

**Course Book**

PERFORMANCE MARKETING:

AFFILIATES AND MAIL

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# LEARNING

**OBJECTIVES**

After successfully completing the **Performance Marketing: Affiliates and Mail** course, you will be able to analyze and evaluate the performance marketing tools used in online marketing with the aim of achieving a measurable transaction, and understand the characteristics of each form of performance marketing addressed in this script.

You will be able to evaluate the marketing tools covered in this script as part a marketing mix, and identify the potential and challenges that each of these tools present. Furthermore, you will understand the benefits of the various marketing tools in a performance marketing context, and acquire the ability to measure and evaluate the results of the individual marketing tools for the relevant performance marketing discipline.

# UNIT 1

## AFFILIATE MARKETING

##### STUDY GOALS

After completing this unit, you will be able to

* describe what affiliate marketing is and how it works.
* name the parties involved in affiliate marketing.
* describe which accounting models are used in the payment of commissions.
* explain the various tracking methods involved in affiliate marketing.
* pass comment on commission models.

**1. AFFILIATE MARKETING**

### Introduction

Legend has it that affiliate marketing was invented at a party in 1997 by Amazon founder Jeff Bezos (Lammenett, 2019, p. 12) after a bookseller attending the party offered to advertise books that were available on his platform on her own website. By its own estimation, Amazon is now a provider of one of the world’s largest affiliate marketing programs with its PartnerNet program (Amazon n.d.-b).

It is probably more correct to say that affiliate partnerships already existed prior to the introduction of this program (Brear & Barnes, 2008, p. 4). The American entrepreneur William J. Robin, founder of the company Pike Creek Flower and Gifts, developed what was probably the first affiliate program back in 1994. He used a method for his flower and gift shipments, which allowed individual dealer transactions (flower sales) to be tracked and thus commissions to be paid on this basis (Brear & Barnes, 2008, p. 4). By 1998, the company already had more than 2,700 affiliates.

The first part of this unit explains what opportunities affiliate marketing can offer in the context of performance marketing, and how it can be incorporated into the customer journey. The second part covers the individual participants in the affiliate process, their respective relationships, and the current business models. The actual affiliate process is described in the third part, and the individual commission models used by affiliates to generate sales are explained in the fourth part. Finally, the various tracking and evaluation methods are described, as well as the challenges faced by participants in the affiliate marketing process.

**Affiliate Marketing** Affiliate marketing offers partner programs as a means of selling products for commission.

### Affiliate marketing as part of performance marketing

**Affiliate marketing** is also referred to as a digital “partner program or online-based sales cooperation” (Kreutzer, 2021, p. 264). It offers website operators (known as “affiliates”) the opportunity to offer other providers of products or services (known as “merchants”) advertising space on their own online platforms. If the advertised products or services are then sold via this channel, the website operator receives a predetermined commission (Steireif et al., 2021, p. 427). This method can prove particularly advantageous if the subject matter of the affiliate’s website corresponds to the products or services that are being promoted, as this gives a more authentic feel and complements what the website is already offering, rather than making the advertisement appear clumsy. By way of example, let us look at the “Red currant crumble” recipe

on the Kochbar website, which seamlessly integrates affiliate links to sites on related topics with the words “Kochbar recommends” (Kochbar, n.d.).

These links are located directly between the list of required ingredients and the description of the preparation method, which breaks up the recipe and provides the user with further useful links to sites selling kitchen utensils and a variety of meal kits.

In addition to e-mail marketing, display advertising, and search machine optimization and advertising, affiliate marketing can also be assigned, among other things, to the classic discipline of online marketing, as illustrated by the following figure:

Figure 1: Types of Online Marketing

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Source: Holland, 2021, p. 395.

The constant rise in the number of internet users is giving many companies the opportunity to sell their products and services via an online platform and is leading, in turn, to the increasing importance of online marketing and the associated tools. Then, as now, online marketing is subject to ongoing further development, with the addition of new online marketing tools and changes to old conditions taking place at ever shorter intervals. This presents all market participants with the challenge of developing an agile mindset and making constant adjustments to the materials and procedures used (Kamps & Schetter, 2020, p. 3–4). The ever increasing focus of users on mobile devices is one such example. As a result of this change in user behavior, marketers are also being forced to adapt to these new consumer habits and find new ways of addressing the envisaged target groups (Kamps & Schetter, 2020, p. 4).

**Performance Marketing** The aim of performance marketing is to trigger measurable reactions via the online marketing channels used.

**KPIs (Key Performance**

**Indicators)** Key performance indicators are used to measure progress or the attainment level of key organizational goals, and should be specific, measurable, acceptable/achievable, and scheduled in the context of the SMART method (Hassler 2017, p. 365).

**Performance marketing** refers to the use of channels in online monitoring, which are intended to trigger a measurable reaction from recipients or target groups. For this reason, performance marketing is also known as reaction-driven online marketing, the key features of which are measurability, interconnectivity with other campaigns, and the capacity for optimization through rapid adaptability. Using the set goals as a base, the success of individual online marketing measures can be rendered quantifiable within performance marketing, thus allowing goal attainment to be measured using **key performance indicators (KPIs)** (Kamps & Schetter, 2020, p. 4–5). For example, if the company plays an advertisement for a set period via Google Ads, it can then use absolute numbers to precisely check whether the anticipated number of conversions, clicks, or leads was achieved with the advertisement. Should it transpire during success monitoring that the result of the advertising measure is unsatisfactory, the advertisement should be examined in detail so that potential improvements relating to the text, keywords, product images, etc. can be derived and incorporated into future advertisements. Conversely, the procedure should also be adapted for future ad placements if the desired goals were achieved as a result of the measure. Performance marketing can also be used in areas such as e-mail marketing, banner advertising, social media advertising, or affiliate marketing.

A core feature of performance marketing is the performance-related or transaction-related payment that is made in the wake of the target person’s defined and measurable response, and is a characteristic shared by both performance and affiliate marketing (Lammenett, 2019, p. 43). The reason for this is that with the internet-based sales solution offered by affiliate marketing, providers (merchants) only pay their sales partners (affiliates) on a success-oriented basis. The following procedure is conceivable in practice: Immediately after clicking on the affiliate’s website, the visitor is first taken to the website of the company offering the products or services. If, for example, a purchase is subsequently made on this target page, the affiliate will then receive a payment, provided that the purchase was agreed in advance as a payment criterion.

#### Types of affiliate marketing

In affiliate marketing, companies can engage external websites (Content Creator, Publisher, etc.) to market products on a commission basis using affiliate programs. The operators of the external website can then monetize the traffic on their pages on this basis. A commission is only paid, however, if a specific, previously agreed target is achieved. In simple terms, affiliate marketing could be described as an indirect further recommendation made by a website operator to its users (Kamps & Schetter, 2020, p. 109).

Olbrich et al. (2019, p. 112) draw a distinction between link-based and integrative affiliate marketing. In the case of the link-based model, a hyperlink in the form of a text reference or a linked advertising banner takes the user from the affiliate’s website to the relevant target page of the provider’s (merchant’s) internet platform. The disadvantage of this for affiliates is that visitors who click on such a link and are directed to the provider’s site do not return to the affiliate’s

website and may then also be inclined to go directly to the merchant’s online shop in the future. For this reason, the link-based model only provides affiliates with a one-off business opportunity in many cases. At the same time, a disadvantage of this nature to an affiliate can also be to a provider’s advantage, who is then only required to pay a one-off commission to the affiliate. Furthermore, providers will be able to generate direct traffic in their online shops and achieve higher margins from the resulting transactions.

Integrative affiliate marketing enables affiliates to market the provider’s products or services directly on their own website, which is achieved either by incorporating the corresponding provider content or even by integrating an online shop on the affiliate’s internet platform. By using this method, the products that are only referenced in the link-based model can be sold directly on the affiliate’s website, and the transactions are handled by the providers themselves (Olbrich et al., 2019, p. 112). The advantage of this model for affiliates is twofold: Firstly, the customer may return to their website to make another purchase if they were satisfied, and secondly, the affiliates do not have to stock, pack, and ship the goods themselves. Providers also benefit from this arrangement by acquiring an additional sales channel, which allows them to sell their products in larger quantities, but are also at a disadvantage in that they have to pay commission to affiliates for every product sold, which in turn reduces their margin.

#### Development of affiliate marketing and associated trends

In order to be able to assess the importance of affiliate marketing when piecing together an individual mix of marketing tools, providers and affiliates should first determine what sales potential the channel has to offer. A study undertaken by the German Association for the Digital Economy (BVDW) shows that e-commerce sales generated through affiliate marketing in Germany increased from € 6.24 billion in 2014 to € 7.6 billion in 2016.

According to a recent survey conducted by the BVDW, the sales generated by affiliate marketing had already reached € 10 billion by 2019, corresponding to a sales share of 7 % of total e-commerce sales (BVDW, 2021).

A study undertaken by CJ Affiliate, an affiliate network provider, takes an in-depth look at customer journeys in affiliate marketing, highlighting, among other things, how this tool can lead to an average of 88 % more sales per buyer compared with other marketing channels. During the course of the study, CJ Affiliate also identified that just one publisher is involved in 83 % of all customer journeys in affiliate marketing (CJ Affiliate, 2020) – a fact that should make both merchants and curious about where the affiliate is used in the customer journey for their respective envisaged target groups, particularly as both parties may achieve an increase in sales as a result of this knowledge.

#### Affiliate marketing in the customer journey

The customer journey describes the entire process that customers go through when making a purchase, including all touchpoints with the delivering company. This is a user-centered approach, which involves the company going through and documenting the purchasing process from the outset in order to identify aspects such as customer requirements and expectations as well as the various touchpoints and participants encountered on the “journey” (Kuenen, n.d.). Only by understanding the needs and requirements of defined target groups, what channels they must follow in order to complete the purchase, and what marketing tools guided them to the online or high street shop, can a company tailor its response accordingly and optimize the channels used (Steireif et al., 2021, p. 430).

The various affiliate marketing tools used can be arranged chronologically along the customer journey using the AIDA model. This classic stage model describes the four phases – Attention, Interest, Desire, and Action – a customer goes through when contemplating making a purchase (Hassler, 2019, p. 424). “Attention” is concerned with the extent to which the tool can arouse and attract the attention of potential customers. The “Interest” phase describes whether the intended message of the tool is capturing the attention of the targeted individual and is able to generate their interest. “Desire” is the phase in which interested parties engage with the product or service on offer and want to learn more. The final phase, “Action,” is concerned with transforming interested parties into actual customers, who will then make the desired transaction in the form of a purchase or download (Hassler, 2019, S. 424; OnlineMarketing.de, n.d.-a).

In order to obtain a holistic overview of the customer journey and understand the points at which interested parties come into contact with affiliate measures, the AIDA can be combined with the marketing/sales funnel.

Figure 2: Allocation of Marketing Measures to the Phases of the Sales Funnel

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Source: Bernhard Kessler, 2023.

A large number of people who have developed an interest in the products or services offered by a company, as a result of having been alerted to them through social media posts or Google Ads for example (“Attention”), enter the funnel via the wide opening at the top. In the second phase, detailed product descriptions (SEO), blog articles, a list of the brands on offer, or an attractively designed landing page are among the methods used to arouse the interest of potential customers (“Interest”). Interested parties who fail to be persuaded by the content provided, terminate the information process in this phase and leave the funnel. As a result, a smaller number of potential customers progress to the next phase, in which personalized newsletter content, informative and entertaining videos, or other interactive tools are used to develop an appetite for the product on offer (“Desire”). If interested parties fail to be convinced by the added value of the product at this stage, they too leave the funnel. However, if potential customers do develop an appetite for the product in this penultimate phase, they enter the last phase of the funnel. By this point, the interested parties will already have extensive knowledge of the product or service that is being offered, and all that remains is to persuade them to make the actual purchase or execute the download (“Action”) (OnlineMarketing.de n.d.-a). **Remarketing** measures or, in many cases, affiliate marketing tools are just some examples of the persuasion tactics that can be used for this purpose. For example, a coupon code affiliate site may be involved when integrating affiliate marketing within the final phase. In this case, the interested parties already know what they want and are given the final impetus to complete the purchase by the offer of a discount or free delivery, etc. If affiliate marketing is assigned to the last funnel phase, the company will assume that the final click is pivotal to the transaction, meaning that this touchpoint carries the greatest weight in the conversion (Hassler, 2019, p. 434). The point at which affiliate marketing or other marketing tools are incorporated into the funnel must be determined by each individual company first, based on their own respective businesses, then configured accordingly and optimized on an ongoing basis. There is no universal solution for this

**Remarketing**

Through the setting of cookies, users of an online sales platform are marked so that advertising for a web offer they have accessed previously can then be played to them over and over during their subsequent online activities. This is also known as retargeting (ryte.com, n.d.-b.).

that can be applied with equal success to every company. Every provider should monitor the touchpoints between users and their own company (e.g. contact via the customer service center, website or online shop, contact form, newsletter, direct communication via social networks, etc.) to determine the areas in which increases in potential customers are evident, and derive optimization measures accordingly (OnlineMarketing.de, n.d.-a).