

Affiliate Programs



An **affiliate program** is a form of online marketing communication where a partner (the [affiliate](#)) communicates a message or promotes products for a company (the merchant) and is compensated for this on a 'cost-per-action (CPA)' basis. This action which could be a click, purchase or registration is predefined by the affiliate model the merchant is applying (see types of affiliate models). The affiliate acts as a "virtual sales force" that has to drive traffic to the merchant's website.^{1) 2)} By placing relevant content or advertising material on his website the affiliate tries to draw attention to the merchant's offers.³⁾

History of affiliate marketing

The origin of affiliate marketing was Amazon's partnership- and commission-based programs introduced in 1996. A woman having a website with cooking recipes, recommended her visitors Amazon if they were looking for good cookbooks. She contacted Amazon and demanded a commission for directing customers from her website to them. Amazon started to offer other sites a partnership and a commission on sales that were generated via their website. By 2001, [Amazon](#) had about 400,000 affiliated websites.⁴⁾

Affiliate marketing has grown rapidly in the past years and will continue to grow. The affiliate market in the UK has increased by 45% in 2007⁵⁾; an affiliate marketing study in the US forecasted an increase to \$3.3 billion in 2012 based on a compounded annual growth rate of 13%.⁶⁾

Parties in the affiliate program

- *Affiliate*: the publisher or salesperson in an affiliate program who is promoting the products of the merchant
- *Merchant*: the advertiser/ the company whose products are promoted by a partner
- *Affiliate network*: an intermediary between affiliates and merchants providing services to both parties such as aggregation, control panels, reporting tools.⁷⁾

Process of affiliate marketing

If a visitor to an affiliate site clicks through to a merchant's site, this prospect is tracked by a [cookie](#) placed on his computer. The link which directed the visitor to the website of the merchant contains a unique code identifying the affiliate site the visitor is coming from. When the prospect is now or within an agreed period transacting, e.g. purchasing or registering, the affiliate is compensated with the

agreed provision.⁸⁾

Types of affiliate models

1. Pay per sale

The payment the affiliate receives is based on the number of sales generated by visitors that are sent to the merchant's site via the website of the affiliate. The amount that is paid to the affiliate is predefined either as a fixed amount for each sale, a flat rate or a percentage of each sale. It is estimated that 80% of affiliate programs are using this compensation model.⁹⁾

2. Pay per lead

The affiliate is paid based on the number of visitors that are leaving information on the merchant's site. This includes all websites where visitors are registering or leaving her contact details which the merchant can then use for further communication with the customer in order to generate sales. This model is often used where products are complex and need explanation and therefore cannot be sold via the internet.¹⁰⁾

3. Pay per click

For each visitor that is directed via a [banner](#) or a link from the affiliate's to the merchant's website, the affiliate receives a payment. In this compensation model no purchase or other transaction is required.¹¹⁾

Advantages and disadvantages of affiliate marketing

Affiliate marketing offers various *benefits* for the merchant:

- The visibility in and listings of search engine results pages (SERP) is improved.
- Different target groups can be reached by partnering with different affiliates.
- The [cost of acquisition](#) can be better controlled as if costs are paid by performance.
- Awareness for new products the company is not yet known for can be generated.

Potential *disadvantages* that may arise for the merchant:

- Incremental sales could be limited by cannibalizing sales you have generated anyway.
- The brand reputation of the merchant could be damaged if his ads or banners are shown on sites inconsistent with the merchant's image.
- The brand name might be exploited by the affiliate by using variations of it.¹²⁾

Regarding the affiliate, the participation in an affiliate program provides only benefits. In contrast to traditional partner or franchise programs, the affiliate has not to procure an initial investment. The partnership is free of charge and is compensated on a commission-basis.¹³⁾

Further information

Here you can find further information on the [implementation of an affiliate program](#).

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