

Networks Help Drive Affiliate Marketing Into The Mainstream

Advertisers And Publishers Evolve As
The Industry Shifts

Table Of Contents

Executive Summary	1
Affiliate Marketing Spend Shows Compound Annual Growth Rate Of 10% Through 2020.....	2
Affiliate Marketing Is A Growing Solution To Customer Content Demands.....	3
Measuring Affiliate Programs Makes Strides But Still Faces Challenges.....	5
Publishers Working To Market Themselves Must Know What Their Advertisers Really Want	6
Key Recommendations	9
Appendix A: Methodology	10
Appendix B: Business Demographics	11

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Executive Summary

Built on great customer experience and interest in brands, the affiliate marketing space has matured into a significant channel for driving sales for advertisers of all sizes and will continue to grow. The platforms that affiliate networks provide for advertisers and publishers are in many cases the engines of sales growth, offering measurement and quality assurance for both.

In August 2015, Rakuten Affiliate Network commissioned Forrester Consulting to evaluate current advertiser and publisher attitudes toward affiliate marketing. Forrester developed a hypothesis that affiliate marketing has become a mainstream way for advertisers to reach their customers, with significant impact on how both advertisers and publishers approach the affiliate opportunity.

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.

Forrester conducted a comprehensive survey of 151 decision-makers at US advertisers, as well as 151 decision-makers with US publishers. To qualify for the survey, advertisers' companies must earn a minimum \$200 million in revenues, and publisher companies must either rank in the top 5,000 sites by traffic volume in the US or have 300 or more followers on a major social platform. Forrester also conducted 10 in-depth interviews with advertisers and publishers to explore the challenges and opportunities affiliate marketing presents.

KEY FINDINGS

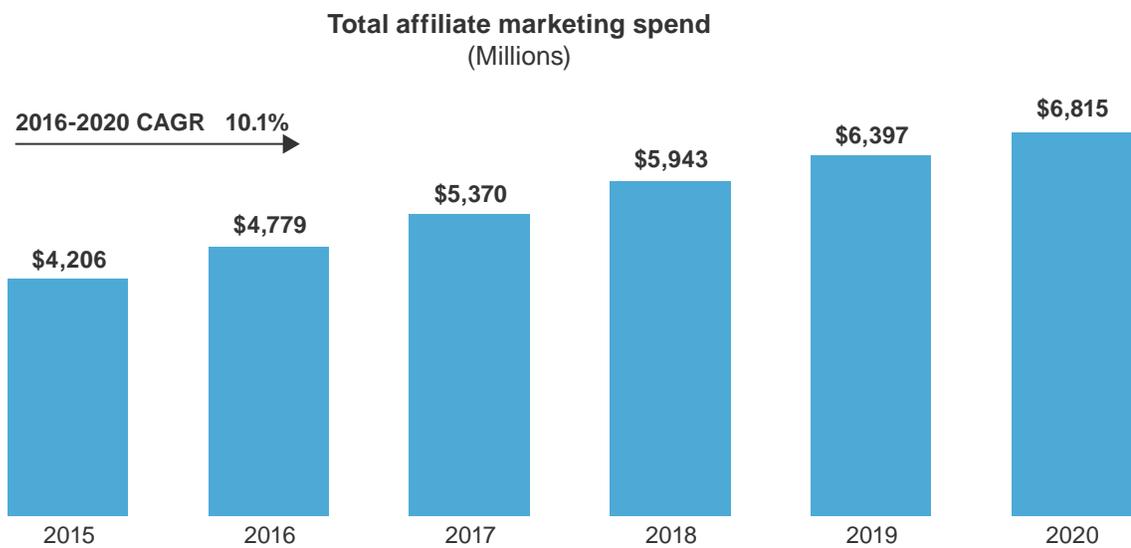
Forrester's study yielded three key findings:

- › **Affiliate marketing is a key tool for advertisers and publishers.** Rising customer expectations for relevant, compelling marketing content has led advertisers and publishers alike to seek out opportunities to leverage content marketing strategies. Affiliate marketing is emerging as a key way to engage consumers with compelling product or service information. Eighty-one percent of advertisers in our study and 84% of publishers have turned to affiliate marketing in search of differentiated marketing content or new opportunities for driving ad revenue to their sites, respectively.
- › **Affiliate networks play a crucial role in effective affiliate marketing programs.** As affiliate marketing has evolved to become more sophisticated and complex, both advertisers and publishers turn to affiliate networks to help manage their programs. In addition to providing tools to help plan, execute, and measure affiliate campaigns, affiliate networks are also the leading way advertisers find new affiliate partners.
- › **Improving measurement of affiliate programs is key to unlocking further potential.** Many advertisers have adopted forecasting and marketing mix tools to analyze and adjust their affiliate programs, but fewer are applying advanced attribution tools to provide a multichannel view of affiliate marketing's impact. Relying on first- and last-click attribution methods comes with the risk of missing affiliate programs' impact on all stages of the customer life cycle.

Affiliate Marketing Spend Shows Compound Annual Growth Rate Of 10% Through 2020

Forrester's affiliate marketing forecast shows that US affiliate marketing spend will increase by a compound annual growth rate (CAGR) of 10% between 2015 and 2020, growing to over \$6.8 billion (see Figure 1).

FIGURE 1
Affiliate Marketing Spend Forecast



Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

Affiliate Marketing Is A Growing Solution To Customer Content Demands

Marketing has undergone a sea of change as consumers have become more sophisticated and demanding about how they shop. They leverage an array of content to discover products and services to inform their brand interactions, attitudes, and behaviors. Consumers have become more active and critical in how they hunt for, filter, and consume information and entertainment across an ever-expanding set of channels. This has led to an imperative for advertisers to leverage content that contributes value to the consumer experience, rather than just delivering branded messaging. Yet creating content that drives real value for customers and delivering it in a trustworthy way can be a significant challenge for many advertisers.

The affiliate marketing channel can be a strategic solution to this challenge. Once dismissed as a direct-response tactic dominated by couponing sites, affiliate programs are used by major advertisers as an opportunity to expose their customers to new and compelling product and service information in relevant environments. In kind, major publishers are getting on board with affiliate programs to further monetize their content in a complementary manner. These trends have come together, resulting in an inflection point in the affiliate marketing industry.

“The biggest positive change I’ve seen has been the change of perception around affiliate, from spammy, bottom-feeder sites to ones like ours, where we’re focused on a great user experience. Two years ago, a CMO wouldn’t go to his board and say, ‘We’re doing great in affiliate!’ but now they see [it delivering].”

— Vice president, sales at US-based online publisher

AFFILIATE MARKETING IS A MAJOR PART OF THE MARKETER, PUBLISHER TOOL SET

Both advertisers and publishers are showing their willingness to embrace affiliate opportunities. Over 80% of the advertisers and 84% of the publishers in our study were currently running an affiliate program (see Figure 2).

FIGURE 2

Advertisers And Publishers Embrace Affiliate Opportunities

“Which of the following statements best describes your company’s current position as it applies to affiliate marketing?”



Affiliate marketing is defined as: a type of performance-based marketing in which an advertiser rewards one or more affiliates (publishers, bloggers, etc.) for each visitor or customer brought by the affiliate’s own marketing efforts.



Base: 302 advertisers and publishers in the US

(percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

Of the affiliate advertisers in our study, nearly nine in 10 said that affiliate programs were important or very important to their overall marketing strategy, and over 80% said that they were devoting more than 10% of their marketing budgets to their affiliate programs. Most costs associated with affiliate marketing are paid out on a performance basis, including placement, commissions, network fees, and paid bonuses.

Publishers are also putting affiliate programs at the heart of their businesses. Over half of the affiliate publishers in our study reported that affiliate programs accounted for more than 20% of their annual revenues.

ADVERTISERS EVOLVE BEYOND DIRECT-RESPONSE-DRIVEN AFFILIATE PROGRAMS

Our study reveals that affiliate marketing is evolving into a unique and critical communication channel with a role to play throughout the purchase funnel. This survey revealed that advertisers running affiliate programs are more likely to leverage affiliate content to raise awareness of their products and services and encourage ongoing customer engagement, as well as drive purchases and conversions (see Figure 3). These advertisers see advantages to breaking through the clutter of other digital channels to capture customers' attention. Advertisers are also leveraging affiliate content to upsell and engage with existing customers without having the usual associated

FIGURE 3

Advertisers Leverage Affiliate Programs For All Stages Of Their Customers' Journey

“Which of the following customer life-cycle stages do you target your affiliate marketing programs to?”
(Select all that apply)



Base: 131 advertisers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

costs of new customer acquisition.

THE ROLE OF AFFILIATE NETWORKS

As the affiliate marketing space has evolved, running affiliate programs has become more sophisticated for both advertisers and publishers. Today, a given advertiser will

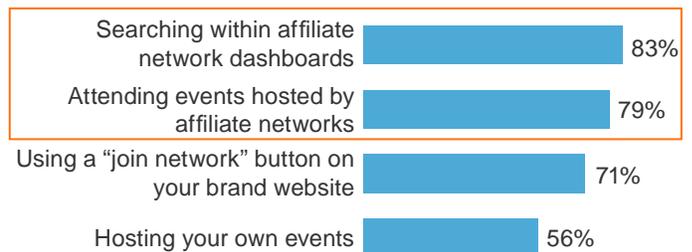
enter into partnerships with many publishers, who in turn work with numerous brands to diversify their opportunities to drive commissions. In the face of this increasing complexity, many advertisers and publishers turn to affiliate networks to help manage their programs.

Affiliate networks connect advertisers and publishers by providing a platform for executing and measuring their programs. Advertisers in our survey who are running an affiliate program today are highly likely to use their affiliate network to make connections with publishers, either by searching within affiliate network dashboards or through affiliate-sponsored events (see Figure 4).

FIGURE 4

Affiliate Networks Play A Crucial Role In Connecting Advertisers With Publishers

“Which of the following ways do you recruit new affiliates into your program?”
(Select all that apply)



Base: 131 advertisers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

Our survey revealed that advertisers tend to belong to one or sometimes two networks, which they select based on a number of different criteria, including the networks' experience with their particular vertical or product category, the costs of operating in the network, and the networks' ability to operate globally.

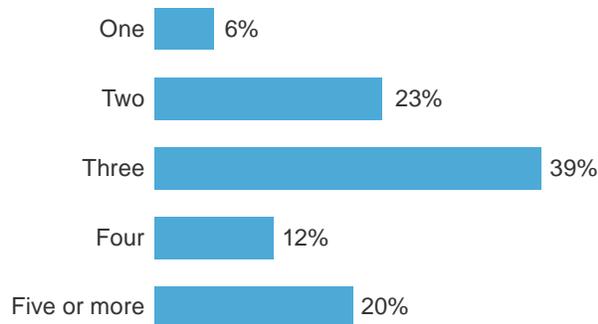
“Level of service is important in choosing a network. My network is an extension of my own team. I can go to them and ask for data, insights, and they deliver in a timely manner so I can take it to leadership and provide insights and action items and improvements.”

— Director of marketing partnerships, US-based retailer

Publishers, on the other hand, are more likely to “fish where the fish are.” They are open to working with more networks to maximize their opportunities for connecting with advertisers. Indeed, we saw that today, 71% of publishers belong to three or more networks (see Figure 5).

FIGURE 5
Publishers Work Across A Variety Of Affiliate Networks

“How many affiliate networks have you worked with over the past year?”



Base: 143 publishers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

Publishers evaluated networks on a wide array of factors, with close to a third focusing on each of the following considerations: which competitors were present, which brands they could connect to, how global the network was, whether the network allowed for direct relationships

between advertisers and publishers, and the depth of tools the network provided for measurement and publishing.

Measuring Affiliate Programs Makes Strides But Still Faces Challenges

UNDERSTANDING HOW CONSUMERS MAKE PURCHASE DECISIONS IS A CHALLENGE, BUT ADVERTISERS ARE IMPROVING

Today, affiliate measurement is more commonly applied to digital channels, including mobile and desktop sales — both of which over 80% of advertisers were actively tracking. Less common were offline touchpoints, including catalogs (66%) and brick-and-mortar sales (57%).

More than three-quarters of advertisers have adopted forecasting and marketing mix modeling tools to analyze and make adjustments to their affiliate programs. Attribution tools, especially advanced cross-channel attribution tools that would allow for customer tracking across digital and offline touchpoints, are rarer in the marketplace today. Just over half of the advertisers in our study had an attribution tool in place today, and those who did used primarily first- or last-touch approaches.

First- and last-click attribution approaches can conceal the overall value of affiliate marketing influences throughout a consumer’s journey to a purchase. And, without sophisticated attribution, many advertisers risk overlooking the blog post that made consumers aware of available products or services, the article that laid out the options available among different competitors, or other content that helped the customer choose the accessories for their recent purchase.

Advertisers who miss the ability to determine the full ROI of their affiliate spend also risk losing sight of the efficiencies these programs bring. One advertiser put their company’s evaluation of affiliate spend this way: “We’ve seen that affiliate is one of our best ROI channels. It yields more revenue for our .com property than SEM, display, or social. We always invest in the most efficient channel first.”

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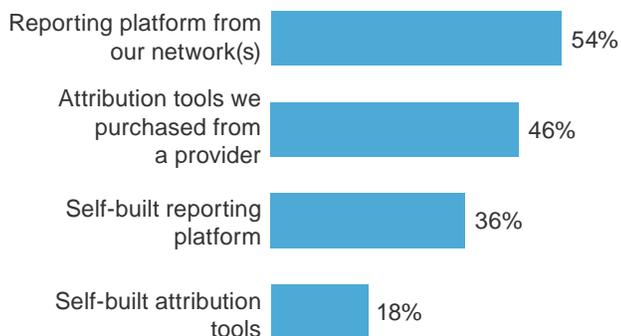
— Senior online marketing manager at major international retailer

PUBLISHERS RELY ON NETWORK TOOLS TO TRACK AFFILIATE EFFORTS

Publishers are seeking new ways of learning more about their audiences in order to more effectively monetize their content. Advertisers are seeking out publishers with a growing base of knowledge about their respective audiences, and they are willing to extend premium offers to these publishers. The publishers in our study were most likely to rely on the tools provided by an affiliate network to manage their affiliate efforts, beating out both bought and self-built analytics tools (see Figure 6).

FIGURE 6
Publishers Turn To Network-Provided Reporting Platforms

“Which of the following *technologies* have you deployed to manage your affiliate marketing efforts?”
(Select all that apply)



Base: 143 publishers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

The publishers in our study were focused on building their affiliate business through audience intelligence. We found that 68% of our publishers were able to report on their audience traffic, 67% could gather visitor demographic data, and 66% brought visitor behavioral data to demonstrate their value in affiliate, either using network tools or homegrown analytics capabilities. Over half of publishers were able to optimize their content against audience metrics. Where publishers struggled in measurement was in controlling for fraudulent activity. Only 41% were able to monitor for fraud, instead relying on network staffs to facilitate these monitors.

Advertisers can expect a wealth of audience metrics to support their affiliate buying decisions, but they should recognize that few publishers offer fraud controls. The good news is many leading networks do bring fraud monitoring to their suite of offerings, so advertisers should plan to look to their networks to provide these safeguards.

Publishers Working To Market Themselves Must Know What Their Advertisers Really Want

As digital affiliate marketing spend continues to grow, more publishers are engaging the channel. To be successful in a channel dominated by cost-per-action (CPA) commission structures and last-click attribution models, publishers are finding they need to promote their ability to drive high-quality traffic to their advertiser partners.

Publishers, therefore, must market themselves convincingly to compete for affiliate dollars. Our study found that publishers are most likely to market themselves through social media (68% leveraged organic social; 54% used paid social) and cross-promotions with other publishers. Their marketing efforts lead with the number of followers/visitors to their sites, coupled with assessments of the quality of their site and their mobile optimization capabilities (see Figure 7).

FIGURE 7
Publishers Promote Themselves On Traffic, Site Quality

“Which of the following do you use to promote your content to potential affiliate advertisers?”
(Select all that apply)



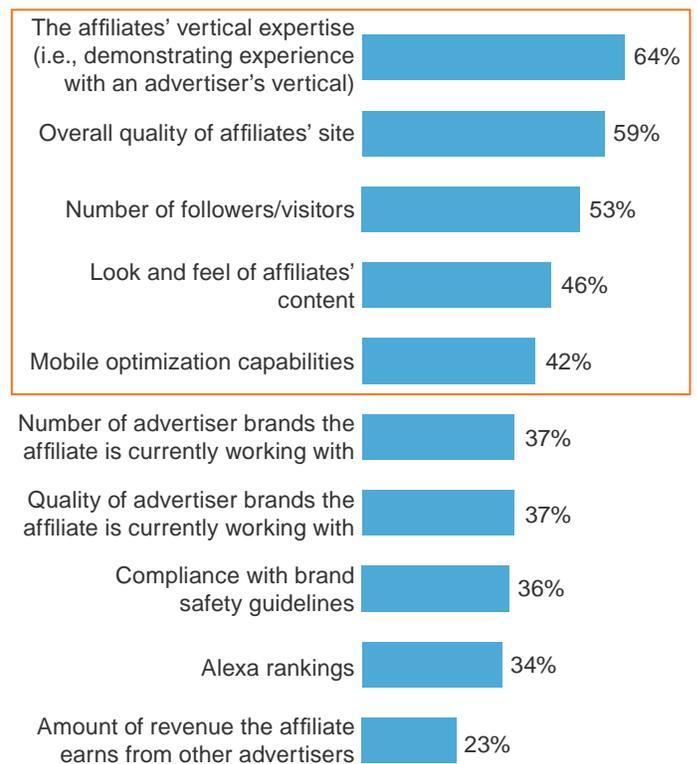
Base: 143 publishers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

Many of these messages echo how advertisers told us they choose publishers. Overall, site quality, number of visitors, and mobile considerations were all important in determining the right fit between advertisers and publishers (see Figure 8). One area of misalignment between advertisers and publishers, however, is vertical expertise, where an advertiser can know that the publisher has an excellent audience for their particular product and/or service. Vertical expertise was important to 64% of advertisers and the top consideration chosen, whereas only a third of publishers reported including their vertical capabilities as part of their marketing to advertisers.

FIGURE 8
For Advertisers, Traffic And Site Quality Are Important, But Not As Much As Vertical Expertise

“Which of the following do you use to decide which affiliates you want to work with?”
(Select all that apply)”



Base: 143 publishers in the US currently running an affiliate marketing program

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016

The implication is that publishers need to understand that advertisers place importance on content integration. The value chain of affiliate marketing for advertisers depends on relevant content for consumers. Valuable, unique content wins a consumer's heart and mind and differentiates the affiliate channel from other digital advertising channels. The reason is that quality content delivers real value to the consumer and results in better audience engagement for a publisher's advertising partners.

A final point: Advertisers in our interviews said that a publisher's strength of partnership drives value for advertisers. Interviewees saw advantages in networks that encouraged direct relationships among their teams, the networks, and the publishers they chose to work with — supporting collaboration and enabling all sides to work together strategically.

As one interviewee put it:

“Overall, it’s about partnerships that you have with your affiliates, as well as with the network and internally that make the difference. What I mean by that is: internally working with various marketing teams, understanding calendars and then communicating it out to partners — that makes it a successful partnership. Other channels come down to an algorithm you can’t always control. With affiliate, there’s a lot of customization working with different partners.”

— *Director of marketing partnerships, US-based retailer*

In contrast to programmatic strategies that rely on math to drive advertiser and publisher tactics, affiliate marketing is a community-, partnership-, and relationship-based marketing channel. All participants are equipped with real-time performance metrics and the correct controls and visibility into the audiences with which they seek to engage. Those critical tools are supplemented by publisher-created content that delivers value to the consumer and complements, or even showcases, the advertiser message.

Key Recommendations

Affiliate marketing, once regarded more as a tool to drive consumers to the purchase event, is now viewed as a powerful channel for consumer discovery that leads to brand engagement and incremental sales at compelling ROIs. Advertisers are increasingly relying on the affiliate channel to broaden their brand exposure with relevant context. More publishers are taking the opportunity to complement their revenue with advertiser support that delights their readers. Pairing advertisers with publishers is best accomplished with the help of networks that bring economies of scale to developing management and measurement tools that help all participants gauge the value of the increasingly popular mainstream strategy. Forrester's in-depth study of advertisers and publishers currently profiting from their affiliate channel partnerships yielded several important recommendations:

- › **Advertisers and publishers should embrace affiliate marketing as a mainstream marketing channel.** Both advertisers and publishers are moving into affiliate marketing as a way to rise above the clutter of other digital advertising vehicles, and they are seeing affiliate opportunities drive real business value. Affiliate networks are an excellent resource for better understanding how an affiliate program could fit into your business, either as an advertiser or an affiliate (publisher).
- › **Advertisers should look to understand affiliate marketing's total contribution.** Last-click attribution models create significant blind spots for all advertisers but can especially cloud the value of affiliate programs. Since costs are paid out on a last-click basis, it's easy for advertisers to focus only on the last steps to purchase. Failing to examine how publisher programs contribute to awareness, product choice/consideration, or ongoing customer engagement means advertisers are potentially focusing on channels that don't have the same impact on purchase.
- › **Advertisers should lean on affiliate networks for fraud controls.** Publishers don't control for fraud as carefully as they monitor other aspects of their audience, and publishers don't necessarily see it as their job to do so. Advertisers should consider protections against fraud an essential aspect of what an affiliate network provider can offer.
- › **Publishers should get smart about where they market themselves.** Publishers must use all the tools at their disposal to market themselves in this competitive space. Networks, through trade shows and on search dashboards, are the No. 1 way advertisers find publishers they want to work with — so publishers need to show up to be seen.
- › **Publishers should review how they market themselves.** Publishers should understand the qualities that advertisers are looking for in the publishers they choose to partner with and make sure they communicate their strengths. Advertisers place a high priority on vertical expertise, along with traffic quality and content relevancy. Publishers must position themselves accordingly in order to experience unprecedented popularity.

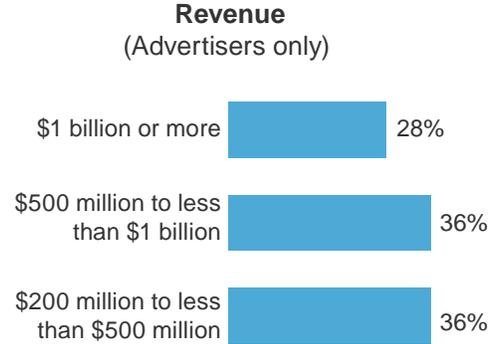
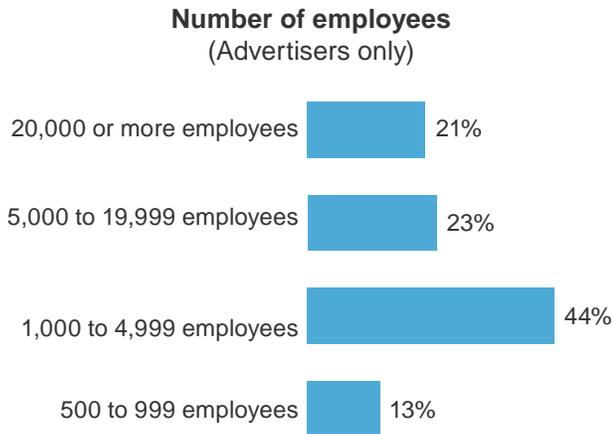
Appendix A: Methodology

In this study, Forrester conducted an online survey of 151 decision-makers at US advertisers, as well as 151 decision-makers with US publishers. To qualify for the survey, advertisers' companies must earn a minimum \$200 million in revenues, and publisher companies must either rank in the top 5,000 sites by traffic volume in the US or have 300 or more followers on a major social platform. Forrester also conducted 10 in-depth interviews with advertisers and publishers to explore the challenges and opportunities affiliate marketing presents. Questions provided to the participants asked about their current adoption of and approach to affiliate marketing programs. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began in August 2015 and was completed in January 2016.

Appendix B: Business Demographics

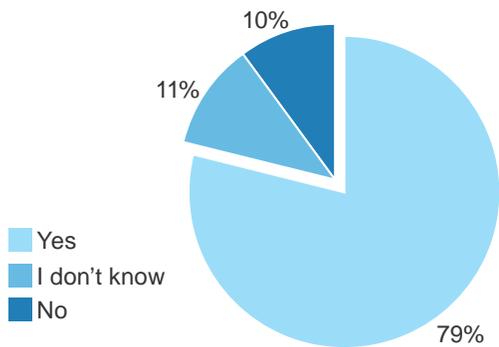
FIGURE 9
Business Profiles

Advertiser Profile

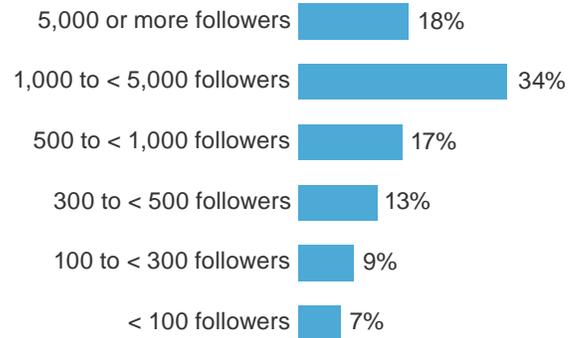


Publisher Profile

“Does your company currently rank as one of the top 5,000 sites in Alexa rankings for the US?”
(Publishers only)



Number of followers on microblogging social platform
(Publishers only)



Base: 302 Advertisers and Publishers with more than 500 employees in the US
(percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of Rakuten Affiliate Network, January 2016