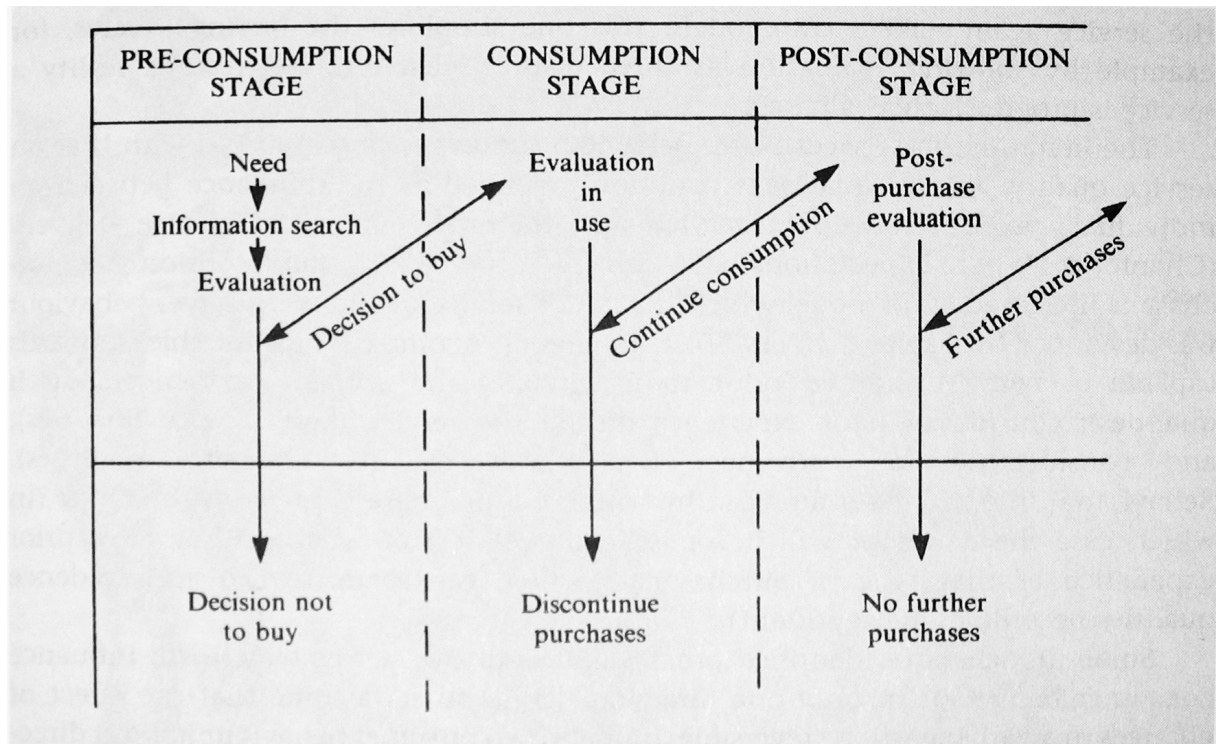
Figure 4 – Evaluation process model for services, Fisk, 1981

For the purpose of this work, the evaluation of alternatives and decision to buy stages will be researched, as they are crucial for answering the above mentioned research questions.

2.3.2 Buying situations

The length and difficultness of the process is dependent on the buying situation, in which it takes place. Faris and Robinson (1967) recognize three types of buying situations, in which the supplier is selected consequently:

1. New task
2. Modified rebuy
3. Straight rebuy

These buying situations differ in three characteristics – newness of the problem, information requirements and consideration of new alternatives.

Distinguishing Characteristics of Buying Situations

Table 1 – Characteristics of Buying Situations (Faris, Robinson, 1967)

Type of buying situation	Newness of the problem	Information requirements	Consideration of new alternatives
New task	High	Maximum	Important
Modified rebuy	Medium	Moderate	Limited
Straight rebuy	Low	Minimal	None

When decision makers encounter the new task, they have to deal with situation they have no experience with and therefore they will need to gather a lot of information. They will also look for and consider many different alternatives before making their final decision. (Ibid)

Buyers dealing with the modified rebuy already have relevant buying experience, but they need to gain new information about the changed task and some new alternatives are sought for, in case there is a possibility to increase return by that. (Ibid)

In the straight rebuy, the task is routinized, decision makers do not usually seek for new information nor for new suppliers, even though the specification of the purchase can differ. These variations however do not cause the change of supplier. (Ibid)

Although this concept was identified in 1967, it is still accepted in the literature and authors (such as De Bore, 2001) consider it as valid, because of its applicability to wide variety of problems connected with purchasing and supplier selection.

De Bore (2001) adds one additional characteristic, which significantly influences the attention paid to the purchase decision – the level of perceived risk. If the level of perceived risk is low, then the search for information is not as demanding as in the high-perceived risk situation. Also the number of considered alternatives will be not so high for low-perceived risk purchases and vice versa.

We suppose, the described buying situations are applicable to selecting a provider of an affiliate program, because content providers can either decide to employ new programs for their websites, replace current ones or continue using them.

2.3.3 Supplier Selection Process (De Boer)

As demonstrated previously, we assume that the process of selection an affiliate program by content providers is similar to the supplier selection process. De Boer states, that there are four phases of this process:

Problem definition – organization should decide, what they want to achieve, whether they need to employ suppliers to reach the goal and how many of them will be potentially necessary.

Criteria definition – criteria important for the selecting the supplier has to be chosen and defined. The company can use the historical data about suppliers, if it is available.

Pre-qualification of suppliers – as there can be many available suppliers, their number should be reduced to a smaller set of acceptable suppliers.

Choice of the supplier – the final decision is made and the supplier is selected from the previously chosen set of suppliers.

(De Boer, 2001)

Methods for supplier selection

De Boer (2001) reviewed methods described in the literature for each of the process stages and observed, that the literature does not deal with the problem definition and criteria definition in a new task situation. Therefore, the criteria need to be researched empirically from the content providers in this study.

Pre-qualification

Several methods used for pre-qualification of suppliers are enumerated by De Bore (2001):

Categorical methods - supplier's performance in each criterion is assessed as positive, neutral or negative. Subsequently, suppliers are categorized into three groups according to the previous evaluation.

Data envelopment analysis – compares the cost of costs of using suppliers and benefits delivered by suppliers, which enables the buyer to identify, which suppliers would be efficient to use and which would be inefficient.

Cluster analysis – statistical method, which sorts the suppliers into clusters, so that the differences between suppliers in the cluster are minimal, whilst differences between suppliers from different clusters are maximal.

Case-based reasoning systems – use software that provides information and experiences from previous cases similar to the solved one using database of such situations.

Final Choice

For the final choice of the supplier, De Boer (2001) states that there are five groups of methods:

- Linear weighting models
- Total cost of ownership models
- Mathematical programming models
- Statistical models
- Artificial intelligence models

The last three models are based on historical quantitative data to a great extent and therefore, they will be not described into details, as they are not applicable to choosing a provider of affiliate program, when there is no (or little) historical data available.

Linear weighting models assign weight to each criterion. The rating of the criterion is then multiplied by the specific weight. This way, single number is calculated for each supplier and the one having obtained the highest number should be selected. Several modifications of the model have been proposed, such as non-compensatory models, which set a minimum level for each criterion that has to be achieved; analytical hierarchy process, which enables using verbal qualitative evaluation of the supplier's performance in each criterion; statistical techniques and the fuzzy sets theory to model uncertainty and imprecision. (Ibid)

Total cost of ownership models seek to assess all the costs connected with the purchase from a specific supplier and include them into the price offered by the supplier (ibid). Some authors such as Smytka and Clemens (1993) propose to combine this method with rating system for criteria that are difficult to assess quantitatively.

2.3.4 Supplier Selection and Supplier Management System (Lee)

More structured model which integrates supplier selection with supplier management and purchasing strategy was developed by Lee, Ha and Kim (2001). The authors state that the supplier selection and supplier management system comprises three parts:

- Purchasing strategy system
- Supplier selection system
- Supplier management system

Purchasing strategy includes four criteria – quality, delivery, cost and service, which were identified as crucial in manufacturing. Purchasing strategy system influences the choice of criteria for supplier selection. Supplier management system should identify the managerial criteria using the information from the supplier selection system. Finally, supplier selection system should calculate the weights of each criteria and rank suppliers according to them. Offers of alternative suppliers are compared to the performance of current ones and if surpassing the existing suppliers, they will replace them. Thus, the model is applicable especially for modified rebuy buying situations, when there are new suppliers considered, but the task is already known and well defined.

For the purpose of the study we will focus only on the depicted supplier selection system, as the supplier management and purchasing strategy systems are out of the focus of the thesis.
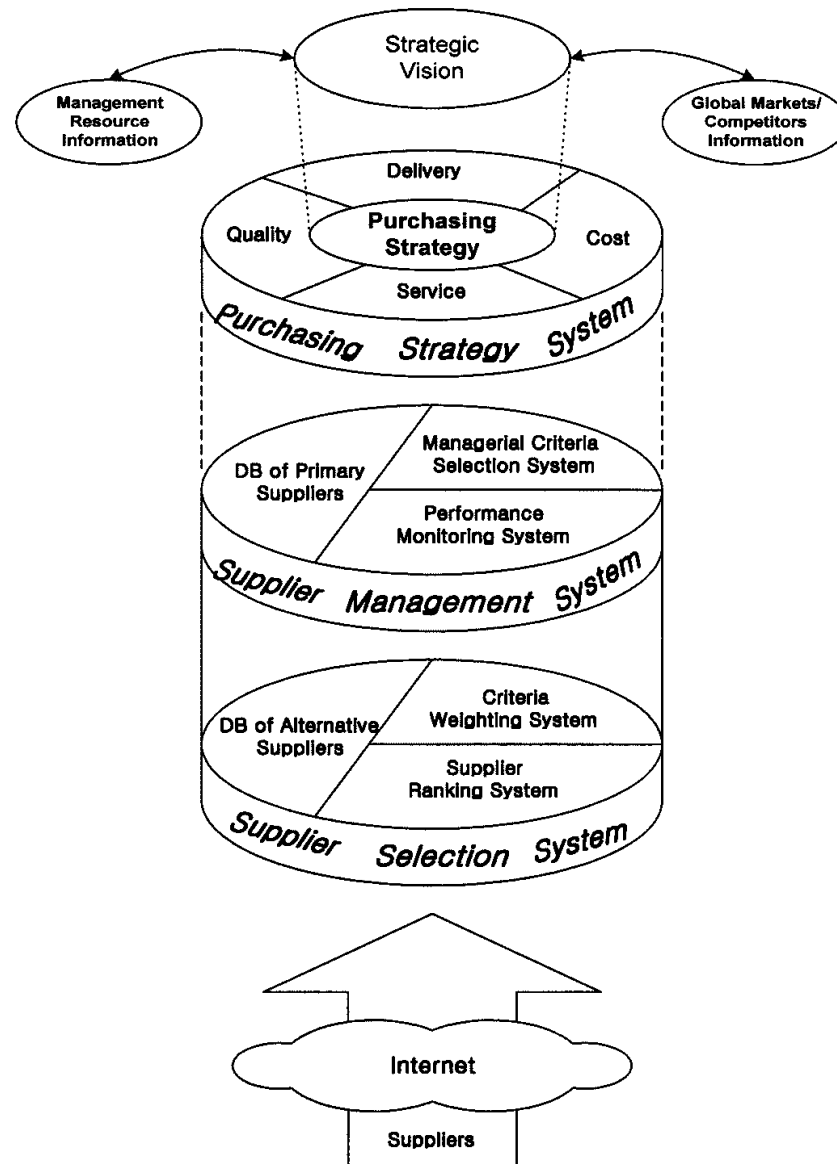
Figure 5 – Model of supplier selection and supplier management system, Lee et al., 2001

2.4   Summary

For content providers, online advertising is an important source of revenue, and in some cases even the only source of revenue. Content providers today have wide variety of options how to use online advertising on their websites and towards their users (chapter 2.1.4), as well as they have several options how to sell advertising (chapter 2.1) and a variety of compensation models to set the price for it (chapter 2.1.6). Chapter 2.1.5 further discusses search marketing, the main technique used to attract visitors to content providers' websites.

We have drawn a framework to understand possible advantages and disadvantages of online advertising (chapters 2.1.2, 2.1.3), as well as we have covered several forms of affiliate marketing usage (chapter 2.1.1). Combined with knowledge of applicable business models and revenue sources (chapter 2.2), we have assessed the situations in which the usage affiliate marketing is beneficial and in which not.

Furthermore, we have shown two models of buying process (chapter 2.3.1), which can be used to study how content providers choose affiliate programs. The process is different for several buying situations, as shown in chapter 2.3.2. Supplier selection models presented in chapter 2.3.3 and 2.3.4 further evolve the evaluation and decision stage of buying process.

The above described models were used in order to form the questions for interview guide that enabled answering the research questions of this thesis.

3   METHODOLOGY

In this chapter, the research methodology used in the work is discussed and explained. First, the choice of research purpose, approach, methods and strategy are motivated. Then, used sampling methods are clarified and data collection and analysis are depicted. Finally, ways to ensure validity and reliability in the research are reviewed.

3.1   Research purpose

This study is a pioneering research, therefore, exploratory research purpose was applied. This type of research purpose should be employed when the researched problem has not been precisely defined so far and needs to be clarified (Ghauri & Gronhaug, 2005). The work seeks to determine and explain the content providers' usage of affiliate marketing and provide new information about the problem area.

As the work does not try to "portray an accurate profile of persons, events or situations" (Saunders, Lewis, Thornhill, 2000:97), which is the goal of descriptive research, nor find cause-effect relationship among variables and explain it as in explanatory research (Yin, 1994, 3-9), other research purposes were not applicable.

3.2   Research strategy

Different strategies can be used when carrying out the research in business area. Yin enumerates them as case study, experiment, survey, history and archival records (Yin, 1994:3). For this work only case study and survey could be taken into consideration, as all other strategies did not enable collecting appropriate data for answering the research questions.

The choice of the research strategy is influenced by the formulation of the research problem and the research questions. Case study is preferred for research questions starting with "how" or "why" aiming to provide explanations about the problem area, while survey is relevant for research questions starting with "who", "what", "where", "how many" or "how much" focusing on describing the examined phenomenon (Yin, 1994:6). Formulation of research questions in this thesis (starting with "how") supported the choice of case study instead of survey.

Survey enables researching a large sample size in an economic way, but the data are usually not as wide-ranging as if they were collected using another research strategy. On the other hand, case study does not allow collecting data from a large sample size, but offers to gain deep understanding of the problem and researching many variables (Saunders, Lewis, Thornhill, 2000:92-93), which is the goal of this thesis. Because of the above stated reasons, case study research strategy was employed.

The scope of this paper did not allow collecting data from a large sample of content-providers. Still, conducting only one case study was also not suitable, as single case study

should be employed, when it represents either extreme or unique case, critical case that can test a well-formulated theory, or revelatory case that provides an opportunity to research so far inaccessible problem area (Yin, 1994:38-39).

None of the options applied for this thesis, therefore multiple case studies were carried out and compared, as their findings are usually considered to be more credible and solid. Moreover, multiple case studies enable comparison among the cases and increase the research validity (Yin, 1994:45).

3.3 Selection of cases

For selecting cases, probability methods, which are "based on the concept of random selection – a controlled procedure that assures that each element of total population is given a known nonzero chance of selection" (Cooper & Schindler, 1998), could not be applied in this work, because it was not feasible to embrace all the content-providers using affiliate marketing at their websites. This group is very large and it is changing constantly.

Instead non-probability methods were employed. Three content providers were chosen by the researchers for conducting the case studies. They were chosen by convenience selection method, which means selecting cases according to their availability and accessibility for the researchers (Saunders, Lewis, Thornhill, 2000:177), using personal contacts. The reason for applying this type of selection methods was mainly the availability of such contacts and expected willingness to provide the data.

In order to answer the research questions of this work, content providers that were selected for case studies needed to meet several criteria. First, they had to own or run several different websites and use affiliate marketing at least at part of them for one year or longer. This condition should have ensured that the content providers had experience with different types of websites, they were knowledgeable about affiliate marketing and were able to assess its advantages and disadvantages.

Second, they had to employ at least one other type of online advertising at their websites, so that they were able to compare affiliate marketing with other advertising options. Furthermore, running websites should have been the primary job for content providers, so that they were highly involved in performance of their websites and generated revenue and tried to achieve the best results for them.

Websites of the selected content providers should have been focused at different topics and should have not used identical affiliate programs. Focusing only at one business area or few affiliate programs could distort results of this work, as they could be dependent on performance of merchants providing the programs, or having dominant position at the market.

3.4 Data collection

For the exploratory studies such as this one, the qualitative methods for data collection and analysis are appropriate, as they frequently work with a smaller sample size that enables gaining deeper insight into the problem (Ghauri & Gronhaug, 2005). Due to the small amount of researched subjects, generalization is usually not possible (Ghauri & Gronhaug, 2005), however that was not the aim of this thesis.

Moreover, data collected in the research were not suitable for statistical processing, but they required categorization and interpretation, which is also characteristic for qualitative methods (Saunders, Lewis, Thornhill, 2000:378). Therefore, this study employed qualitative research methods.

Data were collected by interviews with people responsible for choosing, implementing and evaluation of affiliate marketing in the chosen subjects and by observation at their websites. Interviews were chosen, as they enable acquiring in-depth data and are suitable for qualitative analysis (Saunders, Lewis, Thornhill, 2000:245).

In the study, interviews were conducted by telephone or during personal meeting. All interviews were recorded and were semi-structured, which means that list of themes and questions needed to be covered was prepared, but it was possible to make variations in every interview according to the actual needs (Saunders, Lewis, Thornhill, 2000:246-247). This way it was possible to compare the interviews, but also adapt their flow to the new information learnt during the interview.

Questions were asked according to an interview guide (available in appendix), which was prepared in advance in order to cover all topics connected to research questions of this work. In the beginning, interviewees were encouraged to describe their websites and introductory questions were asked. Even though these questions were not directly connected with any research questions, they were important for understanding website's focus, visitors, business model etc. If necessary, sequence of questions from the interview guide was changed to keep continuous flow of the interview.

Apart from interviews, observation at the content-providers' websites was applied. Due to the observation, it was possible to verify data collected at the interviews and find out additional information about employing affiliate marketing and other forms of online advertising at content providers' websites.

3.5 Data analysis

Data in multiple-case studies can be investigated through within-case and cross-case analysis. In the within-case analysis, collected data are compared with the theories in the frame of reference (Huberman & Miles, 1994:143-173). Within-case analysis was used to find out similarities and differences between the findings from the case study and theoretical background described in the literature overview chapter of this work. Potential discrepancy between findings and theory was analyzed and explanation was sought after. The same structure of within-case analysis was used for all three case studies.

After within-case analysis, cross-case analysis, that enables confronting cases and comparing findings from all of them (Huberman & Miles, 1994:143-173), was used. In the cross-case analysis, findings from the cases were compared and discussed.

3.6 Validity and reliability

Two measures are usually taken into account, when the research quality is assessed – validity and reliability. Validity is "concerned with whether the findings are really about what they appear to be about" (Saunders, Lewis, Thornhill, 2000:101).

In order to assure validity, the research methodology and frame of reference for this study were adhered to. Multiple sources of data were used – three content-providers were interviewed and also their websites were observed in order to verify the data provided by the informants.

External validity - specifying the area, in which the conclusions from the study can be generalized (Yin, 1994:35-36) – had to be also taken into consideration because of the small number of informants. Three content providers, that were interviewed, cannot represent precisely the whole group of content providers on the Internet, which is very variable and diverse.

The chosen informants were affected by their backgrounds, type of business models they had, or opportunities offered at the market(s) they were active at. These factors had also impact on research reliability - assuring that the same results would be achieved when conducting another research (Saunders, Lewis, Thornhill, 2000:101).

For strengthening the reliability of the research, the same interview guide was used for all interviews, which were recorded and analyzed by two researchers in order not to miss out important information and to reduce interviewer bias and errors. To assure that informants did not omit important information for the research or altered the facts, observations were made at their websites before the interviews. Due to this, data gained by the interviews could be compared immediately with data from observations and potential differences were explained. Content providers were also not asked about sensitive data (such as their income) that they could be unwilling to share.

Still, it is not possible to generalize the findings and conclusions of this research to all content providers at the Internet. However, in its settings the research provides in-depth insight into the problem area and offers new perspective to the companies considering employing affiliate marketing. The work can be also used as a basis for further studies about the topic.

4 DATA PRESENTATION

4.1 Case no. 1

Interviewee PETR SRŠEŇ is a Czech content provider, residing in Prague. He owns around 40 different websites, targeted to Czech, Polish, Slovak and international visitors.

4.1.1 Examples of websites:

Letenkar.cz (*translated "air tickets guide"*) is a Czech website dedicated to air travel. Website presents new routes of airlines, new bases of low cost airlines, special promotions and general air travel news.
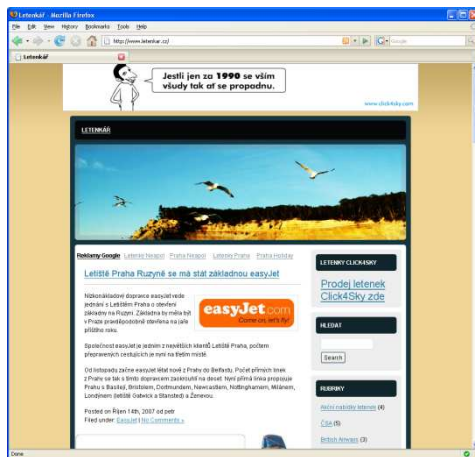
Figure 6 – Case 1: letenkar.cz (larger image available in thesis appendix)

Following revenue sources are used at letenkar.cz:

- Ad networks (Google AdSense)
- Affiliate marketing (Potenza.cz[1])

Eurovikendy.cz (*translated "Euroweekends"*) is a Czech tourist website with information about weekend getaways in major European cities. A separate page exists for each destination (e.g. Paris, Rome etc.) with detailed information about the city, tips to main sites to see, accommodation, transportation etc. According to the season, some special pages are promoted – e.g. St.Valentine's getaways, New Year Eve's getaways etc.

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[1] Potenza (www.potenza.cz) is the biggest affiliate network in the Czech Republic

Figure 7 – Case 1: eurovikendy.cz (larger image available in thesis appendix)

The website Eurovikendy.cz uses following revenue sources:

- Ad networks (Google AdSense)
- Affiliate marketing (Invia.cz[2], Potenza.cz)
- Linkbuilding text links (direct selling)

According to the interviewee, affiliate program from travel agency Invia.cz is the best source of revenue for this website.

I-noviny.cz (*translated "i-news"*) is a Czech regional online newspaper. It contains daily news from region of Česká Lípa, information about the region, cultural events, discussion forum and flea market. Website has audience of about 1000 visitors per day on average.

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[2] Invia (www.invia.cz) is the biggest online travel agency in the Czech Republic

Figure 8 – Case 1: i-noviny.cz (larger image available in thesis appendix)

I-noviny.cz use following sources of revenue:

- Ad networks (Google AdSense)
- Direct selling of advertising space (banner ads, mostly from regional companies)
- Affiliate marketing (Invia.cz)
- Linkbuilding text links (direct selling)

According to the interviewee, direct advertising is the main revenue source for this website.

Birmingham.pl (http://www.birmingham.pl/) is a website targeted to people from Poland willing to work in Birmingham, United Kingdom. This website is an example of an individual affiliate program, agreed between the agency that provides jobs and accommodation and content provider. Website contains detailed information about the city of Birmingham, accommodation possibilities, job market, administration needed to move there and start working, transportation, spare time possibilities and online forms to ask for quote for accommodation and job.

Figure 9 – Case 1: birmingham.pl (larger image available in thesis appendix)

Birmingham.pl solely relies on a custom made affiliate program, with compensation model pay per sale (PPS).

Accommodation in Manchester (http://www.manchester.cz/) – this website follows the same model as accommodation in Birmingham above. Website is available in 7 languages.

Figure 10 – Case 1: manchester.cz

Individual affiliate program is used at the website, with compensation model pay per sale (PPS).

For selling the advertising space at his websites, the interviewee uses direct selling, advertising networks such as Google AdSense or Sklik[3], affiliate networks such as Commission Junction, direct affiliate programs of Amazon.com, Invia and Kralovna[4] and custom made pay per lead agreements.

4.1.2 Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

The interviewee perceives the biggest advantage of affiliate marketing compared to the other forms of online advertising in the financial gains, which, when implemented well, can be much higher than gains from advertising networks.

On the other hand, according to the interviewee, a strong disadvantage is the difficulties connected with the implementation. He observed that he needs to devote great amount of time in order to find the most efficient way, how to use an affiliate program at a specific website, as he needs to assess visitors' behavior and adjust the ads to it.

He has to overcome banner blindness and make the advertising more appealing to the specific group of visitors. Moreover, the behavior of visitors differs according to the website's topic. Therefore, it is not possible to apply the same patterns at the websites, which focus on diverse groups of visitors.

Except for the described issues with the implementation, he thinks that affiliate programs are easier to use than most of the other types of online advertising. The interviewee notes that even though direct selling of advertising can bring higher income

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[3] Sklik (www.sklik.cz) is an advertising network owned by the biggest Czech online portal Seznam.cz

[4] Kralovna (www.kralovna.cz) is the biggest online seller of air tickets in the Czech Republic

than affiliate marketing, it is also more time-consuming as it requires approaching possible merchants, persuading them, setting up personalized advertising, preparing reports and handling all paperwork. In affiliate marketing, the access to merchants is straightforward and simple.

The interviewee adds that the simplest way to earn money on content websites is to use advertising networks, such as Google AdSense. Advantages are that the whole process is fully automated and it is not necessary to issue any invoices, communicate with advertisers etc. However, these networks do not enable gaining such high income as other forms of online advertising. Because of these reasons, he considers affiliate marketing as the best compromise between financial gains and overhead costs connected with selling the advertising.

4.1.3 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

The interviewee offers several types of online advertising to the merchants – sending e-mails with advertising content to his visitors, displaying banner ads and text links at his websites. Only banner ads and text links are used for affiliate marketing.

He has two main sources of income from his websites – online advertising and affiliate marketing. He does not consider other sources of revenue as beneficial as these two. Affiliate marketing accounts for about 50% of his income from the websites, other half is income from direct advertising and advertising networks.

The content provider sets the pricing for online campaigns using three compensation models – per time period, pay per click and pay per sale. Compensation model per time period is applied for the banner advertising, when he charges the given amount of money for 3 or 6 months. He does not offer banner advertising for shorter periods of time, because he does not want to devote time to sending new quotes to the advertisers, issue more invoices etc.

The interviewee uses pay per click model only with ads provided by advertising networks Google AdSense and Sklik. These networks decrease the amount of time necessary for administrating the ads, however the financial gains are lower than with other compensation models. The interviewee does not offer pay per click model for advertising space sold directly, as the price per one click would have to be relatively high in order to pay the administrative costs connected with selling and it would not be competitive. Pay per click advertising provided by advertising networks is only used at websites, at which the interviewee does not have better options how to sell advertising space.

In affiliate programs, pay per sale model is applied. He accepts both flat commission rates as well as percentage of the sale amount. He prefers percentage commission, because he considers it fairer than the flat rate. However, he does not perceive this criteria being important in his decision making about using a specific affiliate program.

From all the above described compensation models, he prefers pay per time period, because he knows, how much income it will generate and it also brings him the highest earnings. On the other hand, it is more difficult to sell advertising based on this model and it is more demanding as far as administration is concerned.

The interviewee applies agent business models (selling agent and metamediary) at his websites and he thinks that affiliate marketing can be applied to all of his websites. Nevertheless, he uses it only at part of his websites, because he considers combination of banner advertising, text links and affiliate marketing as the most efficient and it makes him more independent on specific revenue sources.

The interviewee assesses effectiveness of the advertising campaigns at his websites using two main measures. First, he measures the click through rate as a ratio between the number of visitors that click at the banner and the total number of visitors at the webpage. If click through rate is not satisfactory, he changes placement of the ad, its text, image etc.

Second, the number of visitors that are turned into customers at the merchant's website is measured by conversion rate. The interviewee considers the conversion rate as the most important performance indicator, as it determines the income gained from a specific ad. If the conversion rate is low, he actively works with the merchant to learn the reasons and eliminate them.

Search engine optimization and search engine marketing are used to drive traffic to the interviewee's websites. Natural search results account for about 80% of the visitors, which is achieved by carefully optimizing the website for certain search phrases and placing text links used for link building[5] (either reciprocally or for a fee) at other websites. Approximately 15% of visitors come from paid advertising using search engine marketing, 5% are other forms, such as when user directly types the URL in the browser.

When employing search engine marketing, the interviewee buys text links in advertising networks Google AdWords and Sklik. He carefully controls that the price paid for buying the advertising is lower than the one earned for click.

The interviewee uses both one-to-one and one-to-many affiliate programs. One-to-one programs are more financially beneficial for him, but their administration is demanding. Moreover, one-to-one programs are usually not automated and trust between both parties is needed. Commissions are assigned to the content provider based on for example orders received through e-mails, which the interviewee has no control of. Thus, it can also happen that the commission is not recognized because of merchant's mistake or even deliberate deception. All one-to-one programs, that the interviewee participates in, are agreed directly with the merchants.

When using one-to-many affiliate programs, the whole process is automated and it is not necessary to communicate with anybody. Even though the commissions are usually lower, the overhead connected with the program are much lower as well. Because of the same reason, the interviewee valuates the affiliate networks, which provide all the necessary technology to manage the program and assure that the commission is assigned every time.

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[5] Link building is a search engine optimization technique, which capitalizes on the fact that search engines consider websites with more external links better and place them higher in the search results. (Wikipedia Search Engine Optimization, 2007)

4.1.4 Research question 3

How do content providers select affiliate marketing programs they intend to participate in?

When choosing a new provider of an affiliate program, the interviewee applies two different approaches. First, he continuously seeks information about affiliate programs, which seem financially interesting for him. If he finds such affiliate program, he tries to design a website that could exploit the program and bring profit. In this case, he searches for programs, for which he is capable to attract sufficient amount of visitors, but that are not in extremely competitive markets.

If he wants to add a new affiliate program to an existing website or replace the current one, he searches for programs that would provide better financial conditions than the previous ones, or than other types of online advertising he could use at the website.

For both situations, the most important criteria for choosing a program are financial benefits. Nevertheless, the interviewee puts emphasis not only on the amount of commission rate itself, but also on the merchant's capability to convert visitors into customers. If the merchant fails and is not able to sell the advertised product or service, interviewee loses his commission.

When these conversion rates are not satisfactory for a longer period of time, the interviewee decides to change the affiliate program provider, as well as when he finds a program with significantly better commission rates. However, he always considers changing the provider carefully, as it requires devoting additional time and results are not guaranteed.

In order to attract more visitors to click at the banners or text links at his websites, he values very much the possibility to customize the banners and text links according to the needs of his visitors. Therefore, if the affiliate program has strict rules concerning changing the ads, it can discourage the interviewee from using the program, because he fears that he would not be able to persuade sufficient number of his websites' visitors to click at such banners or text links.

The interviewee selects only affiliate programs that are connected with the topics he focuses on and he is knowledgeable about – traveling, working abroad, technology and web hosting. Even though he is aware of potential of affiliate programs in other fields, he does not intend to use them at the moment. He also wants the program to bring some additional value to his websites, he is not willing to advertise a product or service that he does not consider useful.

When choosing an affiliate program provider, the interviewee does not make any pre-selection of the program, before choosing the final provider.

Remark:

The interviewee excludes certain form of text links from advertising. These links are used mainly for link building and their primary function is not to attract visitors directly to other websites. Still, these links are also source of revenue for the interviewee.

4.2   Case no. 2

THOMAS WILKINSON is the owner of Second Sighting Ltd., a company based in Lancaster, UK. Second Sighting Ltd. runs 4 websites on which affiliate marketing is used. All websites are targeted to the UK market.

The interviewee started with affiliate marketing on a recommendation from a friend, who was already in the business, in late 2005. He considered it an interesting way how to start business and he valued that he did not need any financial capital to start.

4.2.1 Examples of websites:

Loanexplorer (http://www.loanexplorer.co.uk/) is a simple website allowing visitors to apply for loans for various purposes. The application itself is loaded from merchant (storefront, white label) and commission is made based on leads (PPL model).
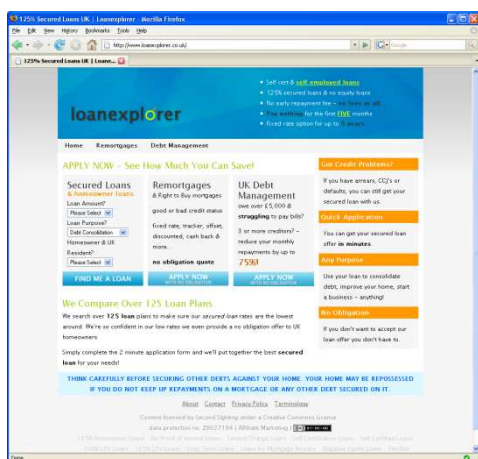
Figure 11 – Case 2: loanexplorer.co.uk (larger image available in thesis appendix)

Remortgageexplorer (http://www.remortgageexplorer.co.uk/) is a variation on previous website and promotes a special type of loan – remortgage. Affiliate marketing is used for sending applications to merchants. Commissions are paid based on leads (PPL).
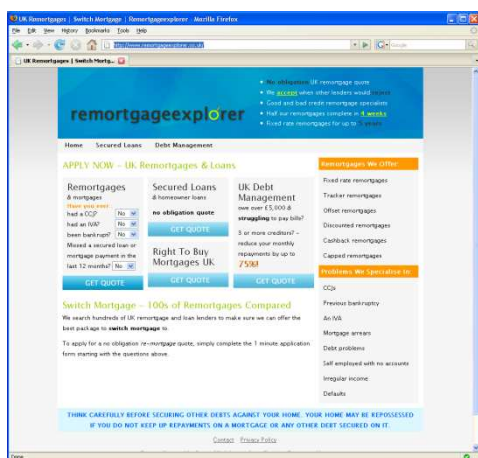

Figure 12 – Case 2: remortgageexplorer.co.uk (larger image available in thesis appendix)

Debtexplorer (http://www.debtexplorer.co.uk/) is another variation of the same website model, this time offering debt management solutions. Again, PPL model is used for receiving commissions from affiliate programs.
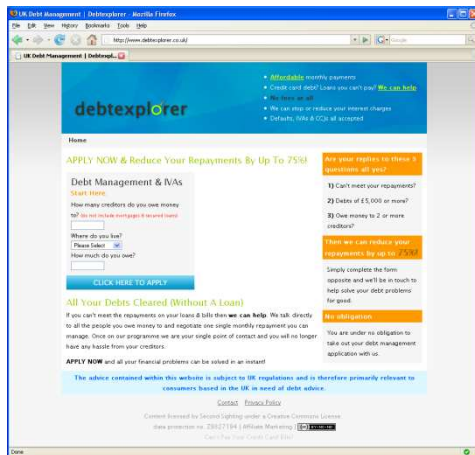
Figure 13 – Case 2: debtexplorer.co.uk (larger image available in thesis appendix)

Shoppingday (http://www.shoppingday.co.uk/) is a shopping website, which offers products from hundreds of online stores. Website uses XML technology to download data feeds from vendors, including product descriptions, image links and prices and blend them into one shopping place. Pay per sale model is used to receive commission on intermediated sales.

Figure 14 – Case 2: shoppingday.co.uk (larger image available in thesis appendix)

4.2.2   Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

Interviewee considers easiness of use as a main advantage of affiliate marketing. He claims that one only needs a computer and internet connection – there is no capital needed to start with one's own business.

Affiliate marketing also enables earning higher revenue than displaying ads of advertising networks. The difference is so significant that it is beneficial for content provider to pay for contextual ads at such networks in order to attract visitors to his websites and display affiliate marketing ads there.

Further advantage is good tracking, which enables determining very precisely visitors' behavior at the website and after leaving the website. Thanks to this, the interviewee can modify his website to achieve higher conversion rate.

He also values low switching costs and no obligations – when a program does not perform as expected, switching is very easy especially due to the large amount of available affiliate programs in the financial sector, which is his main domain.

On the other hand, there are several disadvantages of affiliate marketing. Deception is claimed to be the worst one. According to the interviewee, it is very easy to cheat on content providers, as they don't have any control over the fact whether a sale was made or not. Interviewee should be paid for every lead that he generates through his financial websites. However, in some cases the leads are not accepted by merchants, who claim that the customer, who filled in application for a specific product, was not interested in it.

Some affiliate networks unfortunately do not help content providers with this issue, because they are too afraid to lose the merchant. Moreover, affiliate networks do not have more control over the merchants that content providers themselves do. When leads are rejected by the merchant, it results in financial loses, because content provider still has to pay for visitors coming to his websites from advertising networks.

Especially in the financial sector, interviewee claims that payment certainty is very low. Apart from possible deception or lead rejections, it is also not uncommon that a merchant goes out of business.

4.2.3 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

Base on the categorization by Strauss et al. (2006), interviewee uses selling agent as a business model for the websites. Within financial websites, the model is based on attracting customers by contextual advertising through advertising networks such as Google AdWords, Yahoo! or Live.com. Shopping website, on the other hand, relies more on traffic from natural search result on search engines. Its business model can best fit in subcategory catalog aggregators.

Affiliate marketing is the main source of revenue on all websites, the only other revenue source is income from ads displayed through ad network Google AdSense. Affiliate marketing income is based on sending applications for financial products to merchants (e.g. banks). Every application is considered a lead and commission is paid.

Advertising is displayed in the form of banners and text-links, storefront (while label) is used to display some of the content. Website owner also keeps a shopping blog, where he uses advertorials to promote special deals on some products.

Generally, content provider accepts the commission set by the affiliate program provider, as his position is not strong enough to set the price himself. He prefers to use pay per lead (PPL) instead of PPS (pay per sale) model. The reason is that he does not have any control over the conversion rate on the merchant's website and thus PPS is less certain. He thinks that flat commission rate is more suitable for PPL compensation model – the merchant pays for sending an application regardless of the final amount of purchase.

Effectiveness is measured carefully, with the crucial ratio claimed to be the conversion rate – number of leads divided by number of website visitors. Other ratios are not very important. If the conversion rate is low, interviewee investigates the reason and makes appropriate changes on the website to increase it. In a broader view, the financial criteria (thus return on investment) are the most important criteria.

Interviewee claims that most people come to his websites through the ads he places on advertising networks from major search engines (search engine marketing). Currently, he also educates himself in search engine optimization in order to leverage its potential. Another important source are social networking services[6], like digg.com etc.

Interviewee only uses one-to-many affiliate programs offered by affiliate networks as he claims to be too small to be able to negotiate special deals. He however considers one-to-one programs better, mainly because affiliate network does not take its part of the commissions in such situation. In some cases, affiliate networks actually receive up to 50% of commission paid by the merchant. In case of one-to-one programs, the earnings could therefore be much higher. On the other hand, however, some reputable affiliate networks actually increase the perception of credibility and reliability of the programs, as they can persuade merchants to pay for more leads, or to pay in time.

Observation:

Financial products website business model is little blurred, because it is something between selling agent and a metamediary. All three websites hide the brand of the actual vendor of the service, but also do not offer almost any information about the products being offered. Websites actually do not add any value to the customer's information search, their purpose is only to make the customer fill in his/her data in order to receive a proposal (and website owner a commission).

4.2.4 Research question 3

How do content providers select affiliate marketing programs they intend to participate in?

Instead of selecting affiliate programs for a particular website, the interviewee first chooses a program that he thinks could be advantageous and then he thinks how to use it and create websites for it.

As the main criteria for choosing an affiliate program, content provider names commission rate. He is only interested in programs that offer high commission rates, his preferable compensation model is pay per lead. He requires high commission rate in order to be able to cover his expenses connected with attracting visitors to his websites through advertising networks.

Furthermore, he assesses reliability of both merchant and the intermediary affiliate network. A rule of thumb is that better known merchants are more reliable. He claims to have negative experience with some networks and does not trust them any more.

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[6] Social network is defined by Kempe et al. (2003) as „graph of relationships and interactions within a group of individuals". In online marketing context, social network services are websites, which offer tools for users to interact with each other and share their interests and activities. (Wikipedia Social network service, 2007)

Very important criteria are also other conditions of the program, especially how lead rejection is defined. When the definitions are vague or it is easy for the merchant to reject a lead, it is a sign of unreliability. The interviewee does not accept such programs, because he could easily lose his money.

Pre-selection of the programs is made only by choosing a category of the programs, based on the knowledge that some financial products generally have high commission rates and some not. Particularly, in financial sector mortgages and debts are known to have high commission, whereas credit cards low.

The final selection is made from available programs on favorite affiliate networks. For each program taken into consideration, he conducts information search, especially by searching for user experiences on several affiliate forums. This way, he can find out, if somebody else had a problem with that merchant and why.

The selection process was claimed to be the same if a program was going to be replaced. The interviewee decides to replace the current affiliate program, when the lead rejection rate grows higher than 20%. Then, he starts to search if there is a better product, which would have either higher commission or that would give fewer possibilities to the merchant to reject the lead. He notes that switching affiliate program at his websites is easy and he is willing to do that every time, when he is not satisfied with the program performance.

4.3 Case no. 3

JAN PETR is a Czech entrepreneur, who owns several successful websites. He started with a website www.jaknaweb.com as a hobby when he was still a high school student. This website provided tutorials and discussions about HTML, JavaScript and other web-building related technologies. This website soon grew very popular and advertisers started to approach. Today, Jan Petr manages several other websites, some of them with very different business models. All websites are targeted to the Czech market.

4.3.1 Examples of websites:

Jaknaweb.com (*translated "how to make a web"*) is an information portal, which allows visitors to find information about HTML, JavaScript, cascading style sheets and other website building technologies. Advertising mainly comes from companies sharing the same target market, such as hosting companies, domain registrars, advertising networks and statistics providers.

The main source of revenue at this website is direct selling of online advertising, minor revenue source is affiliate marketing.
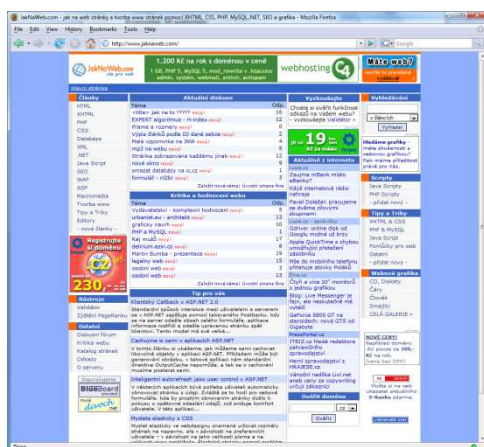
Figure 15 – Case 3: jaknaweb.com (larger image available in thesis appendix)

Schuti.cz (*translated "with appetite"*) is a newly developed website, which will contain a list of all restaurants, bars and pubs in the Czech Republic. The target market for this website is ordinary people who enjoy eating out and social drinking. Users are able to find, evaluate and share their favorite restaurants, pubs and bars. Merchants can present special promotions, news in cuisine, concerts and parties. Affiliate marketing, together with pay per inclusion model are planned to be the most important revenue sources for this website.

Figure 16 – Case 3: schuti.cz (larger image available in thesis appendix)

Vydelek-online.cz (*translated "earnings-online"*) is a website designed to leverage Google AdSense affiliate program. Website contains information about Google AdSense, what information is necessary for application, where to apply, and how the system works. An identical project promoting Google AdWords is used at a different domain.
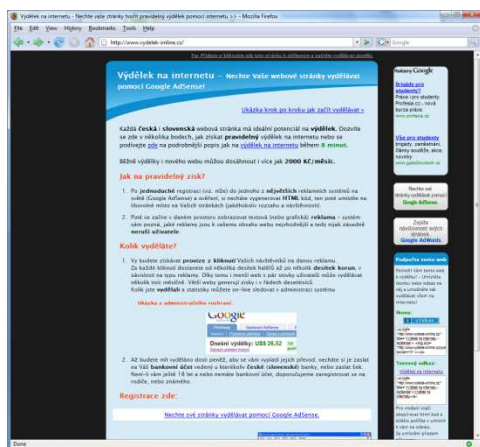
Figure 17 – Case 3: vydelek-online.cz (larger image available in thesis appendix)

Nakuptesi.cz (*translated "do shopping!"*) is an online grocery store start-up. Website offers virtually all grocery shopping with same day home delivery service. Service is currently only available in one city with approximately 400 000 inhabitants, launch in other cities is planned in mid 2008. Interviewee is responsible for online marketing of this website and actually uses affiliate marketing from both sides. He places paid links into search engines and is paid by commissions from received orders and at the same time he is responsible for planning and managing its own affiliate program.

Figure 18 – Case 3: nakuptesi.cz (larger image available in thesis appendix)

4.3.2 Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

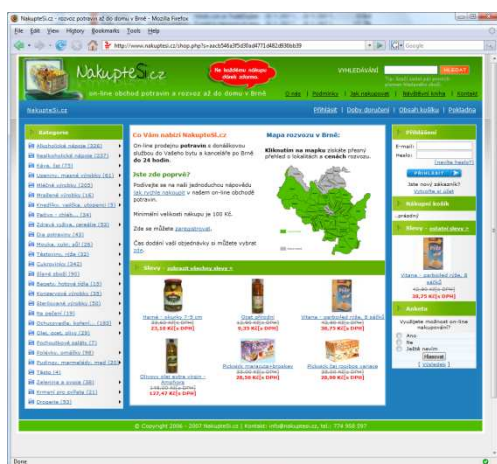The interviewee claims that affiliate marketing is significantly more complicated to use than direct advertising or using advertising networks.

In the affiliate marketing, the website owner carries the risk and has to devote his time to implement the affiliate program well in order to get the best results. When displaying direct advertising and ads from advertising networks, it is the advertiser, who has to assess, whether the website's target market is compatible and the price for the campaign complies with their requirements. The website owner will get paid, even if the results are not as good as expected and he only bears opportunity costs.

On the other hand, interviewee adds that he is able to earn significantly more by employing affiliate marketing than by using advertising networks. Moreover, after finding the right way how to implement it, affiliate marketing is not very time consuming for the interviewee and he claims that it is a very convenient way how to make money with little effort. Therefore, he is willing to employ affiliate marketing at his websites, if the difference between revenues from affiliate marketing and the advertising networks is high enough to compensate the risk and devoted time in the beginning.

Possibility of deception was named as another disadvantage of affiliate marketing. However, interviewee found a way to fight against it. From time to time, he creates a test order and tracks how the order is being treated by the merchant. He has an agreement with all merchants allowing him to make such tests. Also, as the competition among affiliate programs increases, deception was claimed to be lesser problem than it used to be.

4.3.3 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

Banners and text links are employed for displaying the advertising and affiliate marketing at the content provider's websites. The interviewee uses following sources of revenue:

- Direct advertising
- Affiliate marketing
- Advertising networks

Direct advertising is the biggest source of revenue in total, but it is used only at larger websites with substantial number of visitors. Advertisers usually pay for a certain time period, which can be as long as one year in advance. Interviewee notes that on well-run and known websites, advertisers themselves approach him and he does not need to make any special effort to sell advertising space.

Compensation model pay per time period is valued by the interviewee, because it gives him financial security – he knows, how much money he will get in the specified period. Moreover, because he sells most of the advertising for longer time period, the administrative costs are relatively low and he does not have to search for new advertisers too often. Interviewee does not sell directly any advertising based on pay per click models (PPC).

Affiliate marketing is only used on some websites and is highly valued by the interviewee. Being a well-known publisher, he can take advantage of private agreements or public programs with special-tailored conditions. Again interviewee is approached by merchants offering him affiliate programs on one-to-one basis and he only actively searches for affiliate programs when a new project is planned. Interviewee has tried affiliate networks but was not satisfied with offered commission rates and program availability and he has stopped using them.

Apart from one-to-one affiliate programs, the interviewee also participates in several one-to-many programs. One-to-one programs offer him higher revenue, however, one-to-many programs are automated and require only small amount of time to administrate. They are a good option, if the interviewee does not have any other advertisers offering interesting prices for the ad campaign.

Most of the affiliate programs are based on PPS (pay per sale) compensation model. With some merchants, the sale is counted by a percentage of a sale value, sometimes the price is flat. Some merchants also offer PPC (pay per click) in addition to PPS as a special form of motivation. He values most PPS model with price set as a percentage of sale value, because it enables him earning the highest revenue.

From the advertising networks, Google AdSense is currently the only one used on interviewees' websites. Advertisements are paid per click and he values it for offering reasonable revenue and not colliding with other revenue sources, such as affiliate marketing. Interviewee has tried several other advertising networks but he was disappointed with the output.

Within the Czech market, it is not easy to find good products with well managed affiliate programs. In such situations, Google AdSense still provides some revenue. According to

interviewee, it is very useful to check available advertisers on Google AdSense prior to creating a new project, as it gives an idea how much advertisers need to pay for advertising and how tense the margins will be.

The interviewee tried to offer e-mail and newsletter advertising to main advertisers but they did not seem to be too enthusiastic about it and finally they abandoned such form of advertising. Interviewee was not able to think of any reason for this behavior.

Price for advertising / affiliate commission is dependent on contract duration, advertising space size and position and on advertised product. He notes that he is able to charge more from bigger companies than from smaller firms. Price level is set by comparing pricelists of similar websites.

The interviewee assesses advertising efficiency by the revenue that it brings to him. If the revenue is lower than income generated by Google AdSense (which the interviewee considers as a benchmark for all ads), he examines the reasons and replaces it by other ads. In affiliate marketing, the only measure that is taken into consideration, apart from generated income, is the conversion rate at the merchants' side (number of sales divided by number of visitors coming from the content provider's website).

Most important traffic sources for interviewees' websites are:

- Natural search results
- Paid search engine advertising
- Banner advertising
- PR articles
- Paid links

Interviewee uses both search engine optimization and search engine marketing techniques to drive traffic to his websites. For some websites, banner campaigns and paid links on another websites are used. He also writes public relations articles. He claims that social networking is going to be used on currently developed projects.

4.3.4 Research question 3

How do content providers select affiliate marketing programs they intend to participate in?

The interviewee does not usually have possibility to choose among several affiliate programs, as there are not so many of them available in the Czech Republic. In most cases, he does not choose affiliate programs for a website that has already been created, but he monitors the available affiliate programs constantly and creates a website for leveraging a particularly interesting program readily available.

When thinking about a new project, the interviewee thoroughly examines the market. The most important factor is presence of products that match the audience of his website. For example, people learning to create websites are likely to be interested in hosting and domain registration.

When a new program is found or offered to the interviewee, he assesses its possibilities and in some cases, he performs a one month test to see what revenue can be expected. If the results are not satisfactory, he does not use the program any more in the future.

He chooses programs according to following criteria:

- Merchant reputation
- Product reputation
- Program tracking and monitoring
- Financial criteria
- Availability of a market segment or niche
- Possibility to create cheap and efficient traffic source for the program

Merchant and product reputation are important for the interviewee, because well-known merchants and products are more likely to be accepted well by the website visitors. However, as he does not have bad experience with smaller merchants, he is willing to try their programs, if they provide interesting conditions. In such case, it is necessary that the affiliate program has good tracking and monitoring for verifying the reliability of the merchant.

The financial criteria are the most important when evaluating the efficiency of the affiliate program. In case a program does not perform well, it is abandoned and if possible, Google AdSense is used as a substitute. A program is considered poor when monthly revenue is lower than average earnings from AdSense.

5   DATA ANALYSIS

In this section, data from all three cases will be analyzed. First, each case is discussed separately in within-case analysis and subsequently cases are compared in the cross-case analysis.

5.1   Case no. 1

5.1.1   Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

In the following table, advantages and issues connected with affiliate marketing described in the literature overview are compared with content provider's perception of them.

Table 2 – Case 1: Advantages and issues with affiliate marketing

Advantages of affiliate marketing	Perceived as
Targetability	Both advantage and disadvantage
Tracking	Minor advantage
Deliverability	Not different from other forms of online advertising
Interactivity	Disadvantage
New revenue opportunities	Very important advantage
Access to new merchants	Advantage
Added value to the website	Neither advantage nor disadvantage
Issues with affiliate marketing	
Banner blindness	Disadvantage, but the same as for other forms of web advertising
Problems with conversion rate	Very important disadvantage
Other advantages not described in the literature	
Higher income than in some other forms of online advertising	Very important advantage
Little overhead costs	Very important advantage

In accordance with the theory, content provider values affiliate marketing, because it brings him an opportunity how to earn additional income from his websites and easy access to new merchants. However, he considers targetability, which is described in the literature as one of the main advantages of online advertising, questionable. He notes that affiliate marketing can be beneficial, but it is necessary to target it very precisely. Therefore, it is necessary to devote large amount of time to find out the most efficient way of employing affiliate program at a particular website.

Possibilities of extended tracking offered by affiliate marketing are perceived as advantageous, however the content provider sees them only as a minor benefit. Deliverability is not considered as more advantageous than other types of online advertising. However, interactivity is perceived as less beneficial compared to other types of online advertising. As content provider is only paid when a merchant actually succeed to convert a visitor into a customer, he loses control over his visitors' actions after leaving the website and have to rely on merchants' abilities. Therefore, if the merchant's performance is not sufficient, content provider has only very limited options, how to improve it.

Added value, which can affiliate marketing bring to websites, is not perceived as an advantage by the content provider. He considers it as an important factor for selecting the affiliate program, he is going to participate in, but not as a benefit, that would persuade him to prefer affiliate marketing to other forms of online advertising.

Two more advantages, that have not been described in the literature so far, are perceived as very important by the content provider. First, it is the opportunity to make higher revenue than when employing other forms of online advertising. Second, only little overhead costs are connected with administrating affiliate marketing campaigns, which makes its usage even more beneficial.

When the issues connected with affiliate marketing are concerned, the content provider does not think that banner blindness is more challenging in connection with affiliate marketing than in other forms of online advertising.

However, he perceives conversion rate issues as a possible problem that can discourage him from using affiliate marketing at some websites. As was already mentioned above, content provider has only a little control over visitors' actions after leaving his websites and he has limited (or none) possibilities how to influence the merchants' performance. Therefore, he has to assess the conversion rate carefully in order to keep his income and not being harmed by problems at the merchants' side.

5.1.2 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

Except of one, all interviewee's websites can best be described as metamediaries or selling agents. The only exception is the website i-noviny.cz, which does not comply with definition of a cybermediary and cannot therefore be categorized using the model developed by Strauss et al.

Although affiliate marketing is used on all websites, only in some cases it is an important source of revenue. Moreover, categorization based on business models developed by Strauss et al. does not seem to have strong correlation with revenue sources.

Table 3 – Case 1: Business model compared to affiliate marketing revenue share

Website	Business model	Affiliate marketing revenue share	Notes
Letenkar.cz	metamediary	Minor	Ad networks are major source
Eurovikendy.cz	metamediary	Major	
I-noviny.cz	Online newspaper (not categorized by Strauss et al.)	Marginal	Direct selling is major source
Birmingham.pl	metamediary / selling agent	Exclusive	One-to-one program
Manchester.cz	metamediary / selling agent	Exclusive	One-to-one program

Affiliate marketing revenue share in table 3 was assessed by the interviewee and by observation to which extent affiliate marketing is used on respective websites.

With a closer look at the websites, we can however observe that affiliate marketing is the main source of revenue on websites designed for well defined and rather small market segments (niches):

Table 4 – Case 1: Business model compared to target market size

Website	Market segment / niche	Affiliate marketing revenue share
Letenkar.cz	broad (travel market / air travel)	Minor
Eurovikendy.cz	narrow (leisure travel market / weekend getaways)	Major
I-noviny.cz	narrow (defined by region)	Marginal
Birmingham.pl	niche	Exclusive
Manchester.cz	niche	Exclusive

The only exception in this table is the example of a regional newspaper i-noviny.cz. On the other hand, major revenue source on this website is direct advertising from regional companies. The target segment is here defined by rather a small region in the Czech Republic and, as it was additionally confirmed by the interviewee, there are no local companies with affiliate programs.

Content provider uses search engine optimization techniques to drive traffic to his websites, thus the main source are natural search results on major search engines. Search engine marketing usage depends on its costs and is used only at those websites where affiliate marketing is employed. In some markets, the costs are too high and acquiring visitors by SEM does not pay off.

According to the data collected, financial gains seem to be the most decisive factor whether to employ affiliate marketing or another source of revenue on a website. In the case of advertising networks, the income depends mainly on click through rate, in case of

affiliate marketing, there is also second ratio, which is the conversion rate measured by the merchant.

In both cases, content provider actively searches for new ways how to improve these ratios. It can therefore be assumed that affiliate marketing is only more beneficial if the content provider is able to drive to the merchants the type of visitors that actually convert into customers in high ratios. In order to achieve high conversion rates, the affiliate program must precisely meet the needs of the visitors.

In situations, where the needs are not met precisely, or there simply is not any suitable affiliate program available, other forms of online advertising seem to bring higher revenues. This is the case of weblog letenkar.cz, where visitors are not actively searching for air tickets but rather come regularly to stay informed about news in the industry. Although visitors still have the opportunity to buy air tickets there from affiliated merchants, the main and preferred source of revenue is an advertising network.

Content provider uses three commission models at his websites – pay per click, pay per sale and pay per time period. Some of the programs, he uses, combine pay per sale (PPS) model with pay per click (PPC). The main decisive criterion in selecting the model is the financial benefits in the long run. According to the content provider, each of the commission models has its advantages and disadvantages that are summarized in the following table.

Table 5 – Case 1: Advantages and disadvantages of respective commission models

Commission model	Advantages	Disadvantages
Pay per click	Revenue is determined only by content provider's performance Easy to control	Lower revenue
Pay per sale	Higher revenue	Dependent also on merchants' performance Possibility of deception Difficult to control More difficult to administer
Pay per time period	High revenue Revenue is dependent on content provider's performance Secure revenue for a specified time period	Difficult to administer Difficult to sell advertising space

The table suggests that pay per sale compensation model used in affiliate marketing offers higher revenue, but on the other hand brings lot of disadvantages too. Content provider rather prefers to be paid per time period, which is less risky and the revenue is even higher.

Setting up affiliate marketing efficiently requires great amount of time, thus content provider has to compare expected outcome to expected costs. Although the performance of affiliate programs can be significantly better than ads provided by advertising networks, content provider needs time to find out, how to set up the website to leverage

it. This overhead is lower with advertising networks, which decide on media performance themselves.

According to the interviewee, both one-to-one and one-to-many programs have advantages and disadvantages. He claims that one-to-one programs bring higher commission, whereas one-to-many take advantage of advanced automation. Instead of one-to-many programs, he values affiliate networks more, because they use better technologies to manage the programs and reduce the risk of deception. Risk of deception can be considered an important issue in affiliate marketing.

5.1.3 Research question 3

How do content providers select affiliate marketing programs they intend to participate in?

Affiliate marketing programs are selected by the content provider in two different ways. He either already has a website, where he uses affiliate marketing, or he creates a website to leverage a specific affiliate program. In both cases he goes through a process that is applicable to models that De Boer et al. (2001) and Lee (2001) proposed (models were already discussed in the literature overview).

Table 6 – Case 1: Selection process of an affiliate program

De Boer's model	
Problem definition	*Replacing current affiliate program:* Unsatisfactory results Better offer Costs connected to change of provider *Selecting new program for new website:* Exploit new business opportunities Diversify risk
Criteria definition	Connected to the chosen topics Adds value to websites Commission rate Expected conversion rate Time length of tracking
Pre-qualification of suppliers	None
Choice of the supplier	Linear weighting methods

The problem definition phase is different, if the content provider already has a website or if he decide to create one in order to exploit benefits of an interesting affiliate program. In the second case, the content provider identifies during the problem definition phase his need to exploit new business opportunities in order to diversify a risk of unsatisfactory results of one website.

In the first situation, the problem definition phase comprises dissatisfaction with the current merchant. It can be caused either by bad performance at the merchant's side or by better offer from a different affiliate program provider. Potential costs connected with

the change (such as opportunity cost, time devoted to the change) are also taken into account. If the expected future benefits do not exceed expected costs, the process is finished and content provider will continue using the current affiliate program.

When future benefits are higher than the costs, content provider defines criteria that are important for choosing the affiliate program. In this case, criteria are divided into two groups. First group involves more general criteria – connection to the website topic and ability to bring additional value to the website. Selection criterion determining the necessity of close connection of the program with the topic of the website complies with Papatla and Bhatnagar's theory, that affiliate program is most beneficial, if there is such a connection. Moreover, the other criterion– added value – corresponds with the reasons, why content providers can participate in affiliate marketing enumerated by Duffy (2004).

Second group of criteria deals with the actual income that the program can generate. It includes commission rate, expected conversion rate and length of time, when the customer is tracked after clicking at a banner or a text link.

No pre-qualification of affiliate program providers is done by the content provider, because he does not consider it necessary.

In the final phase, the provider is chosen by linear weighting methods, where the first group of criteria is non-compensatory – there is a minimum level, that has to be achieved and that cannot be offset by anything else.

Criteria from the second group are assigned different weights, which play crucial role in the final decision-making process. The highest weight is assigned to the commission rate and expected conversion rate (which is also connected with possibility to customize freely the ads in the program). Minor weights are assigned to length of time, at which the visitor's activity is tracked after clicking at the banner or link.

The affiliate program with the best results will be selected by the content provider. Linear weighting methods are used because of their simplicity and applicability to various types of situations.

As the content provider continuously searches for new affiliate programs and evaluates them using the above described criteria, Lee's model can be employed as indicated at the figure below. The process of selecting a new affiliate program continues, until a program with significantly better conditions is found.
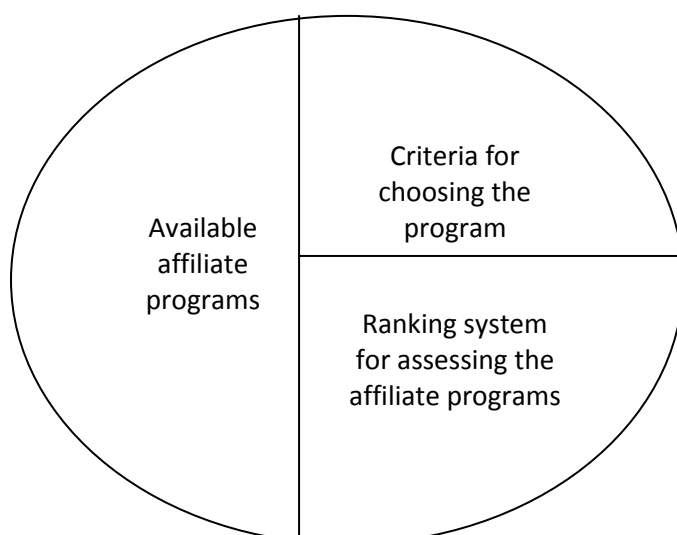

Figure 19 – Case 1: Criteria for selecting affiliate marketing provider in Lee's model

DATA ANALYSIS

5.2   Case no. 2

5.2.1   Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

As in the first case, the following table summarizes the advantages and issues of affiliate marketing that are described in the theory and confront them with content provider's perception.

Table 7 – Case 2: Advantages and disadvantages of affiliate marketing

Advantages of affiliate marketing	Perceived as
Targetability	Advantage
Tracking	Advantage
Deliverability	Advantage
Interactivity	Advantage
New revenue opportunities	Very important advantage
Access to new merchants	Advantage
Added value to the website	Neither advantage nor disadvantage
Issues with affiliate marketing	
Banner blindness	Not considered
Problems with conversion rate	Very important disadvantage
Other advantages not described in the literature	
Higher income than in some other forms of online advertising	Very important advantage
Easiness of use	Very important advantage

Content provider perceives targetability, tracking, deliverability and interactivity as advantages of affiliate marketing, which complies with the theoretical background described in the literature overview. When targetability is concerned, he values the possibility to change the merchants or ads very easily and fast, if he thinks, it would suit better his target audience. Because he attracts the audience using search engine marketing, he can also influence what group of visitors will come to his website according to merchants' needs.

Tracking is perceived as beneficial, because he can assess visitors' behavior at the website and after leaving the website and adjust the website according to it. For the same reasons, deliverability is considered as an advantage, because if he finds out, the conversion rate is not sufficient at the merchant's side, he can make necessary changes.

- 60 -

Interactivity is advantageous for the content provider, because visitors, that come to his website, can only fill in a form and they will be subsequently contacted by a company offering them products suitable for their needs and requirements.

In accordance with theory, also new revenue opportunities and access to new merchants are perceived as affiliate marketing advantages. These advantages are connected with two other benefits, which have not yet been described in theory – higher income from affiliate marketing when compared to other forms of online advertising and easiness of use.

The content provider sees affiliate marketing as a very convenient and simple way how to start business on the internet. The necessary starting capital is low and everything is automated, so it does not require devoting too much time to administrating the ads. Moreover, affiliate marketing offers earning higher revenue than when employing other forms of online advertising such as ads from advertising networks.

Added value that would affiliate marketing bring to the websites, is not considered as an advantage to the contrary to theoretical background.

When the issues connected with affiliate marketing are concerned, the content provider does not consider banner blindness as a disadvantage, because he uses banners only to a very limited extent. However, he perceives problems with conversion rate as the main issue. Because he has no control over the visitors' actions after leaving his websites, merchants can deceive him and do not grant him commissions. This issue can be reduced by using reputable affiliate networks and participate only in programs, that have strict conditions about assigning commission, but it cannot be eliminated totally.

5.2.2 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

All websites presented by the interviewee use business model of selling agent. In case of shoppingday.co.uk, the business model is catalog aggregator, a subtype of selling agent. Affiliate marketing is the main source of revenue on all websites:

Table 8 – Case 2: Business model compared to affiliate marketing revenue share

Website	Business model	Affiliate marketing revenue share	Notes
Loanexplorer.co.uk	selling agent	Exclusive	
Remortgageexplorer.co.uk	selling agent	Exclusive	
Debtexplorer.co.uk	selling agent	Exclusive	
Shoppingday.co.uk	selling agent	Major	AdSense is a supplementary income source

Similar to case 1, affiliate marketing is exclusive revenue source on websites that are targeted to a very narrow and well defined group of customers – market niches.

Table 9 – Case 2: Business model compared to target market size

Website	Market segment / niche	Affiliate marketing revenue share
Loanexplorer.co.uk	Niche	Exclusive
Remortgageexplorer.co.uk	Niche	Exclusive
Debtexplorer.co.uk	Niche	Exclusive
Shoppingday.co.uk	Broad	Major

Search engine marketing is used to generate traffic to the websites and the website owner is actively trying to reduce the dependency on search engines by learning other techniques to direct people to his websites. One such way is optimizing the website for search engines, which has been described in the literature (Strauss et al., 2006:328-330; Duffy, 2005). Another way how to attract more visitors is to leverage the power of social network websites – a newly emerged category of websites.

Interviewee distinguishes conversion rates on his website (number of leads divided by number of website visitors) and on merchant's website (number of sales divided by number of leads). He avoids the problem of not being able to influence merchant's conversion rate by preferring programs paid by a lead instead of sale. This way, merchant is strongly motivated to continuously improve his conversion rate. Return on investment is directly linked to the conversion rate according to the interviewee and all other common parameters were rated as not important.

Content provider assessed two commission models that he uses or used at his websites – pay per sale and pay per lead. Following advantages and disadvantages have been found:

Table 10 – Case 2: Advantages and disadvantages of respective commission models

Commission model	Advantages	Disadvantages
Pay per lead	Merchant's conversion rate is not a problem	Uncertainty – declined leads
Pay per sale	Higher commission	Low conversion rate on merchant's website lowers the income, no control over it.

Moreover, content provider prefers flat commission rather than commission based on sale volume. This makes calculations easier and more reliable and revenue predictable.

Advantages and disadvantages mentioned by the interviewee have not been found in the literature. A logical reason for use of pay per lead (PPL) compensation model could be the easiness of administration and control. Long process takes place before an application to a financial product is approved and volume of sale is not clear. PPL seems to be more secure for content providers in this case.

Even though the content provider uses only one-to-many affiliate programs offered by affiliate networks, he considers one-to-one program more beneficial because merchants do not have to pay part of the commission to the network. As a disadvantage of one-to-one program, he sees the possibility of deception on the merchant's side, which can be normally decreased by using programs offered by reputable affiliate networks.

5.2.3 Research question 3

How do content providers select affiliate marketing programs they intend to participate in?

Selection process of affiliate marketing programs differs, when content provider wants to replace the existent programs or when he considers creating a new website. In case the content provider already has a website and he is not satisfied with the results of current affiliate programs, he chooses new programs according to selecting process proposed by De Boer et al. (2001) and Lee (2001).

When the content provider wants to participate in new affiliate programs and creates website for it, he goes through four stages described in De Boer's model as well, the first phase is, however, different from the first situation.

Table 11 – Case 2: Selection process of an affiliate program

De Boer's model	
Problem definition	*Replacing current affiliate program:* Lead rejection rate is higher than 20% *Selecting new affiliate program:* New business opportunity Extending website portfolio
Criteria definition	Commission rate Pay per lead compensation model is preferred Other conditions of program – possibility to reject lead Reliability of merchant Reliability of affiliate network
Pre-qualification of suppliers	Selecting from program categories that can generate high commission
Choice of the supplier	Linear weighting methods

In the first phase, the content provider assesses the performance of current affiliate programs. If he finds out, that the rate of rejected leads by a merchant is higher than 20%, he decides to replace the program by another one, which would either offer higher commission, or would give fewer possibilities to reject a lead. In case, the revenue is satisfactory and the number of rejected leads is low, the selecting process does not continue and the existing program is used.

If he considers using new affiliate programs, the problem definition phase comprises the need to exploit new business opportunity and expanding the portfolio of websites, the content provider owns.

When the content provider decides to select a new affiliate program, he takes into consideration several criteria. First, he puts emphasis the on commission rate, which is the most important criterion. He prefers pay per lead compensation model, but he considers also other compensation models, if they are suitable for the websites he owns.

When the pay per lead model is applied, selection criteria involve also the possibility to reject a lead by merchants. If the program conditions enable rejecting lead easily, content provider does not participate in the program, because he could easily lose his commissions.

Furthermore, reliability of merchants and affiliate network is assessed by the content provider. When he does not consider affiliate network, which offers a program, reliable or he has negative experience with it, he will not apply for the program. He prefers co-operating with merchants and affiliate networks, which are well-known and reputable.

The content provider selects the affiliate programs from categories of program that enable generating high commissions such as programs offering mortgages or loans.

Finally, the provider of an affiliate program is chosen using linear weighting methods. The highest weights are assigned to the commission rate (in connection with offered compensation model) and little possibility to reject leads. Lower weights apply to reliability of merchant and affiliate network. Merchant offering the best conditions will be selected. The content provider uses linear weighting methods, because he thinks they are easy to use and can cover all important criteria.

Because the content provider constantly assesses the performance of the affiliate programs that he uses, Lee's model can be applied in the same way as was indicated in the analysis of case 1.

5.3 Case no. 3

5.3.1 Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

The following table summarizes advantages and disadvantages of affiliate marketing described in the literature and content provider's perception of them.

Table 12 – Case 3: Advantages and disadvantages of affiliate marketing

Advantages of affiliate marketing	Perceived as
Targetability	Both advantage and disadvantage
Tracking	Neither advantage nor disadvantage
Deliverability	Not different from other forms of online advertising
Interactivity	Minor disadvantage
New revenue opportunities	Very important advantage
Access to new merchants	Advantage
Added value to the website	Not considered
Issues with affiliate marketing	
Banner blindness	Disadvantage, but the same as for other forms of web advertising
Problems with conversion rate	Important disadvantage
Other advantages not described in the literature	
Higher income than in some other forms of online advertising	Important advantage
Little overhead costs	Advantage

From the advantages described in the literature, the content provider considers as an evident advantage only new possibilities of revenue and access to new merchants. Because he offers both direct advertising and affiliate marketing at his websites, the merchants have more options to choose from and can easily find the solution that suits their needs.

Targetability is perceived as both advantage and disadvantage, because thanks to it, affiliate marketing can generate higher income than other forms of online advertising, however, it requires devoting time to find out the best way how to present the programs to the right audience.

Tracking is not viewed as advantage or disadvantage, the content provider only sees it as a tool to decrease the risk of deception from the merchant's side. Deliverability is not considered as different for affiliate marketing and other forms of online advertising.

Interactivity is seen as a minor disadvantage, because the content provider does not have control over the visitors' action after leaving his websites. Therefore, his income is affected by the merchants' performance. If the merchant cannot utilize the interactivity, the content provider will lose his money as well.

Added value to the website is not taken into consideration, when assessing the benefits of affiliate marketing and it is not perceived as advantage or disadvantage.

The interviewee mentioned two advantages of affiliate marketing that have not been described in the literature – possibility to earn higher income through affiliate marketing than through other forms of online advertising and little overhead costs.

Problems with conversion rate are perceived as the most important disadvantage of affiliate marketing. As mentioned above, the content provider cannot influence visitors' behavior during the whole process and his revenues can decrease because of mistakes on the merchants' side. Therefore, affiliate marketing can be seen as more risky than other forms of online advertising.

5.3.2 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

Interviewee presented three very different websites, targeted to different market segments. In case of the fourth website – nakuptesi.cz, the interviewee supplies search engine marketing management and is paid on pay per sale basis. He does not use any intermediate page but rather places the ads on search engines to link directly to the merchant. This way, the content provider actually does not need any content to use an affiliate program and acts purely as a form of online promotion outsourcing. This form of affiliate marketing has not been addressed in literature yet.

Table 13 – Case 3: Business model compared to affiliate marketing revenue share

Website	Business model	Affiliate marketing revenue share	Notes
Jaknaweb.com	Metamediary	Partial	One-to-one programs
Schuti.cz	Metamediary	Partial	The website is still under construction, affiliate marketing is going to be one of two sources of income.
Vydelek-online.cz	Metamediary / Selling agent	Exclusive	
Nakuptesi.cz	Interviewee: selling agent[7] Website: Online retailing	Not applicable	

Again, there is no dependence of affiliate marketing usage on business model. Instead, as in previous cases, we can see that affiliate marketing is more used on websites targeted to niches:

Table 14 – Case 3: Business model compared to target market size

Website	Market segment / niche	Affiliate marketing revenue share
Jaknaweb.com	Medium sized	Partial
Schuti.cz	Broad	Partial
Vydelek-online.cz	Small	Exclusive
Nakuptesi.cz	Broad	Not applicable

Target market for websites jaknaweb.com and vydelek-online.cz is very similar, the website jaknaweb.com is aimed at webmasters and website designers, vydelek-online.cz is targeted to website owners and blog owners. Jaknaweb.com however was not designed to take advantage of affiliate marketing and interviewee is able to sell direct advertising on this website, which is more beneficial for him.

Both search engine optimization and search engine marketing are used to acquire traffic for the website. Added to that, interviewee also uses online advertising by placing banners or text links on other websites. Occasionally, he also uses public relations by supplying articles to online magazines. Again, social networking as a non-researched form of traffic acquisition is planned to be used in the future.

The main criterion for assessing effectiveness is the financial income. Google AdSense is used as a measure of minimum income from an advertising space and other advertising

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[7] Selling agent is probably the most appropriate model based on the classification by Strauss et al., 2006. It is however questionable, if such activity can be classified as a provision of content.

must be able to produce higher revenue. Similar to other two cases, conversion rate is the only measured non-financial criteria.

Interviewee uses several compensation models on his websites, for which advantages and disadvantages have been studied:

Table 15 – Case 3: Advantages and disadvantages of respective commission models

Commission model	Advantages	Disadvantages
Pay per time period	Certainty of income, high price, low administrative overhead	Difficult to obtain on smaller projects
Pay per sale (flat)		Lower revenue than PPS (percentage)
Pay per sale (percentage)	Higher revenue than PPS (flat)	
Pay per click (AdSense)	Reasonable revenue, can be used in addition to other revenue sources.	

Except direct advertising, neither of the above mentioned advantages and disadvantages was described as connected to a respective compensation model in the literature.

Interviewee uses both one-to-one and one-to-many affiliate programs. Following advantages and disadvantages of both categories have been found:

Table 16 – Case 3: One-to-one and one-to-many affiliate programs

Program type	Advantages	Disadvantages
One-to-one	Higher revenue	Difficult to obtain on smaller projects, administration overhead
One-to-many	Easy to apply to, easy to administer	Lower revenue

Based on the findings, it does not seem to be important whether a program is one-to-one or one-to-many, but one-to-one programs offer better conditions than one-to-many programs. Overhead costs emerge in one-to-one programs due to lack of complex information system for managing the affiliate program.

5.3.3 Research Question 3

How do content providers select affiliate marketing programs they intend to participate in?

The content provider usually selects affiliate programs before creating a website, where he implements the program. De Boer's (2001) model of supplier selection can be applied to the process as illustrated below:

Table 17 – Case 3: Selection process of an affiliate program

De Boer's model	
Problem definition	New business opportunity Leveraging an interesting program
Criteria definition	Financial conditions Merchant reputation Product reputation Program tracking and monitoring Possibility to access market segment Possibility to create traffic
Pre-qualification of suppliers	None
Choice of the supplier	Linear weighting methods

During the problem definition phase, the content provider assesses the available programs, tries to spot new business opportunities and exploit them. When selecting affiliate programs for his websites, he takes into consideration several criteria. The most important criterion is the commission rate and model. If they are acceptable, he evaluates reputation of the advertised product and of the merchant offering the program.

Afterwards, program tracking and monitoring systems are assessed in order to minimize the possibility of deception from the merchants' side. Finally, if all the above described criteria seem beneficial, the content provider tries to find out, what market segment can respond in the best way to the program and how costly it would be to attract visitors from such segment.

As there is only a limited amount of affiliate programs at the Czech market, the content provider does not pre-select them in any way, because the small number enables him to consider all of them. For this process, Lee's (2001) model is applicable in the same way, as was already described in the analysis of Case 1.

The affiliate program supplier is chosen using linear weighting methods. The highest weights are assigned to the financial conditions, other criteria can be compensated among each other.

The content provider decides to stop using the program, when the income generated by the program is lower than the income from Google AdSense. In such a case, the program is first replaced by Google AdSense and the content provider searches for new affiliate programs going through the process described above.

5.4 Cross-case Analysis

In the cross-case analysis, all three cases are compared in order to show similarities and differences between them and find common patterns that will enable answering the research questions.

5.4.1 Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

The advantages and disadvantages of affiliate marketing perceived by the interviewed content providers are compared in the following table.

Table 18 – Cross-case analysis: Advantages of affiliate marketing

Advantages of affiliate marketing	Case 1	Case 2	Case 3
Targetability	+, -	+	+, -
Tracking	+	+	neither adv. nor disadv.
Deliverability	=	+	=
Interactivity	-	+	-
New revenue opportunities	++	++	++
Access to new merchants	+	+	+
Added value to the website	neither adv. nor disadv.	neither adv. nor disadv.	not considered
Issues with affiliate marketing			
Banner blindness	-	not considered	-
Problems with conversion rate	--	--	--
Other advantages not described in the literature			
Higher income than in some other forms of online advertising	++	++	++
Little overhead costs	++		+
Easiness of use		++	

Table legend:
+, -   both advantage and disadvantage
+   advantage
++   very important advantage
-         disadvantage
--   very important disadvantage
=   it is not different from other forms of online advertising

All three content providers consider new revenue opportunities and access to new merchants as advantages of affiliate marketing. Moreover, they all added, that affiliate marketing not only offers them new revenue opportunities, but that the income generated by affiliate marketing can be significantly higher than when using other forms of online advertising.

This can be explained by the risk content providers have to bear, when employing affiliate programs. As they are paid only for a specified actions, their income is never secure and therefore, the programs have to offer content providers sufficient incentives to take this risk.

On the other hand, affiliate marketing decreases the risk for merchants, because they will not waste their money on advertising that is not efficient. Thus, they are willing to advertise even at websites that would not be taken in consideration otherwise. Thanks to this effect, content providers' access to merchants is wider.

Little overhead costs were also considered as an advantage of affiliate marketing by two content providers, whilst the third one emphasized the easiness of use connected with affiliate marketing. As affiliate programs are mostly automated, content providers do not have to devote their time to administrate them. Moreover, affiliate programs are often operated on one-to-many basis and therefore, companies try to make the system as easy as possible to attract great amount of content providers and minimize the time they would need to spend on answering their questions and administrating the program.

Other advantages described in the literature were not perceived as benefits unanimously. Targetability was perceived as beneficial, however content providers were also aware of the issues connected with it. They noted that affiliate program, when targeted well, can increase their income, but precise targeting requires devoting time to it and the results are not secure.

Tracking was considered as a minor advantage or neither advantage nor disadvantage. This can be explained by the fact, that even though tracking offers content providers good information about their visitors' actions and behavior, it does not affect their income directly. Nevertheless, content providers note that good tracking can minimize the possibility of deception and give them higher security.

Deliverability was not considered as an important benefit of affiliate marketing, mostly because content providers did not see any difference between affiliate marketing and other forms of online advertising in this aspect.

Neither of content providers thought that affiliate marketing would add their websites any new value. Affiliate marketing was seen as a form of online advertising, which can be usually replaced by another form. Content providers do not derive value from a specific affiliate program, because it would make their websites dependent on the program and it would be very difficult to replace it, when its results are not satisfactory.

Interactivity, even though it is described as advantage of affiliate marketing in the literature, was perceived as beneficial only by one content provider, who was paid per lead (he could affect number of leads to a full extent). The other two content providers saw interactivity more as and disadvantage and connected it with issues with conversion rate. They stated that interactivity is problematic, because they lose control over their visitors' activity after leaving the website and therefore cannot impact the actions of visitors that would lead to assigning the commission to their account.

Because conversion rate is to a great extent influenced by merchants' ability to persuade visitors to buy a product and exploit the interactivity, content providers see it as a threat. Moreover, as the content providers have only limited possibilities how to control merchants, they can also lose some of their commissions because of a mistake or deception.

In all three cases, problems with deception have been thoroughly discussed and possibility of deception seems to be one of the most important issues in affiliate marketing. Content providers do not actually have any proof of being deceived unless they try it themselves with test orders. Submitting test orders is however not always possible without actually paying for a product or service or without prior consent from the merchant. Merchants that want to avoid being accused from deception should implement systems to allow content providers to have real time information about leads and sales and have strictly defined rules stating under which conditions only a lead or a sale can be refused.

Finally, banner blindness was perceived as a minor issue, however content providers considered it as basically the same for all forms of online advertising, because they all use the same means to attract visitors.

5.4.2 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

Most of the websites presented in the three cases used business models of a selling agent or a metamediary. Affiliate marketing was used across the websites with no relevance to a particular business model. We have however found a pattern that binds share of affiliate marketing revenue share to the size of the target market for a particular website. The table bellow summarizes this observation from all three cases:

Table 19 - Cross-case analysis: Target Market related to affiliate marketing revenue share

Target market / Affiliate marketing revenue share	Case I	Case II	Case III
Broad	Minor (1)	Major (1)	Partial (1)
Medium			Partial (1)
Narrow	Major (1) Marginal (1)		Exclusive (1)
Niche	Exclusive (2)	Exclusive (3)	

In all three cases, the narrower the target segment was, the higher was the share of affiliate marketing. The number of websites included in the segment for each case is shown in parenthesis. Exceptions from the pattern are described with individual cases.

All three content providers used advertising networks, particularly Google AdSense. Income from Google AdSense is perceived as a measure of a minimum income from a website. Affiliate marketing was used only when the earnings generated from affiliated ads were better.

Traffic acquisition summarized

All three interviewees rely on both forms of search marketing – search engine optimization and search engine marketing, but also try to use other sources for traffic to their websites. In all three cases, search engine marketing, i.e. advertising in search engines, is used mainly for websites that use affiliate marketing and that are targeted to a market niche. A likely reason for this is that content providers are able to track down relevant ads on search engines based on affiliate marketing outcomes and the mathematics for the balance between traffic acquisition costs and affiliate marketing revenue is straightforward.

All content providers are trying to leverage search engine optimization in order to better promote their websites in natural search results. The main advantage is that after one-time investments to optimize their websites and promote them, the number of visitors coming from natural search results (i.e. for free) should significantly increase. This behavior was already described by Duffy (2005).

Other forms of traffic acquisition varied in cases. Whereas in case II and III, social networking was used or planned to be used, direct banner advertising and public relations were also used in case III.

Efficiency measurement

All three content providers consider as main criterion whether to employ affiliate marketing financial indicators. As the main performance indicator, all three content providers named conversion rate. None of them considered any other performance indicator important for affiliate marketing, except the ration of declined leads in case II, which however is not an indicator discussed in the literature overview. Conversion rate as the main indicator confirmed the theory mentioned by Duffy (2005).

Compensation models

In the three cases, content providers generally shared the same attitudes towards different compensation models:

Table 20 - Cross-case analysis: Compensation models

Commission model	Advantages	Disadvantages
Pay per time period	Certainty of income, high price, low administrative overhead	Difficult to obtain on smaller projects
Pay per lead	Dependent solely on content provider's performance Commissions lower than in PPS	Uncertainty, lead rejection Possibility of deception
Pay per sale (flat)	High revenue	Dependent on merchant's performance Difficult to control Possibility of deception Lower revenue than PPS (percentage)
Pay per sale (percentage)	Higher revenue than PPS (flat)	Dependent on merchant's performance Difficult to control Possibility of deception
Pay per click	Dependent solely on content provider's performance Can be used in addition to other revenue sources. Easy to control	Low revenue compared to others

Most valued model is advertising paid directly by merchant and compensated on a time period basis. According to content providers, this form of advertising brings the highest revenue and income is secure. On the other hand, it is hard to find such advertisers and they are only willing to cooperate with big websites.

Affiliate marketing brings highest revenue after direct advertising, but only if it is used right. Although it is easy to find advertisers, it is not easy to set up the website to achieve satisfactory conversion rates. Website must be very well targeted and promoted products and services must be attractive for majority of website visitors. Within available compensation models in affiliate marketing, content providers do not seem to have strong preference on a particular compensation model.

The findings correspond with the literature focusing on commission models only in some aspects. In accordance with Zeff (1999), it was found out, that result-based models (PPC and PPS) offer better opportunities for selling advertising space. However, the lack of control over advertising media and advertised product was only an issue in PPS model, not in all result-based models as Zeff (1999) claimed. This discrepancy can be explained by development of new advertising networks providing contextual advertising corresponding with the website topic that enables increasing content providers' control.

Furthermore, compensation model pay per lead solves the issue of merchant's conversion rate, but on the hand, commissions are believed to be lower and the fact that some percentage of the leads is rejected may be unsatisfying for content providers.

Literature does not describe any other advantages and disadvantages connected with specific commission models such as possible revenue, that can be generated though each of them, or possibility of deception by merchants. Moreover, it was found out, that preference of a specified commission model can be influenced by the difficulties with its administration.

Advertising networks (which offer PPC compensation) are used in cases where direct advertising or affiliate marketing could not be used. It is considered a secure but rather little possible source of revenue for all websites. Moreover, ads from advertising networks are very easy to set up and do not incur any costs related to further management.

These findings correspond with the theory proposed by Chaffey (2003:344) that affiliate marketing is beneficial especially to smaller websites, which are unable to sell advertising directly.

Affiliate marketing program types

Content providers share similar point of view on one-to-one and one-to-many affiliate programs and on affiliate networks. Their perceptions are summarized in the following table:

Table 21 - Cross-case analysis: Advantages and disadvantages of respective affiliate marketing program types

Affiliate marketing type / case	Case I	Case II	Case III
One-to-one	Higher commission Low automation	Higher commission Risk of deception	Better conditions Low automation
One-to-many	Lower commission Advanced automation		
Affiliate networks	High level of automation Lower risk of deception	Low commission Lower risk of deception	Low commission

Content providers value one-to-one programs, because these are able to bring highest revenues. They are nevertheless harder to control and administer and also only available to bigger websites. On the other end, affiliate networks provide necessary infrastructure and easy management, but also take part of the earnings so that commission from such programs is lower. These findings correspond with the theory (Oberndorf, 1999), although in case of the interviewees, the main motivation to prefer one-to-one programs was price.

5.4.3 Research Question 3

How do content providers select affiliate marketing programs they intend to participate in?

In all three cases content providers were usually searching for new affiliate programs to use at already existing websites, when they were not satisfied with performance of the used programs or when they believed they were cheated by the merchants.

Otherwise, they were constantly monitoring offer of affiliate programs and if they encounter interesting affiliate program, they decided to create a new website for it. The process of monitoring the market can be depicted using Lee's (2001) model.
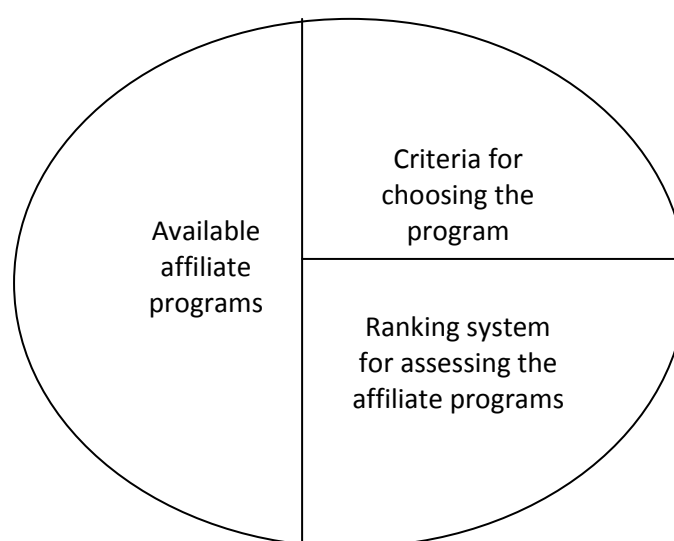
Figure 20 – Cross-case analysis: Monitoring the market - Lee's model

De Boer's (2001) model is applicable for both above described situations, however the first phase of the process differs. If the content provider wants to replace an existing program, the problem definition involves dissatisfaction with current affiliate program provider or getting a better offer from another provider.

When content providers searched for affiliate programs for their new websites, they defined the problem as the need to find new business opportunities, expand their portfolio of websites in order to decrease dependence on one source of income and chance to leverage interesting affiliate program.

Criteria, the content providers considered as the most important for selecting an affiliate program, were different for every content provider. Nevertheless, all of them placed emphasis on financial conditions and other factors connected to them (such as conversion rate). Then, merchants' reputation and minimizing potential deception were also taken in consideration, as well as tracking and monitoring systems and connection to the website topic.

None of the content providers did any pre-qualification of the merchants. For the final choice they all use linear weighting methods because of their simplicity and possibility to decide fast. The content providers did not consider using any other selection methods, because they believed linear methods give them sufficient means to decide well.

The highest weights were assigned to the financial conditions. Usually some criteria were not compensatory (such as connection to the website topic), some could be counterbalanced with better performance in other fields.

6 CONCLUSIONS

6.1.1 Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

The work has identified three main advantages of affiliate marketing for content providers. First, it offers new revenue opportunities for them. Second, generated income from affiliate marketing can be higher than when using some other forms of online advertising. Finally, using affiliate marketing program is connected with low overhead costs on the side of content providers.

Affiliate marketing was seen as a good combination between relatively low overhead costs (when compared for example to direct advertising) and reasonable income. Moreover, in some cases it was also a possible way how to attract new merchants, which would normally not cooperate with smaller websites.

To exploit these perceived benefits, merchants with affiliate programs or those planning to start new affiliate programs, should make them very easy to use (for example making the invoicing process automated etc.). This would even lower the overhead costs. The commission rate offered in the program should be competitive to other programs in the field. The program should also enable earning revenue that is higher than average income from Google AdSense in the same business area.

The biggest disadvantage of affiliate marketing were considered to be problems with conversion rate, because content providers do not have possibility to influence in full extent the actions that would lead to assigning commission to them. Therefore, they are afraid of unsatisfactory performance of merchants, their mistakes or deception from their side.

Problems with conversion rate are not so important in other forms of online advertising. As content providers are paid only for actions, they can influence, conversion rate at the merchant's side does not concern them. Performance indicators, that influence income from these forms of advertising, can be measured by content providers themselves. In such case the threat of deception is also minimized.

In order to minimize this disadvantage, companies, that have their affiliate programs, should offer content providers a good monitoring system that would give them accurate statistics and enable to follow their visitors' actions after leaving their websites. Moreover, visitors tracking should be fully automated to avoid mistakes.

In case merchants are not able to provide such system, they could consider offering affiliate program through an affiliate network that supplies necessary solutions. Reputable affiliate network can also add credibility to the program.

6.1.2 Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

We have confirmed the hypothesis that the main decision factor for content providers whether to use affiliate marketing on their websites seems to be the profit. They are generally considering three income sources: direct advertising, affiliate marketing and advertising networks. Generally, they expect the highest profit from direct advertising and the lowest from advertising networks, while affiliate marketing stands in the middle. It seems that all three sources have their place on the market. It is not always possible to use direct advertising and the use affiliate marketing is not always better than advertising networks.

Although it is not possible to generalize from the findings in a qualitative study, it seems that affiliate marketing is beneficial especially on websites that are precisely targeted to a well defined and narrow market segment. Usually, these are small websites that advertise few products of one merchant. Content providers create websites specifically designed to a specific affiliate program or product type rather than use it on existing websites.

A possible explanation, why is advertising network in some cases better than affiliate marketing and vice versa, is targeting. In case of an advertising network the supplier of the service decides which ads to present to a particular visitor. Displayed ads are based on page content, visitor's native language and possibly on broader behavioral patterns of a particular visitor. These ads are therefore highly personalized and successful even on websites with broad target segments.

With affiliate marketing, it is the website owner, who decides on advertised products or services, advertisement message, language and form. Level of personalization is very limited in this case, because it is very difficult to achieve it. Affiliate marketing can therefore be only successful, if the campaign hits substantial percentage of visitors. A small website specifically designed for a market niche can attract these visitors and serve them ads that perfectly match their interests.

We also found a relation between traffic sources and affiliate marketing usage. Whereas natural search results are main source of traffic for most websites, paid search engine advertising (search engine marketing, SEM) is also used on websites where affiliate marketing is present. This relation probably results from a fact that with affiliate marketing it is easy to decide whether such advertisements pay off. We therefore cannot conclude that affiliate marketing should be used on websites that use search engine marketing.

Although content providers have their preference on types of affiliate programs or usage of intermediaries in a form of affiliate networks, the ultimate decision factor is always the revenue. As deception was named as main issue of affiliate marketing, we would suggest that one-to-one programs are more suitable for well known merchants with good brand image, while affiliate networks are a good start for all other companies.

6.1.3 Research Question 3

How do content providers select affiliate marketing programs they intend to participate in?

When selecting an affiliate marketing program, content providers go through three out of four stages described in De Boer's (2001) model. They first define a problem. In this phase, they are either not satisfied with a previously used program, or they want to exploit new business opportunities offered by new affiliate programs at the market.

In the second stage of De Boer's model, content providers define criteria for selecting the affiliate program. The most important criteria were financial. However, the emphasis was placed at expected income from the program in a specified time. The commission rate itself played a substantial role, but other factors influencing the final revenue were also taken into consideration. These factors could discourage content providers from participating in the program.

Content providers did not make any pre-selection of affiliate programs apart from choosing a category of programs suitable for their websites. As the program category could be also placed into the selection criteria, we can assume that the third stage can be eliminated from the De Boer's model for choosing an affiliate program.

Finally, content providers select the affiliate program using linear weighting methods. They use these methods because they are simple, easy-to-use and applicable to various problems.

As content providers constantly monitor the market for new affiliate programs, they go through stages described in Lee's (2001) model. We can therefore conclude that both De Boer's and Lee's models are applicable for the process of selecting an affiliate program provider both for a new or existing website.

When a company wants to start an affiliate program and attract content providers to participate in it, it should carefully set the conditions of a program to be competitive. Commission rate and length of tracking time should be at least at the same level as competitors'. Conditions should be very clearly defined so that content providers would not be afraid of deception or mistakes at merchant's side. The threat of deception can be also minimized by offering good monitoring and tracking system. Finally, the company should persuade content providers about its trustworthiness. It should for example follow the most important affiliate forums in order to find content providers' opinions about the program. If any negative comments appear, the company should give explanation or retrieve the error.

6.1.4 Other conclusions

Although the following was not the aim of our research, the knowledge gained by thoroughly studying the topic allowed us to make few more points:

Role of content providers in affiliate marketing

We have drawn a complex diagram of the role of content providers in affiliate marketing:
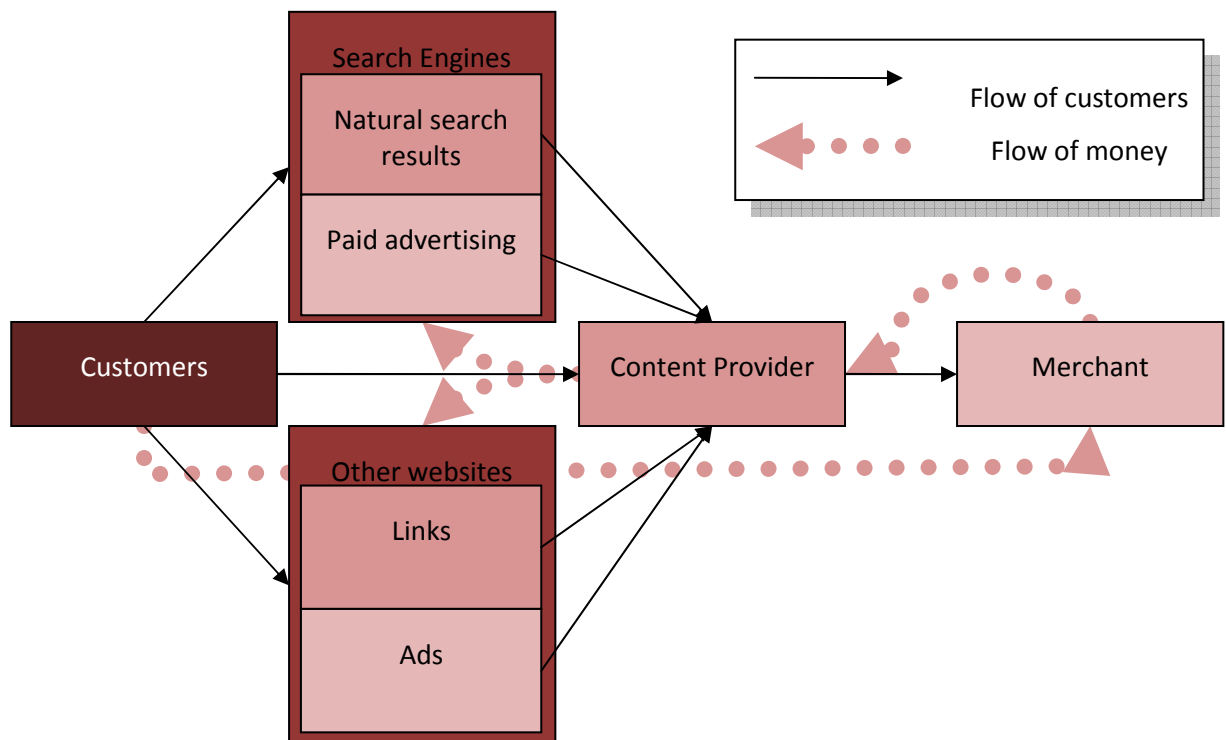
Figure 21 – Role of content providers in affiliate marketing

The diagram above suggests that affiliate marketing is a form of promotion outsourcing, where content providers take care about merchant's promotion and receive compensation based on their performance. But why merchants actually need content providers and why they do not take care about the promotion themselves?

A probable answer would be that affiliate marketing is much more efficient than keeping the promotion in the house. With affiliate marketing, merchants can take advantage of dozens or hundreds of individuals with lot of experience and lot of new ideas and they do not need to care if they succeed or not. Merchants only spend money on promotion, which proved to work. Moreover, affiliate marketing does not mean that the merchant cannot do its own promotion too.

Content provider as obsolete terminology

Although the term content provider is extensively used in the literature, it does not precisely describe the merit. Firstly, content providers, especially in some cases, actually do not provide much content. Some of the websites presented in the cases actually contained very little own content, most of it was content loaded from merchant's servers. In such cases, content providers only designed a website and most part of their work was its promotion.

Secondly, we have found cases where content providers did not use a website at all – they simply placed ads to the search engines, which pointed directly to the merchant's website and received commission if visitors coming from such ads actually converted into customers. In this case, content providers are solely providers of knowledge where to advertise and for which price.

Both content providers and affiliate networks generally use terms *affiliates* or *publishers* to describe content providers. The term affiliates definitely is more appropriate to describe content in the context of affiliate marketing, but cannot be applied on content providers that use other income sources. The term publishers, on the other hand, is more used in the sense of a newspaper or magazine publisher in the literature.

Suggestions for further research

The role of content providers in affiliate marketing has been outlined in this study and should be further researched, especially with connection to the factors that make the use of intermediaries more effective than in house promotion. Based on observation, merchants strongly vary in to which extent they rely on content providers.

While it seems to be clear, why advertising networks perform better on websites targeted to broad target segments, it is unclear why affiliate marketing is better in narrow segments. If advertising networks have technology that can serve perfectly targeted ads to a wide variety of visitors, why do they have problems offering ads in the same quality on niche websites?

Traffic acquisition is a primary concern for content providers as inevitably need website traffic for their business. Yet, this area has not been researched properly and some of the traffic sources mentioned by content providers were not covered by the literature.

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APPENDICES

Interview Guide

Introduction

What is the purpose of your website(s)?

Do you use on-line advertising on your website? Is it main or complementary source of revenue?

How do you sell online advertising? Why?
Hints: Direct, Representation firm, Ad networks, Auctions, Affiliate marketing

Research Question 1

How do content providers perceive advantages and disadvantages of affiliate marketing compared to other forms of online advertising?

1.1 What type of online advertising do you offer at your websites?
Hints: E-mail: discussion lists, newsletters, Web: banners, text links, sponsorships, advertorials, interstitials, microsites

1.2 What do you perceive as main advantage and disadvantages of affiliate marketing compared to other types of online advertising that you use? Why?

- Advantages in:
  - Targetability
  - Tracking
  - Deliverability and Flexibility
  - Interactivity
- Issues in:
  - Banner blindness
  - Pricing models
- Other:

Research Question 2

How can the situations, under which affiliate marketing is efficient for content providers, be characterized?

2.1 How do you measure effectiveness of online campaigns at your websites? Why these?
Hints: Ad views, reach, click-throughs, CTR, CPM, CPA, CPS, conversion rate, effective frequency

2.2 Which revenue sources do you use at your websites? Why?
Hints: online advertising, subscription fee, syndication, per-unit charges, on-line sale of merchandise, affiliate marketing

2.3 How do you set pricing for advertising at your websites (e.x. PPI, PPC, PPA)? Is affiliate marketing the main source of revenue at these websites? Which type of pricing do you prefer?
Hints: time period, exposure, per response, per action (PPS, PPL, PPC), other...

2.4 What business models (main source of revenue) do you use at your websites? At which of them affiliate marketing is beneficiary? Why?
Hints: Brokerage (exchange, auction), Agent (selling, metamediaries, malls, purchasing, reverse auction, buyer cooperative), Online retailing

2.5 How do you attract visitors to your website? How do visitors enter your website? Do you use search engine marketing or search engine optimization?
Hints: Traffic acquisition, SEM, SEO

2.6 Do you use one-to-one or one-to-many affiliate programs? Which one do you prefer?

2.7 Do you use services of affiliate networks? Do you prefer them to programs offered directly by a merchant? Why?

Research Question 3

How do content providers select affiliate marketing programs they intend to participate in?

3.1 Why did you decide to use affiliate marketing?

3.2 What criteria do you take into consideration? Why these?

3.4 Do you make any pre-selection of the programs before making the final choice? How?

3.5 How do you choose the particular program, you are going to use?

3.6 Is the selection different, if you choose a program for a specific website (place at the website) that you have already used affiliate program at?

3.7 Under what circumstances do you decide to change the affiliate program?

Screenshots
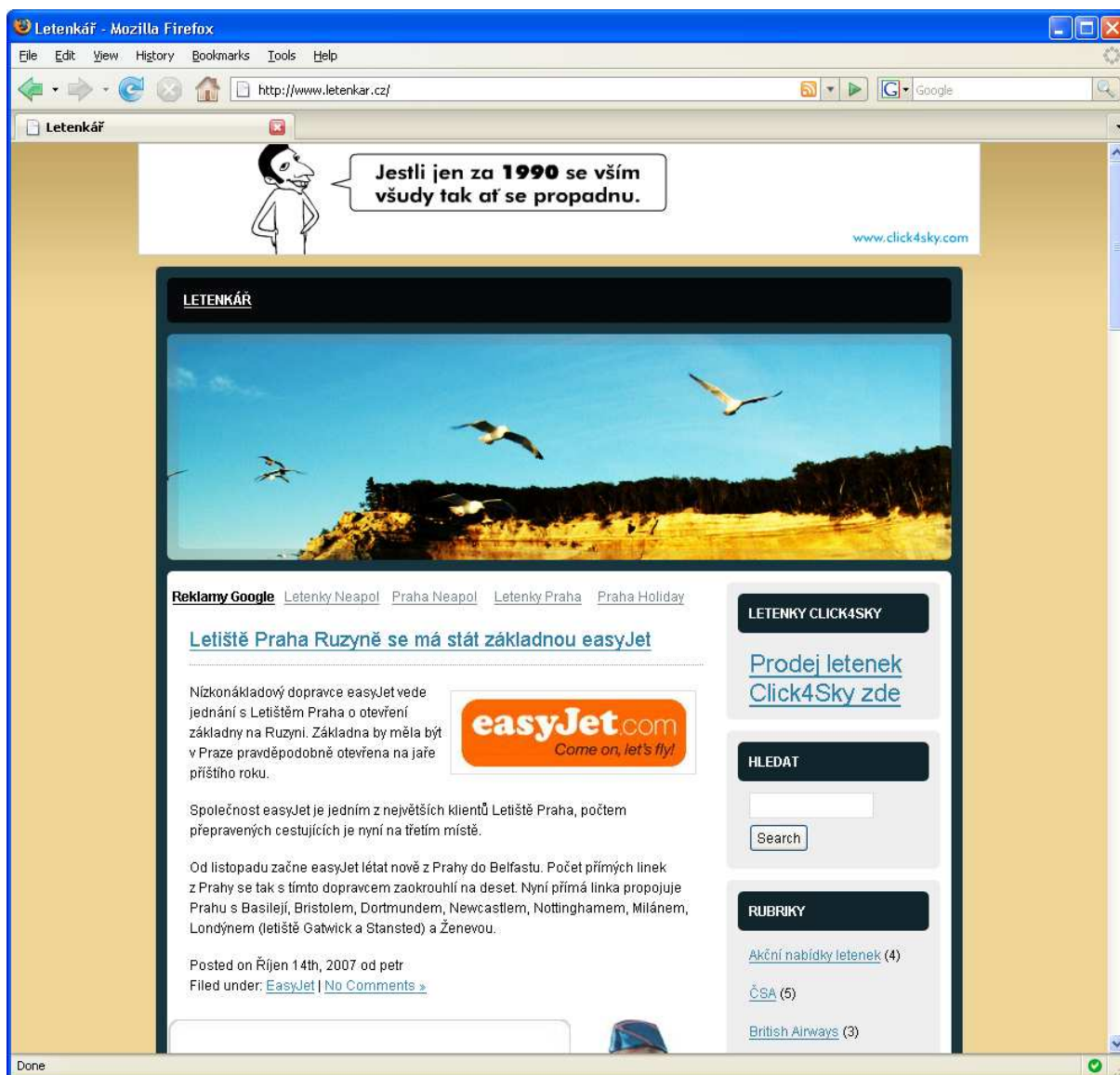
Figure 22 – Case 1: letenkar.cz
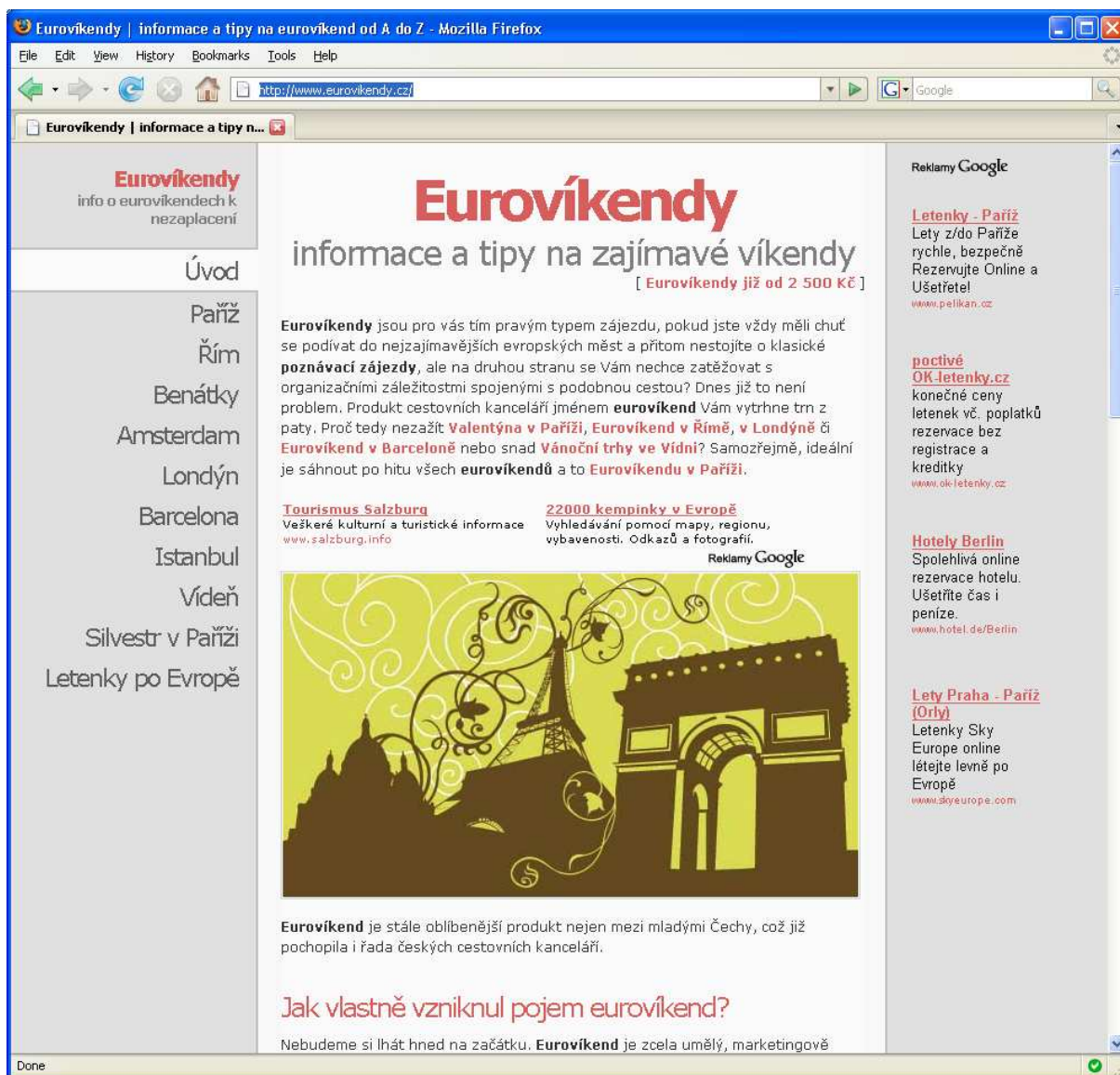
Figure 23 – Case 1: eurovikendy.cz

Figure 24 – Case 1: i-noviny.cz
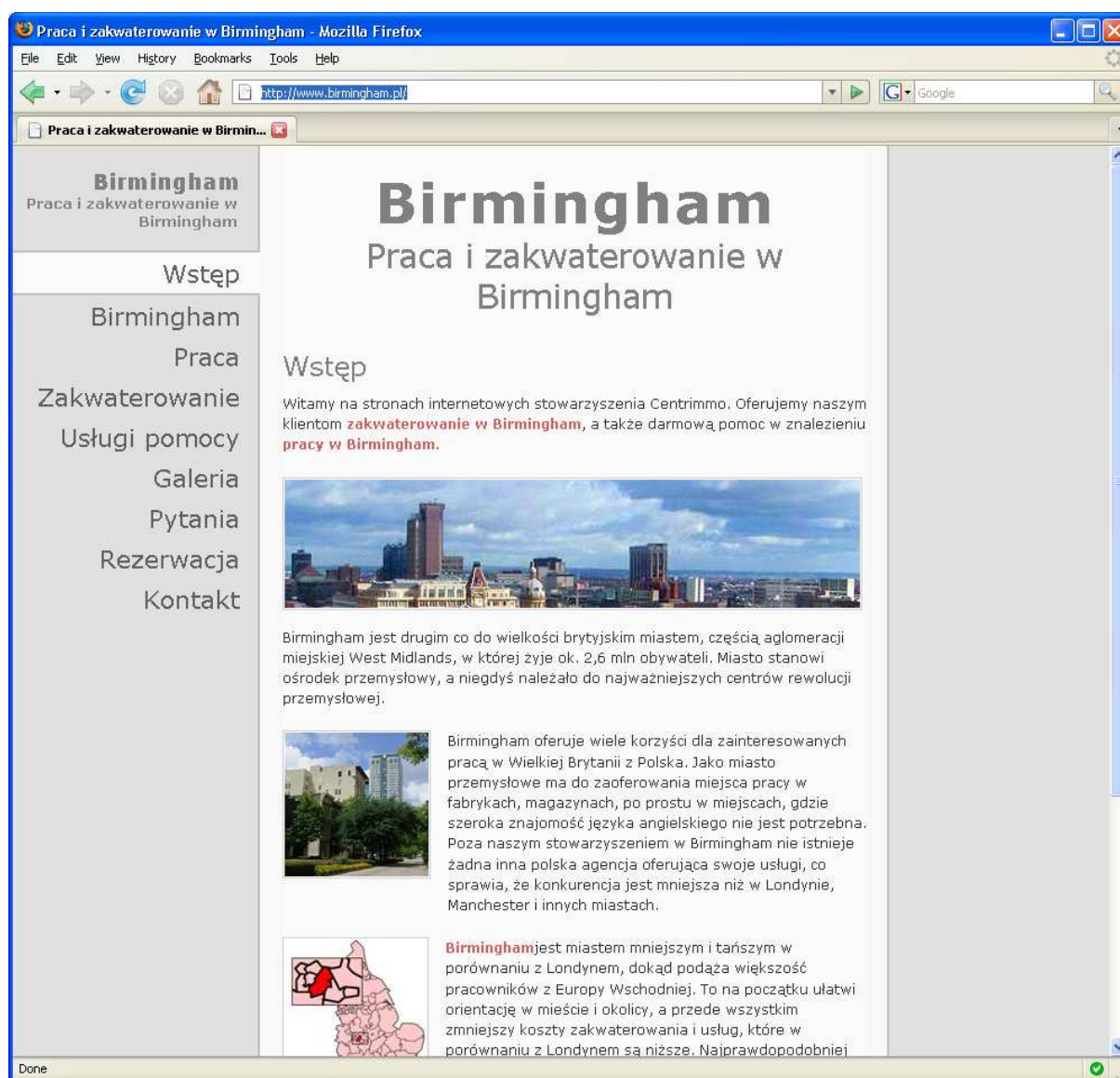
Figure 25 – Case 1: birmingham.pl

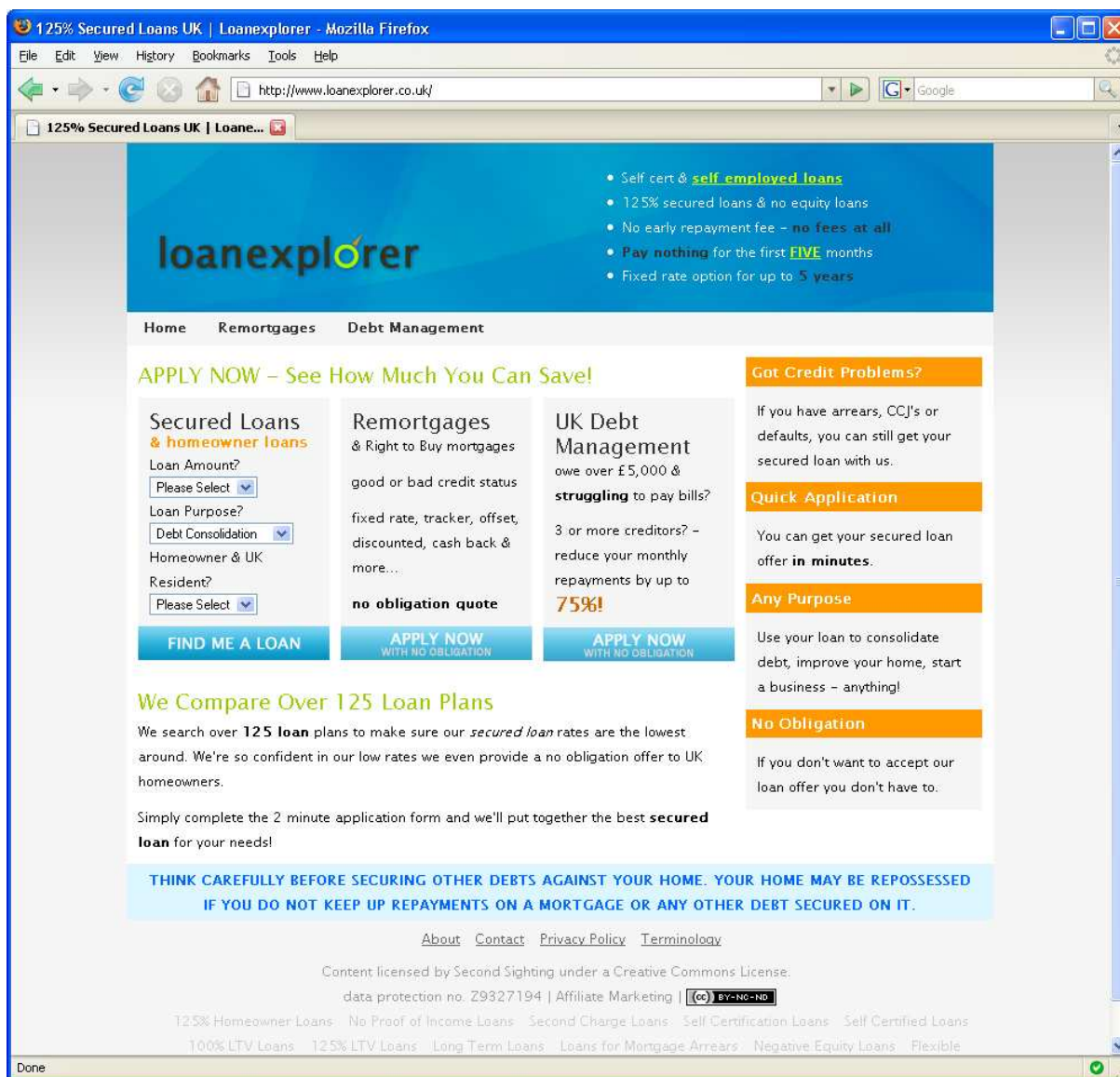Figure 26 – Case 1: manchester.cz
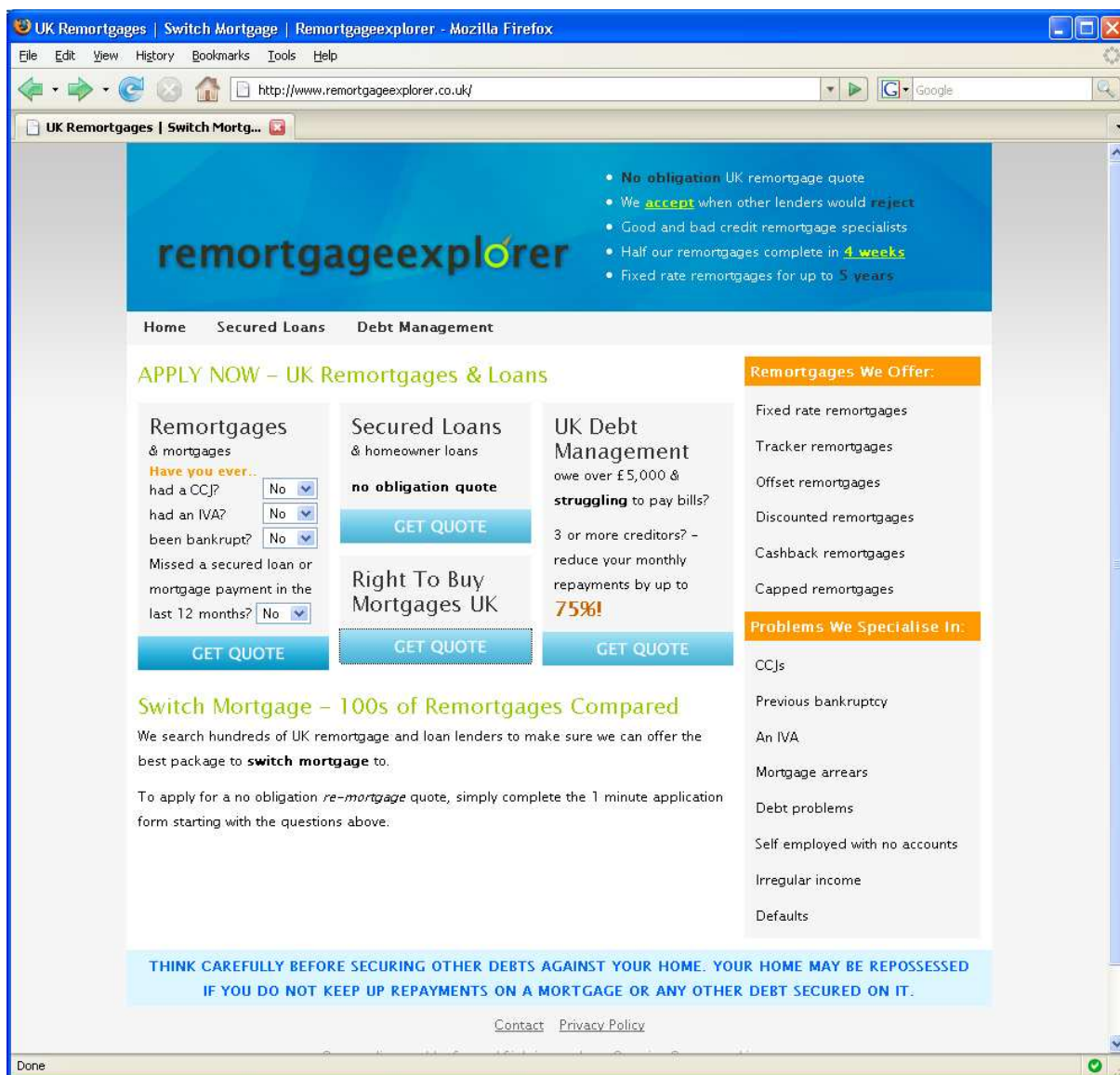
Figure 27 – Case 2: loanexplorer.co.uk

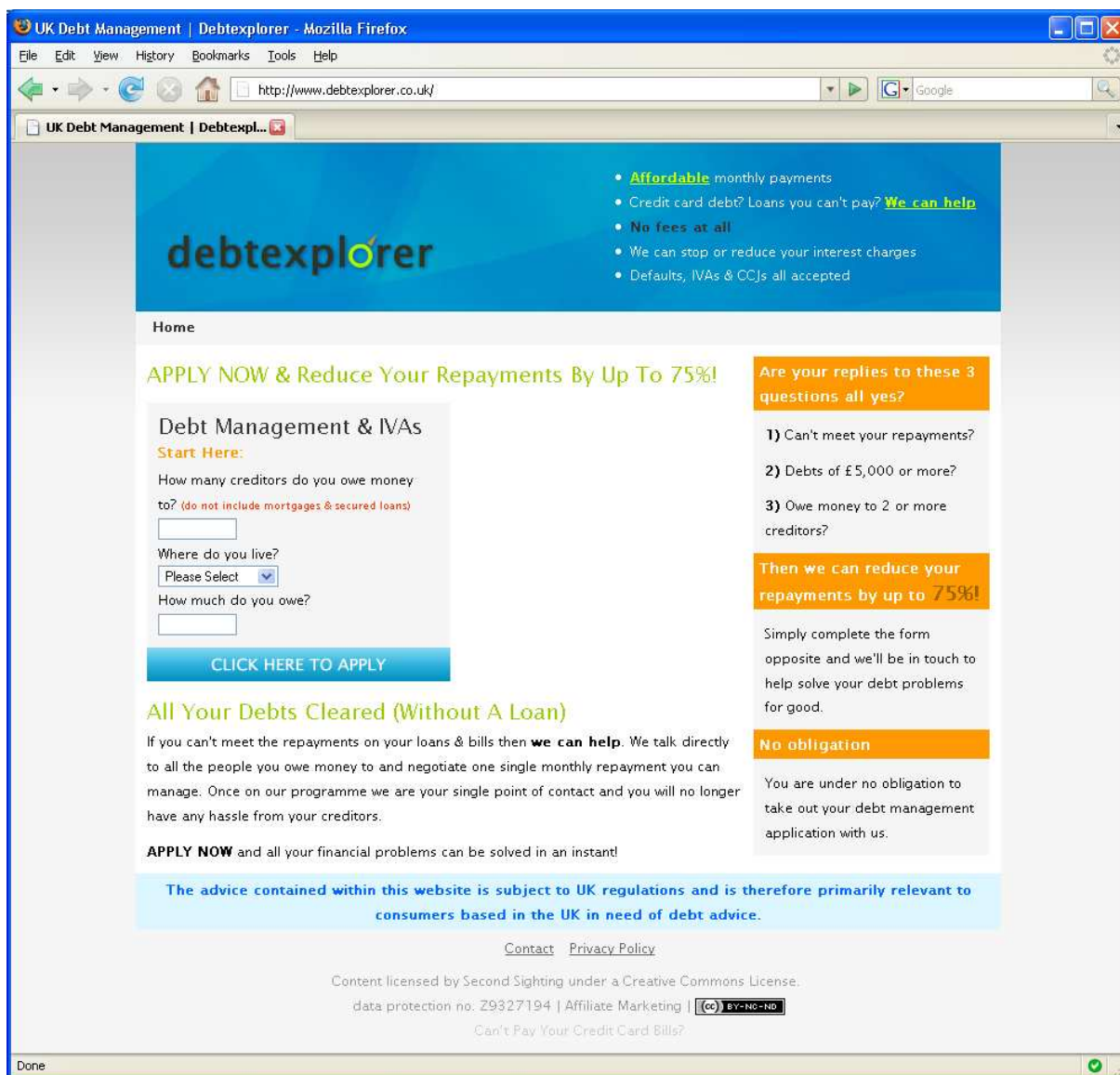Figure 28 – Case 2: remortgageexplorer.co.uk

Figure 29 – Case 2: debtexplorer.co.uk

Figure 30 – Case 2: shoppingday.co.uk

Figure 31 – Case 3: jaknaweb.com
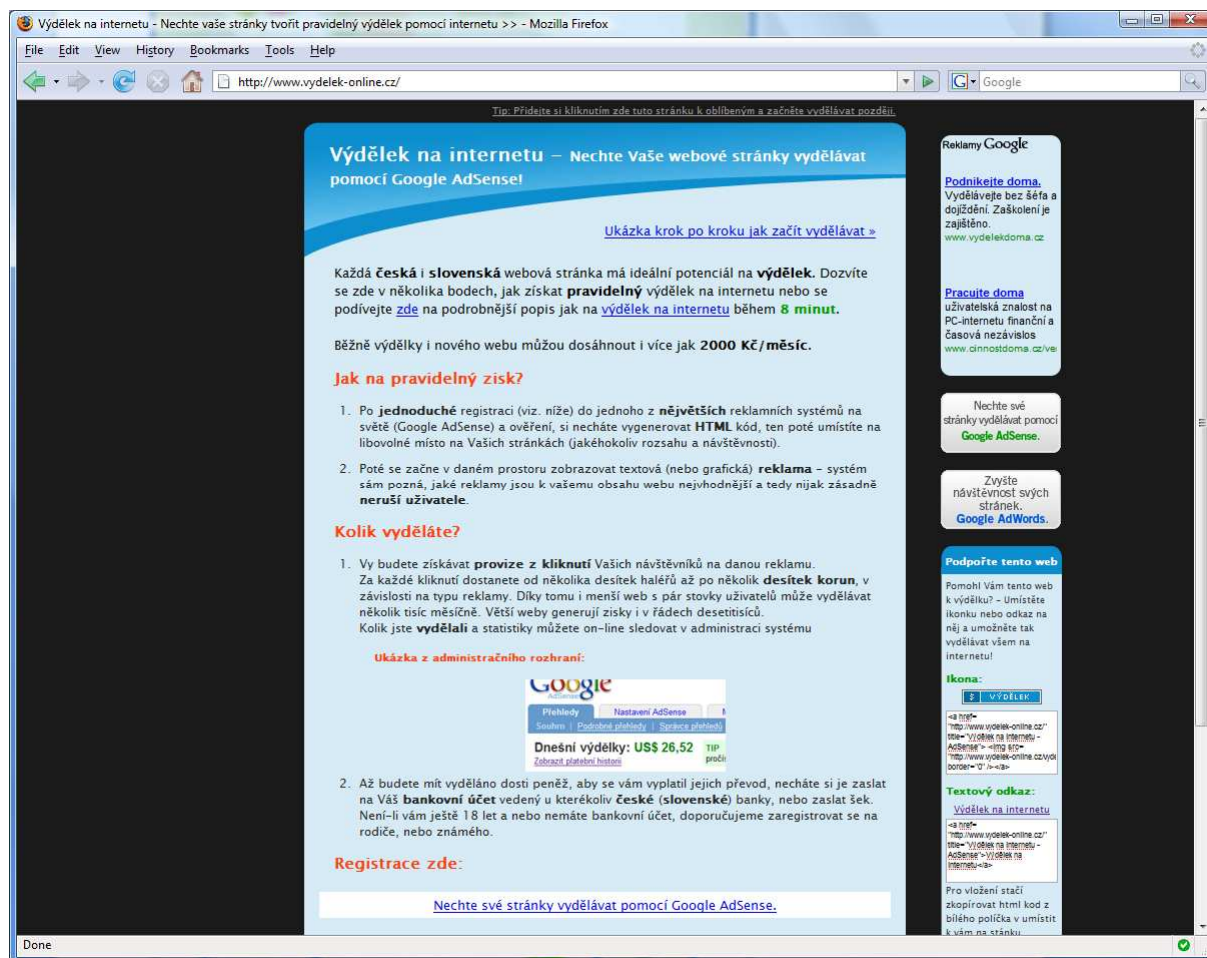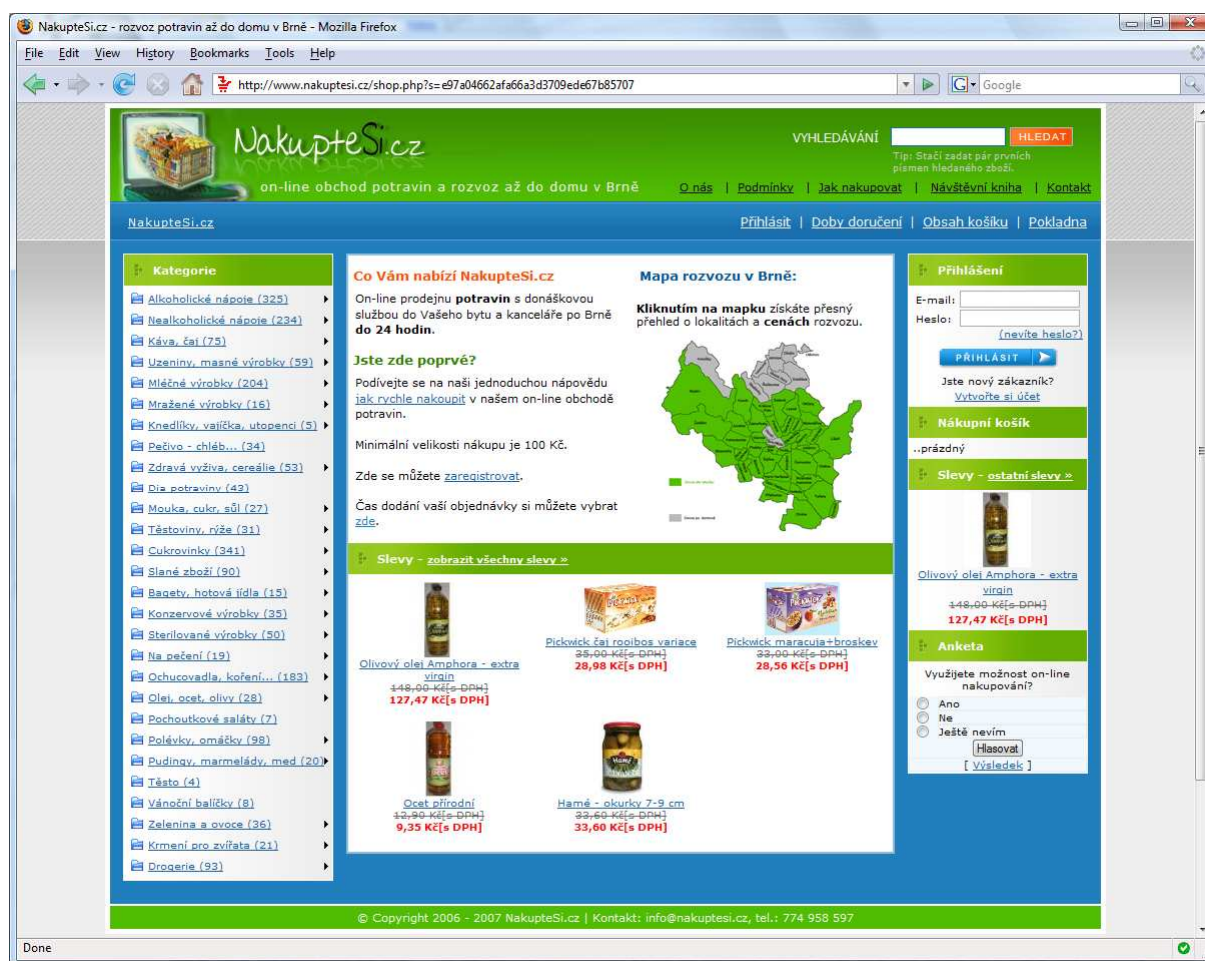
Figure 32 – Case 3: schuti.cz

Figure 33 – Case 3: vydelek-online.cz

Figure 34 – Case 3: nakuptesi.cz