Building a Winning Affiliate Marketing Strategy

Practical and actionable advice for advertisers and agencies with existing affiliate programmes

ADVANCED AFFILIATE STRATEGY GUIDE

WHAT YOU WILL LEARN

- HOW TO CHOOSE AND MEASURE PUBLISHERS
- HOW TO KEEP PUBLISHERS HAPPY
- WHAT TO EXPECT FROM YOUR PROGRAMME
- HOW TO MEASURE PROGRAMME SUCCESS
- TRACKING AND TECHNICAL CONSIDERATIONS
- UNDERSTANDING VOUCHER STRATEGIES
- DEFINING, TRACKING AND TARGETING CUSTOMERS
- WAYS TO MAKE YOUR PROGRAMME ATTRACTIVE

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CHOOSING AND MEASURING PUBLISHERS

AFFILIATE PROGRAMME COMPOSITION

The number, type and size of contributing publishers is a very important consideration for any mature affiliate programme (at Webgains we consider 'mature' to be a programme that is more than two years old).

In this section, we will look at some of the myths surrounding the affiliate mix and then look some key concepts to establish the most efficient and effective affiliate mix for your programme.

MORE AFFILIATES IS NOT BETTER

The number of affiliates joined to an affiliate programme should not be considered a measure of success. Some advertisers like to run a small number of targeted relationships. However, most use their affiliate programme to generate reach and product discovery, so like to work with as big a number as possible.

CHOOSING AND MEASURING PUBLISHERS

CONTRIBUTION IS WHAT COUNTS

Consider the number of publishers that are click and sale active. Again, these counts will vary depending on the type of affiliate programme, but there are some useful rules of thumb to consider, which we've outlined on the left. These examples assume an affiliate programme works with all affiliate types and runs on an open network, like Webgains.

AFFILAITES TO SALES RATIO

On any affiliate programme, regardless of vertical or size, a standard rule of thumb says that the top 10 affiliates will account for approximately 70% of sales and/or commission spend. This is normal and nothing to be concerned about.

It's also normal to find that loyalty and discount partners are among the highest performing affiliates on your programme. These affiliate models are the largest and most active in the UK affiliate marketing industry.

In the UK in 2018, the five largest affiliates by commission generated were all cashback or discount code sites. In no particular order, they were Vouchercodes.co.uk, Quidco, TopCashBack, Voucher Cloud and Global Savings Group. These affiliates will be in the top 10 of most open affiliate programmes. In fact, it is not unusual for affiliate programmes to have their top 10 affiliates consist entirely of loyalty or discount code sites.

> **Although a rule of thumb dependent on a variety of factors, loyalty and discount code affiliates will account for approximately 55% of all sales/commission and spend on an open affiliate programme.**

With their models being well-tuned to the CPA payments (cost-per-acquisition or the commission paid to each affiliate) most commonly found in affiliate marketing - cashback, loyalty and discount code partners will be the most important sale drivers.

TopCashback

VoucherCodes

vouchercloud

Quidco

An affiliate marketing programme should give a brand diverse reach across the internet, uniting an e-commerce business with a variety of marketing partners. Crucially, affiliate marketing should generate reach at a variety of stages within the customer purchase funnel.

We've already shown how a programme's mix of contributing affiliates will weight towards certain affiliate types. However, this does not mean the other types are not important.

Mature affiliate programmes should measure different affiliate types using metrics best suited to their promotional methods.

Here is an overview of the typical split of sales by affiliate type on an affiliate programme open to working with all affiliate models.

Cashback & Loyalty

Cashback, reward or loyalty sites can be any kind of websites that offer people incentives to use their platform by offering specific rewards. There are two major cashback sites in the UK; Quidco and Top Cash Back.

Comparison

While shopping comparison is no longer as big of an affiliate type as it used to be, some verticals such as utilities, mobiles, broadband and finance still rate this type as an important affiliate. The comparison category also includes travel aggregators, though some travel advertisers do not include these as publishers.

Discount Code

The UK affiliate market operates a range of discount code sites, the major players are Vouchercodes.co.uk, Global Savings Group, Vouchercloud / Groupon, MyVouchercodes Voucherbox and Savings United.

Content

At Webgains, we are careful to use this categorisation to only mean publisher sites that generate unique content to engage their users. Crucially, this content is rarely, if ever, incentivised. Content sites may also include review, product demonstration and consumer-interest propositions.

Influencers

These affiliates use social media to promote themselves as experts in a particular vertical. It's very common to have social influencers attached to fashion or travel programmes. However, some affiliates have built huge social media followings reviewing tech or collating discounts for their audiences.

CASHBACK & LOYALTY

KEY METRICS

- Given their current size, Quidco and Topcashback alone could make up around 30% of sales on any affiliate programme.
- Other niches or closed group loyalty platforms such as Reward Gateway, Children's Mutual, Easyfundraising and Giving Assistant take this figure to 40%.
- Conversion rates for these partners will be the highest of all affiliates and significantly higher than a brand's on-site conversion rates.
- It's not uncommon for cashback partners to convert at rates above 30% from click to transaction.

KEY CONSIDERATIONS

- Cashback and loyalty affiliate types are highly suited to the post-click CPA model due to being close to the customer's purchase decision.
- These partners usually require advertisers to pay tenancy payments for additional promotional opportunities. These tenancy payments should be worked back to an effective-CPA and monitored closely to ensure the return is as effective as possible.

COMPARISON

KEY METRICS

- There will be fewer than five comparison sites contributing any significant sales to a programme.
- Approximately 10% of sales on an affiliate programme will be generated by comparison sites. This could be much higher for certain advertisers in specific sectors.
- Comparison sites will often look at a programme's EPC to measure its potential.
- Conversion rates for comparison partners should be broadly in-line with what advertisers see on their sites. Advertisers with less price competitive products should expect a higher effective CPA for these affiliates.

KEY CONSIDERATIONS

- Comparison affiliates will only perform well for advertisers with price-sensitive products. Advertisers that aren't price competitive can expect either low engagement from these affiliates, or a large amount of traffic that fails to convert to sales.
- Advertisers should always familiarise themselves with the listings of the price comparison sites that work on their programmes.
- Optimisation of a listing is the best way to help these affiliates do more. Increased CPAs, tenancies or CPC payments are potential optimisation methods, but for comparison sites focused on price, an exclusive offer is the best tactic.

DISCOUNT CODE

KEY METRICS

- Discount code affiliates will likely make up around 25% of sales on any affiliate programme.
- Again, these affiliate types are lower funnel contributors and well suited to post-click CPA affiliate marketing. Conversion rates will be higher than a brand's site conversion, with figures of 18% or more not uncommon.
- The performance of discount code sites is heavily dependent on:
  - The offers/codes available
  - The sites organic search rankings

KEY CONSIDERATIONS

- Discount code partners require tenancy payments for added exposure and should be measured on effective-CPA.
- You must factor in the discount from any code or offer to sales driven by these affiliates. Remember that tactical discounts such as new customer codes are a very effective way to change behaviour.
- Discount code partners can have access to large email databases, which can generate a significant increase in sales.
- Familiarise yourself with which discount code sites rank prominently on searches for your brand + discount code terms.

CONTENT

KEY METRICS

- Content affiliates are the most common affiliate type in affiliate marketing. Over 90% of affiliates are classified using this definition.
- However, content affiliates will comprise fewer than 20% of sales for most programmes. This can vary by vertical, as some industries like fashion and sports attract many content affiliates thanks to the engaging nature of their products.
- Because these affiliates engage potential customers early in the purchasing funnel, they are less suited to the post-click CPA model. Some will generate a lot of traffic but see low conversion rates. Therefore, it's worthwhile thinking about the most appropriate way to measure and reward these affiliates.

KEY CONSIDERATIONS

- Just because sales numbers are lower than other affiliate types, that doesn't mean these affiliates are any less worthwhile.
- Traffic and conversion rates will be better indicators of value for these partners. Perhaps fixed cost payments or CPC might be better payment options.
- These partners are normally engaged with an affiliate programme because they like the brand or think it will resonate with their customers. Therefore, free gifts and products are a great engagement mechanism.

INFLUENCERS

KEY METRICS

- Social influencers will normally account for fewer than 10% of sales.
- These affiliates send traffic to an affiliate programme via social media platforms, most commonly Instagram and Facebook. This means traffic numbers can be extremely high, particularly from mobile devices. However, because social influencers are higher up the purchasing funnel, conversion rates will be lower than for other affiliates.
- The number of social influencers available to a programme will vary by sector, but these affiliates are most prominent in fashion and travel.

KEY CONSIDERATIONS

- Social influencers generate valuable traffic and should receive some of the highest CPAs on a programme, and again free gifts, products and fixed cost payments will be as, if not more important than the commission to engage them.
- The audiences generated by social influencers can be very engaged with a brand's products, so their impressions and clicks will be some of the most valuable on any affiliate programme.
- Acquiring a customer through social influencers might be expensive compared to other affiliate types, but it will most likely be an engaged customer.

BEYOND COST PER AQUISITION

There are multiple payment options that can be offered to publishers and best practices to maintain healthy, lucrative relationships. The key is being flexible in making commercial arrangements to optimise the marketing efforts your publishers can provide.

Affiliate marketing has traditionally been thought of as a pure cost per acquisition (CPA) channel, meaning you only pay a partner when the desired outcome or action (usually a sale) has been achieved. Over time, the payment mechanisms have evolved, and there are now multiple options for affiliate remuneration besides CPA. Read on to find out what they are.

CPA, tenancies and influence payments

Cost Per Acquisition / Commission

- Usually a % of the value of the basket, less commonly a flat fee commission.
- Set commission knowing that you have some room to offer increases to specific affiliates or for certain campaigns.
- Most sectors have a benchmark for commission pay outs relative to the margin for the goods or services.
- Sometimes brand equity provides advertisers with some leverage, but fair pay for marketing effort is always the best practice.
- Most publishers have alternative options outside of the affiliate channel. To retain the relationship, be competitive and offer a valuable commercial partnership.

Tenancies

- Although tenancy fees may be too large for smaller merchants, a risk averse 'test and learn' approach is best.
- Typically, we see advertisers spend between 5% and 20% of their annual affiliate budget on tenancies. The majority of tenancy payments should be agreed with your top 10 affiliates and always in exchange for increased coverage.
- Most top affiliates have a rate card or media pack. You should be able to obtain these from either your network or the affiliate directly.
- Additional marketing efforts for tenancy payments include one or more of these for an agreed period: Showcasing your brand on higher traffic pages, coverage in publishers' email newsletters, additional social media activity, paid search ads for your brand.

Influence Payments

- Although last-click attribution is the norm, it is now much more common for advertisers to look at rewarding additional payment for upper funnel activity that they believe is influential to a user's purchasing decision.
- Rewarding payments in this way ensures that those types of publishers are financially rewarded for their marketing efforts, which means they won't look at a competitor or another way (such as Google AdSense) to monetise their site.
- It is generally accepted that influencer payments aren't worth as much as the last click CPA reward. However, if you believe that your programme should be rewarding upper funnel partners for their contribution you should look to set an influencer reward that's between 1/5th and 1/3rd of the CPA commission value.

Bonuses, acquisition cost vs lifetime value, speed of payment

Bonuses

- Offering a bonus payment is a traditional concept but still used by some advertisers. Bonuses can be offered to publishers for competitions or to incentivise partners at a particular time of year.
- Webgains generally advises that fixed fee budget is allocated to tenancies over bonuses, as bonuses can often be random in selection and rarely effective for ROI.

Acquisition Cost vs Lifetime Value

- Mature affiliate programmes should be looking at internal data to understand the customer value brought in through the affiliate channel at different times of the trading calendar. Comparing this may help to understand the commercials and payments you can afford to apply to different affiliates or affiliate types.
- Customer Lifetime Value, often referred to in the UK as LTV or CLV, is an important metric for most mature e-commerce businesses. It is the measure of value a customer will have to a business over the entire course of their purchasing cycle with that business.

Speed of Payment

- Affiliates are commercial entities and will be managing cashflow as small businesses, or with committed overheads for larger businesses. Timely payment and efficient validation of sales re crucial parts of any commercial relationship.
- When it comes to tracking the sale, commissions will track in real-time on Webgains, and will then be validated. Lengthy validation periods are one of the key frustrations for affiliates, who sometimes have to wait months for a single sale to be validated. Aim to process your sales as quickly as possible.
- Similarly, adding payments such as tenancies to your account as quickly as possible and paying invoices to your affiliate network within the payment period is a necessity. Doing this will also help leverage additional activity over competitors as you'll have been able to negotiate knowing the affiliate is going to receive the payment sooner.

EXAMPLES OF METRICS YOU CAN USE TO MEASURE THE SUCCESS OF YOUR PROGRAMME

CPA	**Cost per acquisition.** Typically, the commission paid to the publisher on a last-click basis.
AOV	**Average Order Value.** The value of the product or service that the consumer purchases.
LTV	**Lifetime Value.** The value of the customer from first purchase and any subsequent purchases.
ROI	**Return on Investment.** Profit divided by the total cost.
ROAS	**Return on Advertising Spend.** Revenue divided by advertising spend.
CR	**Conversion rate.** A simple formula - sales divided by traffic (clicks) x 100.
Click Path Analysis	Whilst not actually a measurement, some merchants consider the influence that affiliate activity has as an important metric when running campaigns.

SHARE YOUR FORECAST & STRATEGY

When it come to your targets and expectations, be as transparent as possible to all parties (your network, agency if you have one, and your main publisher partners). This will ensure that strategies are aligned and understood.

If there are impending changes that will make a difference to the performance of the affiliate programme, then it is important that you communicate them. Examples include, major changes to your site that may affect conversion, changes to your delivery fees or delivery logistics that could impact customers, new or discontinued product ranges onsite, or even major marketing activity planned for other online and offline channels. By sharing these plans and your forecasts, it will give publishers a much clearer understanding of your business aims.

Similarly, you should aim to discuss major strategic plans that your business has, both short and long-term. If, for example, your company has a strategic objective that results in a focus on a certain geographic location around the globe or specific customer type, publishers should know what your vision is and the timeframe, so that they can help you achieve it.

CAMPAIGN EXPECTATIONS 1

When discussing and booking in enhanced activity with a specific publisher, review and communicate what a good result for the campaign will be. Consider the minimum outcome you would deem acceptable as well as the desired or optimal outcome.

Setting and communicating these expectations before the start of a campaign is necessary to work out the viability of tenancy payments, increased CPAs, additional paid search allowances and time/resource required to get the campaign live. It is advisable to agree the anticipated outcomes with the publisher, and then revisit these metrics afterwards. Talking through how you felt the campaign went, both regarding operation and performance, will help both advertiser and publisher to learn how future campaigns can be enhanced.

CAMPAIGN EXPECTATIONS 2

When considering the expectations of a specific campaign, there isn't a one size fits all way to evaluate success. Being cognisant of the type of publisher and the advertising activity they plan to carry out for the campaign, is vital to planning success metrics.

Think about the type of activity the publisher will be doing. Is the affiliate traffic likely to engage top or bottom funnel activity? This is a very important consideration as measurement only on performance on the last click basis is not appropriate for all campaigns.

Here is a list of goals that you may choose to look at to evaluate the success of a campaign:

- Increased brand awareness
- Increased exposure
- Traffic volume
- Last click sale performance
- Influence and halo effect for other publishers/online channels

CAMPAIGN EXPECTATIONS 3

Selecting appropriate goals is one part of setting expectations, but judging output empirically relies on setting metrics for goals. Again, this needs to be bespoke to your business and partnerships. Here is a list of metrics you may choose to use to assess the success of the goals:

- Day on day increase
- A week on week increase
- Month on month increase
- Year of year increase
- Campaign duration vs same time frame immediately before
- Current campaign vs last time you ran it with the publisher
- Current campaign vs similar campaign run with another publisher

When setting expectations, there will be extraneous factors that impact the forecasting accuracy of both an advertiser and publisher.

Remember that erroneous activity can skew results. Similarly, unanticipated (or even anticipated) competitor activity can influence the success of a campaign. When evaluating success, you should always consider what activity your competitors were running, as well as considering what activity the publisher's competitors were running.

MEASURING TENANCY PERFORMANCE

One of the hardest costs to justify in the affiliate channel is the flat payment structure of a tenancy fee. Tenancies are commonplace for larger affiliates. When considering your expectations in return for tenancies we encourage all advertisers to ask publishers:

- What is the tenancy payment for?
- What elements of the campaign are guaranteed/secured through the flat payment?
- Can the publisher provide a case study for a similar campaign?

Tenancy is often a viable way for publishers to cover costs of additional advertising spend invested in running the campaign on behalf of an advertiser. The largest publishers will have plenty of experience supporting advertisers to calculate performance metrics and cost.

Advertisers vary in how they manage tenancy costs; some have a separate budget which isn't tied back to the same ROI modelling as other spend, while other advertisers have a centralised budget and work overall costs to a blended CPA or ROI. This is another reason it is important to share any bespoke ROI metrics you may have with your publishers.

The way an affiliate programme tracks and reports activity is a vitally important, yet often overlooked aspect of affiliate marketing. A solid tracking set-up will give an affiliate programme the best possible chances of success. In this section, we'll look at the fundamentals and best practices for affiliate tracking.

THE BASICS

As affiliate marketing operates primarily on a CPA model, it means tracking a conversion, which is normally a sale or sign-up, is extremely important to make the model work. In fact, conversion-level tracking in affiliate marketing is arguably more important than in any other marketing channel. However, affiliate tracking also has to record engagement, which means how users have viewed and clicked affiliate advertising.

IMPRESSIONS, CLICKS & CONVERSIONS

Clicks are the normal action trigger used in affiliate marketing. This means a user has to contribute an action and click on a piece of affiliate advertising for a transaction to be credited to a publisher.

When a user clicks on a piece of affiliate advertising, we will record that action. Normally this will be done using a cookie set either by us or the advertiser who is receiving the traffic.

However, Webgains also records click actions using server-side logging. The click action denotes that affiliate advertising has referred a user to an advertiser. If that user goes on to complete a conversion, then we will track that. This will be done using a request triggered on the advertiser's confirmation of sale page or a server-side request sent by the advertiser to us.

The click and conversion action are combined to generate an affiliate transaction, which will be credited to the affiliate responsible for driving the click.

While affiliate tracking technology varies across the industry, the tracking principle described here is used by the vast majority of companies.

ATTRIBUTION WINDOW

The time between a click action and a conversion that counts as an affiliate referred sale varies and is set by each advertiser. This concept is called the attribution window.

The industry norm is 30 days. However, all affiliates should take note of the attribution window for the programmes they work on.

Advertisers should think carefully about the window they set for their programme. A longer one will be more attractive to affiliates, and it's worth remembering that in affiliate marketing, over 85% of transactions occur within 24-hours of the click.

THIRD-PARTY MEASUREMENT

A large number of advertisers use third-party measurement technology to view the performance of all their marketing channels in a single view. Google Analytics is a common example.

The majority of analytics solutions will require parameters added to the affiliate click tracking and for the affiliate conversion tracking to be hosted in a container tag. This will allow the analytics solution to track click actions at the same time as Webgains.

For advertisers, it's important to remember that all tracking technologies are different, and therefore it's not unusual to see a 10% difference between numbers when comparing affiliate network data to that of a third-party tracking provider.

MOBILE

Mobile devices present unique challenges for affiliate tracking.

As is common with many web browsers today, iOS and Android mobile operating systems block third-party cookies as standard. While this should not adversely affect affiliate tracking, it may impact the tracking used by third-party measurement providers, on which affiliate marketing could be reliant. Advertisers using third-party measurement solutions should ensure they are aware of how these solutions will impact affiliate tracking, particularly on mobile devices.

Because today's browsing habits are so intertwined between desktop and mobile, at Webgains we don't distinguish between the two and have built a tracking system that is fully compatible with all environments.

AD-BLOCKING AND PRIVACY

Web browsers and device operating systems have developed privacy options that can impact tracking. These solutions look to block third-party web requests from a domain other than the one a user is visiting.

With a near 60% market share, Google Chrome is the most popular browser, and has its own ad filtering system. Google's approach is based on filtering out ads that do not conform to the Coalition for Better Ads.

Because most affiliate marketing tracking is based on a http redirect to a first-party domain, it is not significantly affected by browser privacy systems.

However, the addition of ad-blockers that participate in domain-level blocking such as AdBlock Plus, *can* impact affiliate tracking.

Though it's always something to consider, it's unlikely that any more than 2% of transactions on any affiliate programme will be lost through ad-blocking and privacy features.

This term refers to the practice of not crediting an affiliate marketing action with a conversion because the user has interacted with other marketing channels in their journey. In practice, this normally means that if the affiliate marketing click is not the user's final interaction with any digital marketing operated by the advertiser, then an affiliate conversion will not be credited.

This is a controversial topic in affiliate marketing. It's important that advertisers and affiliates understand the implications of how conversions are credited.

Most advertisers will use third-party measurement solutions to 'conditionally' trigger affiliate conversion tracking, depending on whether the affiliate click was the last in a multi-channel user purchase journey.

The extent to which different marketing channels are included in de-duplication will vary per advertiser and at Webgains we encourage all our advertisers to be open about their de-duplication policies. Where an advertiser wants to run de-duplication, Webgains advises that these paid digital marketing channels are included:

- Paid Search (generic keywords)
- Display (on click)
- Google Shopping
- Comparison
- Paid Social
- Facebook Display (on click)

However, we advise that these digital marketing channels should not be included in any de-duplication process:

- Paid Search (brand)
- Email marketing
- Display Retargeting
- On-Site Targeting

We believe that not crediting affiliate marketing because it is 'over-written' by one of these four marketing techniques is unfair on the channel. Many of these techniques are commonly used to find brands users are already engaged with or to market to existing customers.

Voucher code sites are some of the biggest and most important in the affiliate marketing industry. This is partly due to the development of online consumer spending habits and partly because of the affiliate industry’s last-click CPA model favouring sites closest to conversion. Voucher code partners play a significant part in almost every affiliate programme.

The Voucher Code Market

Voucher code sites grew around 13% from 2017 to 2018. They account for around 20% of total affiliate sales in the UK market.

In the UK, major players in this category include Vouchercodes.co.uk, Vouchercloud.com, Voucherbox.co.uk, Myvouchercodes.co.uk and Promopro.co.uk.

However, much of the recent and anticipated growth in the voucher code market is being driven by large media and news sites launching their voucher code portals. Daily Mail is amongst the most prominent.

Traffic Generation

Search engines are generally the biggest traffic source for most voucher code affiliates. It is important that advertisers are aware of this because voucher code affiliates will often talk about gaining exclusive access to the search rankings for their site. This can help an advertiser strike a more profitable relationship with a specific affiliate.

Of course, voucher code traffic generation isn’t all about search rankings. Voucher code affiliates will normally generate around 20% of traffic directly. The larger partners have highly engaged opt-in email databases, and placement in one of these regular emails can deliver significant sales volume, particularly when accompanied by a strong offer.

Exclusive Codes

Exclusive codes are normally a great way to secure exclusive promotion from a voucher code partner.

If that code leaks out, it can not only reduce an advertiser’s margin but also damage their working relationship with the original publisher. There are a number of ways you can ensure you’re protected:

- Network technology – tools that allow advertisers to track which discount codes are used.
- URL triggered discounts – enables advertisers to apply a specific discount at checkout.
- Single-use codes – discount codes that expire after each use.

Commission by Code

The bigger the consumer-facing discount, the more difficult it can be for advertisers to cost-in promotions for voucher code partners. With the ability to track the discount code used in each sale, advertisers should consider varying the commission paid depending on the code/consumer-facing discount on offer.

Publishers may think this is simply a tactic for advertisers to pay less commission. However, it's vitally important that voucher code promotions cost-in, and when working with voucher code partners, advertisers are tapping into a savvy, deal-orientated group of users who respond to deep offers.

Regulating commission based on the type of code used prevents the type of programme-wide lowering of voucher code commission rates seen in the affiliate industry a few years ago and allows advertisers to be more strategic with their spend and offer placements.

Value Add-Offers

Many advertisers work with voucher code sites even though their businesses do not issue codes or do discounts. Voucher code affiliates also list generic offers and promotions. These advertisers have a difficult job building mutually beneficial partnerships with voucher code partners.

One popular solution to this problem is 'value-add' promotions. Instead of exchanging a code for a discount, these promotions give the consumer something on top of their purchase. They're common in verticals where discount codes are not widely used, such as mobiles or broadband. In these sectors, it's not uncommon to visit voucher code sites and find offers such as "Buy This phone contract for 24 months and get a £50 MyBrand Voucher".

Value-add promotions are becoming much more prominent across the affiliate industry, with lower value promotions now being used to incentivise retail and travel purchases.

A/B Testing

Voucher code partners are a ready-made and often willing test-bed to help advertisers trial a variety of different offers.

A common example of A/B testing in the voucher code market might be to trial a campaign that tests the hypothesis that a strong consumer-facing code drives incremental sales volume. The publisher might surface three different offers for an advertiser:

1. A new customer code
2. A generic code
3. A control group that sees no valid offers

The results of this test would help determine the benefit of running specific discounts over a generic or 'always on' code. This is just an example of what's possible, and many of the top voucher code partners offer unique A/B testing functionality. Advertisers should note that additional costs might be required for these promotions.

One of the key goals for all advertisers in affiliate marketing is to acquire new customers. Advertisers can expect affiliate marketing to put their brand and products in front of new audiences.

However, now that e-commerce and affiliate programmes are maturing, the idea of a 'new' customer is changing. It's natural that as e-commerce businesses grow, they will find new customer acquisition more challenging and sometimes more expensive. They will also face additional challenges, such as retention of high-value customers, and reengagement of lapsed customers.

Affiliate marketing is well equipped to meet the challenges of marketing to different customer types. And, for a mature affiliate programme, it is important to optimise publisher activity to maximise the channel's ability to meet both customer acquisition and retention goals.

WHAT IS A NEW CUSTOMER?

Many e-commerce businesses are now more than a decade old, with huge active databases of customers. Some of those customers may not have bought in years. Is it, therefore, feasible or realistic to define a new customer as somebody that the business has never seen before?

Whatever new customer definitions an advertiser chooses, in affiliate marketing it's very important that:

- The new customer definition is published to affiliates in the event that an advertiser is paying a variable commission rate based on customer type.
- Publishers familiarise themselves with the new customer definitions being used by the advertisers they work with.
- Advertisers and publishers think about the customer types they are targeting when running promotions. For example, discount codes that are restricted or specific to certain customer types.

Tracking customer types and commission by customer type

TRACKING CUSTOMER TYPES

Webgains allows advertisers to pass variables to our system that flag the type of customer that has been involved in a purchase. This is something an advertiser normally does when they integrate an affiliate programme, but it can be changed or updated at any time with Webgains.

To do this effectively, it is important an advertiser has first defined their customer types, discussed these with Webgains and can accurately apply their definition of customer type, at the moment they trigger the Webgains conversion tracking. This is normally done on the advertiser's confirmation of sale page.

COMMISSION BY CUSTOMER TYPE

It is very common for advertisers to pay different commission rates based on customer type. For those in certain verticals, like utilities, mobiles, broadband and insurance, it might be a necessity to running their programme. For publishers, remember that it is the exception rather than the rule for telecoms companies to pay any commission for existing customers that upgrade or regrade their products.

For other advertisers, particularly in retail, the commission by customer type might be a way to manage budgets and align affiliate marketing with the businesses wider objectives.

In some cases, it may be necessary for advertisers to remove commission entirely on a particular customer type, such as paying no commission on sales from existing customers. However, most publishers cannot segregate their users into customer types relevant to one specific advertiser. Therefore, it is impossible for them to avoid advertising to the existing customers of an advertiser. In most circumstances, it is unfair to remove commission entirely for existing customer sales.

Targeting customers and customer lifetime value

TARGETING CUSTOMERS

There are tactics that affiliates can use to target their advertising at specific customer types for an advertiser, even if they do not have any first-party information from the advertiser that defines the customer type to them.

Discount code partners are a fitting example. They can use codes targeted at specific customer types, such as a new customer code, or a code that targets lapsed existing customers of a specific brand.

Comparison sites can display specific product offers or discounts at lapsed existing or new customers. This is quite a common tactic in the broadband comparison market.

Cashback and loyalty sites are somewhat unique in affiliate marketing because they have access to logged in user data and can tie each user back to the purchases they have made via their platform. This gives these partners a unique opportunity to target by customer types. For example, a loyalty site might be able to target a high-tariff reward offer to customers that have never shopped with a certain fashion brand via their portal but have shopped in the fashion category generally.

CUSTOMER LIFETIME VALUE

Sometimes lifetime value (LTV) is obvious, such as contract-based businesses that can accurately calculate how valuable a customer will be throughout the life of the contract. However, for retail businesses, it can be more tricky to determine. Most retail companies calculate Customer Lifetime Value over a predefined period, like 36 months, and factor in both historical value (purchases already made) and predictive value (forecasted purchases).

It is important for affiliate marketers to reflect the lifetime value of new customers in their commission-setting for the affiliate channel. Because affiliate marketing can be easily calculated to a cost-of-sale sometimes, it can be tempting to calculate affiliate commission based only on a cost-of-sale/profitability calculation of each transaction. However, this will normally not take into account the value a customer may bring from future transactions that will be acquired by the advertiser's business directly.

Over time, advertisers should monitor the LTV of customers being referred from the affiliate channel and compare these with customers from other marketing channels.

There are more than 4,000 affiliate programmes live in the UK. With such a vast number of potential programmes to choose from, it's important advertisers make their programme stand out to potential publishers.

'*How attractive is my affiliate programme?*' is a question all advertisers should ask themselves from time to time, particularly if the advertiser has a mature programme.

There are some important factors that publisher partners look for when assessing the potential of an affiliate programme. Because affiliate marketing is ultimately a business to the vast majority of affiliates, commercial viability is an important overarching factor. But it's not the only thing that makes for an attractive affiliate programme.

COMMISSIONS
Do you offer good earning potential vs competitors?

CONVERSION RATE
How likely are you to turn a referral into a purchase?

EARNINGS PER CLICK
Hoes does your EPC stack up against competitors?

APPROVED TRANSACTIONS
Can publishers trust that you'll pay?

BRAND RECOGNITION
How strong and established is your brand?

ENGAGING CONTENT
Do you have solid content that reflects your business?

COMMISSION

The earning potential of a programme is vital to any affiliate, and the commission is the most important yardstick by which earning potential will be measured.

Advertisers should measure their base rate commissions against their key competitors. And while commission rates ultimately need to cost-in for the advertiser, being competitive is vitally important. Advertisers should ask their affiliate network to supply industry average commission rates for their sector, as well as regularly check key cashback websites to ensure parity.

Being within 75% of the highest commission rate available in a sector or the highest commission rate available across key competitors, should be a rule-of-thumb for all advertisers.

Webgains recommends that advertisers never set their highest possible commission as the base rate available to all affiliates. Keeping something in reserve to negotiate for additional exposure is important.

Advertisers should remember that a commission-per-transaction isn't the only way they will pay affiliates. Fixed cost tenancies are common, especially for bigger partners. Therefore, affiliate activity should always be worked out to an effective cost-per-action (eCPA).

CONVERSION RATE

Because affiliate marketing is transaction based, the conversion rate (the percentage of clicks to transactions) takes on greater importance than in other digital marketing channels.

Publishers will use conversion rate as a metric to judge how effective an advertiser will be at converting the traffic they send to them. Remember, publishers are relying on advertisers to convert their traffic at an acceptable rate to drive earning potential.

As a rule-of-thumb, an affiliate programme should convert at just above an advertiser's standard site conversion rate; however, different affiliate types will convert differently. Incentivised traffic, like cash back, loyalty and discount codes, will convert significantly higher than an advertiser's site-average, while content affiliates might convert at a lower rate.

EARNINGS PER CLICK

Earnings Per Click (EPC) is a retrospective calculation of an affiliate's earnings (commission and any additional tenancy payments) divided by the number of clicks sent to an affiliate programme.

EPC allows affiliates who use digital marketing channels other than just affiliate to benchmark the suitability of affiliate advertising against channels with different payment models, like display or Google's Adsense.

In affiliate marketing, this calculation is normally aggregated across all affiliates so that each affiliate programme is attributed with an average EPC figure.

Affiliate programmes normally have an EPC between £1.20 and £0.20, but this can vary quite significantly across different sectors.

Advertisers should pay close attention to their programme-wide EPC, particularly how it measures up against competitors. Some advertisers choose not to work with affiliates that send a large amount of poorly converting traffic due to the impact it can have on EPC.

For affiliates, EPC should be an important metric when deciding to work with an advertiser's programme. A low EPC could be indicative of a problem converting traffic into commission-paying affiliate sales.

APPROVED TRANSACTIONS

Affiliate marketing is one of the only advertising channels that allows advertisers to choose which transactions they are willing to pay for.

Advertisers have the option to decline transactions that do not complete or if the product is returned by the customer. However, it's important advertisers recognise the impact this process has on publishers.

While most long-standing affiliates will be aware that some sales get declined, a high number of declines can affect the willingness of a publisher to promote a programme and may cause that programme to become commercially unviable.

The Webgains system publishes average approval rates for all affiliate programmes. Affiliates should be aware of these before they start promoting a programme and should monitor them regularly for any changes. For products that require credit-checking like insurance or mobile phones, an approval rate of around 50% isn't unusual. However, retail programmes should not have an approval rate lower than 70%. Approval rates should not vary significantly by affiliate type.

Advertisers should be aware of their approval rate, and most importantly, should ensure they are processing transaction approvals fairly and regularly. Webgains recommends that advertisers set-up an automated method of passing transaction approvals to us, such as via an automated file exchange or API.

BRAND RECOGNITION

The strength of an advertiser's brand is one of the most consistently overlooked factors in the attractiveness of an affiliate programme. Affiliates participate in affiliate marketing for a variety of reasons, but one of the main reasons is to drive product discovery by putting the best brands in front of their unique audiences.

An advertiser's brand recognition is sometimes the key factor in attracting publishers, and it can often cause publishers to overlook a multitude of metrics that would otherwise suggest the programme isn't a good fit. It's often the case that the more recognisable an advertiser's brand is, the more interest, traffic and engagement it will receive from an affiliate's users, and so that affiliate will take more risks to have that brand on their site.

This is an important factor for advertisers to consider. Good marketing materials and attractive stats can sometimes be outweighed by brand strength, which means an affiliate might favour a competitor just because they have a higher profile. Sometimes publishers will look at how prominent an advertiser is in other marketing channels, including offline, and decide to work with an advertiser because they are promoting their brand heavily in a variety of channels.

However, being attracted by working with the best names isn't always as fulfilling as it may seem. Just because an advertiser's brand might be a big draw for users that doesn't mean it is going to be a commercially viable partnership for the publisher. Publishers should check the key stats, no matter how desirable it is to work with the brand name.

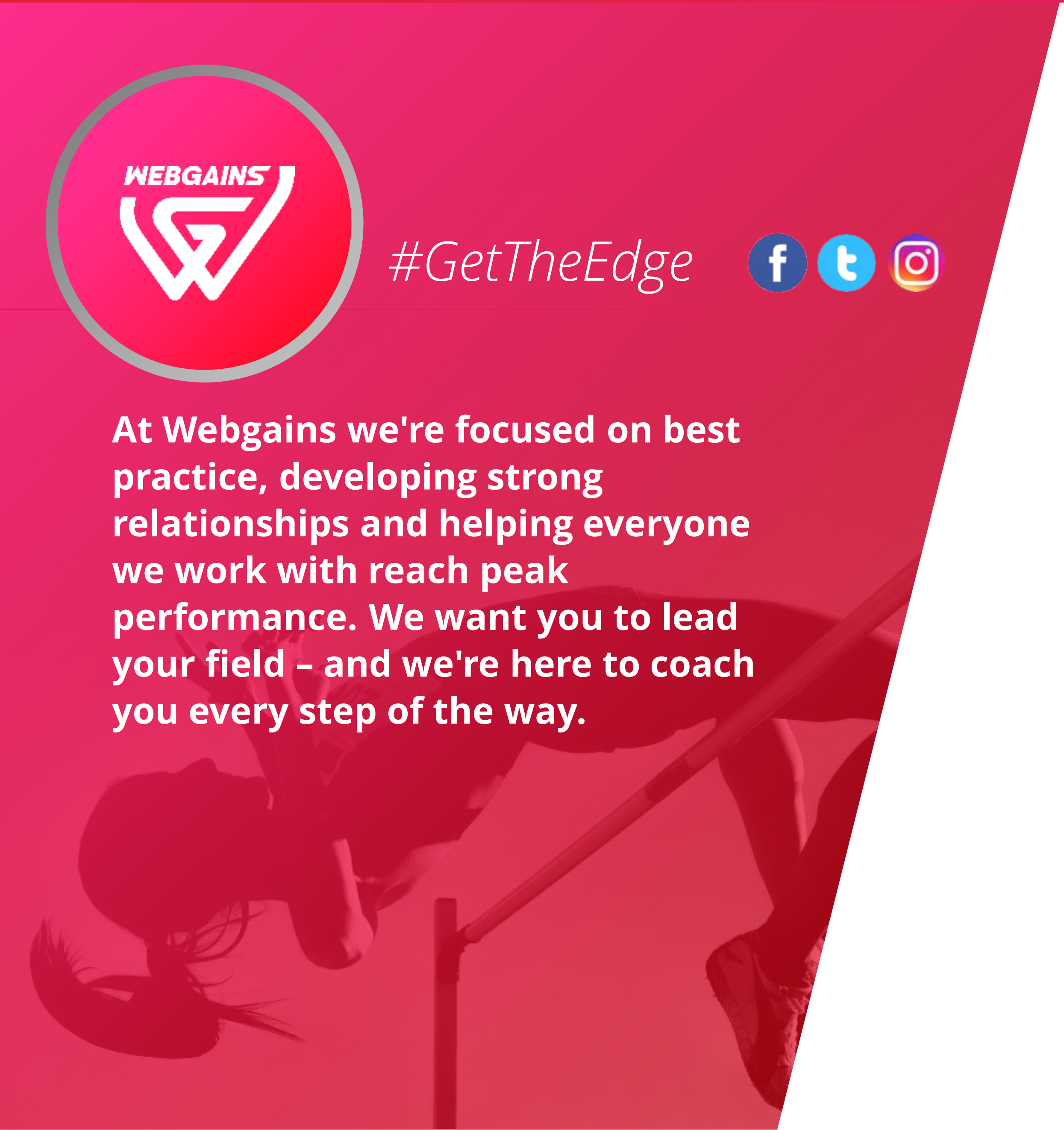
ENGAGING CONTENT

Publishers are a virtual salesforce. Advertisers should arm that salesforce with content that best reflects and represents their business.

All good affiliate providers should have the option for advertisers to host unique content that they can make available to affiliates.

This should include:

- A selection of key one-line phrases that represent the business (advertisers should consider replicating copy from search ads here)
- A two-paragraph long description of the business
- Key USPs of the business in bullet point form
- A selection of generic display creative, which includes high-resolution logos
- Generic display creative that's suitable for mobile devices



#GetTheEdge

At Webgains we're focused on best practice, developing strong relationships and helping everyone we work with reach peak performance. We want you to lead your field – and we're here to coach you every step of the way.

Webgains is the high performance affiliate marketing network, with global reach and a great track record.

We combine the latest technology, performance marketing experience, and world-class expertise to do what we do best - match brands with the best publishers. This puts our clients, which range from big blue-chips to start-ups, at the top of their game.

Webgains was founded in 2005 and has been part of the adpepper media group since 2006. The company has its HQ in London, but with offices all over the world; in Bristol, Nuremberg, Paris, Madrid and Milan. However, the Webgains network spreads well beyond those locations, offering localised platforms in 14 countries, tracking sales in more than 150 countries.

Webgains has a huge range of advertisers across a number of industries.

The Webgains publishing network contains more than 250,000 publishers across our markets, with more than 100,000 publishers in the UK.

JOIN WEBGAINS TO...

- Get access to our state-of-the art platform
- Build an unlimited network of affiliates
- Create an unlimited number of campaigns
- Send newsletters to your affiliates about your campaigns
- View and download reports to understand how your campaigns perform
- Access to the Webgains Academy to always stay at the cutting edge of the affiliate marketing industry

START NOW

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