(Web) Affiliate Marketing System

Be web business educated

[Weekly Educatve series – XV]

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Hi,

We had a good week for study. We went through the latest technical stuffs happening around the world and incorporated some of the sections in our marketing. We spent some good time understand PPC position based on bidding, Video Optimization, Local listing. This week and next week, we want to celebrate Internet’s affiliate systems. We will cover all aspects of affiliate marketing in this series.

Special Note: We are increasing the size of our team to accelerate the project work.

Have a great week!

Regards
Aji Issac
(Web) Affiliate Marketing System

“A subordinate or subsidiary associate; a person who is affiliated with another or with an organization” says WordWeb. Affiliate marketing was always a powerful marketing tool but many businessmen avoided it because of the complexity involved. It was considered a very difficult task to manage few hundreds of affiliates, including their:

- Registration
- Tracking sales
- Payments

Internet has defined affiliate marketing with easy to use affiliate marketing tools. Now registration, tracking sales and payments are fully automated. Google is the best example for an affiliate system (a little controversial). Google’s Adsense is fully automated and generates a lot extra views and clicks for their golden goose Advertising model through Adwords.

Affiliate marketing is a marketing system where a business rewards its affiliates for ads, lead generation or sales. It is a popular method of promoting web businesses in which an affiliate is rewarded for every visitor, subscriber and/or customer provided through his efforts. It is a modern variation of the practice of paying finder's-fees for the introduction of new clients to a business. Compensation may be made using various methods:

1. **Pay for every 1000 views or CPM (Views):** When people see the advertisement on an affiliate partner website. Every 1000 view is considered one M and an affiliate can be paid certain amount for each M better known as Cost per M (CPM). This is relatively low as the businesses don’t earn any money out of views. Businesses still pay per thousand views as they get visibility. Most of the offline ads are sold on the basis of views or readers.

2. **Pay per Click or PPC (Visitors):** Web allows better tracking of advertisements and Pay per click is a frequently used term for online advertisement and affiliate marketing. When people click on the ads on an affiliate partner website, we call it a click. Every click can cost money; we call it CPC (Cost per click). This is the common method of payment for online advertisement. Google’s Adwords is mainly focused on CPC, where businesses bid for CPC (or PPC, pay per click).

3. **Pay per conversion/action or CPA (Action):** When people who visited the website because of an affiliate partner take an action (like enrolling for mortgage), we call it either a conversion or a lead and pay big commission for it. We call it CPA, cost per action. CPA can be further divided into:
   a. **Lead:** When people express their desire to buy a product, we can call them a lead. In other words, a prospect sale is considered a lead. Example: When a person enrolls for mortgage, we call it a lead. Till this time, the company has not earned any money out of the enrolled person but company is hoping to close the deal and earn some money.
   b. **Sales:** When the company takes a lead and sells the product to the lead, we call it a sale. Example: When a lead (as mentioned under Lead) for mortgage fills up
all the papers and gets the loan from the company or in simpler words when the company closes the deal with the person, the company earns money and we call it a sale. Companies are ready to pay a good commission for sales as the company is sharing money from its profit.

If we take an example of an industry (lets take debt consolidation industry), we observe (taking just an approximation):

1. **CPM**: $.25 to $2 (per thousand views)
2. **CPC**: $.20 to $10 (per click)
3. **CPA**:
   a. **Lead**: $5 - $25
   b. **Sales**: 10% - 20% of the debt amount (various options), so for $1,000 debt, affiliate will earn $100 - $200. (Sometimes the commission is paid as 50% of profit)

**Why is Internet Affiliate friendly?**

Internet and web has redefined affiliate marketing. If you have a web business then it is highly advisable to consider affiliate marketing in your marketing strategy mix. Internet or web is affiliate friendly because:

1. **Easy Communication**: Internet is a closely knit network of various websites that can be linked to each other through a simple hyperlink. In this form, it becomes really easy for any of these websites to try and direct its users or traffic to some other website.

2. **Web Behavior**: Affiliate marketing helps smaller websites to earn money by directing its users to a bigger site thus generating a lead that might convert to an actual sale for the big site. The big site, in turn, pays some reward, generally in the form of a portion of the sale to the smaller site. The smaller site is not required to do more than showcase the big site’s links or banners or other promo materials at a point in their website which might attract potential and targeted visitors. This not only increases the sales for the big site but also gives their brand immense exposure. Google, the search engine and internet advertising giant, itself arguably acts as an affiliate marketing system when it displays paid listings on its search listing page. These are typically labeled as “Sponsored Links” and when someone clicks on those links, the advertiser pays an amount to Google. A lot of websites exist as pure affiliates.

3. **Target Segment marketing is easy**: It is easy for anyone to market the right segment by creating interesting pages for the target segment.

4. **Web business is a pure brain business**: Any two kids with a computer and internet connection can rock the world with their brain child. These useful services are generally supported by related affiliate programs.
5. **Many more reasons:** There are many more reasons as to why Internet is so affiliate friendly.

**How does affiliate marketing work?**

Here’s an example as to how typical affiliate marketing works.

Abc.com is a website that sells some products online. Xyz.com is an affiliate of Abc.com. Xyz.com will tend to expose its visitors to the products of Abc.com through various promo materials in its site like links, banners etc. When any visitor of Xyz.com clicks on any of the promo materials, he/she reaches Abc.com and makes a purchase, Abc.com will reward Xyz.com for the referral and sales. Diagrammatically:

![Diagram of Affiliate Marketing System]

- **Customer** visits affiliate website (Here Xyz.com)
- **Directs Customer to Abc.com Products**
- **Rewards Affiliate**
- **Affiliate Marketing System**
Some of the most important points for a web affiliate program are:

These are some important points that need to be taken care of while developing an affiliate program:

1. **Transparency of the entire program**: People are often in a dilemma when it comes to trusting blindly. Any site running an affiliate program must have a very transparent system where the affiliates can understand how the entire process is working and how much they are earning from a single dashboard. Ideally, a dashboard should consist of the date, total referrals sent, number of orders, original revenue from the orders received, bonuses (if any), adjustments (like credits, chargebacks etc. if any), percentage cut for the affiliates and finally the total earnings for the particular date after all adjustments. Moreover, the panel should also have an option to show the total monthly earnings, all time earnings, details of payout and remaining balances.

2. **Usability/Simplicity of the affiliate program**: People do not generally like to pass through several stages and often tend to ignore complications. An affiliate program, in order to be successful, must have an automated system that would enable its users i.e. the affiliates to easily sign up, grab promo materials and clearly view their performance and payout reports whenever they wish. However, a couple of days’ time can be taken to manually check the affiliate’s website for authorization.

3. **Payout**: This is probably the most important aspect of any affiliate program. The main reason for affiliates to sign up for any program would be how much they would earn out of it. The payouts should be fluent, timely and transparent. Moreover, the percentage of reward should essentially be very competitive.

4. **Promo Materials**: Affiliates will stick to running a particular program only when the conversion of the program is high and generates good revenue. Mere links and banners cannot create the extra hype or attract visitors. The affiliate program should ideally hand out some attractive and effective promo materials, which the affiliates can easily showcase on their website. This would help the affiliates to direct more and more visitors and earn more revenue.

5. **In order to get a complete affiliate system work**, referrals from affiliate sites need to be tracked. This can be done with the help of a cookie. The affiliate program would provide a script/code that needs to be placed within the `<body>` tag of the affiliate pages. This sometimes becomes difficult due to variations in the architecture of different websites. So one workaround could be creating an intermediary page. Any link from an affiliate will consist of an affiliate id and a client id. On clicking, the link will direct to a particular intermediary page where all the programming will be done. This page will catch the ids and forward the visitor to the targeted page and keep a track of the visitor.
An In-house affiliate system or third party affiliate system?

When I look at the affiliate systems, it can be divided into two parts:

1. In-house affiliate systems (Buy or build decision needs to be made, will be discussing in the next section)
2. Third party affiliate systems (Which systems to use)

In-house affiliate systems

Where we run our own affiliate platform, we call it in-house affiliate system (Obvious definition, let me describe more). Under in-house affiliate system:

- **Registration**: We allow people to signup as an affiliate on our own website or portal. We mention CPM, CPC and CPAs on our websites in detail. We can have multi levels of CPAs etc.
- **Tracking I (Tracking code)**: We provide them a code to paste on their website.
- **Tracking II (Only tracking referrals)**: When people come from their website to ours, we create a cookie with affiliate partner id.
- **Tracking III (Sales tracking)**: When people buy a product, we see the cookie and if it is from an affiliate partner, we add the lead to the partner.
- **Reporting**: We show them Total views, Total traffic sent, total number of people who bought the product.
- **Payment**: The payment needs to be made to the affiliate partners.
- **Handling queries**: All the technical issues and other queries need to be answered.
- **Tracking IV (Tracking views)**: This can be really expensive tracking. I remember an instance when our affiliate code was on a website which was getting close to 1 million page views a day. The data started populating in our database and became unmanageable. For high traffic affiliates, it is difficult to do in-house affiliate management unless you have either a good third party affiliate management system or a good in-house technical team.

Third party affiliate platforms (like cj.com etc, taking cj.com as example here)

When the affiliate system is managed and hosted by a third party, we term it as a third party affiliate system. Under third party affiliate system:

- **Registration**: We signup as an advertiser and define CPC, CPM, CPA etc in the format provided by the third party website.
- **Tracking I**: They have a list of publishers and lot of them will find you there. They will join as publisher and will get a code from cj.com and paste it on their website.
- **Tracking II (Tracking visits)**: In order to track visits, the tracking code contains the URL of the third party website, which, in turn, will redirect to our website. Example xyz.com/affiliate-tracking.php?affiliatetid=23 will redirect to abc.com (23 id is that of abc.com). In this way, the third party will be able to track all the visits.
• **Tracking III (Tracking sales):** In order to track sales/conversion, the third party will provide a conversion tracking code, which needs to be put on our thank you page. At any point in time, when people visit the thank you page (Page after signup/conversion), it is reported to the third party affiliate system. If a referred person visits the thank-you page or conversion page, it will be counted as conversion/sales.

• **Reporting:** Third party will provide them interface to see total views, total clicks and total conversion.

• **Payment:** Third party will take money from us in advance and will pay the affiliate partners (publishers)

• **Handling queries:** Third party will answer most of the queries.

**Disadvantages of a third party affiliate system**
1. You will have to pay a commission to third party and thus your profit will go down. Generally, we should pay maximum to affiliate partners not to the third party.
2. We don’t have control over spamming; we will have to rely on third party spamming algos. At times, people submit the same lead to many affiliates get CPA money.
3. We don’t get the value of links as the links will be controlled by third party (This can be a big disadvantage from search engine rankings point of view)

**Advantages of a third party affiliate system**
1. We won’t have to code a new system. Main concern will be the database/website load for large affiliates. Sometimes, some of the affiliates can get 1 million views per day. (This can be overcome by designing good affiliate systems on subdomains with different IPs and DBs)
2. We can avoid the extra queries (This can be taken care of by installing open forums)
3. We get access to a lot of publishers (This disadvantage can be overcome by running both and contacting the cj.com publishers to directly come under our systems)
4. People may trust a third party more. (This can be overcome by putting proper testimonials and payment proofs)

**Technical Requirements**
In order to run an affiliate system, one can run with minimum requirements or a higher configuration. Also, it depends on the scale of affiliate system. This is already explained in the above section. Technical requirement will depend on:

• **Third party:** Will need to add just some small code on the webpage. Basic understanding of HTML, Server side code like php, asp etc (This can be sometimes needed for inserting the tracking code for conversions), FTP access.

• **In-House:** Good knowledge of server side scripting, normalization and denormalization concepts to improve the systems. Good web server and database server to handle
heavy load is also required. Payment scripts will be required or else will have to manage manually.

In-House buy or build?
This is very difficult question with an answer “Depends”. I have seen some of the affiliate codes but I am sure there are many affiliate applications. All the codes that I have seen are a little too complex and made to cater a lot more features. A system will be used more if it is simple and customized. I will always suggest going for an in-house build if you have a good technical team. If you don’t have a good technical team, try and get hold of a good technical company that works in a very organized way. Ideally, a build shouldn’t take much time as it is generally a simpler system (now one can go more additional features like payment modules etc, I am just suggesting the core product and with time more modules can be added to it) I am a PHP programmer, ideally it should be completed within 150 to 200 hours.

- DB design (8 hrs)
- Interface design (24 hrs)
- Tracking code and other implementations (24 hrs)
- Testing with some live websites (16 hrs)
- Basic Payment module (20 hrs)
- Integrating everything together (16 hrs)

If you don’t have access to good technical team, I won’t advice you to have a buy either. You may better go with a third party and explore the possibilities. If the affiliate marketing is giving good results, then you can consider developing it in-house at a later stage.

I will recommend buy only to know the DB structure and using some of the available modules. Buy the one that has classes and better Object Oriented Programming.

How to make an affiliate program successful?
There is no shortcut but it needs dedicated attention. Consider the following points while doing Affiliate Marketing:

1. **Integrate it with other teams:** There can be an affiliate marketing team but make sure that affiliate marketing options are explained to other teams like link developers, PR managers and webmasters. All these teams make relationship with other website owners. At any point in time, if they see an opportunity, then they can sell affiliate partnerships. This has proved to be a great working model.

2. **Pay good commission initially:** It is very important to attract good affiliate partners initially. By paying good commission, one can get good affiliate partners. At later stage, keep reducing the commission to come close to market standards.
3. **Help affiliate partners improve conversion:** Affiliate partners always want to earn more money. They get a lot more money from conversions than leads. If we can help them improve conversion, they will stick with us.

   Example: Your competitor CPC $1, CPA $20, Conversion ratio 1% - For 100 leads, an affiliate will earn $100 (Leads) + $20 (conversion) = $120.

   With you, CPC $.75, CPA $15, conversion ratio 10% - For 100 leads, an affiliate will earn $75 (leads) + $200 (conversion) = $275.

   In such cases, undoubtedly the affiliates will like to stay with you than your competitors.

4. **Make systems simpler:** Simpler systems are more used and preferred. Show only needed stats.

5. **Faster payment system:** Many affiliates drop out for late payments. Also, post the screenshots of check or paypal payment page to improve credibility in the market.

6. **Reject leads with proper reasons:** Give out reasons for rejections. This improves trust factor with the affiliate partners.

7. **Return the rejected leads:** This has proved to be a great method to attract more affiliate partners. Some leads that are rejected by us may get selected somewhere else.

8. **Target competitors affiliate partners:** Using various Google queries, one can target the competitors’ affiliate partners and ask them to join our affiliate group.

9. **Post testimonials of affiliate partners:** People attract people; a good testimonial will do far better than a 100 words paragraph.

10. **Use video tutorials:** Videos are doing good. A good video tutorial will not only help the people understand the affiliate system but will also improve the trust factor.

11. **Explore other affiliate communities:** Promote your plans to other affiliate communities and portals. This will attract full time affiliate partners.

12. **Success lies in long tail affiliate management:** Long tail affiliate partners (partners who are part time affiliate partners) will provide better leads at low cost. In long run, a long list of such affiliate partners will help the company become more stable.

13. **Put an upper limit for new affiliate partners:** Some affiliate partners will try to manipulate, generally the new partners are prone to more manipulation. It is always advisable to limit the leads for new affiliate partners. Example: Level 1 affiliate – till 100 leads a month, level 2 – 500 leads a month and level X – unlimited leads a month. In this way, we can control spamming to a higher level.

14. **Don’t put a pre-approval stage:** There are many affiliate management systems that have an approval stage, which may take 4 to 5 days. Avoid it by implementing a better automated one. Put the new affiliate partners to a different filtering system that will check for possible manipulation in an automated way and raise filters for others. Within few days, the team will review the new affiliate partners and disable them with valid reasons. Google does the same; it allows you to do everything while they are reviewing you. In the initial phase, it is advisable not to have this barrier.

15. Many more points: We will keep adding to this list based on further queries.
Comparison with other standard PPC campaigns

1. PPC can sometimes be too expensive. In a particular case, we are running PPC for Bay Area, where each click is close to $20. Even after a 20 click we sometimes don’t get conversions. A cost of $400 for no conversion is too risky. A good affiliate system needs you to pay the major chunk when you earn. PPC takes money out of your budget while affiliate takes money out of your profit.

2. Standard PPC can be really effective when you have high conversion ratio. You can pay less for click and reduce cost/conversion.

3. Easy way of comparing any method is by calculating the cost/conversion or cost/client.

How to make affiliate marketing a success? “Guide for Clients”

1. Remember the above 15 points.

2. Keep a proper follow up plan.

3. As a client, learn the affiliate marketing system that you use. Get a dashboard to know the overall status. Daily or weekly mails also help to keep an eye on the system.

4. Sell affiliate programs at conferences and meetings. Generally, the affiliate team doesn’t get a chance to interact with some potential people whom you have access to; make use of all opportunities.

Customer Queries:

1. **Query:** I see that some people will only work with third party affiliate programs.
   **Reply:** Not true always, I will say that they will start with the third party. People will work with any trusted affiliate applications. Affiliates want to earn more money, if we can show them good money they will surely try it out.

2. **Query:** Are you suggesting that we build the in-house system and sign up for a third party affiliate?
   **Reply:** I have never done both at the same time but I feel one must signup with third parties to attract their established strong affiliate websites. Generally, we used to target our competitor’s affiliate. Our competitors used to pay some $10 per lead; we started paying $20 per contactable lead. An In-house system will enable us pay more or earn more profit. It works like this, first 50 affiliates get 20% commission, next 50 will get only 15% and once you are sure that you are selling enough at low profit then you can reduce the commission for next affiliates.

3. **Query:** If we were to only get the third party affiliate program, how difficult would it be to integrate it into our current system?
   **Reply:** If it is something like cj.com and all, it will be very easy to do. You will have to paste some code on landing page and conversion pages.
4. **Query:** For instance, someone clicks on an affiliate’s link to sign up for the mentioned course and wants to make monthly payments. We would only want the affiliate to make commission on those monthly payments as we receive them, not the full amount in case the student quits or gets a refund. Would that work on a third-party system?

**Reply:** I doubt that, you will have to pay for one conversion. I am not sure if the conversion amount can be distributed across various months. Generally in finance industry, we used to work with statistics using drop-out ratio and other calculations. For some leads, we used to lose money and using some other leads we would compensate for it. So instead of paying a 20% commission we might just pay 5% commission in the initial signup and another 5% (or 15%) as grace amount directly to the affiliate if the person completes the course. For these things, we will have to explore cj and other third party services.

With an in-house application, we can easily do it. At times, we had deducted some commission for manipulations and some strong drop-out ratio. Also, we did disqualify few affiliate managers for low conversion leads. There are people who sell one lead to more than one company.

5. **Query:** If we build our own in-house system, how long would it take to implement?

I am a php programmer; ideally it should be completed within

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b. Interface design (24 hrs)
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