

A Guide to Setting up an Affiliate Marketing Programme

Business Information Factsheet

BIF400 · December 2016

Introduction

An affiliate marketing programme is a method of encouraging website owners and other online publishers to promote another business' products or services in return for a fee, normally a commission. Many successful online traders use this performance-based marketing method, but it is often overlooked by small business owners despite it being cost effective.

This factsheet explains how affiliate marketing works and looks at some practical examples. It describes how to set up an affiliate marketing programme and includes hints and tips and sources of further information.

What is affiliate marketing?

Affiliate marketing is a way for merchants to reward other businesses for referring customers or website visitors to them. A 'merchant' can be any business with an online presence, such as a retailer, service provider or advertiser. An 'affiliate' can be any business that publishes via online channels.

The merchant provides the affiliate with the necessary information and tools for the affiliate to promote the merchant's products or services via their website, social media accounts, blog or e-newsletter. The merchant makes a payment to the affiliate for every customer or visitor referred from the affiliate's online channels who completes a predetermined action, for example making a purchase or signing up for a newsletter. Affiliate marketing is a cost-effective option for merchants because affiliates get paid only when they deliver results.

How do affiliate marketing programmes operate?

Affiliate marketing programmes work by tracking referrals from affiliates to merchants and converting the tracking results into rewards that are paid to the affiliates. Referrals can take the form of click-throughs, registrations or sales, and are usually tracked using unique links that identify the affiliate as the source of the referral. The reward or compensation method varies, with the most common being:

- **Cost per sale (CPS).** This is a revenue-sharing model where merchants pay affiliates a commission for every sale made from a referral.
- **Cost per action (CPA).** This is a compensation method where merchants pay affiliates a reward every time a referred visitor completes a specific action, such as signing up for a newsletter.
- **Cost per click (CPC).** This is a method where merchants pay affiliates a fee every time a user is driven to click on a promotional link or banner that links them to the merchant's website.

- **Cost per mille (CPM).** Also known as 'cost per thousand', this method pays affiliates for every thousand visitors driven to the merchant's website.

Some merchants run their own in-house affiliate programmes, which require them to manage affiliates, track referrals and administer reward payments themselves. However, many merchants use affiliate networks that connect merchants to affiliates and make the administration of affiliate programmes a lot easier.

What are good examples of affiliate marketing programmes?

Many successful online services operate some form of affiliate marketing programme. For example, mobile phone networks, bookmakers, credit card providers, insurance companies, broadband providers, travel agents, utility companies, and retailers of clothes, food and entertainment products have all benefited from such programmes as part of their marketing activities.

Amazon (www.amazon.co.uk) has one of the best-known affiliate marketing programmes, 'Amazon Associates'. Affiliates can link to any product or page on the Amazon website and receive a commission on any products sold. Go to <https://affiliate-program.amazon.co.uk> for further details.

ClickBank (www.clickbank.com) is an online retailer of digital products and has registered over 200 million affiliates since it was founded in 1998. Affiliates sign up for a free account and then choose the products they wish to promote. Whenever someone clicks on one of these links and purchases a product, ClickBank pays the affiliate a commission of up to 75% of the sale.

Other major operators of affiliate programmes include Argos, ASDA, Betfair, Expedia, John Lewis, The National Lottery and Sky Digital.

What are the benefits of affiliate marketing programmes?

Affiliate marketing programmes offer benefits to both the merchant and the affiliate:

- For merchants, affiliate programmes bring new customers and visitors to their website. The benefit of this is that they pay only on results, with the onus on the affiliate to promote the product or service in order to earn revenue.
- For affiliates, they can earn commission or fees by promoting merchants' products or services without having to become a merchant themselves.

How important is tracking and reporting?

For an affiliate marketing programme to work effectively, it is essential that all referrals (clicks and sales) are accurately tracked so that merchants can reward each affiliate appropriately. Affiliates must be able to trust their merchants and be confident that all referrals are tracked and correct payments made. Transparent reporting is required and most programmes have systems that allow affiliates to log in to check up-to-date referral and payment reports.

What are affiliate networks?

Affiliate networks are third parties that act as a link between merchants and affiliates, often providing administration services, such as tracking and reporting, for affiliate marketing programmes. Affiliate networks also make it easier for merchants to find suitable affiliates, and vice versa. Some of the major affiliate networks include:

- Affiliate Future (www.affiliatefuture.co.uk).
- Affiliate Window (www.affiliatewindow.com).
- CJ Affiliate by Conversant (formerly Commission Junction) (<http://uk.cj.com>).
- Monetise (www.monetise.co.uk).
- Webgains (www.webgains.com).

What industry standards and laws affect affiliate marketing programmes?

Leading affiliate network CJ has developed a Code of Conduct that sets out mandatory requirements for merchants ('advertisers') and affiliates ('publishers') who use its services. The Code, which was most recently updated in 2015, has also been adopted by other affiliate networks, merchants and affiliates.

Examples of requirements include:

- Merchants must disclose to publishers when payments can be reversed and, subject to the affiliate agreement, can only reverse payments legitimately in specific circumstances. For example, a merchant can recover commission paid to an affiliate on a sale if the customer returns the product to the merchant.
- Merchants must disclose any conditions or restrictions that will prevent an affiliate receiving commission, such as the use of a coupon or discount code by the customer.
- Customers must be required to take an affirmative action in order to be referred to an advertiser's website, such as selecting a clearly labelled hyperlink, and must not be improperly influenced to do so by the affiliate.
- Affiliates must not use trademarks, copyright material or other intellectual property without the consent of its owner.

Go to www.cj.com/code_of_conduct.html to view the Code of Conduct in full.

The Internet Advertising Bureau (IAB) is a trade body that represents digital marketing in the UK, including affiliate marketing. Its Voucher Code of Conduct sets out mandatory requirements to be met by merchants and affiliates purchasing services from CJ, Affiliate Window and other leading networks. For example, vouchers must display a prominent expiry date and be differentiated from other promotions or discounts. Go to www.iabuk.net/resources/standards-and-guidelines/affiliate-marketing-council-code-of-conduct-vouchers to view the Code in full.

The UK Code of Non-broadcast Advertising and Direct & Promotional Marketing (the CAP Code) sets out rules for non-broadcast marketing communications, including affiliate marketing material. The CAP Code is administered and upheld by the Advertising Standards Authority (ASA). In general, the CAP Code requires adverts to be legal, decent, honest and truthful. According

to the ASA, merchants 'should bear in mind' that, even where affiliates are given 'free rein' over advertising content, the merchant is still responsible for the content's compliance with the CAP Code. See BIF 73, The UK Code of Non-broadcast Advertising and Direct & Promotional Marketing (the CAP Code), for more information.

The ASA can refer non-complying marketers to National Trading Standards for prosecution under consumer and business protection legislation, which sets out similar restrictions to those imposed by the CAP Code.

The Privacy and Electronic Communications (EC Directive) Regulations 2003 regulate electronic marketing, including internet cookies. Many affiliate programmes use cookies to track referrals. Under the Regulations 2003, websites using cookies must inform visitors that they use cookies, explain the purpose of the cookies and obtain consent to place cookies on the website visitor's computer, tablet or smartphone. Go to <https://ico.org.uk/for-organisations/guide-to-pecr/cookies-and-similar-technologies> and see BIF 410, A Guide to the Privacy and Electronic Communications (EC Directive) Regulations 2003, for further information.

Starting an affiliate marketing programme

The first step in starting an affiliate marketing programme is to decide whether it will be set up and operated in-house or via an affiliate network. Merchants running an in-house programme will require appropriate software to handle tracking, reporting and payment administration.

One example is AllAffiliatePro (www.allaffiliatepro.co.uk), which is available both as a software program and as a cloud-based solution. Prices start from £345, excluding VAT. IDevAffiliate (www.idevdirect.com) also provides affiliate programme management features and costs from \$39 for the cloud-based service.

The next step is to create links and banners for affiliates to use. Most merchants provide banners in a range of sizes and formats and text links that can be easily incorporated into affiliates' websites. The links and banners should be updated regularly to feature new products and developments. Dynamic links can also be created: these will update automatically without the affiliate having to change them manually. It is also important to create specific landing pages on the merchant's website, or ensure that links point to appropriate pages. For example, a link for a newsletter sign up should point to a specific newsletter sign-up page rather than the merchant's homepage.

Deciding on a suitable payment method and schedule is crucial to attracting affiliates and ensuring that the programme produces a healthy return on investment. If the payment offered is too low, few affiliates will be interested. If it is too high, the programme could damage the merchant's profit margin. Affiliate programme operators usually list the payments offered to affiliates on their own websites where they can be researched and compared.

Recruiting affiliates

One of the advantages of joining an affiliate network is that the merchant's programme becomes visible and available to the network's existing membership of affiliates. Many networks include details of new programmes in newsletters and on their home page. The programme will also be available to new affiliates joining the network.

Merchants operating an in-house programme will need to recruit affiliates themselves. A good starting point is to contact existing customers and suppliers, for example by sending out an e-mail newsletter. A dedicated web page or site providing information for potential affiliates can be linked to from the newsletter and the merchant's main website.

It is also possible to find affiliates in affiliate communities and forums. Examples of these communities are PerformanceIN, which has a dedicated forum for independent programmes (<http://forum.performancein.com>), and Affilorama (www.affilorama.com/forum/).

How are affiliates paid?

It is common for merchants to pay affiliates electronically, either by bank transfer or via an online payment system such as PayPal. Some merchants also offer payment by cheque. Payments are made at regular intervals - monthly or quarterly, for example - usually only if the commission due for that period is above a certain threshold. For example, some merchants will only pay when the amount due for the period exceeds £50 in order to reduce the potentially costly administration of very small payments. Although affiliates will expect to be paid promptly, accurate reporting can take time to process and it is not untypical for payments to be made up to three months in arrears.

Hints and tips

- In general, affiliate marketing is more suitable for products than services.
- Effective affiliate marketing programmes can increase a merchant's sales or website visits. They also increase awareness of the merchant's name and presence across the web.
- Joining an affiliate network can make it easier to administer an affiliate programme and attract new affiliates.
- Accurate tracking and reporting will keep the programme running effectively and will maintain affiliate confidence.
- Banners and links should be kept fresh and up to date to encourage affiliates to use them and consumers to click on them.
- Affiliate applications should be checked or approved to ensure the programme is promoted by suitable websites.
- Building relationships with affiliates and keeping them updated about new developments will encourage their loyalty.

Further information

BIF 44 Developing a Marketing Plan

BIF 73 The UK Code of Non-broadcast Advertising and Direct & Promotional Marketing (the CAP Code)

BIF 267 An Introduction to Promoting a Business Website

BIF 392 A Guide to Creating a Marketing Strategy

BIF 410 A Guide to the Privacy and Electronic Communications (EC Directive) Regulations 2003

Useful contacts

The Internet Advertising Bureau (IAB) is a trade body that represents digital marketing in the UK, including affiliate marketing. It publishes market research, industry guidance and codes of conduct, including the Voucher Code of Conduct for affiliate marketers.

Tel: (020) 7050 6969

Website: www.iabuk.net

The Advertising Standards Authority (ASA) is the UK's independent regulator of advertising across all media. It upholds the CAP Code and takes action against misleading, harmful or offensive advertising. It also provides guidance about responsible advertising.

Tel: (020) 7492 2222

Website: www.asa.org.uk

The Information Commissioner's Office (ICO) is an independent authority responsible for upholding information rights in the UK. It enforces legislation (including the Data Protection Act 2018 and the Privacy and Electronic Communications (EC Directive) Regulations 2003) and provides guidance relating to data protection, data privacy and freedom of information.

Tel: 0303 123 1113

Website: <https://ico.org.uk>

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