The Unassuming Power of Affiliate Marketing

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Introduction

Neo@Ogilvy has teams across the country specializing in different digital disciplines — display, programmatic, search, ad operations, etc. But did you know there is an office in beautiful San Francisco that specializes in affiliate marketing?

The team, founded in December 2012, has grown to a group of seven. The work is focused on a small of group of clients, but the smart thinking and strategy behind this activity can be applied across the board.

Affiliate marketing is still in the process of being understood as a digital medium for direct-response advertisers in the U.S. In this Viewpoint, we will discuss what affiliate marketing is and why it should be a part of overall client strategies and holistic marketing efforts.

Everyone Uses Affiliate Marketing!

When asked about affiliate marketing, most people stare blankly at their inquirer or respond that they have no idea what it is. Little do they know, they are probably participating in affiliate marketing on a daily basis. We'd be willing to bet that they own rewards credit cards such as a Discover Card or Chase Rewards, shop in order to accumulate enough miles to fly for free, use RetailMeNot to find coupons or use Shazam to buy music. These are just a few examples that demonstrate the breadth of affiliate marketing.

What Is It and How Does It Work?

The simple idea behind affiliate marketing is to involve a third party to promote a product in exchange for commission. Customers today expect — or want — to shop at a discounted price, to feel that there is a clear benefit in making the purchase then and there. Reward credit cards and RetailMeNot both leverage this desire by working with companies to provide deals for the savvy shopper. Shazam is utilized by iTunes to sell music and drive customers to the iTunes Store. In return, Shazam receives a commission while also becoming associated with one of the most sought-out companies in the world.

Traditionally, there are two types of affiliate partners: cash-back and loyalty/coupon. A cash-back affiliate offers consumers a chance to earn a percentage of cash back on their purchase. The percentage is typically predetermined by the commission rate that the client has agreed upon with the affiliate. This is an important factor — that the client can make the offer seem more appealing by simply increasing the site's commission rate. For example, if Ebates is at a 10% commission

rate, this means that the site makes 5% off of each sale while the customer buying the product also get 5% cash back on their purchase. Together, this totals the 10% commission rate paid from the client's pocket.

Coupon sites such as RetailMeNot or coupons.com advertise promotional offers or percentages off (i.e. 20% off boots, 25% off sale items). Coupon sites can also negotiate exclusive offers with clients to give an extra percentage off to the consumer, which would not be found on the client's site. This is when a vanity code would be used (a specific "code" like SUMMER to get the additional discount during check out). This is beneficial in driving sales because the customer feels like they found a bargain and will be motivated to spend more.

Every consumer is unique. A customer on a coupon site is more reactionary. For example, if a customer is at the checkout or point of purchase and sees an entry for a promo code; she will then search for extra savings and come across a site such as RetailMeNot, which may provide a discount code.

A cash-back site is more pre-meditated. A consumer is typically a member of the site and will first go to the cash-back site to shop for products to receive their bonus. For example, if a consumer is buying a set of sheets from Macys.com, they will first go to Ebates and shop through the Macys.com link to receive their 6% cash back. Cash-back sites also host coupons and promotional codes. Whether the customer receives the cash back along with the discount from the coupon is within the terms and conditions and through the agreement between the client and the affiliate.

A study commissioned by RetailMeNot in 2011 highlights the growing value of affiliate marketing and its effect on consumer spending (http://www.retailmenot.com/corp/gui/pdf/forresters_impact.pdf). The main takeaways are:

- **Online coupons and promotion codes drive incremental business.** Online coupons and promotion codes generate new users and increase overall user spending. A consumer can be on the fence about a purchase, but a promotional code or an offer can influence the purchase. Additionally, consumers are more willing to try new products or services if they are able to receive a discount. Affiliate marketing comes into play here because a consumer can be browsing offers or search for a code if they are undecided about a purchase.

- **Online coupons and promotion codes positively influence the purchase cycle.** Online coupons and promotion codes improve conversion rates, reduce shopping cart abandonment, and improve brand loyalty and reputation (as long as promotions stay fresh).

- **Visitors to coupon websites are an especially valuable segment of shoppers.** They improve the purchase cycle because they spend more money, make more purchases and respond more favorably to online coupons and promotion codes than the average online shopper.

Spend for an affiliate program is very efficient because it works on a cost-per-sale or cost-per-account basis. Until there is a conversion, the client does not pay. This is the biggest difference between traditional digital media buys and affiliate marketing — incremental spend above this is not required.

How to Run a Successful Campaign

There are several areas of focus to run a quality affiliate program smoothly.

1. Ensuring that only appropriate partners are added to the program. Since affiliate marketing is essentially the process of having third-party vendors promote a product, it is vital to uphold brand guidelines. The Neo@Ogilvy team works to ensure that affiliates are complying with the standards set by the clients. The duty of the agency is to protect the quality of the brand's image. By utilizing a tracking platform, the team is able to monitor the approval and rejection of publishers requesting to become affiliates while also maintaining a close relationship with those that have been accepted into the program. Not only is it important that those allowed into the program are up to standard, but it is vital that consistent attention is paid to each and every partner. Formal weekly, monthly or annual audits ensure that all partners are working within brand guidelines (using correct images, offers, exclusions, terms and conditions, etc.).

2. Affiliate marketing is built on communication and relationships more so than a standard media buy. Whether it is a small blog or a corporate giant, equal attention is provided to the affiliate partners who reach out for a complete breakdown of what each affiliate program has to offer. By using a communication tool, the team is able to respond to hundreds of inquiries about the program and then follow up on the phone if necessary.

3. The newsletter serves as an important tool in the relationship between the client and affiliate partner (though managed by the agency or network). It allows the client to notify affiliates of upcoming sales and promotions. Affiliates rely on this type of communication because it consolidates the information in an organized manner instead of in emails that can easily be missed. It also allows the client to communicate with all affiliates and publishers at once. Newsletters usually announce new banners, textlinks or offers that the client would like the affiliates to promote. The banner upload process is quite simple. The client provides banners and uploads them to a network, such as Linkshare or PHG, giving publishers access to place the banners on their sites.

The Math Behind it All

Affiliate marketing can be used for a number of client needs (sales, accounts, leads, etc.). Like all digital media, the types of activity, strategy and optimization efforts are based on individual client goals.

The KPI for some clients is generating efficient sales. In this case, a metric called cost of sale is used to measure our performance and determine our quarterly strategy. Cost of sale is mainly used in accounting but it also fits well in affiliate marketing. There are two main forms of costs in affiliate marketing, one is varied (commission paid to the affiliate for the sale they were able to generate) and the other is fixed (flat fee paid for placements). The equation used is (commission + placement fees)/revenue. Cost of sale is a useful metric because it controls spending and ensures that incremental spend is applied as wisely and efficiently as possible.

The measurement of successful incremental spend on an affiliate's site is always how much more sales they generated as a direct result of the extra media spend. The extra revenue is referred to as incremental revenue. The effectiveness of the campaign is determined through a metric called incremental cost of sale, which is a rate calculated through dividing the incremental revenue generated by the extra media spent. If the incremental cost of sale is low then the campaign will be deemed successful because it means that we got a lot of incremental revenue and spent very little to get it.

By utilizing these types of metrics (cost of sale, incremental cost of sale), affiliate marketing is transformed from a media plan addition to a media plan volume driver. Through completing large amounts of campaign testing with affiliates and performing post analyses, the team is able to scientifically predict how much incremental revenue each affiliate will generate. Therefore, effectively analyzing data and utilizing it to guide strategy is crucial for a successful affiliate marketing plan.

The Transformation – To the Future and Beyond

Affiliate marketing is a growing field and Neo@Ogilvy has been and continues to be a driving force for global change and improvement. Typically, an affiliate program setup has two main parties, the affiliate network (e.g. CJ, Linkshare) and the client. Often, the affiliate network has account management capabilities in addition to tracking capabilities that house and drive the media that runs.

Affiliate networks typically get paid based on commission. The more the client spends, the more they get. Because the affiliate networks (in most cases) own the relationships with the individual affiliates, this may be a conflict of interests.

Having an agency manage the program is the perfect solution to allow for a third party to be involved. In these cases, there is still either an affiliate network (e.g. Linkshare) or a purely tracking solution (e.g. PHG). The agency is responsible for working with the client to create strategic recommendations based on their KPIs and campaigns. This can be compared to a media agency/client setup — the media agency has relationships with each vendor versus the client having them directly.

Summary and Takeaways

Customer online behavior is changing weekly through the introduction of new digital trends and consumption sources. Customers have more power than they have ever had with unlimited online options of where to buy, where to research, where to shop. Affiliate marketing is a way to attract customers who you may not be reaching on large editorial based publishers. Affiliate marketing attracts publishers and developers big and small because of the mutually beneficial outcome.

Essentially, affiliate marketing creates a symbiotic relationship between the client, the publisher and the consumer. It gives the client a platform for exposure, it gives the publisher revenue through commission and a larger audience, and gives benefit to the consumer by allowing them the best deal possible resulting in increased brand loyalty.

At this point, we hope affiliate marketing seems a bit less like a black box. It's an important form of digital media when it comes to lead generation, specifically for clients whose ultimate goal is efficient sales or conversions. Affiliate is not only trackable but is also flexible due to the nature of the setup and focus on one-to-one communication. This type of program can be applied to almost every client strategy and can round out a media plan by driving incremental conversions.

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