

MARKETING

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The Product Pushers

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Welcome to the world of affiliate marketing, where an online army of commissioned salespeople is ready, willing and able to help sell more of your stuff

The scene is Detroit in the 1950s. Brownie Wise peddles plastic containers door-to-door—a common job in North America after the Second World War. But she's fed up. She wishes she could spend less time walking around, and more time with prospective leads. That's when it dawns on her: Instead of knocking on doors all day, why not bring the customers to her? Presto! The Tupperware party is born.

Half a century later the Tupperware party is recognized not just for unleashing all sorts of colourful plastic cups and dishes on suburban households, but also as a pioneer in the world of affiliate marketing—which is defined as the practice of providing tools and incentives for outside vendors to promote a company's products or services.

Scene change: Anywhere you want, 2006. The original Tupperware party is still alive and well. But it has been more than 50 years, and the Brownie Wises of the modern world would surely be fed up with the time and effort involved in preparing a typical Tupperware party.

The company's solution is simple: Make it a cyberparty. So today's Brownie Wises send out e-vites, customize their own Tupperware e-commerce sites and remind pals to drop by anytime during a two-week virtual party.

And although Tupperware's program is creative, the marketer is by no means the only one taking advantage of this powerful online sales channel. Marketers like Apple, Hallmark, Dell, Lavalife and many

others are enlisting independent salespeople to push their products online. The pushers range from coupon deals and shopping comparison sites to niche interest sites that reach audiences previously beyond marketers' reach. The common thread is all the affiliate marketers get a kickback anytime they refer a visitor to the marketer's e-commerce site, or anytime that visitor makes a purchase.

Online affiliate marketing isn't entirely new. Some networks have existed since the early days of the Internet. Amazon, for instance, first encouraged Average Joes to place links to Amazon books on their websites and reap a percentage of the sales back in 1996.

But it's only been in recent years that affiliate marketing has taken off, thanks in part to the introduction of sophisticated tracking tools, new online business models and consumers' growing comfort with e-commerce.

Amazon still relies on its affiliate marketing program. "It's a critical element to our sales because it's one of the only ways that we advertise," says Amazon.ca manager Patrick Bowman. And since merchants like Amazon only pay affiliates once they have produced a sale, "you can directly tie your spend to the revenue that spend generates." For affiliates, Bowman adds, "the nice thing is there is no inventory risk."

While Amazon manages its own program, most marketers rely on affiliate networks to find affiliates, track consumers and manage commission cheques. Some of the largest include Commission Junction and PartnerCentric, both in Santa Barbara, Calif.; Chicago-based Performics; and New York-based Linkshare.

Linkshare's clients include Apple, American Express and Wal-Mart, among more than 500 others. The company has been around since 1996, but vice-president of distribution services Kelli Beougher says the industry has exploded only recently. "The reason affiliate marketing has grown so much is that it's extremely cost effective, and it's purely performance-based," she says. For marketers, "it's a great way to build a commission salesforce."

Linkshare merchants can choose how they want to reward affiliates. The most common is a percentage of the sale-typically around 5%. But some merchants also choose cost-per-click or a flat cost-per-sale. Linkshare screens all affiliates, but marketers have final control

over who they want peddling their products. The network acts as a liaison by distributing the marketer's banners and text links to approved affiliates, providing tech and logistical support, tracking all clicks and sales, and serving as a clearing house for payment.

Searching for Cocker Spaniels

Affiliates, on the other hand, are as diverse as the marketers they represent. "The most successful are search specialists," says Linda Woods, president of the PartnerCentric affiliate network. They include affiliates who pay for keywords on search engines like Google and Yahoo, as well as those who optimize their pages so they'll appear in engines' natural search results. So, for example, when a consumer searches for iPod coupons, these sites pop up first.

Niche sites are perhaps the most rudimentary of the affiliate business models. These cater to a specific interest and include highly relevant affiliate ads targeted to a narrow audience-like Cocker Spaniel lovers. Marketers "could benefit from having outside salespeople who are reaching niches that they maybe aren't reaching right now," Woods says. So although Amazon may have hundreds of books on Cocker Spaniels, it's only through these sites that the company can reach a concentrated consumer base for that specific product.

There are also e-mail marketer affiliates who promote products to their e-mail list subscribers. Those who have opt-in and up-to-date e-mail databases do well, but the model is often frowned upon due to spamming concerns.

And then there are the aggregators: coupon sites, loyalty sites, shopping comparison sites. FabulousSavings.com is a Toronto-based coupon aggregator that caters to consumers in the U.S. and Canada. Its founder, Michael Yak, laughs at the business model's success. "I bought a Hummer with one merchant's commission for one month," he says.

Yak has also been in the business since the late '90s, and has seen more than technological improvements advance the industry. "Affiliate marketing of old is so dirty," he says. "It was a dirty business that people would do in their basement. It was a way to put up a link on your site and make money. We've taken it and made it into a full-fledged business. And we're representing millions of dollars a month in sales."

Yak's site is optimized for search engines but he maintains the secret to success in this industry is relationships. He's negotiated exclusive deals with several merchants, like Uggs boots. After Oprah Winfrey featured them on her show, "we sold \$150,000 worth of Uggs."

Clicks and cookies

FabulousSavings' Canadian merchants include computer dealers TigerDirect.ca and Dell. But "in Canada, we're light-years behind... On any given day, I can have a thousand sales for the U.S., and one in Canada... It's like Canadian businesses don't want to use the Internet for its full potential. They're just not passionate about it."

That's certainly not the case for Jeff Smith, HBC.com's senior manager, interactive marketing & e-business. He's been involved in affiliate marketing since 1999, when he was hired to manage the affiliate program at book retailer Indigo. One of the greatest technological advancements he's seen in the industry is the ability to track delayed cookies. That means if a consumer clicks on an affiliate link today but only decides to purchase next week, the affiliate still gets the kickback. Some networks, like Linkshare, have even developed their own technologies that do not rely on cookies while still allowing for delayed purchases, which Linkshare calls "return days."

But there's a much stronger reason Smith is an advocate of the channel: "What we love about the affiliate marketing program is that it's a way for us to drive traffic to our site, but solely based on an acquisition cost." About 5% of HBC.com's traffic comes from affiliate links and referrals, and Smith notes that from an administrative standpoint the program is easy to run "and we typically leverage a lot of the creative that we already have in market on the affiliate program... It's a significant component of our online marketing strategy to drive traffic to the site. And, at the end of the day, it's all about driving traffic and resulting in a conversion."

Affiliate affairs

As easy as it may seem, affiliate marketing poses several challenges for both merchants (the marketers) and affiliates (the commissioned salespeople). From the marketer's perspective, certainly one is "ensuring the creative out in market

is relevant to what's online," says HBC's Jeff Smith. "We don't want to have a Father's Day banner running on an affiliate site when Father's Day has passed."

HBC also has a brand image to uphold, so "we go through a process of ensuring that the sites that are joining our affiliate program are appropriate sites we would want the HBC brand to be on," Smith says.

But the main challenge for marketers is sticking with an affiliate program over the long haul. "Affiliate marketing, while it can be very significant to a company-it could represent 10% or 20% of their overall online income-is slow," says Linda Woods of PartnerCentric, a network that links affiliates and marketers. It doesn't happen overnight. So you have to be financially able to invest in affiliate marketing as a long-term growth strategy." (PartnerCentric charges its merchants US\$5,000 a month, which is an average network cost).

Most importantly, Woods says, affiliate marketing is not a silo. "You need to have a very strong e-commerce business already. So you're online; you're active selling things; you're profitable; you have a good model and you have a good conversion rate with everything you're already doing. And you want to go beyond that. You're ready to add another productive channel, and you're ready to invest in that channel."

Affiliates also face some challenges of their own. Since most only get paid when a browser becomes a buyer, many complain that marketers do a poor job converting traffic. As well, says Woods, they think marketers should be supplying them with better data and do a better job presenting themselves in search engines.

Another problem is Google, which deems affiliate sites to be "irrelevant" in search results. That's especially obstructive to those affiliates who rely largely on search engine traffic. "So, (it's) staying on

top of search trends, and trying to be able to use Google to their own advantage, while Google is actively trying to figure out how to get rid of affiliates entirely," Woods says.

For Canadian affiliates, another obstacle is dealing with geographical limitations due to customs fees. "For Canada, unfortunately, it really is like Canadian companies (are only) selling to Canadian consumers. And that doesn't present a good opportunity for affiliate marketers who can drive traffic from anywhere," Woods says.

FabulousSavings.com's Michael Yak is more direct about the situation. "Canada Customs is screwing up e-commerce in Canada," he says. Often, when consumers order a product from the U.S., Canadian customs fees cost more than the item itself. It limits the global potential of the Internet and, in turn, the potential of affiliate marketing. "I don't think Canadian consumers will embrace e-commerce unless customs shapes up," Yak says.

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