

# What is **Affiliate Marketing**

Affiliate marketing is a type of performance-based marketing in which a business rewards one or more affiliates for each visitor or customer brought by the affiliate's own marketing efforts. The industry has four core players: the merchant (also known as 'retailer' or 'brand'), the network (that contains offers for the affiliate to choose from and also takes care of the payments), the publisher (also known as 'the affiliate'), and the customer. The market has grown in complexity, resulting in the emergence of a secondary tier of players, including affiliate management agencies, super-affiliates and specialized third party vendors.

# What is **Affiliate Marketing**

Affiliate marketing overlaps with other Internet marketing methods to some degree, because affiliates often use regular advertising methods. Those methods include organic search engine optimization (SEO), paid search engine marketing (PPC - Pay Per Click), e-mail marketing, content marketing and in some sense display advertising. On the other hand, affiliates sometimes use less orthodox techniques, such as publishing reviews of products or services offered by a partner.

# What is **Affiliate Marketing**

Affiliate marketing is commonly confused with referral marketing, as both forms of marketing use third parties to drive sales to the retailer. However, both are distinct forms of marketing and the main difference between them is that affiliate marketing relies purely on financial motivations to drive sales while referral marketing relies on trust and personal relationships to drive sales.

# What is **Affiliate Marketing**

Affiliate marketing is frequently overlooked by advertisers. While search engines, e-mail, and website syndication capture much of the attention of online retailers, affiliate marketing carries a much lower profile. Still, affiliates continue to play a significant role in e-retailers' marketing strategies.



# History of Affiliate Marketing

The concept of revenue sharing—paying commission for referred business—predates affiliate marketing and the Internet. The translation of the revenue share principles to mainstream e-commerce happened in November 1994, almost four years after the origination of the World Wide Web.

The concept of affiliate marketing on the Internet was conceived of, put into practice and patented by William J. Tobin, the founder of PC Flowers & Gifts. Launched on the Prodigy Network in 1989, PC Flowers & Gifts remained on the service until 1996. By 1993, PC Flowers & Gifts generated sales in excess of \$6 million per year on the Prodigy service. In 1998, PC Flowers and Gifts developed the business model of paying a commission on sales to the Prodigy Network.

In 1994, Tobin launched a beta version of PC Flowers & Gifts on the Internet in cooperation with IBM, who owned half of Prodigy. By 1995 PC Flowers & Gifts had launched a commercial version of the website and had 2,600 affiliate marketing partners on the World Wide Web. Tobin applied for a patent on tracking and affiliate marketing on January 22, 1996 and was issued U.S. Patent number 6,141,666 on Oct 31, 2000. Tobin also received Japanese Patent number 4021941 on Oct 5, 2007 and U.S. Patent number 7,505,913 on Mar 17, 2009 for affiliate marketing and tracking. In July 1998 PC Flowers and Gifts merged with Fingerhut and Federated Department Stores.

In November 1994, CDNOW launched its BuyWeb program. CDNOW had the idea that music-oriented websites could review or list albums on their pages that their visitors might be interested in purchasing. These websites could also offer a link that would take visitors directly to CDNOW to purchase the albums. The idea for remote purchasing originally arose from conversations with music label Geffen Records in the fall of 1994. The management at Geffen wanted to sell its artists' CD's directly from its website, but did not want to implement this capability itself. Geffen asked CDNOW if it could design a program where CDNOW would handle the order fulfillment. Geffen realized that CDNOW could link directly from the artist on its website to Geffen's website, bypassing the CDNOW home page and going directly to an artist's music page.

Amazon.com (Amazon) launched its associate program in July 1996: Amazon associates could place banner or text links on their site for individual books, or link directly to the Amazon home page. When visitors clicked from the associate's website to Amazon and purchased a book, the associate received a commission. Amazon was not the first merchant to offer an affiliate program, but its program was the first to become widely known and serve as a model for subsequent programs.

In February 2000, Amazon announced that it had been granted a patent on components of an affiliate program. The patent application was submitted in June 1997, which predates most affiliate programs, but not PC Flowers & Gifts.com (October 1994), AutoWeb.com (October 1995), Kbkids.com/BrainPlay.com (January 1996), EPage (April 1996), and several others.

## Historic development of **Affiliate Marketing**

Affiliate marketing has grown quickly since its inception. The e-commerce website, viewed as a marketing toy in the early days of the Internet, became an integrated part of the overall business plan and in some cases grew to a bigger business than the existing offline business. According to one report, the total sales amount generated through affiliate networks in 2006 was £2.16 billion in the United Kingdom alone. The estimates were £1.35 billion in sales in 2005. MarketingSherpa's research team estimated that, in 2006, affiliates worldwide earned US\$6.5 billion in bounty and commissions from a variety of sources in retail, personal finance, gaming and gambling, travel, telecom, education, publishing, and forms of lead generation other than contextual advertising programs.

In 2006, the most active sectors for affiliate marketing were the adult, gambling, retail industries and file-sharing services. The three sectors expected to experience the greatest growth are the mobile phone, finance, and travel sectors.[16] Soon after these sectors came the entertainment (particularly gaming) and Internet-related services (particularly broadband) sectors. Also several of the affiliate solution providers expect to see increased interest from business-to-business marketers and advertisers in using affiliate marketing as part of their mix.



## Impact of Web 2.0 **Affiliate Marketing**

Websites and services based on Web 2.0 concepts—blogging and interactive online communities, for example—have impacted the affiliate marketing world as well. These platforms allow improved communication between merchants and affiliates. Web 2.0 platforms have also opened affiliate marketing channels to personal bloggers, writers, and independent website owners. Contextual ads allow publishers with lower levels of web traffic to place affiliate ads on websites.

Forms of new media have also diversified how companies, brands, and ad networks serve ads to visitors. For instance, YouTube allows video-makers to embed advertisements through Google's affiliate network. New developments have made it more difficult for unscrupulous affiliates to make money. Emerging black sheep are detected and made known to the affiliate marketing community with much greater speed and efficiency.

## Compensation Methods of **Affiliate Marketing**

### Predominant compensation methods :

Eighty percent of affiliate programs today use revenue sharing or pay per sale (PPS) as a compensation method, nineteen percent use cost per action (CPA), and the remaining programs use other methods such as cost per click (CPC) or cost per mille (CPM, cost per estimated 1000 views)



## Compensation Methods of **Affiliate Marketing**

### Diminished compensation methods :

Within more mature markets, less than one percent of traditional affiliate marketing programs today use cost per click and cost per mille. However, these compensation methods are used heavily in display advertising and paid search.

Cost per mille requires only that the publisher make the advertising available on his or her website and display it to the page visitors in order to receive a commission. Pay per click requires one additional step in the conversion process to generate revenue for the publisher: A visitor must not only be made aware of the advertisement, but must also click on the advertisement to visit the advertiser's website.

Cost per click was more common in the early days of affiliate marketing, but has diminished in use over time due to click fraud issues very similar to the click fraud issues modern search engines are facing today. Contextual advertising programs are not considered in the statistic pertaining to diminished use of cost per click, as it is uncertain if contextual advertising can be considered affiliate marketing.

While these models have diminished in mature e-commerce and online advertising markets they are still prevalent in some more nascent industries. China is one example where Affiliate Marketing does not overtly resemble the same model in the West. With many affiliates being paid a flat "Cost Per Day" with some networks offering Cost Per Click or CPM

# Compensation Methods of **Affiliate Marketing**

## Performance/Affiliate marketing

In the case of cost per mille/click, the publisher is not concerned about a visitor being a member of the audience that the advertiser tries to attract and is able to convert, because at this point the publisher has already earned his commission. This leaves the greater, and, in case of cost per mille, the full risk and loss (if the visitor can not be converted) to the advertiser.

Cost per action/sale methods require that referred visitors do more than visit the advertiser's website before the affiliate receives commission. The advertiser must convert that visitor first. It is in the best interest for the affiliate to send the most closely targeted traffic to the advertiser as possible to increase the chance of a conversion. The risk and loss is shared between the affiliate and the advertiser.

Affiliate marketing is also called "performance marketing", in reference to how sales employees are typically being compensated. Such employees are typically paid a commission for each sale they close, and sometimes are paid performance incentives for exceeding objectives.[19] Affiliates are not employed by the advertiser whose products or services they promote, but the compensation models applied to affiliate marketing are very similar to the ones used for people in the advertisers' internal sales department.

The phrase, "Affiliates are an extended sales force for your business", which is often used to explain affiliate marketing, is not completely accurate. The primary difference between the two is that affiliate marketers provide little if any influence on a possible prospect in the conversion process once that prospect is directed to the advertiser's website. The sales team of the advertiser, however, does have the control and influence up to the point where the prospect signs the contract or completes the purchase.