



AFFILIATE MANAGEMENT

White Paper

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Recruitment, the main challenge for e-business

With competition on the Net becoming more intense, the acquisition of clients is proving a major preoccupation of e-commerce players. As a result, each site must, from the wide range of options, choose the solution that will guarantee the level of traffic essential to the profitability.

The power / affinity dilemma

There are numerous tools that enable sites to attract visitors: on-line advertising banners, sponsoring, off-line communication, e-mailing, affiliate management, partnerships, etc.

To make the choice, the site must take two key factors into account: power and affinity. Can the selected tool reach a sufficiently wide public? Do the people reached belong to the intended target, in other words, are they potential customers for the site?

The traditional media (TV, radio, press, posters) are undeniably the most effective in terms of power. They allow you to acquire a rapid reputation, providing you maintain this through considerable and recurring investments. The money spent in vain is significant, as the advertiser will reach numerous individuals who do not use the Internet.

- French companies linked to the Internet invested 3 billion francs in the 5 main media in the 1st quarter of 2000 (Secodip).

Less powerful, on-line advertising techniques allow, in principle, a greater affinity with the target group. It is possible to have a fairly accurate idea of the profile of

visitors to a site considered to be an advertising media. Apart from the fact that he is informed of the existence of a product, the netsurfer also has the option of ordering it instantaneously.

Much in demand, good spots on sites with heavy traffic are however often "squatted" by the giants of e-commerce as part of exclusivity agreements. Consultancy firms have tried to assess the effectiveness of on-line advertisements:

- The effectiveness of banners drops the more omnipresent they become. The number of clicks, which was 3 to 5% four years ago, is now generally less than 1%. (Medcost)
- ABC-Netmarketing even rates it at below 0.5%.

According to a study by Jupiter Communications (December 98):

- The CPM of a traditional on-line advertising campaign may reach \$30, while only 0.01% of the banners on display will result in a sale (i.e. a customer acquisition cost of \$300!).

Affiliate management, inescapable e- marketing tool

Affiliate management, a winning partnership

At the same time as all these tools, an innovative concept has emerged in recent years: affiliate management. Legend attributes paternity to Jeff Bezos, founder and CEO of Amazon. This method made the name of the most famous on-line bookshop in the world.

The principle of affiliate management

For a vendor, affiliate management consists of entering into a partnership contract with an "affiliated" site. This site places a link on its pages (banner, text, button, etc) pointing to the vendor's site and encourages netsurfers to follow it. When a netsurfer arrives at the vendor's site via this link, his route is identified, triggering, in the event of a specific action (purchase, click, contribution to a questionnaire) payment of a commission to the affiliate.

Affiliate management initiates a veritable win/win partnership situation. It allows **the affiliate** to offer its visitors a service with high added value, without participating in the actual transaction and without the slightest concern about stocks and logistics. It also provides it with a source of additional income. It offers **the affiliator** the possibility of managing its recruitment costs by only paying its affiliates according to sales actually made. It is also beneficial for **the**

customer, who is able to save precious time in his searches.

Example: a netsurfer who loves skiing visits a site devoted to this sport; there he finds advice on buying equipment. The site can then direct him towards the store of a sports equipment vendor who offers the recommended equipment.

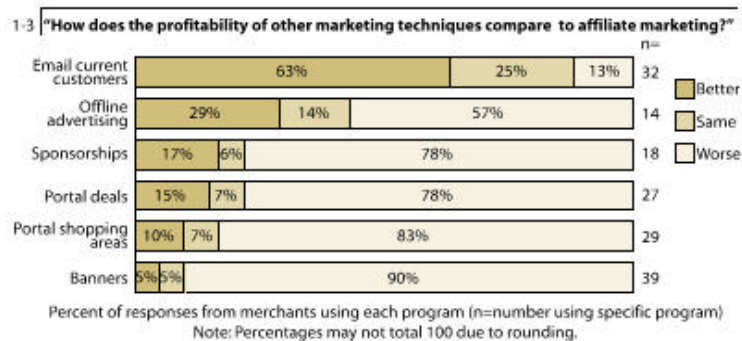
Affiliate management allows precise targeting: the vendor only communicates on sites that are directly related to its products. It will therefore reach prospective customers who have a genuine affinity with what it is offering. The results are in fact much better than with a traditional on-line advertising campaign.

- The number of clicks on an affiliated banner is on average 6 times more than that of traditional advertising banners. It can even reach 10% on co-branded pages.

Optimizing the customer's acquisition cost

At the heart of the power / affinity compromise, and therefore of the choice of any traffic-generation strategy, is the central question of customer acquisition cost.

The study carried out by Forrester among some fifty or so American e-vendors (October 99) casts an instructive light on this in terms of comparison:



Affiliate management is seen as the 2nd most effective tool among the various e-marketing techniques, after e-mailing.

- Only paying for results, affiliate management allows a customer to reduce his recruitment costs by 3 to 10 times compared to advertising.
- Affiliate management will be the cheapest commercial method of acquiring new customers on the Internet (study by McKinsey)

Reduced visibility

Affiliate management offers vendors opportunities for growth unimaginable within the framework of traditional commerce. In the future there will be no point in setting up activities, at great expense, in the four corners of the globe in order to benefit from a global presence. Thanks to its network of affiliates, the vendor has an unlimited number of sources, and therefore unequalled visibility at less cost, with fewer logistical and management problems.

A tool adopted by the leaders of e-commerce

In these conditions, the concept of affiliate management has rapidly led to a major infatuation among the leaders of e-commerce. All the major players on the web have already integrated this tool into their strategy for conquering clients. (Amazon, Barnes&Noble, Alapage, iBazar, Aucland, BlackOrange, Art.com, etc.).

- Amazon, the American giant, has built up a global reputation thanks to a network (started 1996) which today has more than 350,000 affiliates.
- Cdnw in turn numbers 180,000.

An inescapable technique in a marketing system

According to Forrester Research, 13% of the turnover of e-commerce is today generated through affiliate management. The results in terms of efficiency and profitability suggest an excellent future for this client recruitment tool. Indeed, even if the estimates of the main consultancy firms differ, all agree that this number should increase exponentially in the years to come.

- Forrester Research estimates it to be 21% in 2003.
- Jupiter Communications in turn estimates it at 54% in 2002 (24% on the first visit and 30% indirectly after the initial visit)

The key success factors of affiliate management

The effectiveness of an affiliate program is not necessarily judged by the number of affiliates recruited. More complex, the recipe actually combines 4 ingredients: recruitment, payment, coordination and loyalty development.

Recruiting a network of relevant affiliates

When companies are considering setting up an affiliate program, the first question they ask themselves is generally that of the number of affiliates to recruit. There are two strategies where this is concerned.

The first consists of favoring quality, by limiting yourself to sites which have a high degree of affinity with your product. This can in particular suit a vendor concerned with conveying a high-quality image as part of status-enhancing partnerships.

The second involves seeking a maximum number of affiliates, typically addressing sites with heavy traffic. This is better for vendors selling products for mass consumption.

Whichever strategy adopted, the vendor will **segment his network of affiliates**.

An on-line florist, for example, can segment its market into several target groups, which will be reached through very different sites:

- Men aged 25-40 who send flowers for a birthday or on St Valentine's Day: through sites devoted to sport, the stock markets, IT, etc.
- People who buy sophisticated bouquets for their home: through interior decorating sites.

- Companies: through B-to-B sites (office supplies, for example)
- etc.

Depending on the strategy chosen, affiliates may therefore be recruited by means of an automatic/semi-automatic registration procedure on the vendor's site (by putting the affiliate contract on-line), or by means of active canvassing among carefully selected partners. This last solution allows better control over the brand image and requires much greater monitoring of affiliates.

Developing an appropriate payment policy

The type of affiliates being varied, it is of course not conceivable to offer them the same terms of payment. The affiliator must therefore be able to **draw up contracts adapted to each type of affiliate**.

Payment generally depends on the visibility obtained, the clientele generated and the exchange of content or service. The affiliate may be paid by the click, by the qualified contact, by the sale, as a percentage of the turnover generated, or based on a mix of these various elements. Payment can be in money or in credit vouchers if this is in the affiliates' interest.

In terms of payment, transparency is essential. An obscure contract risks discouraging the affiliate, who must be able to check the terms of the contract binding it to the affiliator at any moment and consult the status of its account in real time: when will it receive its next payment? how much will it be for? etc.

Knowing the number of visitors it has directed towards the affiliator's site, the number of products it has contributed selling, the turnover it has generated also represent essential elements of motivation for the affiliate.

Finally, making payments on the specified dates remains one of the key factors in the confidence and hence the involvement of the affiliates.

Coordinating your network of affiliates

The success of an affiliate program depends largely on the ability of the site to "animate" its network of affiliates. The collaboration must go beyond a simple link – commission exchange. The affiliate must be regularly informed, monitored, advised. In one word, get involved.

To develop a successful affiliate program, it is therefore essential to devote **dedicated resources** to its coordination on a full-time basis. These will be responsible for choosing affiliates, segmenting them, drafting the various contracts, regularly providing new merchandising tools, checking their implementation on the affiliated sites, informing on good ideas tested, responding to queries from affiliates, advising them, monitoring their activities, statistics, setting up competitions, seeking out new affiliates, etc.

The affiator that encourages the birth of a relationship other than financial with its affiliates and draws them into a dynamic partnership develops loyalty far better than a simple exchange of links.

The study carried out by Forrester among some fifty or so American e-vendors (October 99) shows that half of them dedicate at least 2 people to managing their affiliate program. One third even devote 3 to 10 employees to the task.

The more regular and better orchestrated the coordination, the more personal the relations, and the more effective the "affiator – affiliate" partnership.

Developing the loyalty of your best affiliates

The traditional 80/20 rule applies on the Net as well: 20% of affiliates will generate 80% of the network's activity (Forrester Research). It is hence essential for the profitability of the program to be able to **identify the most active affiliates**, in order to optimize the efforts.

The vendors must therefore regularly monitor certain indicators: visits, turnover generated, conversion rate... They can then offer their best affiliates a more attractive payment rate, gifts, or monthly rather than quarterly payment.

By adopting this policy it will encourage loyalty from those who, among its affiliates, are likely to become actual partners.

When one quarter of a vendor's income comes from its affiliate program, being able to develop the loyalty of the contributors of this turnover, becomes of strategic importance.

A Network solution or a proprietary solution?

Controlling your network of affiliates

Before launching an affiliate program, the company must consider the question: is it better to set up its own network of distributors or join an existing, as offered by the open network solutions?

The answer depends on the strategy. If the company wishes to have a close and exclusive relationship with the affiliates, the answer is a proprietary solution.

This is the strategy chosen by the biggest on-line vendors: Amazon, Aucland, Alapage, etc.

In a proprietary configuration the affiator does not share its affiliates with other companies, as is the case with Network programs. It thus avoids seeing its affiliates approached by other vendors, or worse, competitors.

404 Found!: European leader in e-marketing solutions

404 Found! Designs and develops solutions in response to the specific needs of e-marketing, with a special emphasis on loyalty and partner management solutions.

Created in Paris in January 1998, 404Found! is today present in France, Spain, the UK, Germany and Italy.

404 Found! Permanently devotes almost 40 people to software development, continually adapting its software and associated services to the expectations of the market.

The Consultancy department, having several years of experience, helps enterprises develop and implement their e-marketing strategies.

Affilient 1.5: a response to the challenges of affiliate management

The e-marketing solutions of 404 Found! are aimed at companies wishing to make their on-line investments pay whilst retaining control over their brand, partners and clients.

These solutions allow companies to create a quality environment which both enhances brand status and favors purchases.

Affilient is a software designed to respond to the challenges of creating a network of partners. It enables

the affliator to recruit his affiliates, to establish the contracts, coordinate the network of affiliates, consult their results and manage the payments.

Key points
Affilient 1.5:

- Specifically developed for people in marketing positions with low technical competence.
- Total control over the affiliate database.
- Powerful, scalable platform, enabling several tens of thousands of affiliates to be managed.
- Easy-to-use Merchandising tool (images, texts, html, dynamic windows)
- Automatic updating of links to affiliated sites.
- Easily personalized interfaces (language, colors etc)
- Powerful communication tool for e-mails and newsletters.
- Advanced statistics module.

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<http://www.404found.com>

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