

4. affiliate marketing

What's inside: An **introduction** to affiliate marketing, the **key terms and concepts** you need for this chapter and the **history** of affiliate marketing as it emerged from the murky depths of the adult industry. Looking at **how it works**, discover different **actions and rewards**, how **tracking** works (and cookies get involved). Uncover some of the ways that **affiliates promote merchants**, how **affiliate networks** fit into the scheme of things and some handy tools of the trade for affiliate marketing. There is an introduction to **setting up an affiliate campaign**, pros and cons of affiliate marketing and of course a **summary** of the chapter, and a look at **how it all fits together.**

introduction

If you recommend a restaurant to a friend, and that friend visits the restaurant because of your recommendation, the restaurant's revenue will have increased because of your referral. This is "word of mouth" marketing. But you, as the referrer, do not see any of the cash benefit that the restaurant does!

Imagine that the restaurant gave you 10% of the bill for every person that you referred to the restaurant. They would be paying you a finder's fee for new customers. There are a number of businesses that market this way offline. Brokers for insurance products are an example, but these referrals can be hard to track. Online, they are very easy to track. This system of reward where compensation is based on referral is called affiliate marketing, and is used to describe this type of marketing in an online environment.

Affiliate marketing is used widely to promote web sites, and affiliates are rewarded for every visitor, subscriber or customer provided through their efforts. Because of this, affiliates are sometimes viewed as an extended sales force for a web site. Affiliates are paid for performance, so affiliate marketing is also referred to as performance marketing.

history

Like many eMarketing innovations, the beginnings of affiliate marketing are to be found in the Adult industry. Cybererotica was probably the first to run an affiliate campaign with its CPC programme, where it would reward referrers for each click-through to its web site.

Affiliate marketing moved closer to the mainstream, with programmes offered by companies such as CDNow (its BuyWeb programme launched in 1994), PC Flowers & Gifts.com, AutoWeb.com and a handful of others. But the story that is most well known, and that ensured that affiliate marketing hit mainstream press articles, is that of the Amazon.com Associates Program.

Legend has it that Jeff Bezos (the CEO and founder of Amazon.com) was at a cocktail party, where a woman there told him that she wanted to sell books through her web site. She did not have the infrastructure to sell the books, but Jeff Bezos realised that she could send her targeted traffic to Amazon.com where users could buy books, and she could get paid for each successful referral. From this, Jeff Bezos launched Amazon Associates, the Amazon.com affiliate marketing programme. Referrers are rewarded for successful sales that occur as a result of their marketing efforts. The growth experienced by Amazon.com as a result of their affiliate programme is well documented, and probably accounts for about 40% of their revenue (according to information in Amazon.com discussion forums).

key terms and concepts

Action A specified task performed by a user, which results in the affiliate being awarded commission. Actions include purchasing a product, signing up for a newsletter or filling in a form.

Affiliate or Publisher* The Affiliate or Publisher markets the products of the Merchant.

Click Through A click on a link that leads to another web site.

Commission The bounty paid by a merchant to an affiliate when the affiliate makes a successful referral.

Cookie Cookies are parcels of text sent by a server to a web browser and then sent back unchanged by the browser each time it accesses that server. Cookies are used for authenticating, tracking, and maintaining specific information about users, such as site preferences or the contents of their electronic shopping carts.

CPA Cost per Action. Paid when a certain action is performed by a user.

CPC Cost per Click. Paid when a link is clicked upon.

CPL Cost Per Lead. Commission structure where the affiliate earns a fixed fee for a lead sent to a merchant.

CPM Cost per Thousand (Mil). Amount paid for every 1000 views of an advertisement.

EPC Earnings Per Click. Based on historical data and conversions rates, what an affiliate can expect to earn per click.

Merchant or Advertiser * This is the owner of the product that is being marketed or promoted.

Referrer The referrer is the URL of the web page that a user was at before reaching yours. The server's logs capture referral URLs and store them in their log files.

Revenue Share Commission structure where the affiliate earns a percentage of a sale.

ROI Short for return on investment.

Session The session of activity that a user with a unique cookie spends on a web site during a specified period of time

Traffic This refers to the visitors that visit a web site.

URL Short form for Universal Resource Locator. This is a unique address that identifies a web site.

XML Short for eXtensible Markup Language, XML promises more standardized and organized delivery of data over the Internet. XHTML is the XML version of HTML.

* Why advertiser and publisher? Well, the merchant has goods that need to be advertised, and the affiliate has the medium to publish those adverts. The terms are interchangeable.

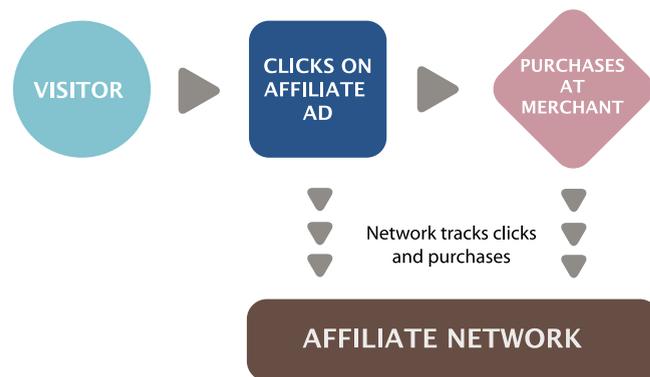
According to eConsultancy's Affiliate Marketing Networks Buyer's Guide (2006), total sales generated through affiliate networks in 2006 was £2.16 billion in the UK alone. And MarketingSherpa's research estimates that in 2006, affiliates worldwide earned \$6.5 billion in bounty and commissions!

Affiliate networks, which act as intermediaries between affiliates and merchants, came onto the scene in 1996, with the launch of LinkShare and Be Free. Commission Junction, another big player, launched in 1998 and was bought by ValueClick (Nasdaq: VCLK) in 2003 for about \$58 million.

how it works

The core of affiliate marketing is a simple process:

1. An affiliate refers potential customers to a merchant's web site.
2. Some of those customers perform a desired action.
3. The merchant rewards the affiliate for each desired action resulting from the affiliate's referral.



The affiliate marketing process.

However, there are many different ways an affiliate might market a merchant's offering, there are many different types of action that can be rewarded, and, most importantly, there needs to be some way of keeping track of the whole process.

We're going to take a look at the different types of action first of all, then discuss keeping track of it all, and lastly take a look at some of the many means that affiliates use to send customers to merchants, and of course, to make themselves cash.

action and reward (or horses for courses)

Affiliate marketing can be used to promote any type of web site – there just needs to be an agreed upon action that will result in an affiliate earning commission. Different

types of merchants will have different required actions. The actions and the type of commission can be summed up as:

- CPA (Cost Per Action) – a fixed commission for a particular action
- CPL (Cost Per Lead) – a fixed commission for a lead (i.e. a potential sale)
- Revenue Share (also CPS or Cost Per Sale) – an agreed percentage of the purchase amount is awarded
- CPC (Cost Per Click) – this forms a very small part of the affiliate marketing mix, and the merchant pays a fixed amount for each click through to their web site.

Let's look at an example of each of the actions above:

CPA

Here the action could be anything from downloading a white paper or some software to signing up to a newsletter.



Firefox 3 runs an affiliate programme to promote the spread of Firefox.

CPL

Merchants that offer CPL commissions are usually those that need to convert a lead into a sale offline. This means that they will generally need to complete the transaction over the phone with the customer, or that the process is quite complicated. It is typically insurance companies and banking institutions that will offer this type of commission. Membership sites which offer a free trial period, such as online DVD rental, can also use this commission structure.

You might be wondering why merchants are willing to pay for a lead, instead of only for completed transactions.

Well, affiliates prefer this model, as they are not in control of the offline conversion process. It is the merchant's job to be able to complete the transaction. Some merchants may be wary that the leads will not be of a high enough quality. This is why they will usually have conversion targets with which the leads generated need to comply as a means of quality control.

Revenue Share

Revenue sharing is the ideal commission structure as both the merchant and the affiliate are rewarded for performance – the more sales, the more revenue generated for the merchant, and the more commission for the affiliate. Web sites where a sale can be performed instantly are ideal for revenue sharing. Online retailers and instant online travel agents are perfect examples of merchants who offer a revenue share commission. The affiliate earns a percentage of the sale.

question

Why do you think a merchant would be willing to offer a bounty for each download?

question

How do you think companies can ensure that the leads they get are qualified?



Amazon Associates is a popular revenue share affiliate programme.

Merchants tend to structure their commission offering so that affiliates who perform better, earn a higher commission. For example, a merchant might offer the following tiers of commission:

- 1 – 10 sales: 10% commission
- 11 – 25 sales: 11% commission
- 26 – 50 sales: 12% commission
- 51 or more sales: 15 % commission

note

For a discussion of Click Fraud, see the PPC advertising chapter.

CPC

CPC commission is rarely used, and is primarily a way of driving large volumes of traffic, usually to a new site. An affiliate would be awarded commission for every click through to the merchant web site. Although this type of commission was prevalent in the very early days of affiliate marketing, it has been largely abandoned due to click fraud.

We have seen that there are different types of actions that can result in commission being awarded, and that these usually suit the web site that is being promoted. This means that any industry that is online can most likely be promoted through affiliate marketing.

Affiliates have so many options open to them to promote merchants' web sites. But before we get to that, we need to take a look at tracking – the thread that holds it all together.

tracking (the lifeline of affiliate marketing)

The key to affiliate marketing is being able to track the whole process from potential customers being sent to a web site through to completed action, so that the merchant is able to award the correct affiliate with the correct commission. This really is the crux of affiliate marketing.

Specialised affiliate tracking software is used to track affiliate campaigns, and this is usually supplied and supported by the affiliate network. Often, the merchant and the affiliate will also use their own tracking software to make sure that there are no major discrepancies.

Affiliates send traffic to merchants through links or URLs, and the tracking software allows each affiliate to have a unique identifier in the URL. These links set a cookie on the customer's computer, which allows the software to track the sale.

For example, here is the URL of a product on a retailer's web site:

<http://www.firebox.com/product/1201>

Here is the URL for the same product, but with affiliate tracking:

http://scripts.affiliatefuture.com/AFClick.asp?affiliateID=238&merchantID=214&programmeID=3897&mediaID=0&tracking=cube_world&url=http://www.firebox.com/index.html?dir=firebox&action=product&pid=1201

You can see some of the information being recorded. It has been shown in bold in the URL:

- The affiliate network – Affiliate Future
- The ID of the affiliate (238)
- The ID of the merchant (214)
- The ID of the programme (3897) (a merchant might have more than one programme on a network)
- The media used (0)
- The destination of the click

Can you spot the original URL in the one with the tracking?

When the customer completes the required action on the merchant's web site, the cookie will allow the tracking software to collect the information needed to award the commission. For example, if a customer were to use an affiliate link to purchase a gift from a merchant (using the same URL as before as an example), the following information would be collected:

- Referring URL and affiliate
- Total sale amount for commission
- Date and time of sale
- Unique order number of sale

All this information will allow the merchant to confirm that the sale is valid, as well as the amount of commission that is due, without ever releasing any of the customer's personal information.

tip

Do you want to see what cookies have been set on your browser?

For Mozilla Firefox, go to Tools → Options → Privacy and click on Show Cookies. You can see all the domains for which cookies have been set, and you can see when the cookie will expire. You can delete cookies if you want to.

For Internet Explorer, go to Tools > Internet Options > General and click on Settings under Temporary Internet Files. Click on View Files to see cookies set, and other temporary Internet files.

Affiliate tracking software collects information even if no action is completed. This is vital to the affiliates and to the merchants to see where they can optimise their campaign.

Information collected includes:

- Impressions
- Clicks
- Conversions

All this information helps to build up data in order to strengthen the campaign.

discussion
 What data would need to be collected? Does this differ for different types of affiliate marketing? Think of email marketing vs. PPC for example.

creative type	impressions	clicks	conversions	EPC
banner1	867	42	4	\$ 0.23
product feed	1150	203	5	\$ 0.89
banner2	305	56	2	\$ 0.21

Affiliates will use this information to determine the success of their marketing efforts. Remember that affiliates invest money into marketing various merchants, and they only get rewarded on commission. An affiliate will use the above information to determine whether or not to promote a merchant, and how much they should invest in promoting a particular merchant.

Merchants can use the information on their campaign to determine how best to optimise. For example, if a particular type of banner seems to be doing better than others, they could use that to improve other banners that they offer.

how long does a cookie last for?

If you follow the steps mentioned above to see what cookies have been set on your browser, you'll notice that there are a lot of different expiry periods for cookies. Cookies are not just used for affiliate marketing. They are also used to store information so that a web site "remembers" who you are next time you visit it. The domain owner gets to determine for how long a cookie should last. This is called the cookie period.

When it comes to affiliate marketing, it is up to the merchant to decide what the cookie period should be. The affiliate is only awarded commission should the desired action take place within the cookie period. Some merchants make the cookie last for the session only (i.e. if the user only purchases the following day, no commission is rewarded), whereas the standard cookie period for affiliate marketing is 30 to 60 days. Some merchants offer 999 day cookies, or even lifetime cookies.

There are merchants who offer what is called an affiliate lock-in. Here, the first affiliate to refer the customer earns commission on the lifetime of the customer: every purchase that the customer makes will earn the affiliate commission.

Affiliates tend to prefer a longer cookie period: it increases the likelihood of being awarded commission.

and when things go wrong...

Successful tracking is fundamental to any eMarketing campaign, and especially so to affiliate marketing. As affiliates are only paid for performance, should anything go wrong in the tracking process, it is the affiliates that suffer. The merchant will still get the desired sales, but the affiliates won't be rewarded.

So, it is good to bear in mind some of the problems that can be faced with tracking.

Multiple referrals, one sale – who gets the bounty?

With so many affiliates, it is not uncommon for a potential customer to visit a merchant's web site through the links of many different affiliates before finally making a purchase. Who do you think should receive the commission?

For example: A user sees a banner on a web site that he visits promoting a weekend in Paris, booked with Eurostar. The user clicks on that banner and checks out the deals on the Eurostar web site. A cookie is set, as the first web site is an affiliate of Eurostar.

He doesn't book right away, but after chatting to his girlfriend, they decide to book the trip. He goes to Google, searches for "Eurostar weekend in Paris", and clicks on one of the PPC adverts. This has also been placed by an affiliate, but a different one.

This time he books the trip. But, which affiliate should be rewarded the commission?

It has become standard practice that the most recent referral is awarded the commission, though there are some merchants who also offer compensation to other affiliates involved in sale process. In the example above, the affiliate who placed the PPC advert would get the commission for this sale.

Cookies getting a bad reputation

Consumers sometimes get anxious when they hear things like "tracking" and "collecting information", and so they delete cookies from their computer. If this happens, then the sale will never be attributed to the affiliate. This practice, however, does not seem to have a drastic effect on numbers, and so most affiliates will calculate this into their ROI.

Clashing cookies

Merchants will often use some kind of tracking so that they can better optimise their own marketing efforts. Or, a merchant may make some kind of technical change to their web site. It is crucial that any of these changes are tested first with the tracking software, to make sure that it does not create any conflict. It is generally accepted

discussion
 Bearing the above in mind, do you think there is an advantage to a 999 day cookie? What is the difference between a 999 day cookie and a lock-in?

practice that even if it is a merchant's marketing effort that is responsible for the final sale, the affiliate still gets the commission if it is within the affiliate's cookie period.

Placing an order by another method

If the customer completes the action, but does not do so online, the affiliate will not receive commission. So, if a customer visits an online retailer through an affiliate link, but places an order over the phone, the affiliate will miss out on commission.

how do affiliates promote merchants?

Affiliates are online marketers who are paid on a performance basis. Every type of marketing strategy will be found in the affiliate world, and affiliates can often be seen at the forefront of breaking technology and applying it to marketing strategies.

The basic aim of an affiliate is to send targeted traffic (that means customers who are very likely to perform the desired action) to a particular merchant's web site. Affiliates may promote as many merchants in as many industries with as many tactics as they wish, but usually affiliates will start to specialise.

Most of the tactics will be the same as those that the merchant employs, but will reach a different part of the Internet population. Effective tracking takes care of any overlap, and will help a merchant to adjust their spending for a most effective ROI.

The main types of affiliates can be broken up as:

- Personal web sites
- Content and niche sites
- Email lists
- Loyalty sites (points or cash back or charitable donations)
- Coupon and promotions sites
- Comparison shopping (see also PPC advertising)
- Search affiliates (search arbitrage)

Affiliate marketing came to the fore as a way for personal web sites to make money, though this now forms a small part of the marketing mix. Affiliate marketing does still provide some income for these web sites. However, we will focus on those endeavours which are created purely for affiliate marketing.

Content and niche sites are web sites created specifically around a topic, and any products promoted will carry affiliate tracking. For example, an affiliate might create a site dedicated to digital cameras, with tips and downloads to help you get the most out of your camera. It could review a number of different cameras, and offer links to purchase those cameras online. All of those links will be affiliate links.

Seasonality is also a key time for content sites. Web sites can be created specifically for Christmas, Mother's Day and many more key retail seasons.

Some affiliates run large opt-in email lists, and they market particular merchant offers through their email newsletters. Some renegade affiliates would use spam email to promote merchant offers, but as affiliate marketing has matured, there are usually terms and conditions to prevent such promotion.

As affiliates earn a percentage of a sale, some affiliates "split" this with the customer and create cash back or points based shopping sites. There are also some that donate a percentage of the commission to a charity.

The screenshot shows the GreasyPalm website interface. At the top right, there is a link for "Existing Cashback Members Login". The main heading is "Earn Free Cash With..." followed by the GreasyPalm logo and the tagline "... the Site that PAYS YOU to Shop!". Below this, it states "Total members' cashback so far: £6,931,856.93". A list of five promotional offers is provided: 1. Join GreasyPalm Get £2.50 Welcome Bonus; 2. Introduce A Friend Earn £7.00; 3. Complete Offers Earn Up To £95 Per Offer; 4. Get Paid To Shop Earn Up To 25% Cashback Per Purchase; 5. Get Paid To Post Deals Earn Unlimited Cashback. Below the offers are eight small images representing various services like car insurance, home insurance, fuel bills, and credit cards, each with a "Free!" label. On the right side, there is a "Sign Up ... It's Free!" form with fields for Email, First Name, Surname, Username, and Password. There are also checkboxes for "Remember me" and "I agree with the Terms and Conditions", and a "Join Now!" button.

GreasyPalm.co.uk is a cashback site that is an affiliate.

Some of the most successful affiliate marketers are those who promote various merchants through paid search: PPC advertising on search engines. As these affiliates seek to find the highest Earnings Per Click (EPC) for the lowest Cost Per Click (CPC), this is also referred to as search arbitrage.

Affiliates will find any means possible to promote offers. As new products and platforms become available, marketers and affiliate marketers find new ways to make them work. Some other examples of affiliates promoting merchants include:

- Toolbars and other browser extensions
- Social network applications

note

Arbitrage is the practice of taking advantage of a price differential between two or more markets. It's a term that is usually used in financial trading. Some might say that search affiliates trade in PPC adverts - their revenue is the EPC - CPC.



GoodSearch.com offers a toolbar. Proceeds from affiliate links are shared with charities.

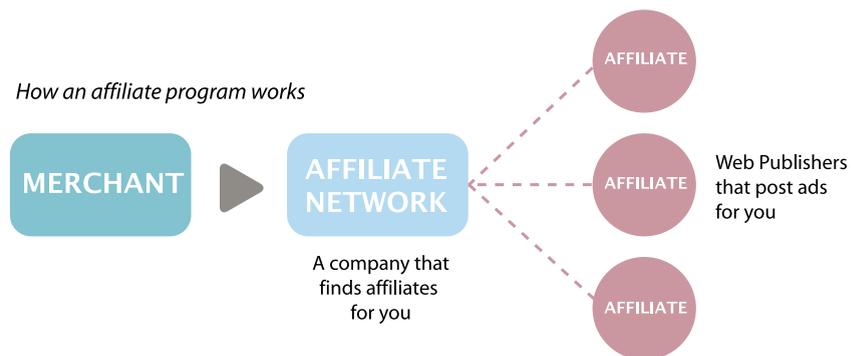
All that is required is that the click-through to the merchant's web site is tracked.

affiliate networks

As well as the affiliate and the merchant, there is a generally a very important third party in the affiliate marketing mix – the affiliate network.

While some small affiliate programmes and some very large affiliate programmes (such as Amazon Associates) are run by the merchant, most merchants opt to use an affiliate network to provide most of the technical solutions required for an affiliate programme.

Affiliate networks provide tracking solutions, reporting on programmes to both affiliates and merchants, hosting of creative banners, commission payment options and support to both affiliates and merchants. Affiliate networks have many affiliates, and many merchants, signed up to them, so they are an ideal source for recruiting affiliates if you are a merchant, or for finding merchants to promote if you are an affiliate. To the merchants, they provide a one-payment solution, as the merchant will be invoiced for all the commission collectively owed, which is then dispersed to the affiliates.



Affiliate networks act as a gateway between merchants and affiliates.

Affiliate networks usually charge the affiliates nothing to join. They can charge a merchant a set-up fee, which will cover the cost making sure that the tracking solution is successfully integrated, and can charge a monthly management fee, depending on

the level of support offered to the merchant. Affiliate networks usually charge the merchant a percentage of the commission earned by the affiliate (called a commission override), so that there are incentives for the networks if they perform well. As a rough guide, this is typically 30% of the commission rewarded to the affiliate.

Some leading affiliate networks are:

- Commission Junction – www.cj.com
- LinkShare – www.linkshare.com
- Affiliate Window – www.affiliatewindow.com
- TradeDoubler – www.tradedoubler.com

tools of the trade

Affiliate marketing today forms a fundamental part of most e-retailers' strategies. So, what tools does a merchant need to have a successful programme?

Any retailer should have a **product feed**, either XML or CSV. A product feed basically is a way of providing information about the products on a merchant's web site in a way that breaks up the information easily, and is standardised. A product feed will probably contain the following information for each product:

- Product name
- Product URL
- Product picture
- Product price
- Description
- Shipping price
- Stock status: in stock / out of stock

Affiliates, particularly search affiliates, can use this to promote individual products.

A product feed is made available on a simple URL, and displays content that affiliates can use in their campaigns. You can view a product feed by visiting www.prezzybox.com/affiliate/Data/awin.aspx

Merchants need to create a set of **banners and buttons** that can be placed on affiliate web sites. At a minimum, the following sizes should be available:

- 468 x 60 (banner)
- 125 x 125 (square)
- 120 x 60 (button)
- 120 x 600 (skyscraper)

note

See the online advertising chapter for examples of banner sizes.

Having interactive banners, such as gift wizards or product searches, mean that potential customers can interact with the brand before they even come through to the merchant's web site!

If the merchant or the affiliate network hosts the banners, these can be updated without the affiliates having to do anything. This means that the message can be kept current across all of the merchant campaigns.

Merchants need to consider who will be **keeping tabs and driving the success** of the affiliate campaign. Merchants might be able to run the programme in-house with current staffing resources, or can hire an affiliate manager. It is also possible to outsource the management of the affiliate programme to an agency that specialises in affiliate marketing.

Lastly, merchants need to **keep in touch** with their affiliates: the networks have channels for communicating with a large number of affiliates, but it is also worthwhile to interact on some of the affiliate marketing forums in order to keep informed.

What tools does an affiliate need?

Affiliates need to get to grips with **the spectrum of eMarketing tactics**, and choose what works best for them. Paid search affiliates will focus on PPC tactics, while affiliates running bespoke web sites will probably put a lot of energy into SEO. It depends on where their talent lies, and where they see a gap in the market.

For affiliates, keeping up to date with merchants, other affiliates and the industry is probably the key to growth. That, and finding the time to put it all into practice! **Joining forums** and keeping tabs with industry leaders will help to do just that.

Some notable affiliate marketing forums:

- Webmasterworld: www.webmasterworld.com
- Affiliates4U forum: www.affiliates4u.com

setting up a campaign

Affiliate marketing is forming such an integral part of eMarketing – how would you go about setting up and launching a new campaign? Affiliate marketing should grow your business, and grow with your business, so it's important to plan and prepare for long-lasting success.

First up, you need a clear idea of your business's identity, goals and Unique Selling Points. No doubt you will have competitors that affiliates already promote; you need to

be able to give affiliates compelling reasons why your programme is better.

With this in mind, you need to determine the goal of your affiliate marketing. If you are a new business, you might just want to build traffic and brand awareness. Depending on what industry you are in, your goal could be new customer leads, or it could be increased retail sales. Make sure you are clear on what you want, and that your web site reflects this.

Then, you need to decide whether you are going to run your own programme, from affiliate recruitment to tracking and paying, or whether you are going to use an affiliate network. If you are using an affiliate network, you'll need to do your homework on the best network or networks to join. Look at:

- [Where your competitors are](#)
- [Who has the kind of affiliates you want](#)
- [What the joining fees and monthly fees are](#)
- [How much support they can offer you](#)
- [What countries the network is in](#)

You'll also need to decide whether you will hire an affiliate manager to run your programme, whether you might outsource your programme management, or whether you already have the resources to run the programme yourself.

You need to do a full competitor analysis, focussing on your competitors' affiliate programmes. Look at:

- [Commission tiers](#)
- [Cookie periods](#)
- [Creative offerings](#)
- [Which affiliates they work with](#)
- [Networks](#)
- [Incentives offered to affiliates](#)

Prepare the basics that you'll need to start a programme:

- [Product feed](#)
- [Banners and other creative offerings](#)

Using your competitor research, decide on commission, commission tiers, cookie period and incentives.

Test the tracking software on your site, and make sure that it does not conflict with any other tracking you are using.

Recruit affiliates: use your competitor analysis to contact potential affiliates; promote your programme through affiliate forums; use your affiliate network contact channels to approach affiliates; approach sites that you think fit your user demographic.

And it doesn't all stop once you've launched! The key to successful affiliate marketing is ongoing communication and marketing to your affiliates. You need to make sure you are on top of validating sales, so they get their commission. You need to ensure that you stay competitive with your commission offering. And, you need to keep your affiliates up to date with any information that could make them send more customers your way – more revenue for you and thus more cash for them!

pros and cons

While affiliate marketing certainly deserves increasing recognition for its key role in growth, it is still a young industry with all the growing pains that that involves.

What is holding people back?

1. There are seldom contracts in place between affiliates and merchants. For a merchant, this means that an affiliate could decide to stop promoting your programme, with no notice given. This could lead to a sudden traffic and sales drop, depending on how reliant the merchant had been on that affiliate. Similarly, merchants may decide to terminate a programme, meaning a loss of revenue for affiliates. Particularly if little notice is given, affiliates might have spent time and money setting up promotions, only to have the campaign pulled out from underneath. Most infamously, ASOS.com did this a couple of years ago.
2. There is still little to no industry regulation, though the majority of the industry does strive to best practices. While some affiliates have resorted to shady practices in the past (with adware and email spam), the majority have banded together to blacklist this kind of behaviour. The spectre still remains though.
3. Some merchants fear a loss of brand control.
4. Affiliate programmes are not easily scalable.

But, of course, there are so many benefits to affiliate marketing:

1. It's pay for performance marketing, so merchants are only paying for growth.
2. The merchant sales force just got bigger, as well as its branding potential.
3. There is a very low barrier to entry for both affiliates and merchants.

summary

Affiliate marketing is a key tool for any web site seeking growth. In this performance based marketing, merchants reward affiliates commission for successful referrals.

There are different types of commission, based on the merchant's industry:

- CPL
- CPA
- Revenue Share
- CPC

The most essential element to affiliate marketing is tracking. Tracking software places a cookie on a user's browser when that user clicks on an affiliate link. The cookie period is determined by the merchant. If the user performs the desired action within the cookie period, the affiliate is awarded commission.

Affiliate networks are often used as an intermediary between affiliates and merchants. Affiliate networks provide tracking solutions, reporting and support to both affiliates and merchants.

Affiliates use a number of means to promote merchants. These include:

- Personal web sites
- Content and niche sites
- Email lists
- Loyalty sites (points or cash back or charitable donations)
- Coupon and promotions sites
- Comparison shopping (see also PPC advertising)
- Search affiliates (search arbitrage)

One of the keys to successful affiliate marketing is ongoing communication between merchants and affiliates. This can be thought of the merchant marketing the affiliate programme to affiliates, so that the affiliates in turn will market the merchant's offering.

the bigger picture

how it all fits together

As affiliates are marketing in an online environment, every one of the tactics in this book will be employed by affiliates. Some affiliates even run affiliate marketing campaigns for their own web sites!

But as a merchant, how does affiliate marketing fit into the overall marketing mix?

For starters, affiliate marketing can allow merchants to add elements to their eMarketing with a fixed CPA. As an example, a merchant might want to promote their products through PPC advertising, but lacks the expertise to run a campaign. Instead of paying an agency, the merchant can recruit search affiliates to run PPC advertising, and the merchant will only ever pay for performance.

Working closely with affiliates, merchants can get many more case studies for analysing and optimising their web sites, particularly when it comes to conversion. As affiliates are paid for performance, they will be more than willing to advise on ways to improve conversion rates.

Affiliate marketing can be used to complement other campaigns, whether they be offline or online. Making sure that there are banners to support these campaigns, the merchant can ensure a wider audience for their other marketing efforts.

Affiliate marketing allows for targeted traffic from niche web sites. While the merchant can focus on a broad spectrum of web sites, affiliate marketing allows for the targeting of niche traffic sources.

case study: Prezzybox.com

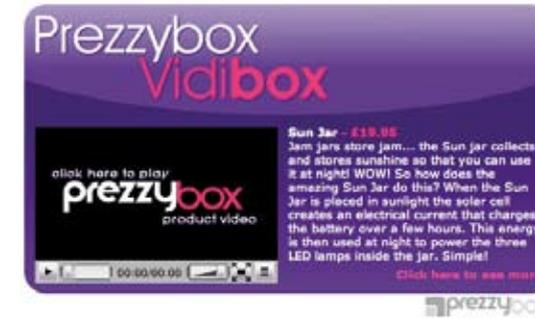
Prezzybox.com is a UK online retailer in a very competitive market: gifts and gadgets. With many other players in the market competing for the same customers, Prezzybox.com runs a successful affiliate programme that sees them leading the way in performance marketing.

Affiliate marketing has played a sizeable role in the growth of Prezzybox.com and now accounts for about 35% of sales. Affiliate marketing has contributed on two levels, namely brand growth and sales generation. In fact, Prezzybox.com has won several industry awards for its affiliate programme. In 2008, these awards included 'Best Use of Creative' and 'Best Merchant Innovation'.

A substantial element of affiliate marketing is managing relationships with affiliates. The Prezzybox.com affiliate programme and its affiliate managers have been voted best by affiliates, and its affiliate managers are regularly invited to speak at industry events and conferences. How have they achieved this?

Prezzybox.com has a wide affiliate base, and constantly recruits new affiliates via affiliate get-togethers, affiliate forums and blogs and through keyword searches on Google. Its super affiliates, those affiliates that drive the majority of affiliate sales, account for about 1% of all affiliates. Zak Edwards, Managing Director of Prezzybox.com, says, "We tend to offer all affiliates the same opportunities for promotion, but obviously focus a lot of our attention on our super affiliates."

Super affiliates can be given extra commission as an incentive, and the affiliate managers ensure that these affiliates are up to date with all of the latest offers, new products and promotions. Prezzybox.com communicates these details to all their affiliates as well. However, they use mass communication for all their affiliates and one-on-one communication, such as phone calls or instant messenger, with their super affiliates. One of the features of the affiliate programme is an affiliate resource centre, which has extensive support information for affiliates such as real time product bestseller reports.



In 2007, Prezzybox.com launched a brand new content item for its affiliates: Vidibox. These are video content units – banners which contain a product video and a link to that product on the Prezzybox.com web site. These video content units were very successful because the content was unique in the affiliate arena and so had a large take up amongst affiliates. Being a more interesting way of displaying content, the Vidiboxes attracted a higher click-through rate, which again made them more appealing to affiliates.

Prezzybox.com's commitment to an innovative and successful affiliate programme has seen them earn immense respect in the affiliate arena, which is translating to ongoing healthy sales growth. In fact, Prezzybox.com has outgrown its offices twice in six years, and looks set to maintain this successful track record.

case study questions

1. Part of affiliate marketing involves marketing a company to affiliates. How has Prezzybox.com achieved this, and what are the effects of this?
2. Why does Prezzybox.com communicate differently to its super affiliates?
3. What made the Vidiboxes enticing to affiliates?
4. In a competitive market, how does affiliate marketing help build a company's success? Are there any additional considerations when a market is competitive?

chapter questions

1. What factors should be considered when determining what commissions should be when you are planning an affiliate campaign? How do these differ for revenue sharing campaigns and CPA campaigns?
2. What is the difference between a lifetime cookie and a lock-in cookie? How do you think lock-in cookies affect the commission levels offered by merchants?
3. Why do you think some affiliates run affiliate programmes for their own web sites?
4. How can a merchant try to ensure that their own marketing efforts do not overlap with affiliates? Why would a merchant want to reduce overlap?

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further reading

www.AffiliateProgramAdvice.com

– affiliate advice from a team headed by Jess Luthi who has been in the affiliate marketing industry since its start in the UK.

blog.affiliatetip.com

– a blog from Shawn Collins, an affiliate since 1997 and founder of Affiliate Summit, the leading industry conference.

5. search engine marketing

What's inside: A look at the industry known as search and the different types of search results: organic results and paid results. We lay the foundation with key terms and concepts before looking at **the importance of search** to a marketer. The three-way **relationship between search engines, users** and **webmasters** follows, and then a look at **how search engines work**. This leads to search engine marketing, made up of SEO and PPC, and **keywords**.