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POTENTIAL OF AFFILIATE MARKETING

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The purpose of this paper is to critically examine, analyze and describe the concept of affiliate marketing activities. The article presents the theoretical and empirical research findings which would identify the factors of successful implementation of the concept, simultaneously identifying the reasons for constraining its usage. The main hypothesis is that present market offer of advertising space sellers doesn't reflect the expectations and requirements of sponsors (companies investing in e-promotion) in terms of the division of responsibility for the campaigns' performance.

INTRODUCTION

Affiliate marketing is a prospective strategy of internet marketing and e-commerce, which essence lies in the shift of responsibility for sales onto a third party, in particular, on clients, who are rewarded commission after convincing other clients to purchase products offered by a sponsor (company using the e-promotion tools). This article explores the characteristics of affiliate marketing and presents the perspectives of affiliate activities onto the Polish e-market. The results are prepared on the basis of literature review, quantitative empirical research conducted by means of electronic questionnaire on e-shops' marketing managers in Poland and a few interviews with experts from affiliate marketing networks.

AFFILIATE MARKETING CONCEPT

The essence of affiliate marketing lies in encouraging participants (so-called affiliates) that are independent from the advertiser (sponsor) to perform commission-based sales activities by means of affiliate networks (Duffy, 2005). Basic benefit of the application of affiliate mechanisms for sponsor is a method of compensation dependent on the effect of the conducted campaign and the model of payment for the campaign (Kalyanam, McIntyre, 2002). Affiliate gains financial benefit only if his/her activities encourage customers to perform a predefined action that was formerly determined in the contract with the sponsor. Usually, the action is defined as product sales via e-commerce channel. The sponsor does not have to prepare *ex ante* budgets for the campaign as the affiliate remuneration is paid after achieving predetermined action from the customer. As affiliates may occur: Internet media (portals and vortals), comparison engines, experts using personal websites and individuals - clients possessing any kind of web presence (social media profile, personal web site, blog etc.). An affiliate receives financial benefit (most often a commission) as compensation for attracting Internet users to the offer of a sponsor promoting its product on the affiliate's website (Chai, Potdar, Chang, 2006).

AFFILIATE NETWORKS

Most sponsor-affiliate relationships are managed through several major networks. The networks provide the technology to enable the management of affiliate activities, to coordinate tracking activities (when an affiliate sends a potential customer to an advertiser's website) and to support transactions. They also manage the calculation of the commissions and, in most cases, the issuance of the payment(s) to affiliates and the issuance of invoices to affiliates for payments made. The networks also facilitate the management of application processing (when an affiliate seeks to join an advertiser's affiliate marketing program) and the process of providing access to ads (e.g.: banners, text links, product data file, etc.) to affiliates, so they can adequately promote the sponsor's products. These networks are treated as units that, by facilitating the use of affiliate marketing principles, develop the market and make it more prospective. Among the biggest affiliate networks we can mention: LinkShare, Performics, Zanox, Trade Doubler, DGM, Commission Junction.

The following graph presents the mechanism of affiliate model, the numeric symbols describe the following actions:

1. Convincing potential customers to visit the affiliate's website.
2. Redirection of the customer onto the sponsor's website where he/she performs a predefined action (i.e. purchase, filling-in a form, e-mail address registration etc.).
3. Affiliate's compensation (commission) for the value of the order/the number of assumed actions performed by the customer.

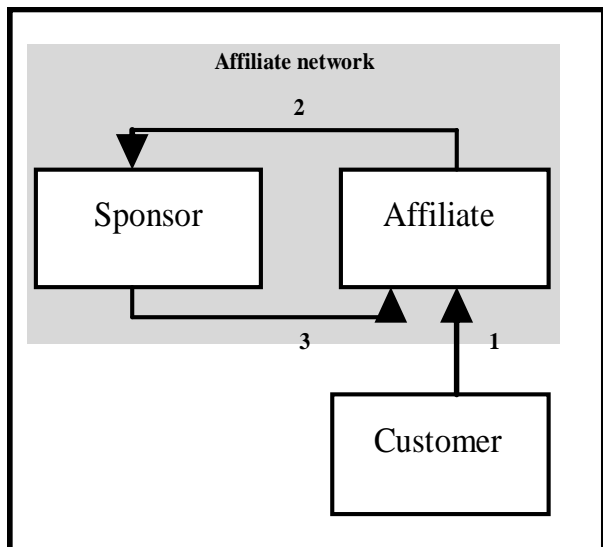


Figure 1: The mechanism of affiliate marketing

The key of successful affiliate marketing lies in the construction of a win-win relationship between the three parties - the sponsor, the affiliate and the customer. Sponsor realizes the benefit of a purely commissioned sales force and has a marketing cost that is predictable and spent *ex post*. Affiliates have the opportunity to create a revenue stream without investments in infrastructure and know-how. By increasing effectiveness of on-line activities, affiliate focuses exclusively on optimization of his Internet service (e.g. blog's Facebook profile, web site) in terms of content, structure, navigation, functionality, etc. Clients get reliable information on products from other sources than the sponsor itself. The following table presents the benefits for all three parties of affiliate activities.

Benefits for sponsor	Benefits for affiliate	Benefits for customer
<ul style="list-style-type: none"> - strengthening the transactional function of internet promotion activities - linking expenditures on internet promotion with e-sales - shift of promotional activities budgets towards sales activities - shortening the time devoted to promotion activities - making the affiliate responsible for promotion of sponsor's products 	<ul style="list-style-type: none"> - focus on building valuable, credible on-line presence, interesting for customers - relating the context of promotional messages with the core value of the web sites and its visitors' needs - transparency of cooperation with sponsors – taking responsibility for sales - possibility to gain particular financial means in return for persuading customers to purchase 	<ul style="list-style-type: none"> - possibility to gain added value in the form of recommendations or opinions of affiliate service members - contact with the desired product of which information might be hard to gather - gathering of information of a product from other sources than by nature - "subjective" e-platforms of the sponsor.

Table 1: Benefits resulting from cooperation within an affiliate network

Affiliate marketing fills in the gap between the expectations of sponsors and web site owners offering a wide range of instruments of Internet promotion. Affiliate marketing cannot be perceived as innovative instrument of e-promotion. What seems new in affiliate marketing is the common implementation of a commission model in e-promotion campaigns as most such activities on-line are not commission-based what can be perceived by sponsors as main drawback of extensive Internet promotion usage.

The significance of affiliate marketing can be also seen in the change of roles performed by entities participating in concluding transactions on e-market. Intermediaries such as portals or vortals would lose their dominant position on e-market in favor of customers', experts', opinion leaders' web presence (Mazurek, 2008). By means of affiliate networks, such players may become business partners – not only participants offering advertising space but traders gaining commission-based compensation and fulfilling sales force actions, having high credibility and offering added value on their web sites for specific target groups.

This change of the character of companies' cooperation with customers results also in changes in marketing performed by a sponsor actively applying affiliate marketing activities. Such company, by passing sales activities onto third parties, focuses on performing the coordination and control function, omitting pure commerce activities. In the case of such business model, budgets devoted for marketing are partially shifted towards compensation for sales. Marketing costs are replaced by commission for sales which is much more effective, taking into consideration focus on the performance and effectiveness of marketing activities (Chang-Hoan, Jung-Gyo, Tharp, 2001).

Growing popularity of affiliate activities derives from the fact that traditional models of ad sales or promoting actions on e-market. i.e. flat fee model (FF), cost per mille model (CPM) or cost per click model (CPC) do not fulfill effectively their roles *inter alia* because:

- to a relatively low extent, FF, CPM and CPC models link the promotional expenditures of a sponsor with the results (performance) of promotional e-campaigns,
- to a great extent, FF and CPM models shift the risk of success of the performed promotional actions onto the sponsor. The owner of advertising space (e.g. portal) gains reward on the basis of broadly defined popularity of the website, clicks or time visit. There is no dependence of this compensation on actual effects desired by the sponsor in the form of e.g. visiting the sponsor's website, performing the given action or on-line purchase,
- owners of promotional space maintain *status quo*, offering to sponsors a small range of models of

advertising space purchase (the CPM model dominates which minimally links the effectiveness of an advertisement with the effect desired by a sponsor),

- the sponsors are aware of progressing discouragement towards traditional e-promoting activities (display e-advertising, e-mail marketing, etc.) by internet users and search for new models of cooperation, especially with clients (Mazurek, 2009),
- gradual progress of decrease of effectiveness of internet promotion activities based on CPM model.

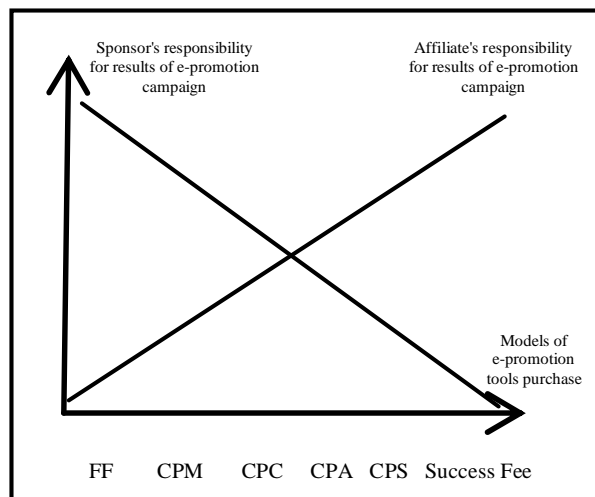


Figure 1: The relationships between the responsibility for the campaign's results and the proposed model of e-promotion model of purchase

RISK EVALUATION

The win-win relationship between the sponsor and the affiliate can breakdown if the sponsor's value proposition is inadequate. Affiliates conduct their business assuming that each sponsor will generate a return that is somewhat predictable over time. The variables that factor into this predictability are:

- the conversion rate (percentage of clients that after visiting the affiliate's website conducted predefined action),
- the average commission (the average transaction size for a particular advertiser multiplied by the commission percentage).

If the value proposition is inadequate for affiliate, it is typically because the sponsor offers a commission percentage that is too low or the conversion rate for customers once they have been directed to the sponsor's website is insufficient. Low conversion rates occur for a variety of reasons, but at the top of the list are characteristics such as: difficulty with navigating the site, poor product images, inadequate product descriptions and uncompetitive shipping policies. According to experiences from the US market, a key contributor to conversion rate in e-commerce is free shipping, even if offered based on a minimum purchase amount (eMarketer, 2009).

EMPIRICAL RESEARCH

The empirical quantitative research study was based on on-line questionnaire published on www.webankieta.pl system, in which we tried to find out:

- what is the scope of usage of performance models when conducting e-campaigns,
- what is the attitude of e-shops marketers towards affiliate marketing and performance based models of e-campaigns.

In the research study conducted between January-March 2011, took part 108 e-shop marketing managers and specialists located in Poland.

The following figure shows still relatively considerable amount of campaigns ran by means of Flat Fee and CPM models (21% and 14% of answers). In such campaigns the publisher of sponsor's promotional materials takes very limited responsibility for the campaign's performance. The majority of campaigns are moderately effect driven – 37% of the examined marketers use CPC model in e-promotion activities. What is worth underlining is the fact that campaigns which link the remuneration of owner of advertising space with the campaign's performance are used relatively not often – only 21% of e-shops take advantage of CPA, CPS or Success Fee models.

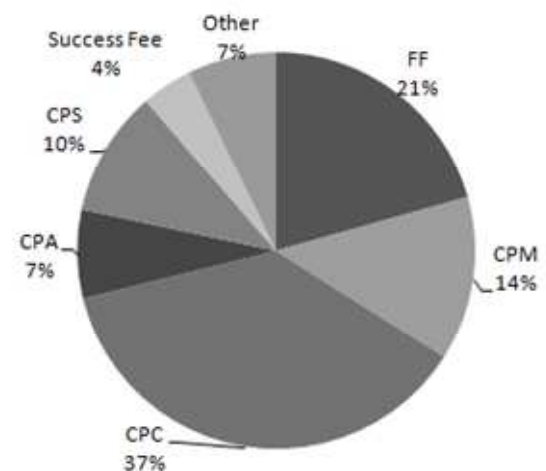


Figure 1: Models of purchase of e-campaigns used by respondents.

The difference between the expectations of sponsors and the offer of publishers is seen in the answers to the next question. When asked about the subjective opinion on the best models of e-promotion campaigns, the respondents indicated mostly the CPC, CPA and CPS models. The CPM model has been indicated only by 5% of respondents. The hypothesis that present market offer does not reflect the needs of sponsors is also supported by answers to the next question, where respondents were asked to indicate which model they will use more often in the future.

60% of respondents would like to use purely performance driven models of e-campaigns. The FF or

CPM models would be used scarcely. The trend of performance campaigns usage is also supported by answers to the question on the expectations of sponsors' towards the campaigns – more than 65% of respondents indicated the increasing volume of sales as the main aim of conducted campaigns, whereas only 35% campaigns were dedicated to branding or relationship building.

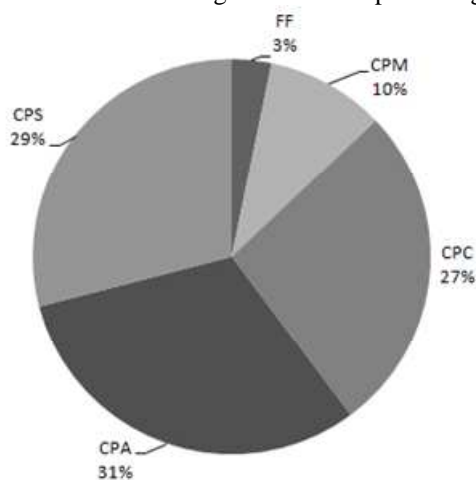


Figure 1: The models of purchase of e-campaigns which respondents would like to use more in the future

The following table presents the opinions on the various issues of e-campaigns development. The respondents indicated that FF or CPM are not effective models of e-campaigns purchase (more than 50% of answers are negative). The marketers are not fully convinced about the concept of e-customer fulfilling the role of traders – more than 45% of answers “hard to say” shows that such strategy is relatively new and respondents don't have clear opinion on that matter. The same attitude of marketers can be indicated when admitting the influential role of bloggers (ca. 31% of “hard to say” answers) and the outsourcing of sales onto the third parties (43% of “hard to say” answers). More than 65% of respondents agree that if they had a choice they wouldn't use CPM model of e-promotion campaigns.

Table 1: The attitude of respondents towards the potential of affiliate strategies

	Strongly disagree (1)	Disagree (2)	Hard to say (3)	Agree (4)	Strongly Agree (5)	Ave.
E-customers will be my prospective sellers of my products thanks to affiliate strategies	3,8%	9,4%	45,3%	34%	7,5%	3,3
FF or CPM are effective models of e-campaign purchase	11,5%	40,4%	23%	23%	2%	2,64
Bloggers are influential when it comes to convincing clients to buy products	3,8%	9,6%	30,8%	46,2%	9,6%	3,49
If I had a choice, I wouldn't use CPM model in e-campaigns	0%	5,7%	28,9%	30,8%	34,6%	3,95
If I had a choice, I would outsource the selling of my products on third parties (i.e. clients)	2%	11,7%	43,1%	29,4%	13,7%	3,42

Additional qualitative research has been conducted by means of in-depth interviews with three affiliate marketing experts (managers of affiliate marketing networks). According to their opinion the key factor for the development of affiliate marketing is more general and can be described by so called “maturity of marketplace” expressed by following variables:

- competition of the owners of advertising space that causes the change of models of on-line sales of advertising space (shift from FF and CPM towards CPC, CPA, CPS and Success Fee),
- formation of affiliate networks and growing competition between them,
- growing number of Internet users, in particular these who buy on-line,
- growing commitment of Internet users to active creation of content and influencing other users,
- technology enabling an uncomplicated establishment of on-line presence that is a condition of obtaining potential benefits from promoting of sponsor's products.

CONCLUSIONS

The success and perspectives of development of affiliate marketing strategies is determined by variety of factors. The empirical research from the Polish market shows that there is a significant gap between the sponsors' expectations towards the expected results of e-promotion campaigns and the possibilities the e-market offers. The companies and individuals offering promotional space on their web sites are much eager to sell the space in less “performance related” models – FF or CPM, whereas sponsors would be eager to work on commission based models. The growing maturity of affiliate marketing concept, increasing role of affiliate networks and growing competition between the owners of advertising space would lead to the broader usage of CPA and CPS models of e-campaigns.

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