AWIN

The Awin Report 2017

Mark Walters, CEO
Adam Ross, COO
Peter Loveday, CTO

Executive Introduction

Discovering your next customer. Putting the right product in front of them at the right time whether they're on the bus, casually browsing a blog on their smartphone or at home relaxing after work on their laptop, focused on getting the best deal at the keenest price.

Capitalising on an all-encompassing mechanism that can tap into these consumers and millions more besides them, regardless of where they are in the world and at whatever stage of the buying cycle, is a universal challenge as well as a limitless opportunity for brands. When it is underpinned by the advantage of payment on performance, it becomes indomitable.

Welcome to the world of affiliate marketing.

We're Awin and we power those connections. We're the company that joins the dots, matching brands with their next customer. Working with a hugely diverse and intertwined network of digital publishers, offering some of the most cutting-edge solutions across all devices, we're helping brands navigate the dizzying array of technological solutions to generate millions of new customers for them across the globe every year.

We're hugely proud of what our network represents and how it is powering those connections day in, day out. And that is why we feel the time is right to showcase the global scale of a marketing channel that sees advertisers investing more than $13bn every year.

The Awin Report is – we hope – the first edition of an annual publication that we want to become a definitive guide to the industry. We want to showcase the commonalities that bind us together through a combination of global reach and local expertise.

As an international business with offices in North and South America, Europe and Asia-Pacific we see the variances and vagaries of a channel that is in essence a microcosm of all things digital. That doesn't make it complicated but it does mean it can be hugely complex. In this first edition of The Awin Report we want to tie some of those strands together in a single guide to offer brands the best chance of succeeding in an increasingly competitive marketplace.

Ecommerce knows few barriers and with online shrinking the distance between us, so brands are becoming increasingly globally focused. Despite macro-economic and wider political uncertainties, retailers are forging on, spotting opportunities to grow their businesses and showcase their products and services to new audiences.

Imagine a British brand partnering with a niche blog in Sweden to push a new product release. Or a Dutch price comparison site pulling in stock availability and pricing from online stores in North America. This network of relationships is being built on a daily basis and we believe now is the time to champion it.

Inevitably there are stumbling blocks and local differences that will cause confusion and potential frustration. What The Awin Report seeks to highlight are the key trends and themes that, wherever an affiliate programme is run from, should resonate with practitioners there. Accompanied by comments and observations from regional experts, we want to offer reassurance that there is more that unites than divides the worldwide affiliate community.

We hope you find The Awin Report a fulfilling read. If we leave you excited and invigorated to pursue the affiliate path for the first time or with renewed drive, wherever you are in the world, then we're here to help you on that journey.

Introduction

Arguably the most important marketing speech in a generation. That was the opinion of industry commentators responding to leading marketer Marc Pritchard's words at the IAB's Annual Leadership Meeting in January 2017.

Representing the largest advertising budget of any business on the planet, Procter & Gamble's Chief Brand Officer pulled no punches. In a clarion call to advertisers everywhere, Pritchard claimed it was time for the whole advertising industry to recognise that transparency and measurement are now non-negotiable standards.

In outlining how P&G had set itself a 12 month timetable to create common standards on issues such as ad fraud and viewability, his comments brought into sharp relief how certain quarters of the digital marketing ecosystem have sleepwalked into lazy complacency.

"The affiliate industry has built a robust reputation for clarity of vision and pinpoint delivery, wrapped up in a commercial model that has performance running through its veins."

Affiliate marketers can be justified in taking a degree of quiet satisfaction from Pritchard's words. For too long the channel became a popular whipping boy for those who decried black hat and underhand tactics. In cleaning up its act, starting more than a decade ago, the affiliate industry has built a robust reputation for clarity of vision and pinpoint delivery, wrapped up in a commercial model that has performance running through its veins.

That some commentators still trot out tired and outdated views of the affiliate channel should be juxtaposed against how other media is observed. Pritchard's comments should be considered in light of Facebook and Google's recent admissions that their ad viewability standards have, for some time, been found wanting. The reason for rapid ad blocking adoption by consumers across the globe in recent years, is not because of affiliate ads but because of remarketing and retargeting tactics and because invasive pop-ups and noisy ads obfuscate and frustrate access to online content.

Consider P&G's more stringent demands of their agencies: an ad now has to be at least 50% in view for at least one second, and two seconds for video. The contrast of paying affiliates for tracked sales couldn't be starker.

Marketers are shifting towards tangible and unequivocal measurement and affiliate marketing is primed and ready to help them achieve those goals. For too long affiliate marketing has been waiting in the wings, anticipating a time when its business model would resonate, and with the continued gravitational pull towards performance and affiliate marketing's fertile territory, it's time to take centre stage.

With that in mind welcome to The Awin Report 2017.

This publication represents for the first time a snapshot of the industry in 2017 and attempts to make sense of the wider opportunities the multi-faceted world of affiliate marketing offers brands.

As a truly global affiliate network with more than 10,000 affiliate programmes and in excess of 100,000 active affiliates, Awin offers unparalleled access to the data that shapes our views and the local differences that inform our approach.

Affiliate marketing is a thoroughly adaptable and flexible solution for brands struggling to make sense of how and where to invest increasing digital budgets. It deserves an authoritative voice and definitive explanation of the latent power that many brands have yet to fully unlock whether in one or multiple markets.

"Affiliate marketing is a thoroughly adaptable and flexible solution for brands struggling to make sense of how and where to invest increasing digital budgets."

As performance becomes part of the daily digital DNA, affiliate marketers are now on hand to explain how to bake it into brand campaigns. They can show how to assimilate established and new acquisition techniques, how to drive sales and target the right type of customer through the right channel at the right time. They can build amazing content, use their social media networks to expose potential customers to new product ranges as well as demonstrate how consumers in stores can be influenced by online messaging and vice versa. They can track a shopper from their initial interest in a product or service on a smartphone, to the catalyst that convinces them to buy on a desktop. They can test which triggers generate the different types of customer as well as guiding brands through the intricacies of global expansion, partnering with bloggers in Scandinavia, content sites in Brazil and price comparison portals in Australia. They can offer a local brand a worldwide stage.

This report will attempt to navigate the myriad of options while acknowledging local vagaries as well as defining the commonalities.

Affiliate marketing bends and adapts to an individual country's digital culture. It lacks a tech giant such as Google or Facebook to blanket the globe with a standardised solution and as such its strength is in its complexity and attention to regional variance.

However that is changing and there is now more that unites than divides us. While a local campaign can be sympathetic to the differences in payment functions and delivery options as well as regional legislation, there exists a range of topics that resonate wherever you run an affiliate programme. As a global network we take our responsibility to understand each market and ensure we work to the highest possible local standard, elevating the industry worldwide.

The channel is also an early adopter, forged in the spirit of entrepreneurship, businesses creating technical solutions based on the latest development and scaling them through affiliate relationships. It requires global knowledge and reach combined with local expertise.

It is also becoming an increasingly compelling proposition in many markets. This is probably because many define it by its pure commercial model of payment on performance. But it's critical not to fall into the trap of assuming a single financial metric defines a single marketing channel.

While the fragmented nature of the industry means it is difficult to measure its global scale, many brands are looking to make the leap from their native base. They question us about the financial rewards they could reap as well as the new customer bases they could tap. Therefore we have tried to contextualise it from the data that is available.

The affiliate industry is continuing to experience strong growth in the many markets that it is well established. According to a 2016 report by Forrester[1], the US affiliate industry is set to grow by around 10% on average per year which would mean it could be responsible for almost $7bn in fees and publisher commissions by 2020.

This is growth of 27%. Typically affiliate marketing has continued to expand in its most established markets of the US and the UK by around 8-12% for each of the past five years and there's nothing to suggest that will change.

The same Forrester report also found that around 80% of advertisers run affiliate programmes and the same number of those who do dedicate about 10% of their marketing spend to the channel.

In the UK, the Internet Advertising Bureau, in conjunction with PwC, carry out an annual performance survey.[2] In 2017 the entire value of commissions, fees and override stood at £1.6bn. This also incorporates price comparison, meta-search partners and lead generation.

The German market recently released figures[3] suggesting it wasn't that far behind the UK, posting numbers approaching €1.3bn in spend. We can also include market data from local IAB studies published in other leading European markets. France, which appears to take a narrower version of affiliate marketing compared to the UK, weighs in at €226m and the Netherlands €149m for the last full data year.

In addition we have to factor in the other major digital economies where no data is currently available but we can make broad assumptions based on affiliate marketing accounting for around 10% of digital spend. We also need to acknowledge China; an online retail giant that has developed within a very different ecommerce environment.

And when we tot up all the available and assumed data the global affiliate industry tallies to around $13bn.

Just as compelling are the return on investment figures that usually shame other paid for channels. At around a 17 fold yield for every marketing dollar spent, there are few opportunities that deliver as impressively.

With the financial opportunity obvious, what can you expect to take away from this inaugural Awin Report?

We start off by offering a summary of each main market that Awin operates in. Starting at a macro-economic level, we drill down to the specifics of each territory with an overview of the affiliate landscape and the particulars of the industry there. We've also surveyed a number of local experts for their accompanying thoughts on the affiliate channel in their own backyards.

The second section of the Awin Report switches from the diversity of affiliate markets to the commonalities we see. Picking seven key themes, we explore in depth the way they are shaping a broader affiliate narrative, offering brands a more uniform understanding of the areas that may feel more familiar to them. They are not necessarily specific to the affiliate industry but they overlap or resonate with those working within it.

Subjects we cover include the rise of the mobile consumer and how cross-device tracking is redefining our previous conceptions of affiliate programmes. We will consider the rise of global retail events and how Black Friday is helping to create a homogeneity across diverse markets. Another area that is seeing some convergence is in the self-regulatory arena with heightened awareness of industry initiatives and how they help shape best practice. One of the subjects under such scrutiny is the conversion specialism of coupon and voucher coding which receives its own dedicated section. Another growth area can be found in influencer marketing which many see as a repackaged version of affiliate; it too receives a full appraisal. Tying many of the strands together is the innovative nature of the industry and we highlight some of the fledgling affiliate businesses entering it that we feel are set to disrupt the channel beyond our current understanding. We finish by discussing the industry's shift towards more qualitative measurement and we explore how brands are changing their approach to programme management and assessing affiliate value.

Threading its way through the heart of each of these discussions is something that Marc Pritchard would undoubtedly admire: an appetite for constant self-improvement. Whether it be ethical, technological or conceptual, the affiliate industry is driven and characterised by the hunger of its constituents for improving itself. That desire has held the industry in good stead since its inception and is as good a guiding force as any for its future success.

> "Whether it be ethical, technological or conceptual, the affiliate industry is driven and characterised by the hunger of its constituents for improving itself."

We hope you enjoy this first edition of The Awin Report. We want it to stimulate and inspire, to challenge brands to demand more from their networks and suppliers. If, having read this publication, you emerge with a new found vigour to redouble your affiliate efforts we will have succeeded.

The global network

North America

San Francisco
Denver
Chicago (ShareASale)
Baltimore

South America

São Paulo

Europe

Amsterdam
Berlin
London
Madrid
Milan
Paris
Stockholm
Warsaw
Zurich

Asia Pacific

Sydney

Disclaimer: Individual regional market profile statistics may not add up to 100% due to rounded figures and the omission of small sets of data

Australia

Regional information

24.5m
Population

20.8m
Number of internet users

$1.5tn
GDP

80%
Adults with a smartphone

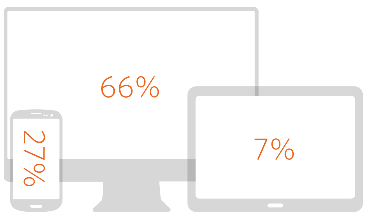
English
Official language

Google (91%)
Most popular search engine

AUD$
Currency

61% / 34%
Smartphone platform split

Device split of sales



469
Number of advertisers

3,513
Number of active publishers

Awin/Commission Factory market information

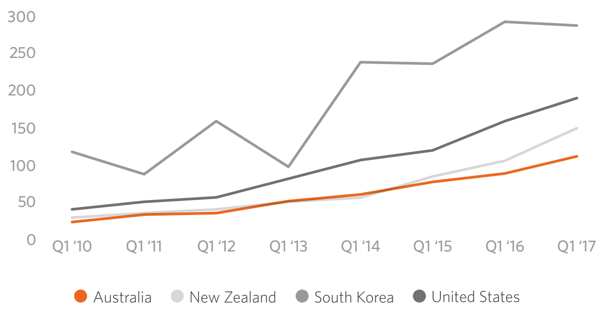
6% Comparison engine	18% Content	2% Display	1% Email	10% Loyalty & Cashback
9% Sub networks	41% Voucher code	8% Tech partners	6% Search	1% Social

In early 2017 Australia broke the world record for the longest running period of sustained economic growth.[1] In June it was announced the economy had grown continuously for 26 years, breaking the previous record held by the Netherlands. Whilst that growth has slowed more recently, partly due to China's waning demand and the diminishing rate of mining and construction activity domestically, the nation's digital economy has gone from strength to strength with Australian consumers expected to spend over $25bn online in 2017 alone.

The story of Australia's ecommerce success though is one characterised by contradiction and driven more by the digital appetite of its citizens than necessarily by the inherent foundations of what we might recognise as an 'ecommerce-friendly' environment.

Australians spend on average almost seven hours a day online and Australia features among those nations with the highest proportional rates in the world for its percentage of population who are internet users (85%) and the number of adults with a smartphone (80%), yet its internet speeds have been lagging far behind global averages for some time. Akamai's State of the Internet Report recently ranked their average fixed broadband speed at 50th in the world, behind even Kenya, Moldova and Puerto Rico.[2]

Average fixed broadband speeds (Mbps)



Partly this can be put down to the practicalities of implementing country-wide improvements across a land mass as large and as sparsely populated as Australia's and partly because of the government's short election cycles of just three years which prevent the kind of long-term economic outlook or planning that such a vast infrastructure project as this necessarily requires. The changes of government in recent years have hampered concerted efforts to roll out the National Broadband Network, a government-owned, wholesale open access data network initiated to improve internet access nationally and which has subsequently lacked consistent political backing and funding.

While its fixed broadband speeds are languishing far from the top of the global tables, Australia's mobile internet speeds are much faster and compete well with other mobile-friendly nations such as the UK and the Nordic countries. One of the nation's major telecoms providers, Telstra, is even promising its customers a world-first trial access to 5G connectivity in time for the 2018 Gold Coast Commonwealth Games.

Australia's fast mobile broadband speeds have encouraged more and more people to simply do away with their fixed internet connections and adopt a mobile-first approach with over 20% of the wider population reported as mobile-only internet users now.

Beyond the improved mobile internet access there are a few reasons why smartphone adoption has taken off in such a dramatic way in Australia. The nation's large migrant population contributes to this to some degree. Over 28% of Australia's population is made up of migrant residents[3] and a desire to connect with families and friends back home is made significantly easier thanks to the online calling services offered by the likes of WhatsApp, Skype and Facebook Messenger.

There's also the role played by the Australian weather. The warmer climate combined with a culture that is traditionally used to spending time outdoors means a mobile device is often the most practical means of accessing the internet.

The weather and outdoor, sporty lifestyles are also one of

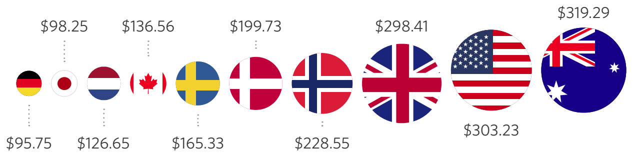
> "The warmer climate combined with a culture that is traditionally used to spending time outdoors means a mobile device is often the most practical means of accessing the internet."

the main factors driving the industry in wearable technology that appears to be gaining traction in the region in a manner not witnessed elsewhere so far. Almost half of the respondents surveyed in EY Sweeney's Digital Australia 2017 report claimed that they either used or were interested in using smartwatches or fitness trackers.[4] This may in part be a halo effect derived from the prominent use of such technology by Australia's top sports teams who have been particularly early adopters of wearable tech, some of whom have been utilising the additional data insights to understand and improve their performance for much of the past decade.[5]

The trickle-down effect of this professional sporting use has seen an increase in interest in such gadgetry from the wider population of consumers to the point where online affiliate businesses such as the Sport Heroes Group are taking advantage of the trend to reward users with offers and discount codes for achieving fitness milestones through their tracking devices. Their Running Heroes and Cycling Heroes sites both aggregate and analyse the data generated by people's sporting activities to create reward platforms for athletes that further incentivise them to keep hitting their fitness targets.

Such sophisticated marketing models are a clear indicator of the level of maturity apparent in the Australian ecommerce environment and it is therefore less surprising to note that Australian advertisers lead the world in their investment of digital ad spending per internet user.[6]

Digital ad spending per internet user ($US)



Digital advertising receives the biggest slice of Australian ad spending, around $4.5bn or almost 45% of wider media spend, which makes sense given the high levels of internet and mobile penetration within the population and their increasing propensity for engaging with various online platforms.

Yet while investment in the wider digital sector is high the development of the affiliate industry in Australia is still at a relatively early stage, with few pure affiliate-focused networks and many prominent brands either not yet offering affiliate programmes or preferring instead to manage theirs through digital agency partners where the channel suffers to some extent from a lack of attention in comparison to the established marketing methods of PPC, search, SEO and display.

The popularity of programmatic display in particular, requiring little effort and providing a relatively quick return, has historically been perceived as a threat to affiliate budgets in Australia. Agencies have often been unable to dedicate the resource required for growing affiliate programmes organically and there is still a lack of experienced affiliate marketers in the region that can advocate effectively on behalf of the channel.

There are signs of change occurring though now. An increasing amount of workers in the digital industry are ex-pats with first-hand experience of affiliates and their ability to drive growth. As more brands come around to recognising this value so too can the channel expect to grow in status. The Australian IAB's inaugural Affiliate Marketing Handbook, published in 2016 and designed to provide the wider industry with a definitive introduction to its workings and characteristics, is just one aspect of a nascent interest in the channel.

Another is the swelling competition between the growing number of voucher and discount affiliate sites that Australia's savvy shoppers are increasingly turning to in order to find the best deal for a product. Australian shoppers have for some time been noted as being particularly adept at using online sources to find a better deal. 'Showrooming' for example is a common phenomenon, where shoppers will use a mobile device to compare online prices whilst browsing in the physical store itself.

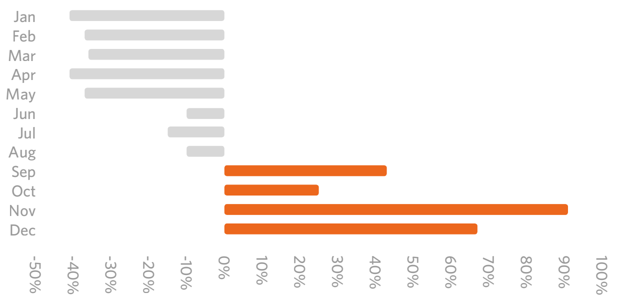
Competition between the rising number of discount code affiliate sites is also rife and symptomatic of the extent to which this type of marketing is taking off. Home-grown discount sites such as TopBargains, Finder and OzBargain are vying with the likes of international names like Vouchercloud, Retailmenot and Cuponation, all of whom are keen to capture market share of a vibrant online shopping scene.

These same affiliate sites are in turn both benefitting from and contributing to the growing popularity of big online discounting events like Black Friday which are rapidly changing the Australian marketing calendar as consumer habits adapt to the large discounting opportunities now made available to them. Whilst Black Friday does play a significant role in the online sales spike that Australia sees around November like many global markets, there is another event called Click Frenzy, exclusive to Australia, which has established itself as the country's biggest online sales extravaganza.

Click Frenzy falls prior to Black Friday in November and since its debut in 2012 has captured the public's attention with heavily discounted products available for purchase online for a 24-hour only period.

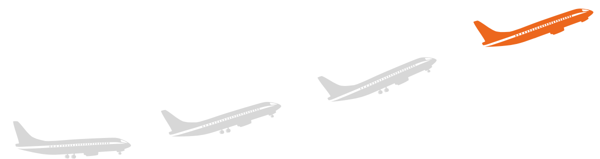
In reality much of November in Australia has become an extended sales period prior to the Christmas run-in as Black Friday, Cyber Monday, Click Frenzy and not forgetting China's own Singles Day combine to offer a sustained phase of huge retailer discounts and promotional activity for online shoppers. Awin's Australian network partner, Commission Factory (the biggest dedicated affiliate network in the country), see a huge share of their annual traffic driven during November, demonstrating the extent to which the month itself has become a literal 'click frenzy':

Network clicks indexed against monthly average 2016



This extended period offers international brands a key opportunity to break into the Australian market. Despite their investment in digital ad spend Australian retailers have been for the most part relatively slow to make the most of the population's affinity with online shopping and some international brands have exploited this to establish a sizable presence out there. According to IMRG's Australian Cross Border Trading Report,[7] around 40% of Australian shoppers have bought an item from abroad online, and brands such as ASOS in the UK have duly built up a loyal base of consumers out there. As early as 2013 they were reputed to be flying four jet-loads of clothing and fashion goods out to Australia every week.

> "ASOS were reputed to be flying four jet-loads of clothing out to Australia every week in 2013."



The popularity of cross-border shopping like this has no doubt been enhanced by other factors such as the large migrant population mentioned earlier, keen to order products not available in Australia as well as the fact that a regulatory loophole exempts foreign websites from charging a 10% general sales tax on purchases under AU$1,000 making foreign brands even more competitive.[8]

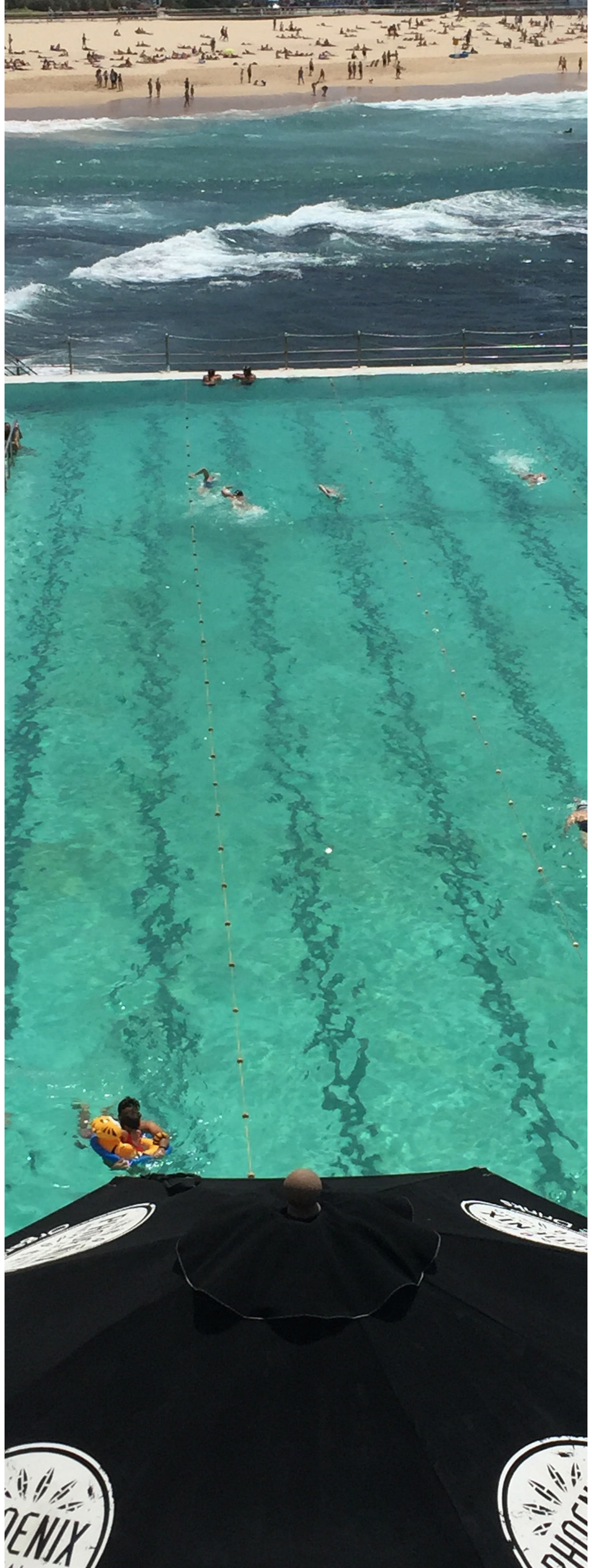
This tax exemption has been something that domestic retailers have lobbied their government about claiming it makes for an unfair advantage to foreign companies despite the fact that many consumers claim the tax makes no difference to their purchasing choices, which are instead primarily driven by convenience, access to global brands and alternative choices.

Whatever the truth of the matter it is another example of consumers pushing the boundaries of online consumption in Australia and their demands defining the evolution of the industry. With affiliate marketing businesses already exhibiting a nimble ability to adapt to such changes quickly, the channel looks set to establish itself as an invaluable marketing tactic Down Under over the coming years.

Australia Local Market Q&A

Commissionfactory
Zane McIntyre
CEO, Commission Factory (ZM)

SHOPSTYLE
Verity Beard
Head of Shopstyle Australia (VB)



How well developed is the affiliate market in your region?

ZM Still only 50% of the country's top 100 retailers are using affiliate marketing. This is due to their online offerings being fragmented through popular franchise models or only recently coming to fruition. Many of the largest retailers in the country fought online shopping as a means to hold their position. Agencies monopolise and control almost all marketing spend in Australia so often it is the agency that must be educated and pitched to, as opposed to the retailer directly. Over the years because of high staff turnover with these agencies, marketing managers are moving direct to the retailers and bringing their knowledge of affiliate marketing with them.

VB There is still a lot of untapped potential in Australia. Some of the country's top retailers are yet to engage with affiliate marketing. In Sydney we've formed an IAB Affiliate Working Group to help further the awareness and education of affiliate marketing in Australia - there's lots of work to do!

Where do you see the biggest opportunities in the affiliate market in your region lying?

ZM More use of influencers in the channel. Affiliate networks have also worked with influencers but now we can see that the new social media celebrities are driving eyes on the page. With more and more influencers present we can see that the price to engage them is beginning to lower as competition between the influencer brands is starting to increase. Creating a bidding war where cost effectiveness is considered. By consolidating this into the affiliate channel we can monitor the path to conversion.

VB Some retailers are seeing it as a threat, but the arrival of Amazon is going to be a huge step in evolving online retail in Australia in my opinion. I'm anticipating improved delivery times and services, broader product ranges and a bigger focus on innovation.

What one thing would you change today in the affiliate industry if you could?

VB There are so many awesome, intelligent and like-minded people working in affiliate marketing in Australia, but we don't do enough to cultivate a sense of community. It's definitely improved since I first moved over to Australia, but we don't have the same buzz and social events that I remember enjoying in the UK. More industry events specific to affiliate would be a good start.

ZM The affiliate industry is a victim of buzzwords. Because we are a marketing channel the newest buzzword that goes around marketing circles will go around affiliate circles too. One such word is "blockchain" as a means of tracking marketing spend and is the new flavour of the month even though it doesn't appear to be anything that ground-breaking and could be another tool that becomes fragmented without standards put in place.

There does need to be less reliance on the culture of discounting that networks and affiliate marketing as a whole have perpetuated. This is not simple to solve as one of the main reasons they exist is because it is demanded. The move to influencers as a vital part of the marketing mix will be an amazing step forward as we evolve to not only include the discounting methods but also create brand ambassadors and the brand awareness that is so desired by advertisers.

Benelux

Regional information

29m
Population (combined)

24.6m
Number of internet users

$1.3tn
GDP

78%
Adults with a smartphone

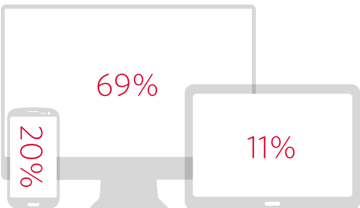
Various
Official language

Google (94%)
Most popular search engine

Euro €
Currency

57% / 42%
Smartphone platform split

Device split of sales

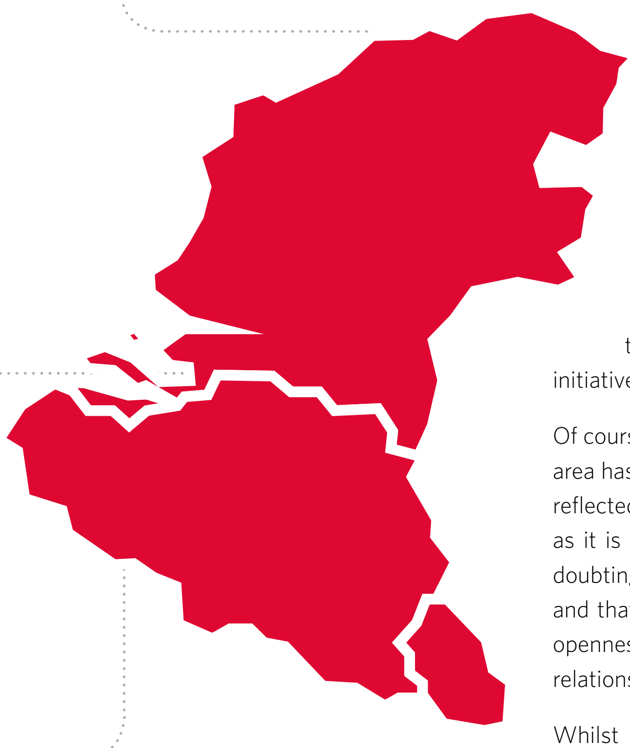


592
Number of advertisers

7,273
Number of active publishers

Awin market information

37% Comparison engine	22% Content	1% Display	1% Email	13% Loyalty & Cashback
3% Sub networks	16% Voucher code	7% Tech partners	1% Search	1% Social



Founding members of the European Union and home to the de facto capital of the EU in Brussels, the Benelux territory is both literally and figuratively at the very heart of modern Europe. Originally formed in London by the three exiled governments of Belgium, the Netherlands and Luxembourg during the Second World War, the politico-economic union between these three territories still exists to this day as a means of enabling mutual benefits through cooperation across the region.

To some extent the partnership was seen as setting a template for the EU's own eventual cross-border community and Benelux has sometimes served as an experimental test bed for new EU initiatives such as the Schengen Agreement which allowed the free movement of EU citizens across the Union, and that took its name from the town in Luxembourg where the initiative was first rolled out.

Of course each of the three countries comprising the Benelux area has their own distinct national characteristics and this is reflected as much in their ecommerce and affiliate industries as it is in their wider cultural legacies. However there is no doubting that there are similarities between the three nations and that one of the most prominent of these is their shared openness toward and appetite for international trade and relations both on and offline.

Whilst the political hub of Brussels and the huge trading ports of Rotterdam and Antwerp (the two biggest in Europe) represent this in the physical world, within the digital space we can see this in the online consumption habits of the region's shoppers. Similarweb's analysis of the top online retailers in the Netherlands[1] for instance reveals a mixed bag of domestic names such as Bol.com and Wehkamp.nl alongside other neighbouring country's popular sellers like Poland's Allegro and huge international brands including the likes of Aliexpress, Amazon and Ebay:

Top 15 online retailers in the Netherlands (rank)

1 bol.com	2 aliexpress.com	3 wehkamp.nl	4 zalando.nl	5 amazon.com
6 ikea.com	7 bestlist.nl	8 media-markt.com	9 amazon.de	10 hm.com
11 ebay.com	12 unibet.eu	13 ebay.nl	14 kruidvat.nl	15 allegro.pl

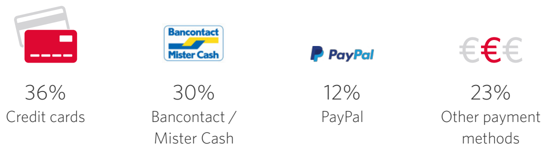
Over a third of Belgium's online shoppers were reported to have made a cross-border commerce purchase in 2016 and for the Dutch that figure was similarly high at over a quarter. Part of the reason for this can be put down to the ease with which online orders can be delivered both to and within these countries. Luxembourg (2), Netherlands (4) and Belgium (6) all currently rank within the top 10 countries in the World Bank's Logistics Performance Index[2] which compares nations on their ability to efficiently move products into and inside a country and means that regional customers are used to fast and inexpensive online deliveries regardless of where they buy products from. Clearly these shoppers are comfortable engaging with brands beyond their borders and affiliates in these countries play a vital role in helping to bring these advertisers to a new audience.

Trust is a key point here. For both Dutch and Belgian consumers, the ability to trust that the retailer they are buying from is completely legitimate is essential and this explains the high regard in which trust marks are viewed and used on retail websites. In the Netherlands the Thuiswinkel Waarborg logo is one recognised by over 90% of the nation's online shoppers and requires retailers to complete a comprehensive certification process in order to display the logo, whilst in

Belgium the SafeShops.be sign fulfils a similar function:

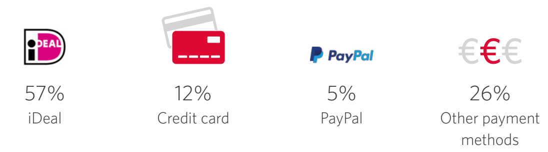
Belgian shoppers' payment methods also suggest a desire to stay safe whilst shopping online with the majority of purchases being made using credit cards which also offer additional consumer protection should their terms not be fulfilled.[3]

Favourite payment methods in Belgium



Interestingly this is one characteristic which isn't shared by their Dutch neighbours who instead prefer a payment method which is exclusive to their nation. iDeal payments are the most popular in the Netherlands, set up by Dutch banks when ecommerce first started to gain traction with the wider population and it was found that card payments were not designed for the 'distance selling' model that is characteristic of the internet. iDeal payments enable a secure bank-to-bank transfer system to get around this problem and have since established themselves as the primary means of buying products online with almost 60% of sales being processed in this manner:[4]

Favourite payment methods in the Netherlands



Even with these more secure payment processes in place and an established retailer trust mark widely available for their shoppers, online consumers in the region exhibit a particular tenacity for researching information about both the products and the suppliers that they intend to buy them from. Statistics Netherlands surveyed online shoppers regarding how they research advertisers prior to purchasing and found that 35% of them would nearly always use websites to compare prices beforehand:[5]

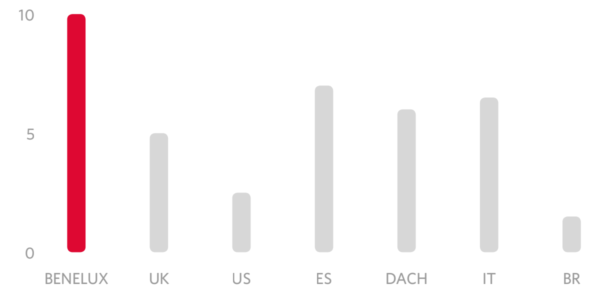
Type of research prior to online purchase, 2016 (%)

It may be this habit of comparison and research which explains why certain affiliate types have flourished in the region. Like many global affiliate markets, incentive-based propositions such as voucher code and cashback sites have made impressive inroads into the industry and have been popular with online shoppers, eager for a saving or deal. However what is perhaps specific to the Benelux region, and particularly the Netherlands, is the success and development of comparison websites.

This is a phenomena best exemplified by the annual frenzy for health insurance that takes place for many Dutch citizens between Christmas and New Year when the deadline for changing provider expires. Although healthcare provision is supplied by the government, since 2006 its management has been undertaken by private health insurance companies. These companies compete fiercely for new customers meaning that as the end-of-year deadline approaches there is always a flurry of activity as people compare prices to see who can offer them the best deal. Comparison websites such as Independer.nl and Zorgwijzer.nl have thrived in this environment. With over €400m spent by health insurance providers advertising policies in 2014, and over 85% of that budget being focused on just November and December, it's clear to see the invaluable role that such affiliate sites can play in the market.[6]

High quality product feeds are an essential factor if such affiliate models are going to succeed, providing site users with the most up-to-date and comprehensive product information available. As such it is perhaps no surprise to note that the product feeds supplied by advertisers and affiliate networks in the region to their affiliate partners are particularly advanced and effective. Looking at the number of commissions derived specifically from product feeds supplied by advertisers in the Benelux region as a proportion of overall affiliate commissions suggests this rate to be just over 10%. In comparison with other global Awin territories this is a clear regional outlier:

% of affiliate commissions derived from product feeds by selected Awin territories



This kind of technological support from advertisers and affiliate networks to their affiliates is not uncommon in the Benelux territory and forms part of a virtuous circle which is constantly contributing to its own evolution and advancement of the means by which affiliate partnerships can be facilitated.

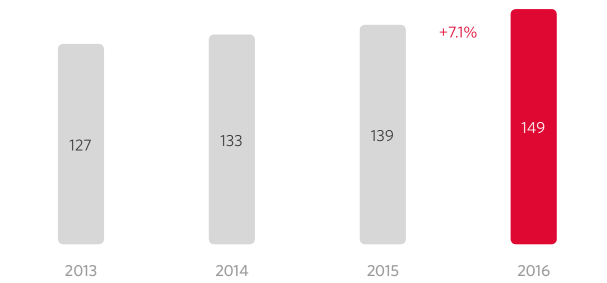
Awin's new commission-sharing facility, which allows third-party tech providers to offer their tools and resources to other affiliates through the network's platform, is just one example of an initiative rolled out on a global scale following the successes seen in the Dutch and Belgian markets.

The tech allows those publishers without technical expertise to benefit from tools developed by other third parties and to then split their subsequent earnings with them. The model has enabled high traffic-earning influencers and bloggers to turn more of their recommendations and imagery into shoppable content in a seamless fashion. This in turn liberates them from becoming weighed down by such developmental projects and ensures that they instead get to spend more of their time producing the influential content that is so valuable to them and their audiences.

Given the increased pressures placed upon more traditional publishers and their established advertising revenue streams by the modern landscape, this type of facility has been warmly welcomed. Elle.nl, the online version of the popular international magazine focusing on fashion, lifestyle & design, has partnered with Shopsuite, a third-party technology to integrate a shop module which allows their visitors to shop advertisers' products they see featured within the articles. And this is a trend that is steadily increasing with a growing number of more 'traditional' media house publisher websites being drawn to the affiliate channel in this region as they begin to realise the additional revenues driven on a performance basis, unimpeded by obstacles such as ad blocking which have gradually encroached upon their display advertising incomes.

This influx of new affiliates is already being reflected in the increased investment in the channel and this year's Online Ad Spend study from the IAB in the Netherlands highlighted the relative growth of affiliate marketing there with a 7% increase on 2015 culminating in almost €150m of advertising investment:[7]

Spend on affiliate marketing (€m)



Despite distinct regional differences in respect of language and a current disparity in terms of internet and smartphone penetration rates (Belgium lags somewhat behind its Dutch counterpart currently) the overall region is primed for affiliate marketers. The combination of a large online demographic that has high expectations around service levels and which is open to buying products from international brands along with innovative approaches such as those demonstrated by the advanced quality of product feeds and third-party partnerships suggest a promising future lies ahead.

Benelux Local Market Q&A

Global Savings Group

Arthur Goldman
Executive Officer, GSG Imbull (AG)

Telfort.

Jorn Vriend
Online Media Manager, Telfort (JV)

affiliateblogger.

Jennifer Kok
Affiliate Marketing Expert,
affiliateblogger.nl (JK)

sarenza

Emme Thöene
Marketing manager Netherlands & Germany,
Sarenza (ET)

What do you see as the strengths of using affiliates as a digital channel in your region?

AG Cost effectiveness and better results. For instance, as an advertiser that sells shoes you can focus on your core business: selling shoes, customer journey, customer care, delivery, etc. Meanwhile your affiliates focus on their core business: online performance marketing, increasing your reach, increasing your traffic, brand awareness, higher conversion ratios. Instead of one department doing your online marketing you will have numerous publishers competing amongst each other, coming up with new inventive ways of getting the customer to your site.

JK The strength of affiliate marketing as a digital channel in the Netherlands is that you can expand your target audience as an advertiser. Within affiliate marketing you have a lot of specialist publishers, with their own target audience. It makes it easier for you as an advertiser to rely on their expertise with this target audience and get more exposure and sales among this group.

ET We can use affiliates to attract people in their 'native' environment.

What are the biggest threats to the affiliate industry in your market?

AG Low quality websites and scrapers, they can do a lot of damage to the user experience and market as a whole. Advertisers mostly see all affiliates as one big group, they can tar all publishers with the same brush.

JV Personally I think affiliate marketing in the Netherlands faces the same challenges as other markets. This includes that at this moment most of the commissions are based on last touch/click activities. To enable both advertisers and publishers the market needs more insights on affiliate behaviour to act upon. It could also leverage smaller (content) publishers, to show their added value.

JK One of the biggest threats to the affiliate industry in the Netherlands is that we observe the trends, opportunities and threats in other markets, but are too scared to jump right in ourselves. Dutch marketers are quite often present at internationally-focused events, where important affiliate trends and technology are discussed during sessions. We all want the developments but it takes years before we move and make a great step forward. We look closely to markets such as the UK, US or Germany, which are a great example for us, but we are not yet capable of making the same, fast movements and that creates fear among the marketers. It's time that we as the Dutch affiliate market take the international lead. Try, test, fail and get up again. Let's follow greater countries!

What one thing would you change today in the affiliate industry if you could?

ET Magically make multi-channel attribution easy not only on an affiliate platform but for all channels.

JV Two themes: measurement and attribution. At the moment most compensations are based on the last touch, while some publishers who drive traffic don't get rewarded. It's very challenging to reward a publisher which has initiated the first visit. In the end advertisers need such publishers to increase their reach and gain new traffic sources. Therefore it would be valuable to get enabled as an advertiser to create custom attribution models and tailor rewards accordingly.

AG A simple thing I would get rid of is the word affiliate because it can have a negative vibe when you look at the total marketing mix. Performance-based marketing sounds much more accurate and reasonable if you look at what we do. Management teams are still a bit sceptical when it comes to affiliates, however after all these years they should see us as a part of the marketing mix. Not just an affiliate. Another thing is that advertisers can sometimes decide to just stop working with affiliates on a day's notice. This is really annoying for publishers especially when you put a lot of work into building up traffic for such an advertiser.

Brazil

Regional information

207m
Population

122m
Number of internet users

$1.7tn
GDP

40%
Adults with a smartphone

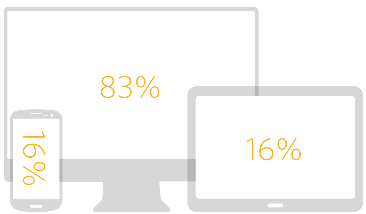
Portuguese
Official language

Google (97%)
Most popular search engine

Brazilian Real (R$)
Currency

78% / 13%
Smartphone platform split

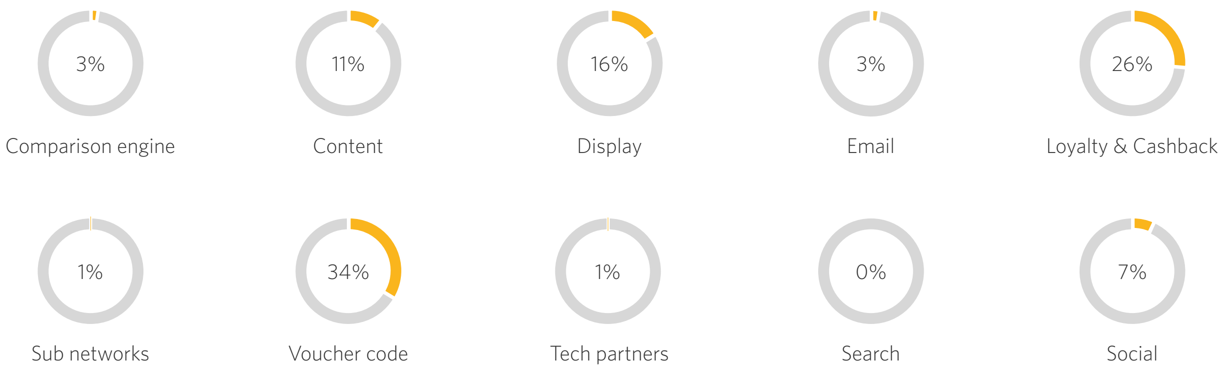
Device split of sales



263
Number of advertisers

6,521
Number of active publishers

Awin market information



In terms of sheer numbers Brazil is one of the biggest online markets in the world. With over 120m internet users of which 100m-plus access the internet via their phones, the potential for ecommerce is enormous. Thanks to sustained government investment in wider national infrastructure projects in preparation for the influx of international tourism that the FIFA World Cup in 2014 and then the Rio Olympics two years later would draw in, the country's improved internet facility has helped bolster the general population's online access and with it the size of the Brazilian affiliate industry.

The economic and social progress made in the run-up to those two major sporting events lifted 29 million people out of poverty and saw inequality drop dramatically.[1] However, in more recent years Brazil's economy has struggled as it has fallen into a recession amid a backdrop of political turmoil.

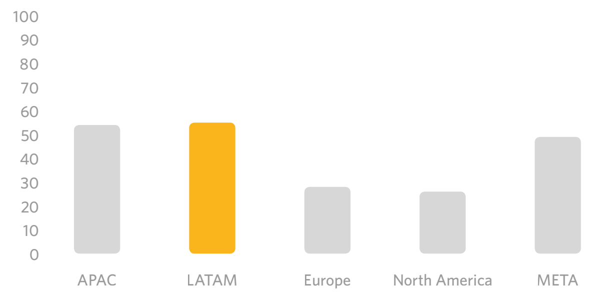
The economic troubles have seen a stringent policy of austerity implemented across the nation as youth unemployment rates have soared to almost 20% and retail store sales have seen over a 3% drop from 2015 levels, the first year-on-year decline since 2004.

This gloomy context makes it all the more impressive then that digital ad spending is on the rise still, growing far faster than the high inflation rate that looms over the Brazilian economy. Although television still boasts the lion's share of media ad spending share in Brazil, as it does throughout the Latin American region, its grip on that spend is slipping gradually as digital platforms continue to grow in popularity, particularly with younger audiences. eMarketer's latest projections expect around 22% of the $15bn of Brazilian media spend to go into digital versus the diminishing but still sizable 52% that TV will earn this year.[2]

In terms of mobile ad spending Brazil is expected to record the largest investment in Latin America in 2016, but that figure belies its actual investment per capita in what is a huge mobile market. Although Brazil ranks as the fourth biggest mobile market in the world for its number of users, it only ranks ninth for mobile ad spending. That disparity makes Brazil a relative regional laggard in terms of mobile ad spend per person compared to the likes of Mexican advertisers who are already spending half of their budget on mobile platforms.

Indeed, there is clearly a real incentive for advertisers to follow users onto these mobile platforms with Latin American consumers much more comfortable with spending via their mobile devices than any other global region, according to the Ecommerce Foundation's findings:[3]

Number of consumers who shop via mobile, by region (%)



There is huge room for growth within this particular aspect of Brazil's digital industry and, based on the activity that Awin's Brazilian network has tracked in the last couple of years, affiliates appear to be playing their role in driving that growth. Comparing mobile sales by sector across all of the global Awin territories, Brazil has tracked larger growth in telecoms, travel and financial services than any other country worldwide .

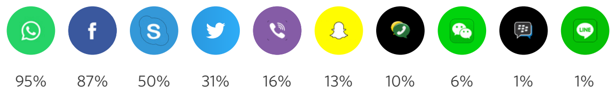
"Awin Brazil has tracked larger growth of mobile sales in telecoms, travel and financial services than any other region worldwide."

Brazil's improved internet access has had a transformative effect upon its domestic mobile market. The country is unusual in having a fragmented mobile market with several competing carriers; coverage can be patchy and consumers have to be wary of pricey out-of-network penalty charges when calling or sending SMS messages beyond their carrier's reach.

Given that the average income is low and taxes are high for foreign imports it's therefore no surprise to see Android-based phones, such as the cheap handsets designed by Samsung, being extremely popular with Brazilians.

The desire to use these cheap smartphones to get around the potential pitfalls of expensive penalty charges is probably best illustrated by the incredible popularity of WhatsApp. The online messaging app offers Brazilians a means of circumventing the traditional phone networks' high charges and penalties, and is far and away the most popular app in the country. 95% of Brazil's internet users claim they regularly use it for communication, and there was even uproar in 2016 when the service was temporarily suspended by a Brazilian court judge during a dispute over access to encrypted data.[4]

Mobile messaging apps used by internet users in Brazil, 2015



WhatsApp's parent, Facebook, sits in second place as the next most popular smartphone app. Brazil's younger users are among Facebook's most ardent smartphone fans clocking in over 2,000 minutes per month on the mobile site.[5] Social media has taken off in a big way in Brazil and yet it is still to be taken up as a concerted means of marketing for brands so far with Brazil's advertisers not generally investing in the opportunity in the same manner as counterparts in Europe and North America.

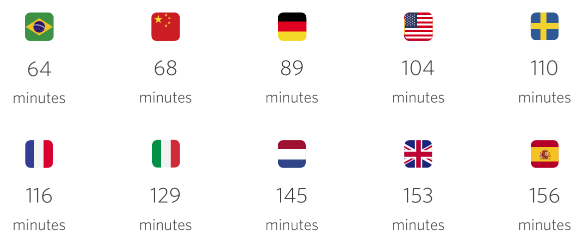
Having said that, there is, as elsewhere across our global network, a current influx of social media-based affiliates joining the local network in Brazil as they begin to recognise the opportunity for monetising what is clearly a very engaged audience with an insatiable appetite for social content.

Whilst influence-based marketing is still to establish itself properly in the Brazilian market, incentive-based propositions are thriving. Voucher code publishers are very popular, and the consumer desire for the discounts that these affiliates are helping to publicise is nascent with searches for discount codes increasing tenfold in Q1 of 2016 alone according to Brazilian ecommerce specialist e-Bit. Given the economic and political uncertainty stalking Brazil, its consumers have been characterised by market analysts as extremely price-conscious, cautious and conservative, and sales for higher ticket items have dropped significantly because of this uncertain context.[6] It is thought that the caution with which Brazilians approach purchases has played a role in the increasing popularity of discounting affiliate models and, due to the fact that most advertiser affiliate programmes in Brazil operate on a last click basis, these discount code affiliates have flourished and now drive more than one in three of the sales tracked through our Brazilian network.

With discounting so popular it may come as no surprise that Black Friday has been adopted rapidly into the Brazilian marketing calendar as a major event too. Brazilians have taken to the annual discount day with aplomb and their appetite is still growing. Last year the Brazilian online retail trade association estimated that online retailers made around $559m on Black Friday alone, a 17% increase on sales in 2015.

Considering the caution which usually characterises Brazil's online shoppers, Black Friday appears to be a day when this behaviour is definitively thrown to the wind. Comparing Awin's Brazilian market with other territories across the global group for Black Friday performance, it's notable that Brazil's consumers are a lot more decisive about purchases on the big sales day. Brazilian customers converted within the shortest time span on Black Friday 2016, with Spanish consumers taking over two and half hours to purchase their items by stark contrast.

Average time taken to convert, Black Friday 2016



This isn't the only trend which is bucked on Black Friday in Brazil; those consumers put off from purchasing big ticket items in traditional bricks & mortar stores by their poor economic circumstances were, instead, attracted by the discounts available online on Black Friday. Research from e-Bit found that Black Friday directly impacted the growth of online shoppers in Brazil by up to 17% with an extra 280,000 shoppers making their very first online purchase during that 24-hour period last year.[7]

This kind of rapid online consumer growth is a tantalising prospect for any international brand seeking to expand its frontiers into a huge market such as Brazil. However, there are hurdles that must be overcome in order to do so effectively. Brazil's taxation laws are Byzantine in their complexity, to the point where they have been ranked as the most complicated in the world, and the state is rigorous in its enforcement of these fees.[8] Whilst cross-border ecommerce is popular with Brazilian consumers, the various taxes that such purchases accrue can sometimes cancel out the gains made in buying from abroad for a cheaper price.

"Around 40% of Brazil's population has no personal bank account of their own and instead use the Boleto Bancarios system instead."

A lack of payment options can make a difference here too. 90% of online purchases in Brazil are undertaken via domestic payment methods, in part because an additional tax is charged for any global payment methods used such as international credit cards.[9] As well as this, around 40% of Brazil's population is 'unbanked', they have no personal bank account of their own, and instead use the popular Boleto Bancarios system to pay for online transactions .

Boletos allow consumers to pay for their online purchases in cash by having a credit issued by the retailer on their behalf with an expiration date that the customer must pay the fee by. The customer can then go to one of the thousands of stores or post offices dotted around the country offering a Boleto processing facility and, using the code on the credit note or 'Boleto' they have been issued, pay for the item in cash. Ultimately, those brands that are able to offer the facility to pay using Brazilian credit cards, and those who can convert currency locally on their sites, will offer easier access to Brazil's new ecommerce users and most benefit from this burgeoning market.

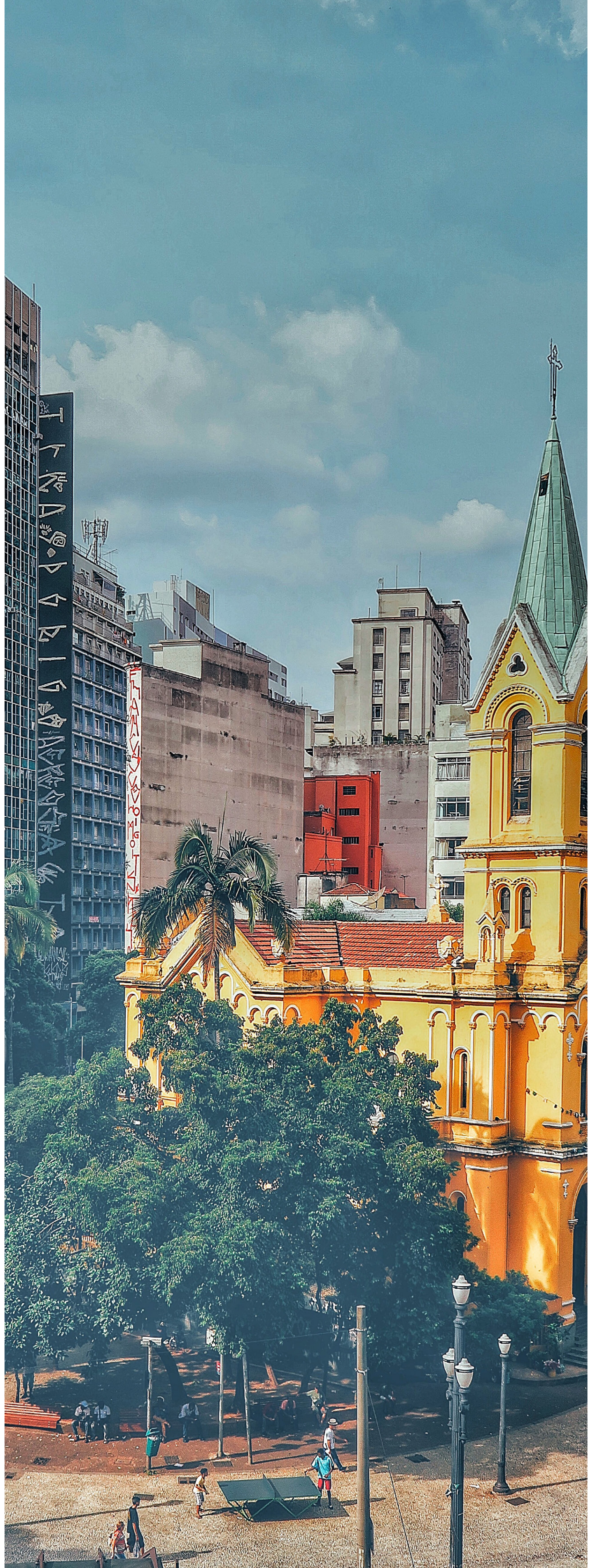
Despite these local nuances and complications, the Brazilian market is clearly one that offers great potential. With a huge population whose online access is growing quickly and which brands will seek to capture through increased online ad spend over the next few years, there is enormous opportunity available here. Affiliate marketing offers a means of accessing this opportunity with the invaluable local expertise that Brazilian affiliates can provide, enabling a chance to reach and engage the many new consumers that are set to join this market in the near future.

Brazil Local Market Q&A

viavarejo
Amanda Castro
Performance Marketing Consultant,
Via Varejo (AC)

accenture
Jennifer Oliveira
Digital Marketing Senior Analyst,
Accenture (JO)

Méliuz
Malu Tolentino
Head Of Commercial, Meliuz (MT)



What drew your business to the affiliate marketing industry?

AC Considering the size of our business and all the infinite possibilities of partnerships we could directly work with, the amount of paperwork required to work with each and every one of them would have made this very difficult. However, we found a solution in using affiliate networks to help us manage these numerous partnerships.

JO The strong profitability that the affiliate industry offers is a real attraction. The healthy return on investment that you can generate from a strong network of affiliate partners is extremely appealing.

MT When we first started our business, we found affiliate marketing to be a highly profitable model over a short period of time. Subsequently we've also found it to be beneficial in the long-term thanks to the support that is provided and the facilities on offer from networks which help with our own operations and financial processes

How well developed is the affiliate market in your region?

AC I'd say that in Brazil it is a work in progress currently. But, taking into consideration how dynamic and fast-paced the online world is, we have made some significant progress recently and I believe we are on the right path to evolve even faster in the coming years.

JO It has certainly become more mature in the last ten years here in Brazil and I believe that it is rapidly becoming similar to the more advanced affiliate markets that have been established in Europe or the USA.

MT Affiliate marketing is certainly a newer thing here in Brazil and because of this we don't have as many large, national brands operating in our region as we would like. This is a problem for us because most platforms aren't developed to work specifically with Brazilians and our marketing, which means that there are obstacles to working with such brands in a truly innovative way.

What is the most innovative thing you've seen in affiliate marketing locally?

AC For me the most innovative aspect of the industry is the way in which it allows us to agglomerate so many different types of media partner and yet still be able to show multiple kinds of results. For example, cashback and retargeting partners offer completely different types of promotion and yet they have both shown tremendous results for us and we have been able to manage these relationships through the same part of our business.

JO I think that the use of social platforms by an increasing number of vertical-specific, niche content sites has been extremely innovative in Brazil and has really been effective in reaching and engaging audiences in a new way.

MT The development of Chrome & Firefox extensions to generate deeplinks has been innovative I think, making it much easier to create the necessary links for tracking sales. Also, the cross-device tracking technologies we've seen are incredibly innovative and will be hugely valuable to the wider market.

DACH

Regional information

99m
Population (combined)

81m
Number of internet users

$4.5tn
GDP (combined)

74%
Adults with a smartphone

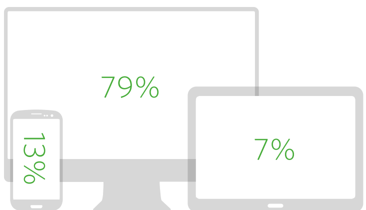
Various
Official language

Google (94%)
Most popular search engine

Euro €, Swiss Franc (CHF)
Currency

61% / 36%
Smartphone platform split

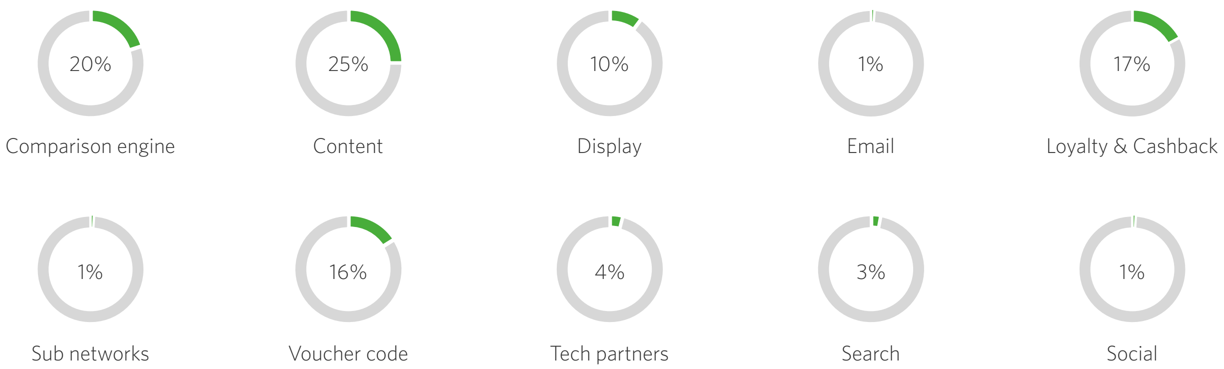
Device split of sales



1,973
Number of advertisers

32,676
Number of active publishers

Awin market information



Constituting the nations of Germany, Austria and Switzerland, the DACH region forms the largest economic territory in Europe. Of course the largest portion of that wealth is derived from Germany, independently the biggest national economy on the continent and one that, in a large part thanks to its robust manufacturing base, has weathered the storms of the global recession well. Yet when Angela Merkel addressed the World Economic Forum in Davos in 2015 she was quick to emphasise the necessity of digital development if Germany were to retain its strong position.[1] "We must - and I say this as the German chancellor in the face of a strong Germany economy - deal quickly with the fusion of the online world and the world of industrial production. In Germany, we call it Industrie 4.0,"

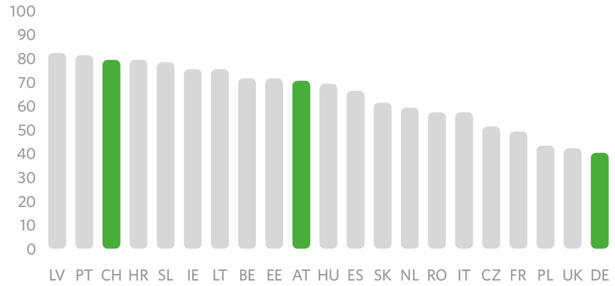
'Industrie 4.0' has become something of a zeitgeist term in Germany over the last few years, initially referred to in a 2010 government paper that outlined a national plan for a high-tech economy designed for the modern world. If steam-powered machinery had brought about the first industrial revolution, electricity sparked the second and the computing era commenced the third then the fourth, it was argued, would be induced by a combination of digital and mechanised industrial practices that would radically alter the mode and means of production and consumption.

Given these vaunted aspirations for such a digitally-focused economy it is then perhaps a little surprising to note that in some respects Germany, along with its DACH neighbours Austria and Switzerland, have been relatively slow to adopt a 'digital first' culture, with consumers and retailers' approaches to ecommerce decidedly more guarded to begin with than their counterparts in many other Western European nations.

We can see this trend played out across a variety of factors.

In Switzerland and Austria for instance, where investment in domestic retailer ecommerce shops has particularly lagged (compelling their online shoppers to seek out foreign brands), the rates of cross-border ecommerce have been high:[2]

Cross-border digital buyer penetration in Europe, by country, October 2016 (% of digital buyers)

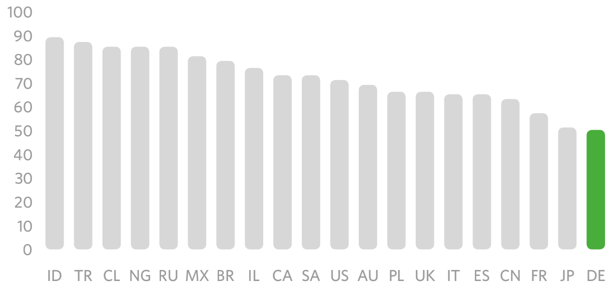


Interestingly this isn't the case for Germany which has established ecommerce sites in place for its brands and therefore sees a similarly low rate of cross border shopping to the UK. Having said that though, this isn't true of Germany's SME businesses; only 16% were found to be selling their wares online last year according to a study by the German bank KFW.[3]

Another example would be the relatively slow adoption of programmatic display tactics in the region. A recent eMarketer report suggests that only 30% of publisher and agency ad inventory was available for purchase programmatically, a far lower rate than many other global territories.

Social media is another case in point. Usage by the wider population is comparatively low with research highlighting that only around half of adult German internet users were actively engaging with social media sites and of those that were, the average number of hours spent on these platforms per day (01:09) was on average over two and a half hours shorter than that of a nation of highly-active users such as Brazil (03:43):[4]

Adult internet users who use social networking sites, by country (%)



Device usage is also indicative of this conservative characteristic. Desktops and laptops still dominate online shopping in the DACH region. Despite being the largest smartphone market in Western Europe by its number of users, the penetration rate is below average for the region and the development of mobile commerce has been arguably held back by the generally older population and retailers that have been slow to adapt to mobile's increased share of traffic.

The popularity of certain online payment methods also emphasise a cautious attitude with both German and Swiss consumers most likely to only pay for goods after they've been delivered and the burden of risk thus being shouldered by the retailer. Card usage is rising but credit card penetration lies at only about 20% in Germany and the majority of payments are undertaken either through post-delivery invoices or via direct debits.

If one aspect best exemplifies Germany's specific caution towards online advertising though it is with regard to data privacy and ad blocking. Germany is home to a number of prominent ad blocking software providers and the eagerness with which such tools have been taken up by internet users there speaks volumes of the degree to which the population have found digital ads intrusive. The rates of use in the country vary from study to study but most place Germany towards the top of the global pile with over a quarter of the online population actively using them.[5]

Ad block penetration rate per online capita (%)

Recent research suggests that usage rates are beginning to decline with only 17% of display ads being blocked on desktops, however this may be as much due to the increased use of paywalls by publisher sites (and therefore skewing these figures) as it is to a wider lessening of ad blocker use.

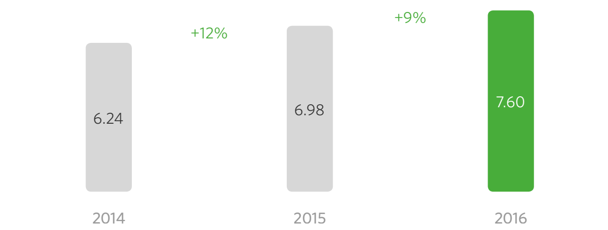
Meanwhile debates around data privacy crackle in anticipation of the EU's new General Data Protection Regulation being implemented in May 2018. Austria has already drafted an update to their national Data Protection Amendment Act while Switzerland, although officially sat outside of the EU, has made proposals to its own data protection law to ensure it is aligned with the new regulation. Germany has long been a strong advocate of an individual's right to control the use of their online data by advertisers and third parties and they have already agreed upon and launched their own updated Federal Data Protection Act[6] to reflect these new changes. However some in the data protection community have criticised this new version, claiming that it dilutes the rights of individuals and doesn't go far enough in protecting their privacy. There is a belief that this is a deliberate government choice driven by an impulse to prepare the ground better for the era of Industrie 4.0 and to make it easier for international companies to operate with and in Germany in the future. The processing of customers' data will inevitably be a fundamental cornerstone for many of these firms and any new legislative obstacles that make it more difficult to undertake such practices could undermine efforts to remain competitive in the new world economy.

Internet regulation of this kind is a hotly contested topic in Germany, perceived to be of the utmost importance, and the affiliate industry is no different. Whereas in many regions the regulation of the market is relatively undeveloped and often based on references to pre-established, wider online legislation, in Germany there is a comprehensive Affiliate Code of Conduct designed by the BVDW , a representative body for the nation's digital economy, which upholds standards across networks, advertisers and publishers alike. This formalised sense of quality assurance has helped the affiliate channel to establish itself well amongst the region's digital mix, encouraging trust in it as a legitimised form of advertising.

In fact affiliates are arguably fulfilling a vital role in this market, facilitating the development of a variety of digital marketing tactics on a cost-effective performance model for brands wary of committing spend to an untried and untested environment such as online. As Daniel Shutter from the agency UDG states, "One of the most powerful reasons to incorporate affiliates as part of the marketing mix is the fact that you are easily able to establish a network of partnerships from all kinds of business models to generate incremental traffic."

Clearly advertisers in the region have been taking heed. BVDW recently announced that affiliate marketing had contributed around a sixth of Germany's retail ecommerce spending in 2016, up by 9% on the previous year and amounting to almost €8bn in value, a not insignificant sum.[7]

Growth of affiliate sales value (€bn)



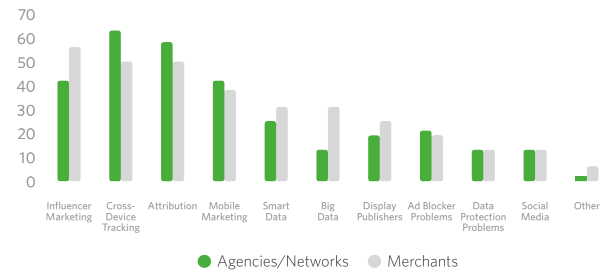
Following the announcement Dino Leupold von Löwenthal, chairman of BVDW's affiliate marketing focus group, was quick to emphasise the importance of the findings, "Affiliate marketing is one of the most important components of the marketing mix and is an important driver for the online retail market."

That importance is surely set to grow as the digital market in the DACH area continues to mature. With ever more users drawn to online shopping from across an enormous shared population and the affiliate model able to offer solutions to the particular issues of the region we referenced earlier, affiliate marketing can only benefit further.

Traditional media houses, for instance, battling against ad blockers increasingly recognise the affiliate model as one that can help them strike the right balance between advertising and content delivery whilst still generating revenue from their traffic and these partnerships are expected to continue growing.

Social media is another untapped opportunity for the channel. Although usage in general tends to be low in the DACH territory there is a marked difference in this based on age with over 80% of Germans aged 18 – 34 active on social platforms.[8] This concentrated younger demographic is a highly valuable niche and as such the desire to capture share of this market led advertisers in affiliate marketing agency Xpose360's annual survey to rank influencer marketing as their top affiliate trend for 2017:[9]

What will be the affiliate marketing trends for 2017? (%)



Successful partnerships between influencer platforms such as Stapp AG and Awin, in which the celebrity Daniela Katzenberger promoted clothing from a selection of the network's fashion brands to her followers via a mobile app and site, are set to flourish due to this kind of increased interest and investment.

This focus on influencers is inevitably shifting perceptions of how the affiliate channel should assess and reward its contribution to sales. If affiliates are truly to take advantage of the DACH region's huge ecommerce potential then the loyalty to a last click attribution culture must be overcome and visibility on their contribution to the rest of the online journey must be shared. Equally important, as the survey response from agencies and networks makes clear, is the need to accurately track users across devices as smartphone penetration and usage begins to spike.

Both of these developments will inevitably call for more data to be shared between the parties involved. But uniting this requirement with a need to honour the online privacy of citizens in the DACH region will be a delicate and fine balance which, if achieved, promises to unlock a vast and valuable market.

DACH Local Market Q&A

United Digital Group
Daniel Schetter
Managing Director, United Digital Group (DS)

Deutsche Telekom
Lars Jensen
Head of Internet Sales, Deutsche Telekom Privatkunden-Vertrieb GmbH (LJ)

Gutscheine.de
Marcus Seidel
Geschäftsführer, Gutscheine.de (MS)

What are the biggest threats to the affiliate industry in your market?

DS Tracking technologies and data privacy laws will be the main challenges which really have the potential to be game-changers for the whole online marketing industry, not only for affiliate marketing.

LJ One of the current uncertainties in the industry is the increase in ad block or tracking avoidance technologies used as a plug-in or as part of the browser. Legal requirements for tracking such as a general cookie opt-in of customers would also change the industry. It is therefore important to have the highest level of data protection and the best customer experience. Our advertising should not annoy anyone and we also do not want to spy on anyone.

MS Since I consider affiliate marketing as the most transparent and efficient way to operate online marketing, I do not see any major threats. A purely performance-orientated partnership saves a lot of work in controlling, simplifying the evaluation of, and also optimising our ad campaigns, so it would make little sense to replace the affiliate marketing channel.

What do you see as the strengths of using affiliates as a digital channel in your region?

LJ This is clearly the restless activity of the affiliates. Our partners have a very good sense for market trends and usually before these are well-known as 'buzz words' in the industry. Over the years, I have been able to get to know a lot of partners and their exciting business models, not always compatible to our strategy, but with some we were able to gain experience in completely new areas. This has resulted in very successful and long-lasting partnerships. Moreover, I'm sure there are partners we don't even know about currently who are already working on the next 'big thing'.

MS The greatest strength is the good direct access to advertiser partners. The networks accompany us, make the introductions and represent the technology but we then work openly and transparently with these partners. Networks are the infrastructure, the people behind these relationships.

Where do you see the biggest opportunities in the affiliate market in your region lying?

DS The strong growth in mobile traffic is offering a huge potential for new affiliate business ideas. Not only advertisers but also affiliates have to think 'mobile first'. On top of this, targeting data has already become a valuable commodity in the wider world of online marketing; why shouldn't this also be an additional revenue stream in the field of affiliate marketing?

LJ Online marketing is an increasingly complex collaboration of individual channels, which leads to attribution insights and customer journey analysis. That is why I think the future potential of affiliate marketing is the great mix of different publishers. We will continue to address these relevant contact points in a specific and customised approach that meets our corporate objectives.

Eastern Europe

Regional information

292m
Population (combined)

192m
Number of internet users

$9.3tn
GDP (combined)

37%
Adults with a smartphone *

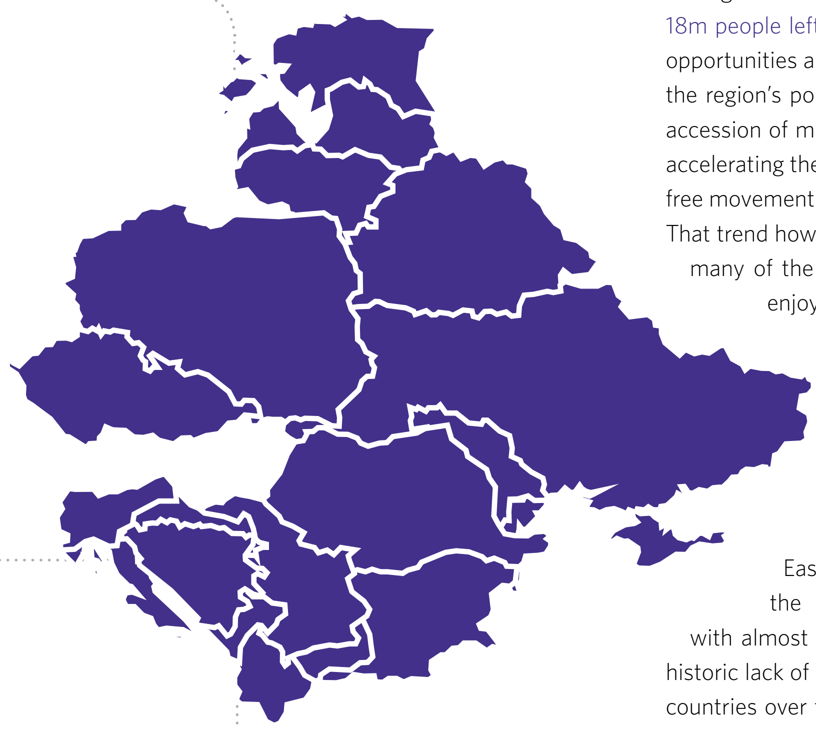
Various
Official language

Google (76%)
Most popular search engine *

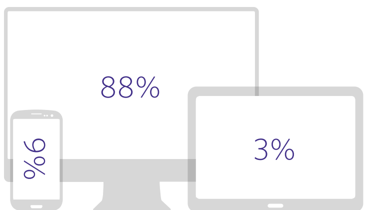
Various
Currency

70% / 28%
Smartphone platform split *

* average



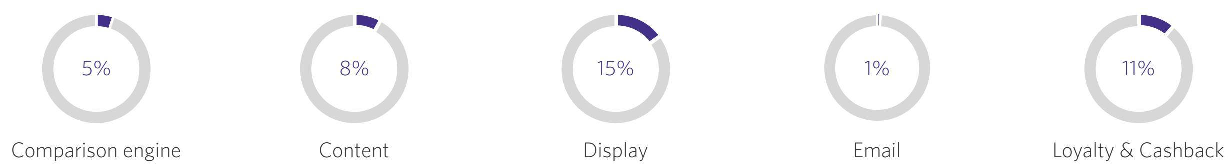
Device split of sales

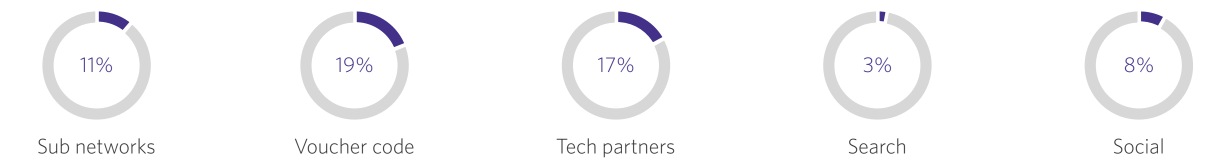


235
Number of advertisers

2,877
Number of active publishers

Awin market information



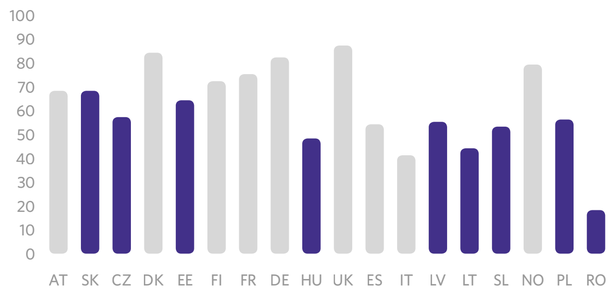


During the 23 year stretch between 1992 and 2015 around 18m people left Eastern Europe in search of work and better opportunities abroad.[1] This migratory wave of movement saw the region's population drop by around 6% overall, with the accession of many of these countries to the European Union accelerating the exodus in later years as a consequence of the free movement EU citizens could enjoy across the continent. That trend however has levelled off in more recent years with many of the local economies in Eastern Europe currently enjoying significant growth and a large portion of these migrants returning to their homelands with renewed optimism about the prospects of low taxes, high wages, cheap housing and an enormous amount of private sector investment in the region.

Eastern Europe's combined population is huge, the largest regional populace on the continent, with almost 300m people living there. But because of an historic lack of investment in infrastructure in the constituent countries over the last couple of decades, citizens here have not been able to take advantage of the online benefits afforded by the internet as much as other more advanced neighbouring markets.

Digital buyer penetration rates for nations such as Poland, Romania, Slovakia and Bulgaria are relatively low compared to Germany, the UK and France:[2]

Digital buyer penetration in Europe, by country, 2011-2016 (%)



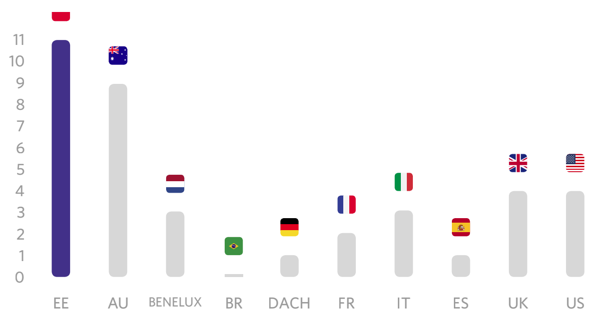
But despite that, the improved economic standards in this region witnessed more recently have fed a cycle of improvements that are now turning the area into one of the fastest growing ecommerce markets in the world. In fact Central and Eastern European Countries achieved the highest ecommerce sales growth in 2016 according to this year's European Ecommerce Report.[3] Romania, Slovakia, Estonia, Ukraine, Poland and Bulgaria all saw ecommerce sales growth of at least 25% last year.

Individually many of these countries are small markets and therefore many multinational organisations wanting to extend their reach across the region have tended to consider Central and Eastern Europe as a singular business unit purely for practical reasons. But of course this ignores the enormous cultural variations present in the region here (particularly the distinct language differences), making such an approach an unwieldy and blunt instrument in its ability to effectively engage individual consumers and communities. Affiliate marketing therefore offers a unique opportunity to successfully coordinate such campaigns across these regions.

Awin's own Eastern European headquarters are based in Poland but the network's reach extends far beyond these borders with advertiser programmes operating within many of Poland's neighbouring nations and local affiliates active in all of them. Sub network partners inevitably play a vital role in this particular market, enabling advertisers to tap into a mass of local-language affiliates via a singular regionalised platform which can effectively communicate and handle the relationships with these individual affiliate partners.

In fact when it comes to comparing the effectiveness of sub network affiliates operating in Awin's Eastern European market against our other global markets, it's notable that as a publisher type, their share of commission is much higher than elsewhere for this very reason:

% of commissions derived from sub network publishers by Awin market:



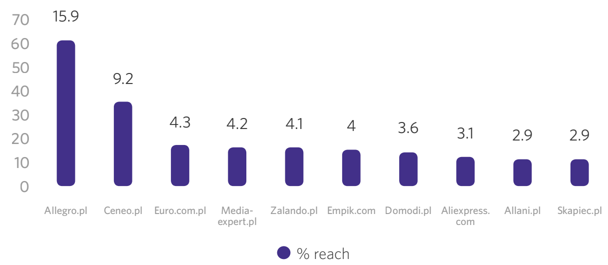
Clearly this is a successful tactic that provides advertisers who lack local presence with an opportunity to market their brand in foreign countries in a manner that resonates with native consumers.

Attempting to reach and engage Eastern European consumers via their own independent marketing efforts can be particularly difficult in this region for foreign brands. Consumers unfamiliar with such a brand are much less likely to shop with them than they may be elsewhere. In fact the lack of cross-border ecommerce apparent in Poland for example, is indicative of this behaviour and contradicts the general comfort that most other Western European countries demonstrate in regularly shopping across borders. In a recent survey of online shoppers carried out by Paypal, 78% of Polish shoppers stated that they would only make digital purchases via domestic platforms, the highest rate of any European nation.[4]

This loyalty to domestic retail platforms therefore explains why, unlike in many other global markets where international players such as Amazon and Ebay have often managed to dominate the local ecommerce scene, the leading retail websites in Poland are almost all domestic.

Local online auction platform Allegro.pl draws the largest retail audience and only Zalando and Aliexpress have managed to make any significant inroads to Poland's online consumer base.[5]

Top 10 digital retail sites in Poland, ranked by unique visitors, Oct 2016 (millions & % reach)

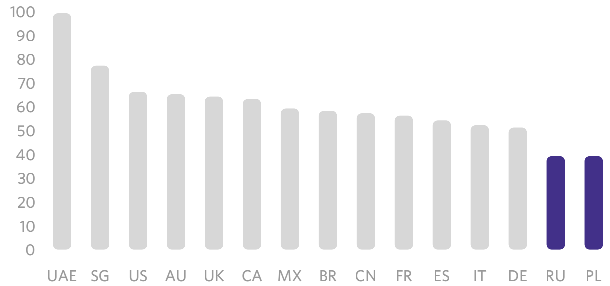


Among the Eastern European nations, Poland stands out as one of the more advanced digital economies and its digital buyer penetration rate (56%), although low within a wider European context, is still relatively developed when compared to its other neighbouring states.

Though it ranks 23rd of 28 nations in the EU's Digital Economy and Society Index, the Polish government has responded to this state of affairs by rolling out its Operational Programme Digital Poland.[6] The initiative, launched in 2014 and set to run until 2020, is designed to address a lack of investment in the domestic digital economy. Everything from improved broadband access, the digitisation of public services and digital education is on the agenda as the country seeks to invest in its workforce and encourage Polish businesses to take advantage of the benefits that ecommerce can offer.

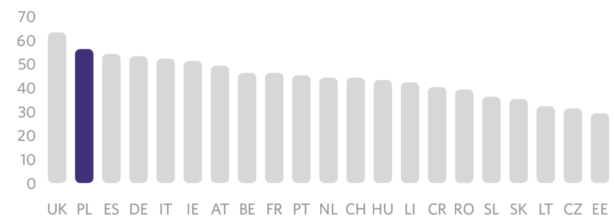
Up until now both Polish businesses and consumers have been cautious in approaching online services, with only a minority of the population making regular use of the varied services available on there. Few Poles download music, use video-on-demand facilities, upload their own content to online platforms or engage with social networks as evidenced by We Are Social's insights on global social media penetration.[7] In fact Russia too, like Poland, ranks low for the number of social network accounts that are active in its population – only just above the global average and far below the likes of the US, Australia and parts of South East Asia:

Social media penetration, by country (%)



However there are certain aspects of the online world which Polish users have been swift to adopt. Online publishers, particularly news sites, have large, active audiences. A growing number of Poles are happy to bank online and online shopping is also showing signs of increasing popularity. In fact, when a survey comparing the regularity with which consumers in different European nations shopped online was published, Poland was, somewhat surprisingly, behind only the UK in terms of the proportion of its online shoppers who purchased goods online on a monthly basis.[8]

Internet shoppers buying online at aleast once a month, by country (%)



If that potential is to be fully realised then more Polish retailers will need to invest in their ecommerce platforms. Only one in ten Polish SMEs are selling their wares online, below the EU average of 17%, and ecommerce currently represents only 4.1% of GDP compared to around 6-8% for the UK, Sweden and Denmark.

In fact this lack of investment from retailers in online ecommerce goes some way to explaining the increasing use of affiliate networks to support online marketing strategies that have traditionally sat within the remit of the brands themselves. Though many advertisers in Eastern Europe have been happy to manage their largest affiliate partners directly or through their agencies, the desire to extend their reach without overstretching their immediate workforce has opened the door for such networks who can manage their mid and long-tail partners for them.

A general paucity of digital advertising skills in the market has also necessarily opened up an opportunity for affiliates themselves to support advertisers, with some of the more technical aspects of online advertising such as display activity as well as retargeting and remarketing campaigns. Given the high local rates of ad blocking (around 37%) the need to accurately target prospective consumers is paramount.

With many brands lacking the resource to undertake this type of activity independently themselves they have relied upon third-party experts such as the Polish big data and programmatic display specialist Cloud Technologies to shoulder it instead, all on an efficient performance-led model. Products such as Cloud Technologies' UnBlock development (featured in our 'Emerging publishers & new technology' chapter), which enables brands to have their ads displayed even to those users utilising ad block software, is just one example of an affiliate business responding nimbly to the specific conditions of this local market.

Whether it's a domestic retailer venturing into the new world of online marketing for the first time or a foreign brand seeking to break into a completely new territory, the Eastern European market is a demonstrable example of the twin strengths of affiliate marketing. Its performance model makes the channel the perfect test-bed for experimentation without risk, whilst its localised affiliate partners can extend reach to an emerging audience without compelling a physical presence in the region.

Eastern Europe Local Market Q&A

answear.
Katarzyna Leboch
Internet Marketing Specialist,
Answear.com (KL)

CloudTechnologies
Elżbieta Czakon
Cloud Technologies SA (EC)

What drew your business to the affiliate marketing industry?

KL For us there were four main factors. The ability to control costs. The fast and easy way to settle up with our publisher partners. The flexibility of the commission models and the possibility of cooperating with our valuable long-tail publishers.

EC In the beginning, we were a rather small company with big aspirations. We've got some great technology but we craved more business contacts. Affiliate networks provided us with new clients and they took care of the customer care. In this way, we were able to focus on technology development without an excessive investment by our customer care team.

What are the biggest threats to the affiliate industry in your market?

KL I think that programmatic advertising represents a significant risk to the affiliate industry in Eastern Europe. The industry is set to grow and may end up taking market share of ad spend away from affiliates. The rise of mobile traffic could also threaten the industry with a rise in the use of mobile applications perhaps causing issues if tracking is not effective enough.

EC I would say a high level of competition and market fragmentation from a network's point of view is a real threat. Every year I discover new companies that want to coordinate a performance campaign for advertisers. Also, there are some 'old' companies that are adding performance campaigns to their portfolios as well as some advertisers that want to build their own networks independently.

What do you see as the strengths of using affiliates as a digital channel in your region?

KL It's a natural complement to our marketing spending and also a stable source of traffic and to our income. It also helps us to reach those publishers that we could not have been able to reach directly ourselves. Finally, our cooperation with affiliate networks makes it possible for us to control cashback and discount code services more reliably and we can enjoy more transparency around how our brand is being promoted by them.

EC Ecommerce is trending right now. As a result, there is a greater need for performance-based campaigns. Affiliate networks have the capabilities and the know-how to provide this type of service. By contrast we feel that media houses do not yet have the same level of skills that affiliate networks have in handling these campaigns.

France

Regional information

67m
Population

52m
Number of internet users

$2.5tn
GDP

61%
Adults with a smartphone

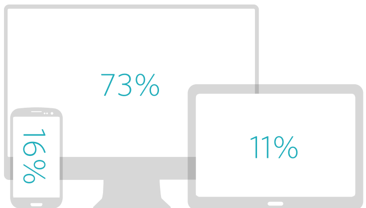
French
Official language

Google (95%)
Most popular search engine

Euro (€)
Currency

81% / 18%
Smartphone platform split

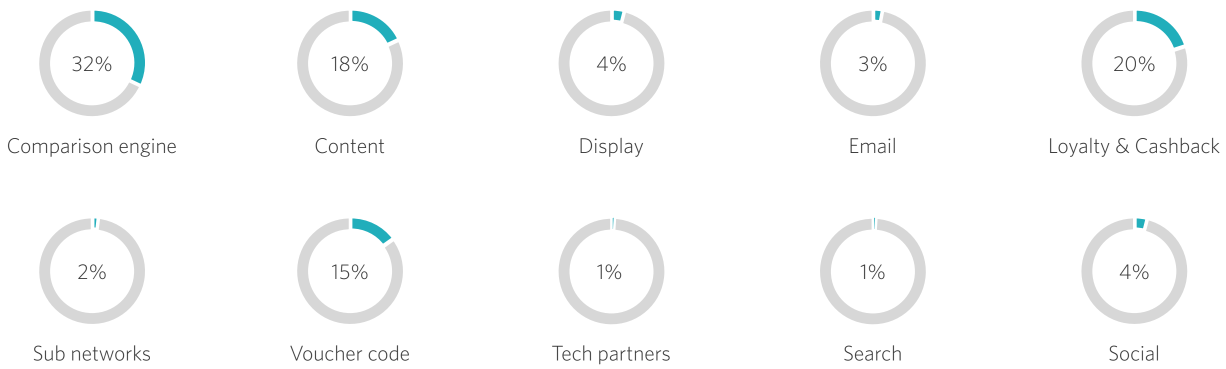
Device split of sales

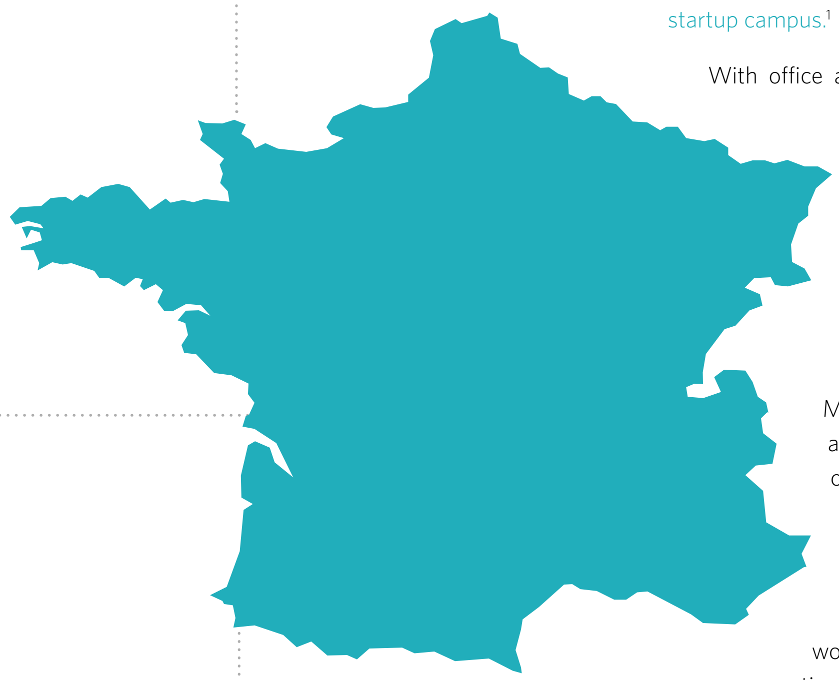


328
Number of advertisers

5,543
Number of active publishers

Awin market information





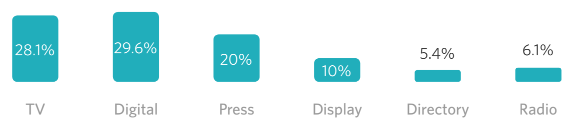
Somewhere in Paris' 13th arrondissement sits an enormous, old rail freight depot which had for years lain abandoned, dusty and disused. That was until June 2017 when it was, after extensive refurbishments, reopened by the newly elected president Emmanuel Macron as Station F, the world's biggest startup campus.[1]

With office and accommodation space for over 1,000 startup businesses and corporate founding partners such as Facebook and Microsoft, the campus quickly came to symbolise a new, innovative and vibrant approach to business that in many ways characterised Macron's own swift ascension, as the youngest ever candidate, to the French presidency.

Macron himself has come to be known as the 'Startup President' in part because of his welcoming attitude to this kind of entrepreneurialism. "I want France to be a startup nation," he said making a speech at the VivaTechnology conference earlier this year, "meaning both a nation that works with and for the startups, but also a nation that thinks and moves like a startup."

This kind of outlook would seem to promise an optimistic future for both France's digital economy and, by extension, its affiliate industry. Digital ad spend in France has grown consistently; as this year's Observatoire de l'e-pub (written by PwC for SRI-UDECAM) report[2] reveals, the €3.4bn that was spent in 2016 means digital has now definitively overtaken television as the number one format for brand advertising in France:

Share of media ad spend in France, 2016 (%)



Affiliate marketing is a well-established component of that digital mix, utilised by the vast majority of French retailers and, according to the same study, accounting for around €226m of the overall digital ad spend. However, as in many countries, display and search are dominating advertiser investment. Display in particular has caught the attention of many brands in recent years and is driving much of digital's growth.

That being said, the relative loss in ad revenue that publishers in France feel they have suffered from their inventory due to the increasing reach of programmatic display and the dominance of the likes of Google and Facebook in the field, has led to a reaction from some. The Gravity Alliance[3] is a partnership between some of the nation's biggest media and digital institutions and retailers, including the popular sports news site L'Equipe, France's biggest publishing group Prisma Presse and major retailer Fnac Darty, which was created in an attempt to wrest back some of those revenues from such third parties. By pooling their traffic information from across their various websites they hope to offer advertisers audience-enriched data via a private marketplace which can help them target a much better qualified set of online prospects. Similarly, the traditionally fierce news rivals Le Figaro and Le Monde, are joining forces to offer brands the option to book ad campaigns across their own various online platforms in an initiative called 'Skyline'.

"There is an increasing dissatisfaction from French publishers with the universal solutions offered by the established tech giants which affiliate marketing stands to benefit from."

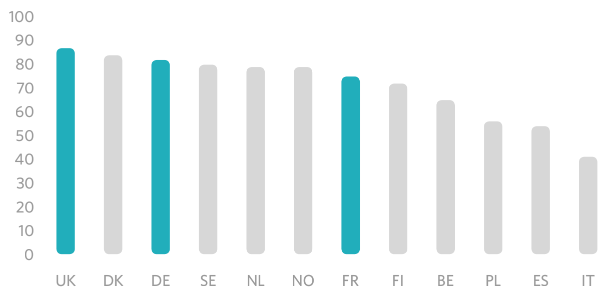
Both instances suggest an increasing dissatisfaction towards the universal solutions offered by the established tech giants in France and affiliate marketing has in turn also benefitted from this antipathy, providing such large publishers with alternative monetisation methods that circumvent these obstacles and put control back into their hands.

In fact, the adoption of affiliate marketing by some of these larger publisher websites has seen more investment and support provided to them by networks in order to allow these sites to take full advantage of the industry's benefits. Awin France has provided such support to the country's leading online real estate company, SeLoger.com, by developing a white label solution that could compare credit and personal loans for new homeowners from across a wide range of relevant suppliers.

It's easy to see why publishers in France are keen to retain as much control over their advertising partnerships as possible. The French economy is the third largest in Europe and its ecommerce market is also the third biggest, both rankings in which they sit behind the UK and Germany. Yet from a digital economy perspective there is still a lot of potential for growth from the wider population.

Just three-quarters of the French population had shopped online in the past 12 months according to the Ecommerce Foundation's recent report, compared to 87% and 84% in the UK and Germany respectively.[4]

European online shopping penetration rates



Much of that disparity can be explained by the French market's relatively underdeveloped state of mobile commerce. Whilst tablets and smartphones have been rapidly adopted as a means of accessing the internet and consuming content, their use as devices for shopping has been somewhat slower to take off than in other rival markets.

Deloitte's research into mobile shopping habits worldwide revealed that French users are amongst the most advanced nations when it comes to browsing shopping sites via mobile devices. Almost a third of French users claimed they visited shopping sites or apps on their mobile phone at least once a week. That figure was not far off what was seen in highly developed markets such as the UK and US and more than double that seen in Germany.

However, when it comes to actually transacting via mobile devices the French market still has significant room to grow. Awin France's own data suggests only around 16% of sales are tracked via smartphones, which is below the network's global average of around 18%. And comparing overall mobile sales (tablet and smartphone) as a percentage of ecommerce sales and total retail sales as a nation, France lags behind Germany and the UK significantly:[5]

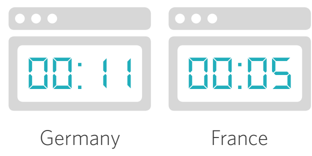
Mcommerce sales in France, Germany and the UK, 2017

Mcommerce sales (billions)	$11.22	$23.53	$48.02
% of retail ecommerce sales	27.0%	36.8%	40.4%
% of total retail sales	1.8%	2.9%	7.6%

The reasons for this trend are by no means definitive, but French digital marketing expert Emmanuelle Stioui claimed in an interview with website Ecommercemag that this was due to two main obstacles, "a psychological barrier, linked to the security of mobile payment, and a physical barrier, arising from potential connectivity problems which consumers can still encounter during the purchase process."[6]

Whatever the reason, this propensity for French consumers to research on mobile but then purchase more frequently on desktop means that the ability to follow users across different devices is more important in France compared to other markets. Awin's cross-device tracking technology, providing advertisers and publishers with the tools to stitch together customer journeys initiated on one device but completed on another, has helped French brands shed light on the way affiliate-initiated traffic contributes to their online sales.

Given that French consumers tend to spend more time deliberating over their online purchases than most other nations (research from online retailer Ladenzeile.de suggested that French users spent on average eleven minutes looking online before buying a product compared to just under five minutes for German shoppers[7]) there is clearly a lot of influence being provided here by various sources upon consumer choice.



Search engines inevitably garner the most amount of traffic however that share has dropped in France. A survey from Mappy[8], a street mapping tool, revealed that the number of digital buyers researching via search engines had dropped from 78% in 2015 to 63% in 2016. Similarly, the number of buyers who researched via an advertiser's site or app also declined by 10% suggesting that consumers are seeking out other online sources of information. Affiliate businesses such as online forums, comparison sites, blogs and social media platforms have benefitted from these changing user habits. In fact, the burgeoning increase in popularity of social sites has been mirrored by the increasing appetite from brands seeking to work with these types of affiliate.

Together with the likes of brands such as ASOS, the Awin France team have for many years now consistently developed expertise and learnings on how to interact with affiliates in the social sphere to drive sales. As a consequence, the network has made great strides in engaging such affiliates with its efforts being recognised with an award at the annual digital awards ceremony La Nuit des Rois for its partnership with the French retailer La Redoute and their social media campaign last year. By selecting specific social influencers and bloggers whose audiences accurately matched the brand's objectives, the campaign saw a 100% increase in traffic and a 150% increase in turnover.

Whilst French brands are keen to utilise affiliate networks for managing these long tail content-led partnerships, there is also a relatively high demand for using the channel's third party technology partners to support brands' own online marketing tactics on a performance model.

Email remarketers such as Eperflex, who can target relevant customer prospects as well as retarget consumers who have abandoned an advertiser's site or basket with bespoke email messaging, have successfully worked with advertisers through the network to provide an efficient way of generating new sales and converting ones that were seemingly lost.

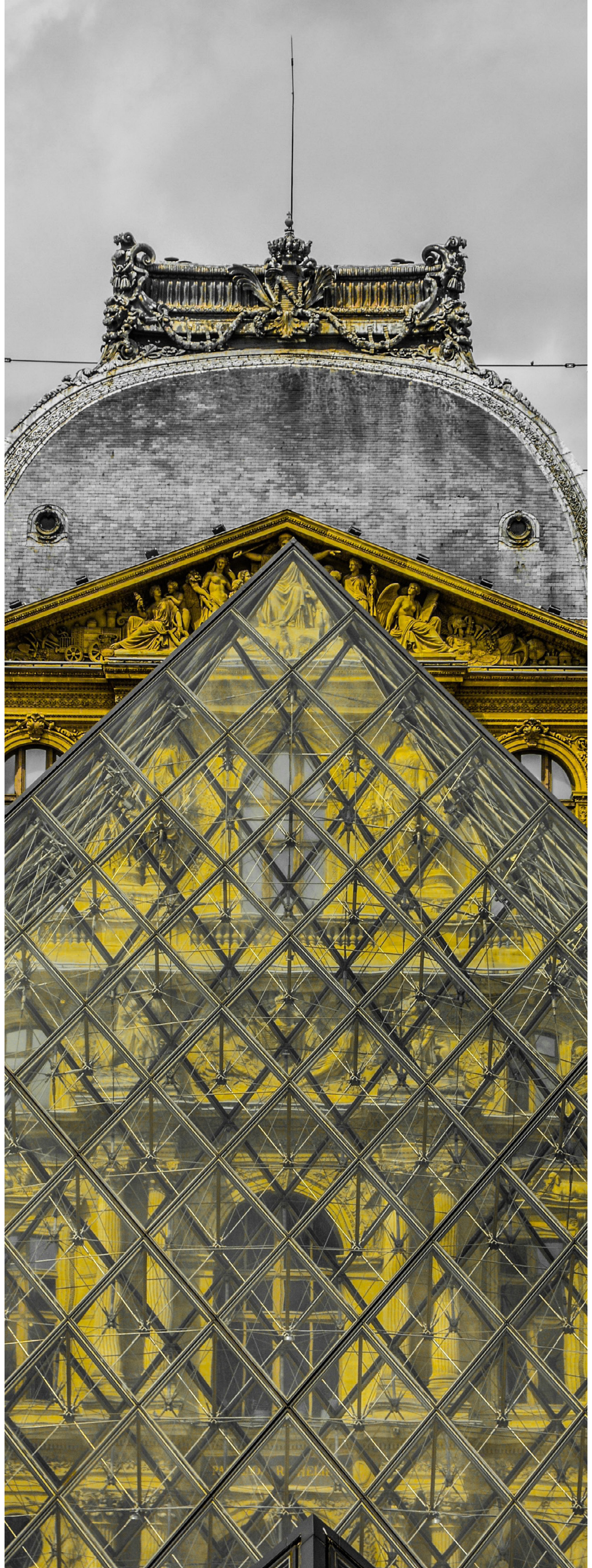
Interestingly the quality of such email partners is assured by regulation in France created by the Collectif Performance & Acquisition (CPA) which acts as an umbrella body for the wider performance industry and has worked to bring consensus within the channel. Their Email Quality Charter was launched in 2015 in an attempt to ensure standards were upheld by all email publishers and that the collection and protection of personal email addresses by such businesses were undertaken with due diligence.[9] As an email publisher in France, if you want to work with any of the affiliate platforms that have signed up to the Charter, such as Awin, then it is mandatory to also sign it.

"As an email publisher in France, if you want to work with any affiliate platforms that have signed the Email Quality Charter, you too must sign up to it"

France has traditionally been a pro-active nation when it comes to regulating its own digital economy. Its Data Protection Authority (the CNIL) were quick to anticipate the potential impact of the EU's GDPR and, by October 2016, had published their Digital Republic Bill[10] to reflect the changes being unfurled across the continent and mirror the evolving nature of online businesses and the data they capture. With President Macron keen for the French economy to emulate the agile abilities of a startup company, the ability to balance the privacy rights of its citizens versus the access to data that online businesses, such as affiliates, require to remain competitive, will be an early test of his leadership.

France Local Market Q&A

Guillaume Gelis
Managing Director France, Awin



How well developed is the affiliate market in France?

Affiliate Marketing is commonly considered one of the pillars of the successful acquisition mix in France. As an extremely popular technique across the retail and travel industries, its proven efficiency over time has convinced other sectors such as finance, automotive and telecoms to embrace it. The insurance and banking sectors have embraced it to such an extent that they are now fuelling a double-digit growth in the size of the French affiliate market.

What do you see as the strengths of using affiliates as a digital channel in your region?

The advantages of affiliate marketing are numerous. Transparency is probably the one I value most, especially in the current climate where the display channel is suffering by comparison due to a crisis of faith in its ability to deliver qualified performance. By contrast, affiliate marketing can provide you with all the information you might want to dig into with an unparalleled level of granularity.

In addition, the business model itself is crystal clear with no hidden costs or unknown fees. The advertiser knows exactly what the split is between the platform fee and the publisher-partner they are working with.

Of course, the most widely recognised strength is probably its cost-effectiveness but there is also a huge variety of publisher types in the French industry open to using affiliate marketing which is another plus. Virtually every publisher type is represented: comparison sites, email, cashback, coupons, content. This variety enables us to design bespoke publisher networks for individual clients, where each individual affiliate type can reach different customer targets.

Where do you see the biggest opportunities in the French affiliate market lying?

Compared to some other countries, affiliate marketing in France still has a lot of potential for further investment and growth. The focus in the previous few years had been placed on improving the cost of sales whilst still driving volume with the consequence of privileging lower funnel affiliates, typically coupon and cashback affiliates. More recently though there has been a shift in demand from advertisers as they begin to focus additional attention upon content and social affiliates. The improvements in third party tracking tools, which have given more transparency on the contribution of each channel, have established a new understanding of the value this upper and mid-funnel traffic provides for generating customer sales too. With French consumers now spending so much more time on social media and being increasingly influenced by affiliates on these platforms, our ability to connect these early funnel touch points with eventual sales will undoubtedly help to draw more investment into the channel.

What one thing would you change today in the French affiliate industry if you could?

I think the one thing I would look to change would be to increase the pay-outs that publishers generally receive in the industry. Publishers have no problem with being paid on performance as a business model, but they do have an issue with not being paid a fair rate for their efforts. An increase in pay-outs will also benefit advertisers as it will attract a wider selection of quality publisher opportunities and help develop their sales too.

Italy

Regional information

59m
Population

39m
Number of internet users

$1.85tn
GDP

72%
Adults with a smartphone

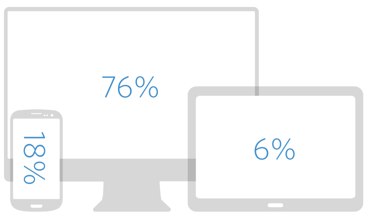
Italian
Official language

Google (93%)
Most popular search engine

Euro €
Currency

82% / 11%
Smartphone platform split

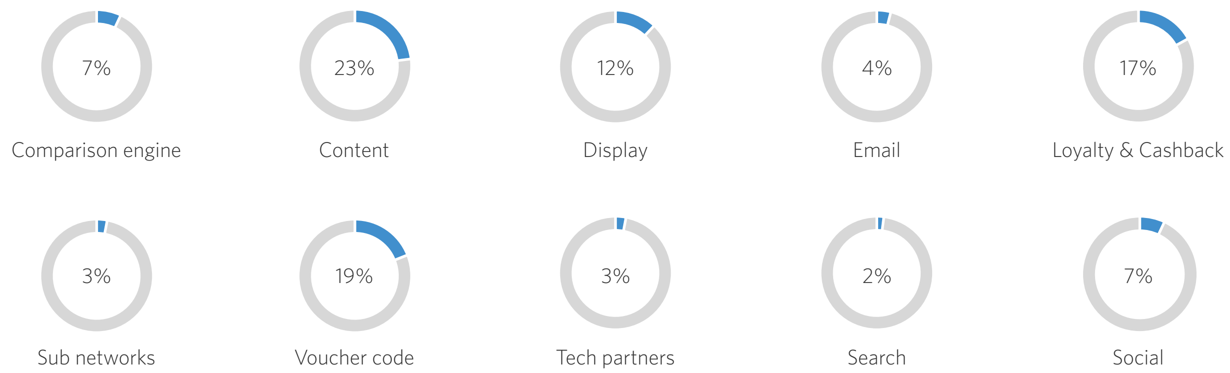
Device split of sales



399
Number of advertisers

5,905
Number of active publishers

Awin market information

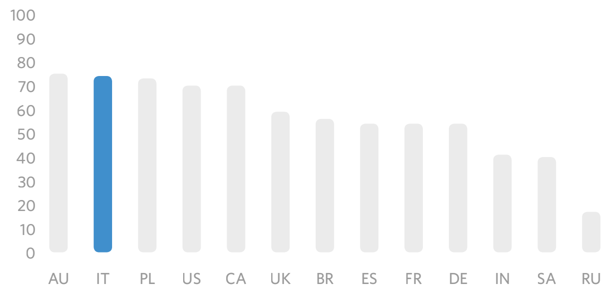


Wary of the encroaching popularity of the internet and its absorption of more traditional forms of communication, the Italian street artist Biancoshock was moved in 2016 to create the thought-provoking installation project 'Web 0.0' in the tiny village of Civitacampomarano in Southern Italy.[1]

With only 400 mainly elderly residents and internet and smartphone access virtually non-existent, the village served as the perfect setting for the artist to reframe traditional local amenities as their modern day digital equivalents. An old phonebox featured the Whatsapp logo, a Twitter symbol hovered over a park bench where locals would often sit and share news, a Gmail logo was stickered to the postbox, a Wikipedia sign hung outside the resident historian's home and the local delivery truck bore the name of WeTransfer on its side.

The project was in part a response to the growing popularity of digital social platforms in Italy and their perceived displacement of these traditional communal practices. Italy has seen huge growth in this area over recent years and, as a demonstrable example of this, We Are Social's global report on social media usage placed them behind only Australia in terms of the number of Facebook users who logged in and used the social platform on a daily basis, almost a fifth more than the global average:[2]

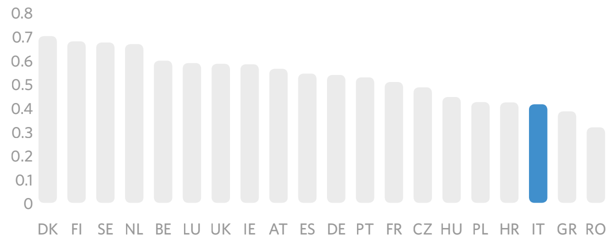
Daily active Facebook users vs. total users (%)



However whilst the use of digital for social purposes has clearly resonated with the Italian population, the adoption of the internet for many other activities, including ecommerce, is still yet to reach this level, suggesting there is huge room for growth in this region.

As the fourth largest economy in Europe, Italy is an enormous market with massive ecommerce potential. The European Commission's Digital Economy and Society Index (DESI) takes an annual look at how European nations perform across a variety of factors to form an idea of how well developed a country's digital economy is.[3] In 2017 Italy ranked 25th out of 28 nations , ahead only of Romania, Bulgaria and Greece and behind the likes of the Nordic nations and the Benelux region at the top of the table:

Digital Economy and Society Index, 2017 (rank)

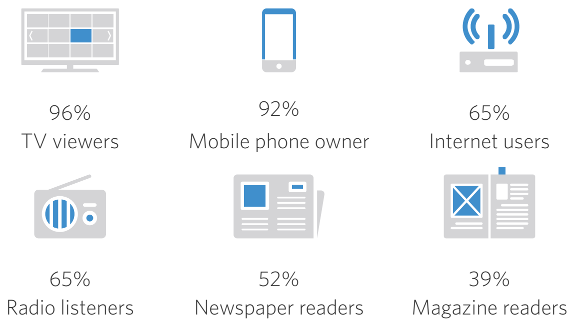


As we will discover later this is being rapidly overcome through evolving consumer habits and an eagerness from these users to adopt new approaches to ecommerce which explain the market's high growth rate, particularly on mobile devices. However, there is certainly a degree to which old habits die hard in Italy and which contradict the anxieties that Biancoshock expressed in his art work.

> "Italy is a nation still bound to traditional forms of media. Television and print continue to dominate the media landscape."

Italy is a nation still seemingly bound to more traditional forms of media and business. Television and print (magazines and newspapers) continue to dominate the media landscape. Television's stranglehold on ad spend increased last year and the alternative forms of media consumption offered through digital platforms do not, on the surface, appear to be engaging audiences in the same manner as they have elsewhere.[4]

Media formats, share of Italian population (%)



Similarly, the population's loyalty to cash payments, perceived to be a more secure method of transacting, remains one of the main obstacles to the mass scale adoption of ecommerce in the country. However, in response, many major Italian banks are now issuing prepaid cards and these have proven popular, increasingly taken up by younger people and those with lower incomes as a safer means of transacting online.

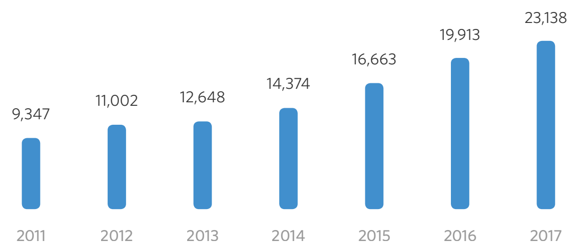
It therefore seems slightly counterintuitive that Italy ranks as one of the nations least concerned about sharing personal data online. KPMG's report on the global state of internet users' attitudes to data privacy, Crossing the Line[5], revealed that Italians were amongst the most relaxed towards such issues. KPMG's local analyst, Luca Boselli, states "Italy is one of the European countries that uses more social media and yet is the country least likely to worry about what would happen to their personal data when buying something online. There is still a long way to go in terms of privacy awareness but, looking at the increasing high relevance of digital media in Italian society, it is the only choice."

Proportion of users who read online privacy policies (%)

As Boselli states, such an outlook portends the growth of appetite for Italian online engagement in the future then. And whilst the population's use of social media is currently the main outlier in this regard, there are numerous increasing signs that ecommerce is beginning to capture the wider public's attention with affiliates helping to foster and develop this changing attitude.

The money being spent online by Italian consumers has been rising and the value of spend this year is expected to almost have doubled that of 2013:[6]

Value of B2C ecommerce purchases by Italian consumers (€m)

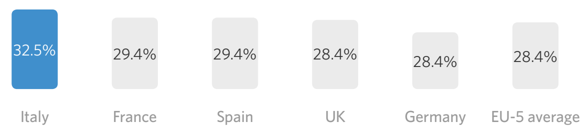


A variety of sectors are now beginning to see signs of this growth with the pharmaceutical and health sector seeing a large amount of investment in its digital promotion, and the food and groceries industry in Italy witnessing a 30% growth in online sales in 2016 versus the previous year.

Online retail is also beginning to flourish. As a sector dominated by international giants like Amazon, cross-border commerce is well established in Italy with around a quarter of online sales occurring via such foreign websites and marketplaces. However domestic competitors such as ePrice are challenging this hegemony and offering a home-grown alternative space for Italy's online shoppers.

Mobile commerce is one area where the green shoots of growth are already abundantly clear. Italy is forecasted to be the fastest growing market amongst Europe's most developed nations for mobile sales over the next few years:[7]

Retail mcommerce sales growth, 2017 (% change)

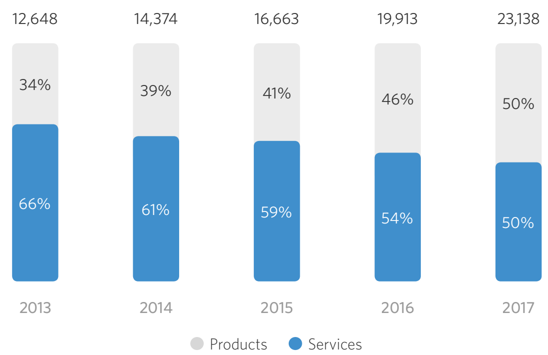


Affiliates' sales growth via mobile devices has been something witnessed directly by Awin in Italy. Awin's 2016 Mobile Barometer Report saw that Italy was bested across the global group only by Eastern Europe for its mobile sales growth rate in the retail & shopping sector, an impressive 103% increase on the previous year.

Black Friday too, always a prescient indicator of nascent ecommerce trends in a market, highlighted this same trend. Awin Italy saw the largest growth of sales tracked via mobile devices amongst all of our global territories, almost doubling from 14% in 2015 to 27% in 2016. And such a strong rate of growth is set to be further fuelled by nationwide improvements in the country's 4G network coverage.

These insights are revealing not only as an indication of changing device habits in Italy but also for the fact that the shopping sector itself is growing in popularity. This is a trend that chimes within a wider context too. Italy is unusual, globally speaking, for the fact that ecommerce has from the outset been service-led rather than product-led historically. The travel sector leads the way for Italian ecommerce with around a third of Italian consumers having booked travel online in 2017 so far according to research from the Politecnico di Milano. By contrast only 7% of shoppers are buying fashion items online and just 0.5% are ordering their groceries via websites. This disparity between products and services has diminished over the last few years though and there is now an even share of distribution between the two as shoppers become more familiar with purchasing everything from fashion and clothing to consumer electronics online.[8]

Share of B2C ecommerce market - Products vs Services



New and innovative affiliates are helping sow the seeds of this change. Italy is a country famed for its fashion brands, home to the likes of Armani, Versace, Prada and Gucci and is Europe's largest market for luxury goods. So it is perhaps unsurprising that some of the most recent affiliate propositions to make their mark in the region have been focused on this sector.

Bantoa and Papem are two such examples from the Italian market. The former offers a platform of curated outfits designed by their style gurus who utilise the network's client product feeds which can be tailored for individual users, whilst the latter is a smartphone app which uses information about the user's profile, habits and their location to provide recommendations of local fashion stores and offers for clothing that suit their style.

This appetite for offers is one that is also blossoming and provides a valuable opening for affiliates to prove their worth to brands keen to grow their customer base. Incentive affiliates are the fastest growing publisher type for Awin Italy and if Black Friday's performance in 2016 is any indication (tracked sales for the day almost doubled the previous year's record), this is only set to continue.

In fact, Black Friday's growth in Italy will see affiliates play an ever more influential role in supporting brands' ability to reach consumers as the event becomes more popular. As Awin's country manager for Italy, Sheyla Biasini, reflected in the wake of a hugely successful campaign last year, "a lot of people still don't know what Black Friday is here but they can't resist a good deal and the Italian media are increasingly generating interest around the event." Italy's consumers are now more aware of prices than ever before and affiliates are helping them to get the most from their money.

Advertisers are similarly sensitive to how they intend to spend their advertising budgets. Reaching those customers as efficiently as possible will remain a high priority for them in the current climate and digital advertising can offer them the most effective means of achieving this. With ecommerce in Italy continuing to develop there is huge room for growth in this territory and the affiliate channel, definitively performance-based, can expect to be a significant beneficiary of this evolution.

Italy Local Market Q&A

bantoa

Francesco Calzà
Founder of Bantoa (FC)

eDreams ODIGEO

Marco Bersani
Affiliate Marketing Executive,
eDreams ODIGEO (MB)

What do you see as the strengths of using affiliates as a digital channel in your region?

FC The major strength for small affiliates is the possibility to immediately commence business with the biggest players. Italy is full of dreamers and people with big ambitions, as demonstrated by the huge number of small businesses we have in our territory. Italians want to realise their ideas and, in the digital world, affiliate marketing allows people to quickly turn their ideas into profitable businesses.

MB The strength of affiliate marketing is the ability to expand rapidly beyond your immediate borders and to work together with many partners simultaneously. There are an increasing number of affiliate sites to work with and these are constantly improving the opportunities for brands to gain visibility with new audiences. Moreover, the fact that affiliates can promote advertisers on a CPA model means there is a low risk involved in these partnerships.

What are the biggest weaknesses of the affiliate market locally speaking?

FC I think that the digitisation of Italy lags behind other European countries and therefore for lots of people it is more difficult to enter this world. Moreover we are a warm population and in business we prefer human contact between people instead of cold numbers. Affiliate marketing, as a digital channel, is inherently based on pure performance and very often it lacks any human contact whatsoever.

MB From my point of view we need to work more on encouraging Italian users to be open to this kind of business. For example, in a country very similar to ours, Spain, voucher codes and offers are welcomed with far more enthusiasm by consumers. This means that they are more willing to search for the latest deals and have more faith in the online promotions; they do not assume this kind of promotion to be fraudulent.

Where do you see the biggest opportunities in the affiliate market in your region lying?

FC I believe that we should be developing more affiliate sites that keep in mind what Italy represents to the rest of the world. When you think about fashion, food, beauty, vehicles, motorcycles...you think of Italy. We have the highest rates of tourism and one of the most envied cultures in the world. Italy could have the authority to generate valuable digital content in so many of these sectors and affiliate marketing would be the perfect revenue model to monetise this content thanks to its scalability and the ease with which it can be implemented.

MB The broad network of partners that the affiliate networks have can help brands to not only acquire new customers but to expand their reach and reputation. For this reason, the opportunity I value the most is using the industry to its full, employing all of its services and communication opportunities, without focusing just on selling.

What one thing would you change today in the affiliate industry if you could?

FC Can I choose only one thing?! Well in that case I would empower publishers to choose the commission levels, not just advertisers (of course they could decline the proposal). This could give more balance to a relationship that I do not see as balanced currently, but instead is more favourable towards advertisers.

MB I think that sometimes we could use more collaboration from publishers. Also, it's not very common in the industry to see more co-branded activity with other companies, and that's something I'd like to see more of. This could help mutually boost visibility for brands that complement each other well and provide valuable advertising exposure at a low cost.

Nordics

Regional information

26.9m
Population (combined)

25.8m
Number of internet users

$1.1tn
GDP

78%
Adults with a smartphone

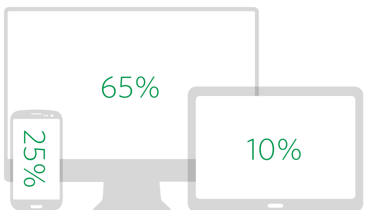
Various
Official language

Google (94%)
Most popular search engine

Various
Currency

35% / 44%
Smartphone platform split

Device split of sales



279
Number of advertisers

2,234
Number of active publishers

Awin market information

10% Comparison engine

34% Content

1% Display

1% Email

26% Loyalty & Cashback

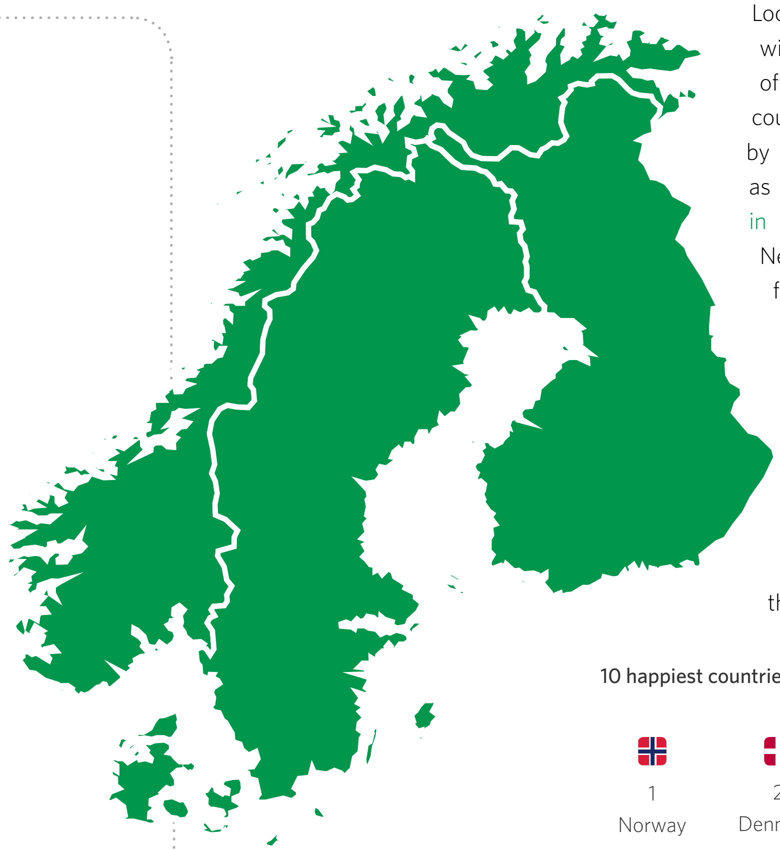
1% Sub networks

23% Voucher code

1% Tech partners

1% Search

5% Social



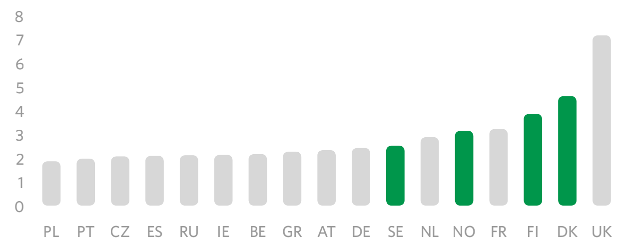
Look at almost any table ranking nations on a wide variety of social benchmarks and more often than not you're going to find a Nordic country on top of that pile, closely followed by its neighbours. Finland consistently ranks as having the best national education system in the world.[1] Up until being displaced by New Zealand last year, Norway had reigned for six consecutive years at the top of the Legatum Prosperity Index which measures the wealth, economic growth, education, health, personal well-being, and quality of life in nations across the globe.[2] Norway also recently topped the charts of the UN's World Happiness Report, with Denmark, Iceland, Finland and Sweden not far behind and all making the top ten.[3]

10 happiest countries in the world

1 Norway
2 Denmark
3 Iceland
4 Switzerland
5 Finland
6 Netherlands
7 Canada
8 New Zealand
9 Australia
10 Sweden

Can near universal internet access and a thriving ecommerce scene play a contributory role to such a happy state of affairs? That might be debatable but what isn't up for argument is that the extent of Nordic citizens' happiness, fulfilment and welfare is closely matched by their zeal for online shopping. As a result, the state of ecommerce and affiliate marketing in the region is similarly advanced with consumers, brands and publishers all helping to cultivate its continual development. According to the regional postal service PostNord, which publishes an annual report on the state of ecommerce in the area, almost €22bn was spent online by Nordic consumers in 2016.[4] Although the UK is a clear outlier in Europe and the world for the amount of GDP generated from ecommerce, it is primarily the Nordic nations that are leading the chasing pack:[5]

Ecommerce sales as a percentage of GDP (%)



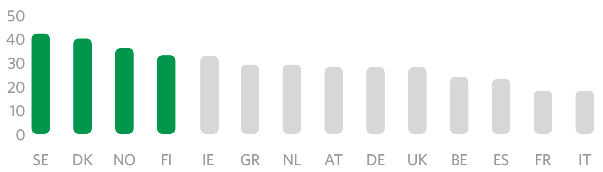
With an average internet penetration rate across all the Nordic nations of close to 100% and almost every internet user (regardless of age or gender) also a digital buyer, there is an abundance of opportunity for online retailers here.

Online consumption is something that has very much been normalised by persistent use over the last decade in the Nordic countries. The combination of sparse populations scattered across relatively large land masses has meant that ecommerce has allowed consumers access to goods that they might otherwise struggle to find in local shops and stores. In fact the larger range, variety, convenience and lower prices, have all been cited as primary reasons for the popularity of online shopping by Nordic consumers.

Fashion, perhaps unsurprisingly given the stylish reputation of its inhabitants, is the most popular product to be bought online. But there is virtually no limit to the sectors and niches that are available to buy via websites in the Nordics. It has become so popular in Denmark that even high-ticket items traditionally sold only in-person such as cars can be bought online. Volkswagen, for instance, decided to make their up! car line available to purchase on their website for the very first time earlier this year.[6]

Nordic brands have been quick to recognise the popularity of ecommerce and, as can be seen in the below chart, all Nordic nations have over-indexed for their investment in digital advertising compared to other countries:[7]

Companies in western europe that pay to advertise digitally, by country, 2016 (% of respondents)



With so much digital investment from Nordic retailers there is increasingly a need to see a measurable return on it. Affiliate marketing offers these brands a degree of transparency that they have otherwise struggled to gain visibility on and its growth in the region is testament to this very strength.

Affiliate marketing in the Nordics has been characterised by particular successes with content and influencer publishers. The combined commissions earned by these affiliate types amount to almost a third of the total money paid out to affiliates on our network in the region, way above what is traditionally seen elsewhere in the world. This healthy incentive for content-based publishers has fed a virtuous circle, drawing more and bigger content partners to consider affiliate marketing as a viable means of generating income. Huge established media houses such as Norwegian-based Schibsted or Denmark's Aller Media, attracted by the ability to monetise content across their portfolios of content-rich websites, have bought into the model and are now even utilising white label solutions on site in addition to more conventional in-text linking.

Influencer marketing has taken off in a big way in the Nordics region thanks to the popularity of social media platforms there. Influencer platform Tailify are just one of several local enterprises offering brands a way to connect with relevant social influencers in a targeted, transparent fashion. As in many other global markets where influencer marketing has garnered interest from retailers, the Nordics has witnessed a spike in advertising investment in the sector, but quantifying that investment's return has been a difficult task. Tailify's ability to monitor and measure the success of individual campaigns has seen them partner with a variety of prominent brands such as L'Oreal, Coca-Cola and Disney, eager to understand the benefits of these partnerships. And Awin's own investment in and partnership with Tailify is an indicator of influencer marketing's further move towards the more robust performance-based model that affiliates have been measured against for years.[8] It also offers a tantalising glimpse of how affiliate marketing could tap into the previously unexplored FMCG sector.

Part of the reason for influencer marketing's rapid ascent in the Nordics can be put down to the high penetration rate of smartphones in the region. With most social platforms now primarily operating as mobile-first propositions it has been a natural step for users there to engage with the likes of Instagram, Snapchat and Facebook via their mobile devices. The ease with which Nordic citizens have taken to using their mobile devices to access the internet has also led to a similar comfort with transacting on them. Across the entire region, respondents to AudienceProject's survey regarding device usage for digital purchases demonstrated a notable comfort with the notion of buying goods via their phones with on average, around a quarter of them doing so:[9]

Devices used to make digital purchases among internet users in select Nordic countries, Q2 2016

	93%	93%	89%	87%
	33%	24%	32%	32%
	21%	21%	34%	25%

Awin data from its Nordic network shows a similar trend with over a third of sales occurring via smartphones or tablets through its affiliate partners, one of the highest rates that the network has seen across its wider global group.

Given the advanced state of online consumer behaviour here then, with a high degree of mobile internet usage and mcommerce, it makes it ever more important for an affiliate network to be able to accurately track shoppers through the different stages of their research phase as they shift from device to device. Cross-device tracking technology, like that supported by Awin, shores up some of the potential gaps here and provides visibility on affiliate sales which would have previously been misunderstood.

However the dilemma is bigger than just devices. With omnichannel trade in the Nordics fast becoming a hot topic of conversation for retailers, joined up approaches between the online and offline worlds are growing in importance too. Showrooming (visiting a physical store and then buying later online) and webrooming (researching online before purchasing in store) are both widely recognised phenomena throughout the Nordics now. Successfully understanding how a customer is moving from one world to another and how they are guided to an eventual sale via different partners along the way, brings invaluable insight to a brand and their promotional partners.

"Omnichannel trade is fast becoming a hot topic of conversation for Nordic retailers"

Over half of Nordic retail brands already claim to have one integrated team for online, in-store and mobile. The success that affiliates have already demonstrated to Nordic retailers can only continue to grow if their contributions are properly recognised within such omnichannel strategies and it is perhaps within this context that the next innovations are likely to emerge.

Perhaps part of the reason for affiliate marketing's success in the Nordics so far has been because of its close alignment with the region's own highly innovative and entrepreneurial culture. The territory has a reputation for tech-savviness which has been fostered by initiatives like Sweden's 'PC reform' of the 1990s when the government subsidised citizens in buying their own computers, encouraging early adoption of the hardware amongst its population.[10] Annual events such as Finland's 'Day for Failure' which celebrates it as a necessary route to success, implicitly promote a healthy entrepreneurial spirit.[11] The offshoot of this culture has seen numerous commercial success stories emanate from the region's tech industry. Nokia, Spotify, Skype and the gaming companies behind the likes of Minecraft and Candy Crush are just some of the start-ups to have originated there and achieved huge global success.

With its low barriers to entry and openness to a wide variety of commercial models, the affiliate industry is the perfect platform for Nordic businesses seeking to disrupt the status quo. Having a ready-made test-bed of consumers, familiar with ecommerce, makes this an even more appealing prospect. And whilst the wider digital industry may soon be reaching a saturation point there, the growth in popularity of affiliates suggests that this is not necessarily the case for the channel.

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Nordics Local Market Q&A

Tim Lomborg
Managing Director Nordics, Awin

How well developed is the affiliate market in the Nordics region?

The Nordics is, in many aspects, a mature market. What is aiding the advancements in our region is the presence of highly advanced retail and travel clients operating over several large networks in a highly competitive market. This naturally leads to the development of the industry and publisher business models. What needs to be improved is the share of the affiliate channel in our region, as we still see a large portion of budgets moving to channels with little to no accountability, transparency and performance. Fortunately there has been a positive trend towards more awareness of our channel in the past years. While most regions of the relative size of the Nordics tend to be under-developed technologically, the Nordics can boast a vibrant digital entrepreneurial scene that has incubated outsized digital sales and marketing players across a number of industries and verticals.

What is the most innovative thing you've seen in affiliate marketing locally?

I want to highlight some of the many great publisher advancements in the Nordics. The successful use of affiliate marketing by media houses such as Schibsted, Aller Media, Nettavisen and Sanoma, both through traditional content, but also working with white label solutions has been impressive. Another highlight is influencer marketing that is making the move into a performance-based model and a significant impact in our region. Together the content and influencer share in our network makes up a sizable portion and is still growing. Last but not least our locally based loyalty and shopping portals are using data insights to help target and shape campaigns better than anything I have seen from larger European players.

What do you see as the strengths of using affiliates as a digital channel in your region?

Especially for the Nordics, where a lot of budget is being used inefficiently, the strength of working with affiliates is that you will always have a constant flow of new business models and possibilities to work with on a performance basis. It offers plug and play flexibility with real accountability, performance and control. Within the retail space, the buzz is heavily behind the concept of influencer marketing and our industry's focus on accountability is a direct value-add in this case.

What are the biggest weaknesses of the affiliate market in the Nordics?

Probably more a challenge than a weakness is the fragmentation of the markets and their size. This relates to our advertisers and publishers. I would like to see more and faster internationalisation of our partners, but realise that we need to invest even more in supporting our partners in this process.

Where do you see the biggest opportunities in the affiliate market in your region lying?

I'm very excited about the future of the industry in the Nordics, because there is still a lot of incremental growth in our market. Our four different regions (Sweden, Denmark, Norway and Finland), bring a lot of positive diversity and innovation, as well as the opportunity for local products to gain valuable market share within a highly digitalised, mobile and consumer-orientated society. With significant clients and industries who are still not using the full potential and reach that ecommerce has to offer, we can continue to expand and improve our services.

For us as a network and our partners, I also believe strongly that advancements in tracking will be key to securing partnerships and navigating our way through the challenges to come. I see Awin as the network to provide a beacon for these advancements locally and globally.

What are the biggest threats to the affiliate industry in your market?

The continued failure for an actual industry community to form around advertisers, networks and publishers. This is where we want to invest time and money for the upcoming years, by hosting events, initiating more discourse and debate.

What one thing would you change today in the affiliate industry if you could?

A better understanding and most of all awareness of the affiliate channel and the opportunities it offers for the entire purchasing funnel. The affiliate channel as a business model has become more relevant for publishers and advertisers with other traffic and monetisation models being questioned on quality and feasibility. This is where our USPs offer the best alternatives. This is where our USPs offer the best alternatives.

Spain

Regional information

46.5m
Population

38m
Number of internet users

$1.2tn
GDP

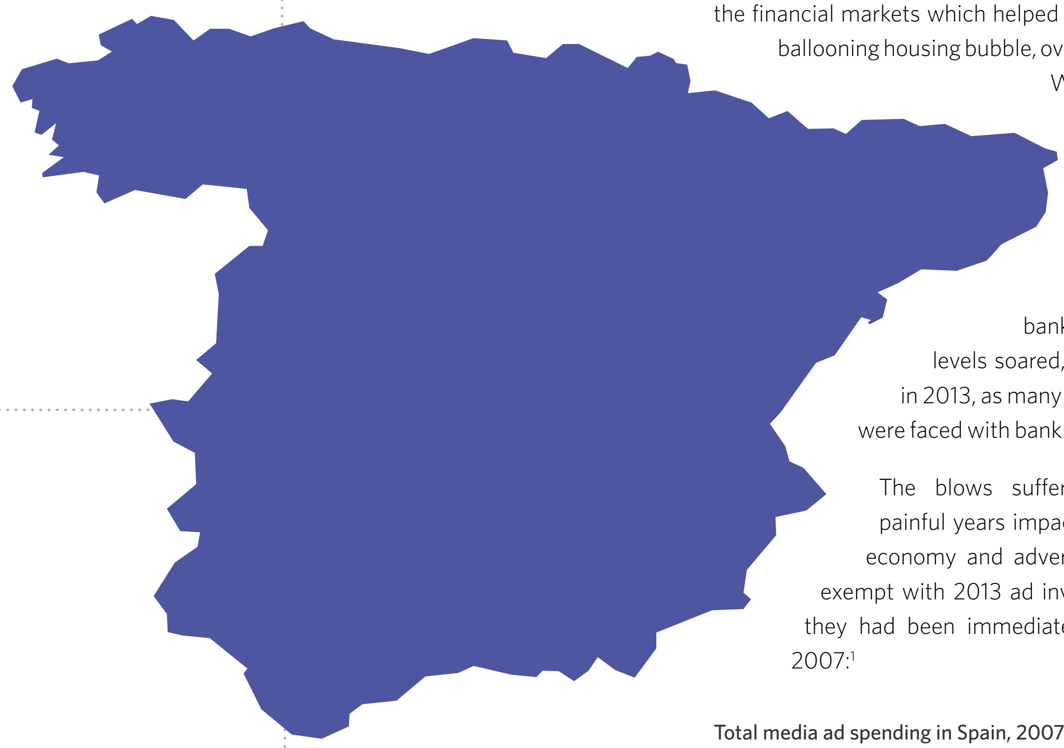
85%
Adults with a smartphone

Spanish
Official language

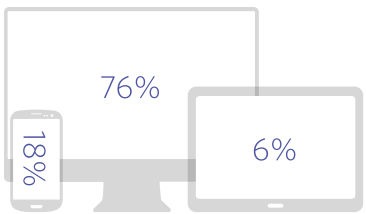
Google (92%)
Most popular search engine

Euro €
Currency

80% / 10%
Smartphone platform split



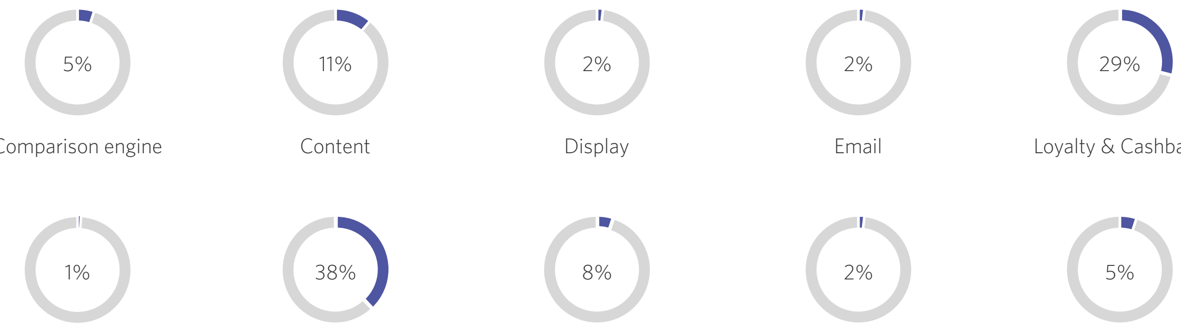
Device split of sales



252
Number of advertisers

4,555
Number of active publishers

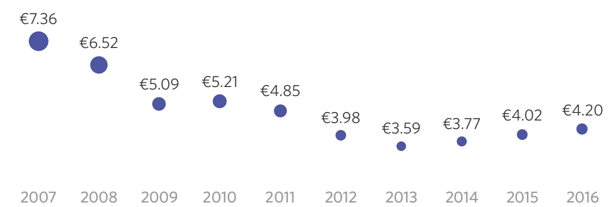
Awin market information



Alongside Greece, Spain has been one of the nations to have suffered most acutely in the wake of the global financial crisis. Prior to 2007 a heady cocktail of huge tax revenues derived from the booming Spanish construction industry at the start of the century, combined with the extensive deregulation of the financial markets which helped to prolong and inflate the ballooning housing bubble, over-extended the economy. When the crisis hit, Spain was left exposed. As its economy stalled the government was compelled to request a €100bn bail-out from Brussels for its banks and unemployment levels soared, reaching as high as 27% in 2013, as many major Spanish companies were faced with bankruptcy and forced to close.

The blows suffered by Spain in these painful years impacted aspects of the entire economy and advertising was by no means exempt with 2013 ad investment levels half what they had been immediately prior to the crash in 2007:[1]

Total media ad spending in Spain, 2007-2016 (€bn)



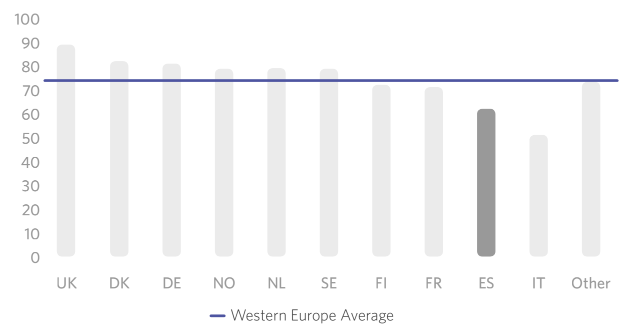
The wider Spanish economy has since recovered close to its pre-crash state with the country heading for its third consecutive year of economic growth and its rate of growth outstripping many of its neighbours in the Eurozone.[2] Falling unemployment levels, low interest rates, a thriving export industry and the always reliable inbound tourism revenues have all contributed to this bounce back. However whilst the wider economy is recovering fast the advertising sector is still lagging behind and investment levels are still not yet near their pre-crisis level.

Digital advertising on the other hand has seen real positive growth in these recovery years with more than a 20% increase in outlays to over €1.1bn in 2016 by advertisers. Digital advertising is now second only to television in Spain as the biggest advertising format and has overtaken the more traditional forms of newspapers, magazines and out-of-home which are struggling to capture back their old slice of the pie.

This influx of investment in digital can be seen as a positive sign and Spain is now investing to overcome consumer attitudes toward online shopping with the market playing catch up with much of the rest of Europe.

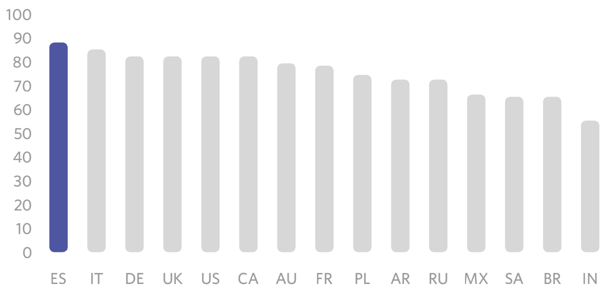
The nation's relatively high ad-blocking rates emphasise this cautious consumer attitude around digital ecommerce with the proportion of users now as high as 25% in Spain. And although over 80% of Spain's population has access to the internet, only 62% of them are actively engaging with online brands and shopping via them, significantly lower than the average across Western Europe.[3]

Digital buyer penetration in Western Europe (% of internet users)



Spain also registers one of the highest smartphone penetration rates in Europe and the wider world. In fact looking at the rates of mobile phone penetration within the wider population, We Are Social's analysis ranked Spain as the number one country in the world:[4]

Unique mobile user penetration rate, by country (%)



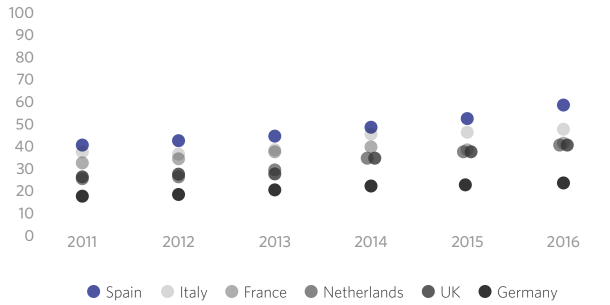
Yet this over-indexing of mobile adoption hasn't been mirrored in the state of its mobile ecommerce industry. According to analysis from the Observatario Cetelem, of those users who are actively purchasing goods online, only half have ever done so through a mobile device.[5] Clearly there is some way to go still before the desktop's status as the pre-eminent device of choice for buying online is threatened. Although the fact that there was a 15% increase on the number of mcommerce customers in 2015 is indicative of which way the trend lies.

PWC's 2016 Total Retail Report took a look at the global state of shopping habits both on and offline and found that while over 40% of Spanish shoppers were happy to shop in-store every week, only 15% were prepared to do so with the same regularity online.[6] This can in part be explained by a perception that Spanish retailers have been slow to invest in their own online shops and to provide domestic consumers with an easy and secure means of buying items online. PWC's survey of Spanish shoppers found that over 60% were worried about their payment information being hacked via such sites.

"While over 40% of Spanish shoppers were happy to shop in-store every week, only 15% were prepared to do so with the same regularity online"

This has undoubtedly played a role in the subsequent success of international brands and the extent to which cross-border ecommerce has taken off in Spain. Almost 60% of Spain's online shoppers purchased a product online from a seller in another country in 2016 , more than any other major European market, and with that growth increasing significantly over time:[7]

Cross-border digital buyer penetration in select countries in Western Europe, 2011-2016 (% of buyers)



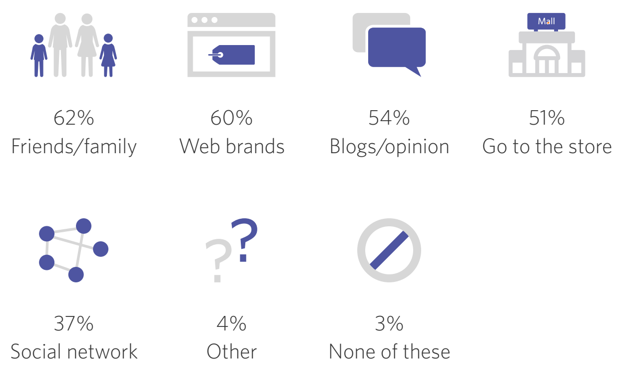
With better developed websites and more authoritative reputations for handling online transactions, global marketplaces such as Amazon, Ebay and Alibaba have dominated the online shopping scene in Spain in contrast to the country's own domestic brands who have generally struggled to compete. Only three Spanish retailers featured amongst the top ten retail websites in Spain in February 2017:[8]

Top 10 retail sites in Spain, ranked by unique visitors, February 2017 (m)

6.9	4.8	4.1	3.9	2.2
Amazon	eBay	Alibaba	El Corte Ingles	Media-Markt
2.0	2.0	1.9	1.7	1.6
Inditex Group	Carrefour	Apple sites	Tiendo	Oxylane

It is within this context that the Spanish affiliate market is particularly well positioned to serve the population's digital shoppers with the brands that they feel most comfortable purchasing from. Spain's digital shoppers hold the value of a word of mouth reference in the highest esteem according to a survey carried out by the financial firm Cetelem and the influence of friends and family upon digital purchases was found to be particularly strong. However the value of blogs, forums, social networks and other online sites was also found to carry significant weight and it's in this regard that affiliate sites have provided invaluable insights and recommendations to help inform such prospective shoppers and reinforce their confidence in shopping online:[9]

Information sources used by digital buyers in Spain prior to making a digital purchase, 2015 (% of respondents)



The Spanish affiliate market's recent adoption of bloggers, niche content sites and social network influencers has enabled brands to utilise these influential figures as a means of targeting and engaging Spanish shoppers more effectively.

21 Buttons is a good example of a home-grown Spanish affiliate taking advantage of the changing habits of Spain's online shoppers and positioning its business in a manner that promotes the kind of peer-to-peer recommendations that are so sought after by Spanish customers.

Developed in Barcelona, this smartphone fashion app allows users to upload pictures of their fashion items, tag them with product links and then share them with their friends and followers. Users who like the products featured in the pictures that are uploaded can then easily purchase the products for themselves within the app, earning the original photographer a commission. The app has already attracted a number of prominent fashion influencers to it and their followers are thus able to immediately keep up to date with everything that their idols wear and purchase it for themselves.

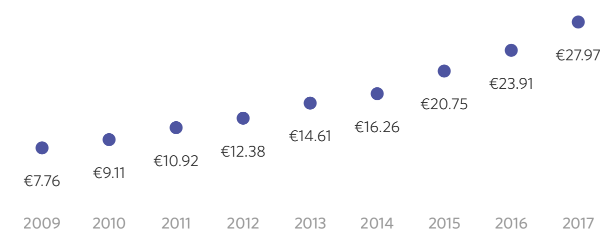
Online businesses like 21 Buttons illustrate the cutting edge of the Spanish affiliate market, however the majority of activity tends to be more orthodox. The primary attribution models remain focused around the last click and are therefore still very much geared towards those affiliates promoting via incentives or discounts.

This perspective is evolving though and because of the strong returns on investment that advertisers have seen from their affiliates, some brands in Spain are beginning to look beyond that last click and investing in activity that doesn't necessarily immediately equate with direct sales. As influence becomes more and more of an acknowledged factor within the affiliate channel and payment models adapt to this new approach to marketing, so too will the publisher makeup begin to reflect this.

Spain is something of a sleeping giant in terms of its digital ad industry with huge potential that is largely untapped so far. The population is huge and with the economy once again thriving, more and more of those people are coming online to shop. Affiliate marketing offers advertisers a powerfully efficient means of acquiring these brand new customers, paying only for the performance they see from their affiliate partners.

Affiliates operating in Spain can expect to both reap the benefits of increased investment as well as contributing in their own way to the online development of a market that is clearly on the rise. Turnover from Spanish online sales was valued at €23.9bn in 2016, up 15% from 2015. This year it is forecast by the Ecommerce Foundation to grow again by double digits to almost €28bn:[10]

Spain's ecommerce turnover 2009 - 2017 (€bn)



With so many more new customers set to join the online revolution of trade in Spain over the next few years, affiliate websites are set to play an important role in cultivating a safe and trustworthy environment that these new customers feel confident shopping within.

Spain Local Market Q&A

Sergio Martinez de Cestafe
Director of Online Marketing, Logitravel (SM)

Silvia Orofino
Affiliate Account Manager, Ogilvy (SO)

Isabel Munoz*
Business Development Manager,
Savings United (IM)

Esther Gutierrez
Digital Sales Manager, Impacting (EG)

*Has recently left Savings United

Where do you see the biggest opportunities in the affiliate market in your region lying?

SM I see a huge opportunity in the development of content affiliates in the industry. It is always difficult to find affiliate sites where the content is unique and which provides the user with added value. However I think there is also a lot of potential with regard to the cashback and loyalty sector. Technology is improving at a rapid pace and there are a lot of cool things that could be done through these partners that would be of interest to advertisers.

SO I see there being two primary ones. The first would be the availability of proprietary network technology allowing brands to consolidate their affiliate programmes into one portal making it easier to manage different programmes across different platforms.

The second would be the number of premium brands that are not yet active in the affiliate market in Spain. Many of these are concerned about their brand image and because of the association with discounting and incentive affiliates do not want to participate. However with the market moving beyond just these models there is an opportunity to have more of these brands enter the industry and help to grow it.

What do you see as the strengths of using affiliates as a digital channel in your region?

IM The affiliate channel is an extremely effective one for engaging new users in Spain.

EG The strengths are in being able to launch a large volume of campaigns and not only in one country in the same place, but also across borders into other regions.

The other advantage is in having direct access to the platform where we can simultaneously check our performance, create and launch new campaigns and it also makes the payment process much simpler and clearer.

SM Clearly, the main strength of working with affiliates is the ease with which you can manage and keep in good shape your advertising ROI whilst, with a little bit of effort, you can also be sure that you are driving quality traffic.

SO Mostly it's the fact that the ROI is so much higher than other marketing channels. However there is also the fact there are constantly so many new partners in the market. There is always something new - it never stops!

Another strength is the fact that an affiliate programme allows you to integrate everything together through one platform. We dedicate a lot of time to strategy, analysis and so on and therefore we rely upon affiliate networks for innovation and market trends. Although we manage directly many partners, we need to push the long-tail partners through networks. We don't have the resources to manage those partnerships ourselves so the networks allow us to centralise all these relationships through a unique point of contact.

United Kingdom

Regional information

64m
Population

$2.94tn
GDP

English
Official language

Pounds Sterling (£)
Currency

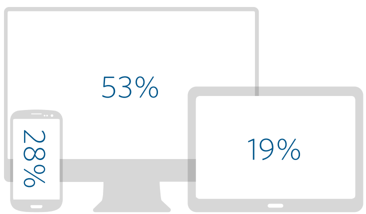
51m
Number of internet users

81%
Adults with a smartphone

Google (91%)
Most popular search engine

57% / 37%
Smartphone platform split

Device split of sales



2,210
Number of advertisers

19,220
Number of active publishers

Awin market information

23% Comparison engine

9% Content

0% Display

1% Email

35% Loyalty & Cashback

4% Sub networks

22% Voucher code

3% Tech partners

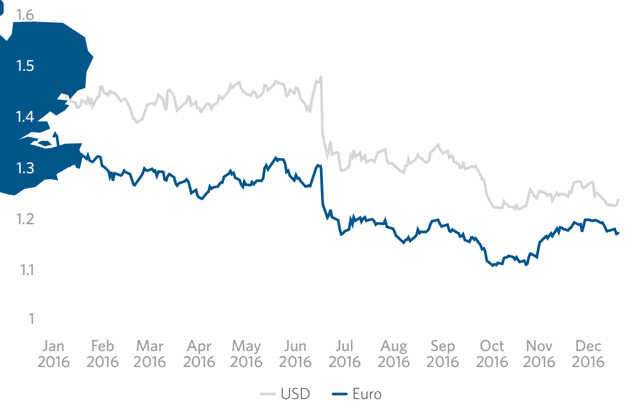
1% Search

3% Social

The shadow of Brexit hangs inevitably over any discussion of the UK's current market state. Former Prime Minister David Cameron's decision to offer the British public a referendum on whether or not to stay as part of the European Union proved far more divisive than could have been anticipated. On Friday 24th June 2016 the results were in. 51.9% voted in favour of leaving the EU, a small but significant majority.

The immediate effect was for the financial markets to react in typically hyperbolic fashion and the Pound plunged to a 31-year low in value against the dollar, the likes of which had not been seen since 1985.[1] Over time that value recovered slightly but, at the time of writing, it is still nowhere close to pre-vote levels.[2]

US dollar and euro exchange rates against the pound, 2016



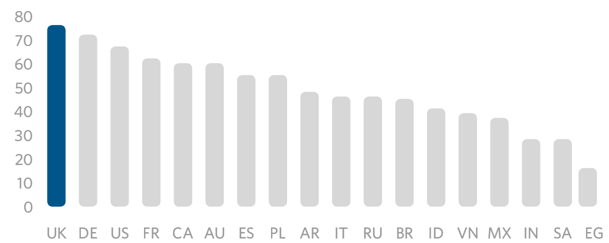
The uncertainty and confusion that has surrounded the speculative position of the UK during and after the Brexit negotiations, have undermined the confidence of many UK-based businesses, and sown collective doubt about investment into the wider economy.

However, despite the negative predictions of a variety of economists and other experts, UK consumer confidence and spending has remained relatively resilient since then. The downturn in sterling's value also had some unforeseen positive upshots – inbound tourism searches from abroad suddenly spiked as foreign tourists sought to save money on trips to the UK, while overseas custom for UK brands also saw an increase, again thanks to international shoppers' savvy instinct for a bargain.

The UK's digital market has mirrored this same resilient outlook with growth apparent across its variety of channels. Total UK digital ad spend amounted to over £10bn in 2016, according to the IAB's latest report, up 17% on the previous year, solidifying its position as the primary means of advertising in the UK above more traditional formats such as TV and print media.[3]

UK consumers have been early adopters of ecommerce, leading the world in many respects, and their eagerness to venture into this sphere has driven brands to invest in digital advertising. We Are Social's annual review of the global state of the digital economy highlighted the UK as having the highest percentage of its population who had bought something online:[4]

Active ecommerce penetration rate (%)



With such high online shopping levels it is then perhaps inevitable that the UK leads the way amongst its European counterparts for digital ad spend. Research from IAB Europe found that the amount spent by UK advertisers matched that of the next three biggest countries combined (Germany, France and Russia).[5]

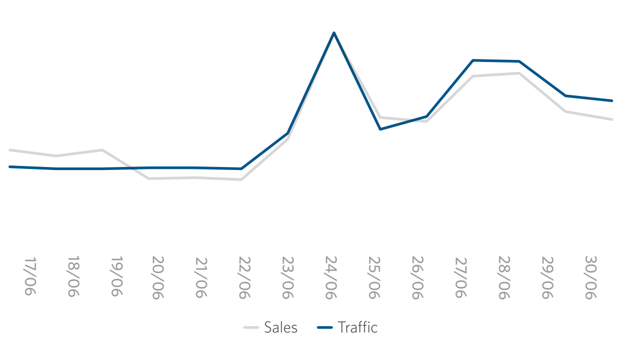
Performance marketing has similarly benefitted from advertisers' faith in the wider digital industry to provide a substantial return on investment. Almost 5,000 advertisers spent over £1.5bn on either affiliate or lead generation activity in the UK in 2016, generating over £19bn in revenue and an ROI of £12.30 for every £1 that was spent with affiliate partners.

Awin's 19,000 active affiliates have contributed significantly to that sizable figure, and it's interesting to see how the network's UK data reflects wider macro trends that are characteristic of the UK market as a whole.

When we consider for instance the impact of Brexit and how this played out across the affiliate activity the network tracked, it's notable for example that sales from China increased by more than 140% on the day of the referendum compared to the previous Friday. Advertisers that traditionally receive a large number of sales from China benefited significantly, and while the volumes from China subsequently settled, they were still almost 80% higher than pre-Brexit levels network-wide.

One of the biggest falls for the Pound has been against the Japanese Yen, and so it was no surprise to see sales from Japan performing 60% higher since the vote, with industries like the bicycle sector seeing a noticeable uplift. The boost in sales from Chinese consumers, was also felt across some of the network's key publishers. Looking at the traffic and sales driven by one shopping directory affiliate site aimed at Chinese consumers, illustrates just how much this one event impacted some affiliates and advertisers primed for international sales:

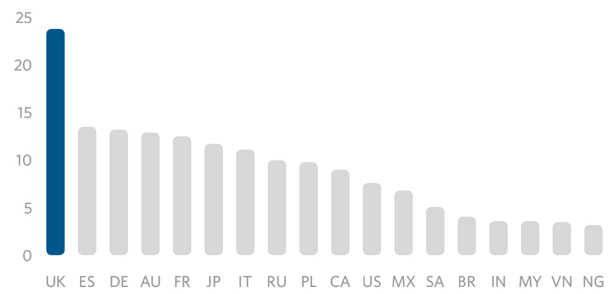
Brexit impact on China-focused affiliate



This type of activity is also something that characterises one of the nascent trends of the UK affiliate market and which the Brexit result helped to shed further light on; rising cross-border sales. There is an increasingly global appetite for British brands and, with the internet being profoundly borderless and many UK brands well setup for delivering internationally, Awin UK has seen a rise in the number of affiliates from other countries seeking to promote these same brands. In 2016 affiliates on our UK network applied from more than 160 countries in order to promote British brands running affiliate programmes, a truly global reach.

Another trending theme has been the extent to which mobile activity has grown. This is very much a global phenomenon as our chapter 'Affiliate marketing in the smartphone era' will later elaborate, but the UK stands out as a particularly advanced territory in this regard. Its combination of a mature ecommerce market and a high smartphone penetration rate in the population (around 81%) has created the perfect storm for mobile-focused activity. Mobile connection speeds in the UK far outstrip other nations and this has enabled its users to consume mobile content at a faster rate.[6]

Average mobile connection speeds (MBPS)



Mobile advertising has been the biggest driver of the digital advertising sector's growth in the UK, recently making up 38% of total digital spend in 2016, almost £4bn. And the UK affiliate industry has seen similarly positive growth from mobile devices too with a 23% annual increase in advertiser spend on mobile activity through affiliates.

Awin UK has seen both mobile clicks and sales increase radically over the last few years, and the insights gleaned from this additional activity have been invaluable in understanding the specific role that mobile devices play in affiliate activity, distinctly different to that of more conventional desktop activity. In fact the insights derived from this activity are compelling UK advertisers and networks to completely re-think their pre-established notions of how people shop online and how to reward those affiliates who over-index for mobile traffic.

One aspect of this is the increasing device agnosticism that UK shoppers demonstrate when browsing and shopping online. These users are oblivious to what device they are using when engaging with brands and affiliates and their online journeys move from one device to another seamlessly. Traditional cookie-based tracking is obsolete here as it lacks the facility to track that movement of the same user across different devices. But cross-device tracking technology, such as that used by Awin, enables a more comprehensive view on these complex journeys, stitching together anonymised device data with users in order to better track their movement online.

What's become clear from this cross-device activity is how much of an influential and initiating role smartphones play as opposed to simply acting as alternative conversion platforms. Although mobile conversion levels have risen significantly, with close to 30% of sales now occurring on smartphones, there is still a distinct difference between smartphones and desktops where customers are clearly in research and browse mode and when they are actively seeking to buy products.

Combine this fact with the growing popularity of influencer affiliates whose traffic is primarily focused at the top of the sales funnel, inciting interest and inspiration and who definitively over-index for smartphone traffic, and you can see why the whole notion of a last-click attribution model is under increased scrutiny in the UK. More affiliate programmes are experimenting with alternative payment models, paying top-ups to those affiliates driving measurable influence to their sites, and rewarding them for work that had previously gone unnoticed for so long.

In this year's Online Performance Marketing study the IAB found that over the course of 2016 affiliates drove around 15m clicks every day. Slowly brands in the UK are coming around to the idea that this influence cannot be generated for free and that a last-click CPA incentive is not enough for these affiliates to sustainably create the valuable content they produce.

However, as UK influencers have increasingly recognised the channel as one they can utilise to help monetise their content and posts, so too have domestic regulators quickly responded to ensure that their audiences are made aware of these commercial relationships. The UK's Advertising Standards Authority (ASA) published guidelines earlier this year intended to compel all affiliate sites to do so, but with specific reference to the burgeoning group using social media platforms, to ensure they are disclosing the nature of their relationship with a brand whose products they endorse or promote.[7]

The ASA was not the only industry body to investigate the commercial dynamics of such websites in the UK. The government's Competition and Markets Authority (CMA) has just recently published its market study on digital comparison tools and how they present their content to consumers.[8] Whilst it found that over 90% of those people surveyed were satisfied with the sites they used, the CMA has still sought to set out ground rules which protect users. At the heart of these are their CARE guidelines, designed to ensure people are treated fairly by such tools being Clear, Accurate, Responsible and Easy to use.

Although some affiliate businesses potentially affected by these regulatory investigations and issuances may fear a clampdown on their entrepreneurial freedom, the fact is that this type of interest from such bodies symbolises the growing status of the performance marketing industry. The substantial size and growth of the channel in the UK recently is such that its contribution is increasingly being recognised by the wider economy and therefore such scrutiny is in many ways a testament to its position as an established facet of the digital marketing mix in the UK.

United Kingdom Local Market Q&A

equator
Sean Mahon
Affiliate Team Leader, Equator (SM)

SPOTTER
Julia Stent
Online Commercial Strategy Consultant/
CEO, Spotter (JS)

What is the most innovative thing you've seen in affiliate marketing in the UK recently?

SM I think the "cross-promotional recommendations" voucher plugin built by Pouch is the boldest thing I have seen recently. We have also successfully trialled SMS retargeting for our travel clients through working with the team at Salecycle recently. The results so far have been great and have really made inroads to tackling mobile abandonment rates.

JS It has only been very recently that we've seen affiliates fully embracing mobile. The industry has been slow to react to the potential of a mobile device, and think outside the webpage. A mobile phone is an ecosystem of apps that can interact with each other, as far away from a static link on a page of HTML as it's possible to get. The most interesting plays would include hyper-local offers triggered by geo-beacons, SDKs for integrating app-to-app partnerships, camera scanners for bills to enable utility comparison, and the like. I also particularly am heartened to see strong intermediaries with significant funding coming into the space to make this kind of functionality plug-and-play for every affiliate operating on mobile.

What do you see as the strengths of using affiliates as a digital channel in the UK?

SM I may sound old-fashioned, but I still believe the CPA model remains affiliate marketing's strongest card as a digital channel. I think of all the wild stuff I've trialled over the years, and the technologies I've been lucky enough to adopt via the affiliate channel, also it really boils down to being able to turn around to my manager/client and assure that they'll only pay if a sale is made.

JS For a long time, I think most industry experts would tout the low risk paid-on-performance model as the key strength of the affiliate model. However, I think we need to acknowledge the fact that most volume drivers within the channel do not in reality work this way. Most mid to high volume publishers will now require integration fees or paid placements in order to achieve any kind of scale on their platform, as a hybrid alongside the standard commission model. I think this is justified, as it balances risk between the publisher and advertiser as well as enabling payment for resource and engagement.

What are the biggest weaknesses of the UK's affiliate market?

SM I think networks have not been great at clamping down on some of the more controversial behaviours exhibited in the channel. In my opinion, the 0% commission debate should never have come about, and I think networks should have nipped that in the bud from the get-go. Imagine turning around and questioning your Google PPC at the end of the month and insisting on only paying CPCs for new customers.

JS The main factor holding back the industry in the UK is its reluctance to broaden the thinking of affiliates as anything more than just "websites on desktops". If you ask most industry people, to picture affiliate activity, this would probably involve a computer screen and a text link. This stagnation in thinking is the reason why affiliates as a whole can lag behind in the types of devices, technology and functionality used in comparison to other areas like the startup community. There are many excellent exceptions to this, but I think they're thought of as exactly that - exceptions, not the norm.

Where do you see the biggest opportunities in the affiliate market in the UK lying?

SM Affiliate industry spend in the UK in 2016 was in the region of £1.57bn. Every year I see those numbers coming out and every year they invariably grow. The barrier to entry is lowering for merchants who want to incorporate affiliate marketing into the mix. Everything from tracking implementation to network support has improved over the years. I think the continued growth of the industry will afford the biggest opportunities.

JS I think a great place to start would be to look at changing trends in consumer spending. We spend all day every day working online, so it can be easy to forget that, there are still a number of industries that are yet to make the shift over to ecommerce. There are sectors that would be really interesting for affiliates to explore due to the growth in spending and a shift to online purchasing, like dental products, pet food, sports nutrition, business services, etc. I think big opportunities lie here for fast movers.

United States

Regional information

324m
Population

287m
Number of internet users

$18.03tn
GDP

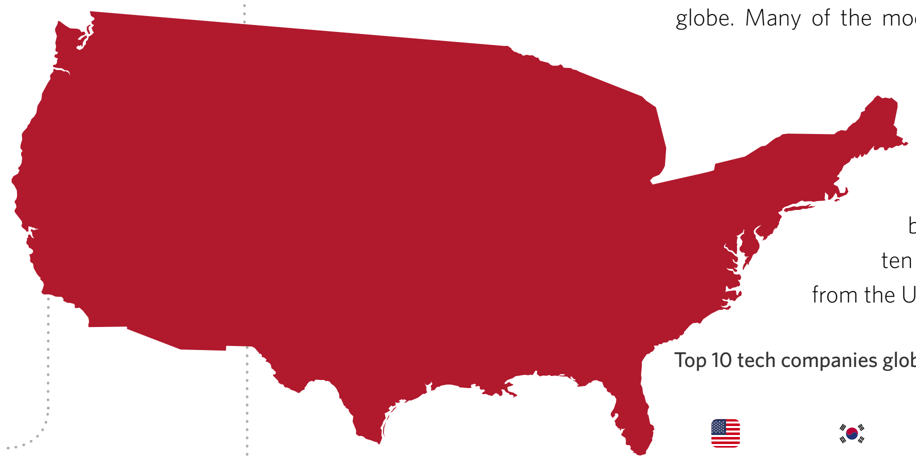
81%
Adults with a smartphone

English
Official language

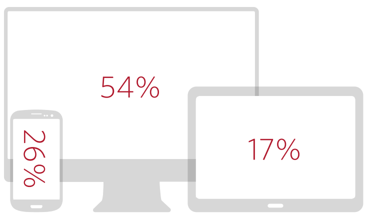
Google (64%)
Most popular search engine

US Dollars (USD/$)
Currency

52% / 43%
Smartphone platform split



Device split of sales



4,700
Number of advertisers

105,258
Number of active publishers

Awin market information

Comparison engine	23%
Content	11%
Display	0.2%
Email	1%
Loyalty & Cashback	35%
Sub networks	4%
Voucher code	20%
Tech partners	2%
Search	2%
Social	2%

Home to some of the biggest names in the tech industry including Google, Facebook, Apple, Microsoft, IBM and countless others, the US' tech culture has dominated and influenced consumers and their shopping habits across the globe. Many of the modern phenomena we associate with the cutting edge digital landscape originate in the US and the country's status as the pre-eminent hub for innovative business success is highlighted by the fact that eight of the world's ten biggest tech companies originate from the United States.

Top 10 tech companies globally

1 Apple	2 Samsung	3 Microsoft	4 Google	5 IBM
6 Intel	7 Cisco	8 Oracle	9 HP	10 Foxconn Technology Group

With such an innovative and tech-driven business culture it's no surprise the digital advertising industry continues to be seen as globally pioneering with an expected $83bn to be spent by US firms in 2017, more than any other nation globally, although other nations such as Australia and the UK do fare better in terms of spend per capita.

Internet access is high among the wider population with only 10% not online and the majority of its citizens enjoying internet access through their smartphones meaning there is an enormous audience to be found there.

However, as much as this is a huge market, it's also one that is increasingly dominated by just two main players; Google and Facebook. The duopoly's combined reach saw them draw in almost two thirds of the US' digital ad spend in 2016.[1] That spend was up by 20% on the previous year's investment. On the face of it that's an indication of the industry's burgeoning status. Yet on closer inspection virtually all of that same growth was derived from these two tech giants and their own monumental success over the last 12 months. This is a trend that has been replicated in other markets with corresponding question marks about where innovation and reach will come from away from these platforms.

> "Facebook and Google's combined reach saw them draw in almost two thirds of US digital ad spend in 2016."

With Google and Facebook dominating so much of advertisers' spend for reaching US customers, it's easy to see why the competition is fierce from other channels over that remaining ad budget. Performance marketing has had to work hard to earn its proverbial crust in the US but its robust, performance-led model and healthy return on spend has more than justified the faith that participating brands have invested in it.

As the founding father of the industry it is to be expected that the US affiliate market would be a particularly well developed one. There is still some debate as to who can claim ultimate responsibility for initiating the principles of performance marketing for the first time with William J. Tobin's PC Flowers & Gifts.com vying with the likes of CDNOW and AutoWeb.com for that individual honour in 1994. What's certain is that this fledgling marketing process, paying a commission to a partner for inciting a customer action online, was popularised by Amazon in 1996 and quickly scaled into the multi-billion dollar global industry that it now resembles. Not to mention helping to facilitate Amazon's own growth into the world's largest ecommerce giant.

Market research firm Forrester assessed the current state of the affiliate industry in the US last year and found that advertisers were spending around $5bn on affiliate partnerships. That investment is forecast to rise over the next few years by around 10% year-on-year, reaching almost $7bn by 2020.[2]

Total affiliate marketing spend, 2015-2020 ($m)

According to BI Intelligence, 15% of digital media revenue in the US comes from affiliate marketing, making it one of the four largest sources of ecommerce orders, outperforming social commerce and display advertising.[3] With one in seven dollars having been impacted by affiliates, the influence and reach, not to mention base from which the industry continues to grow, is obvious.

This increasing advertiser spend represents a corresponding increase in interest from both US ecommerce brands and publishers who perceive the channel as one that is now a viable, valuable and transparent means of both marketing and monetising their traffic.

The industry has worked hard to get to this point. In the early days when there was little accountability and transparency, it's fair to say the channel suffered reputationally with several high profile cases of affiliates who were guilty of 'black hat', underhand tactics designed to drive sales volume at the expense of value.

One of the strengths of the affiliate channel is its ability to reinvent itself and after a period of introspection, major players have combined to stamp out bad practice under the auspices of the trade body that represents the performance industry in the US, namely the Performance Marketing Association (PMA).

The PMA was formed in 2008 and since then has worked to champion and protect the industry, modelling standards of best practice as well as advocating on behalf of those businesses that comprise the performance marketing industry in the US.

One of the major issues the PMA has been tackling more recently has been the so-called 'Nexus' or 'Affiliate' tax which works on the basis that affiliates are accountable for a tax on the merchant sales that they influence.[4] The effect of this tax has been such that it has led to the termination of some merchant programmes in the states that enforce it and has ultimately risked advertisers shifting budget elsewhere.

Similarly, the PMA has been vocal on the issue of affiliate disclosure in an age of social media advocacy and influencer marketing (see the 'Brand safety and self-regulation' chapter in The Awin Report for more detail).

By working collaboratively to produce a robust framework of self-regulation and best practice guidance, the affiliate channel has shown itself to be forward thinking in the current climate of increasing client-side demands for transparency and clearer measurement which should hold it in good stead and aid continued growth.

As in other territories, there is no doubt the channel's reputation in the US has improved to the point where an increasing number of publishers and advertisers are embracing the channel as one to utilise on a more permanent basis. Of those surveyed by Forrester in their research more than 80% of advertisers and 84% of publishers revealed they either run an affiliate programme or use it regularly to monetise their content.

Affiliate networks in the US have historically shared account management responsibilities with a layer of dedicated specialist affiliate agencies who have tended to shoulder more of the guidance of their programmes. However, a concerted effort by some networks to provide a range of additional services, including ongoing strategic account management, has seen them experience rapid growth as well as challenge the existing status quo.

As with many of Awin's global territories there are commonalities in the trends the US market has seen recently which reflect wider patterns in user behaviour and ecommerce habits.

Ad blocking has been on the rise for some time and eMarketer's insights reveal around one quarter of US internet users are employing these as of the close of 2016.[5] Recognising a need to bypass more 'traditional' online advertising tactics that can be affected by such ad blocking tools means that, as elsewhere, there has been an influx of interest in influencer marketing in the US.

Of course, the US is the home to some of the original and biggest social media platforms in the world including Instagram, Facebook, Twitter and Snapchat. US brands have been quick to see their value as a means of promotion, and affiliate sign-ups via these social platforms have reflected this same appetite. The challenge for affiliate marketers globally is to take the influencer marketing template and adapt it to our channel. With an increasing focus on the return on investment from influencers, the affiliate industry is expertly placed to capitalise on it.

It will be critical to ensure affiliate disclosure accompanies that shift. Maintaining an authoritative and trusted voice is always a fine line to walk when content is monetised and must be an important consideration. In early 2017 The Federal Trade Commission (FTC) issued more than 90 letters reminding influencers and marketers that they should clearly and visibly disclose relationships with brands when promoting or endorsing their products through social media platforms.[6]

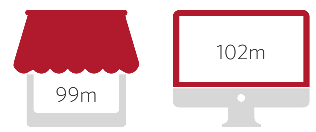
"A recent study found that 60% of American internet users had redeemed a digital coupon or code when looking to shop either online or offline."

Despite the growth of this significant and important area of digital marketing, incentive publishers drive the biggest proportion of sales as a publisher type on the US network, with over half of the sales tracked and almost 60% of advertiser revenue being derived from coupon or cashback affiliates. These same affiliates have begun to establish themselves as major publisher brands in their own right, advertising their sites with large billboard ads in major malls and via other traditional media platforms such as TV and radio as a means of increasing their audience reach.

The American public are increasingly a deal-savvy audience and the popularity of such sites is revealed in a recent study which found that 60% of US internet users had redeemed a digital coupon or code when looking to shop either online or offline.[7]

The original global discounting event, Black Friday, was of course initiated in the US and its origins as an offline event, primarily focused on in-store purchases as part of the Thanksgiving holiday weekend, had meant that up until recently it lagged behind other territories' online performance. However, 2016 marked a continued shift towards shunning stores for ecommerce sites. Interestingly countries such as Brazil and the UK, where the event has been imported over the past few years, have experienced the event through an online filter and a proportionally larger percentage of sales track online.

2016 saw online Black Friday sales overtake offline ones definitively for the first time with 108m US customers shopping via the internet compared to 99m who actually went into bricks & mortar stores to purchase.[8] Adobe were quoted as reporting that the online shopping figure had reached over $7bn, a 17% increase on the previous year. Much of this growth will have been driven by many of the US' biggest shopping retailers, such as Walmart and Target, responding to Amazon's domination of the event online and who sought to improve their own ecommerce offerings in an attempt to compete in the space at this lucrative time of year.



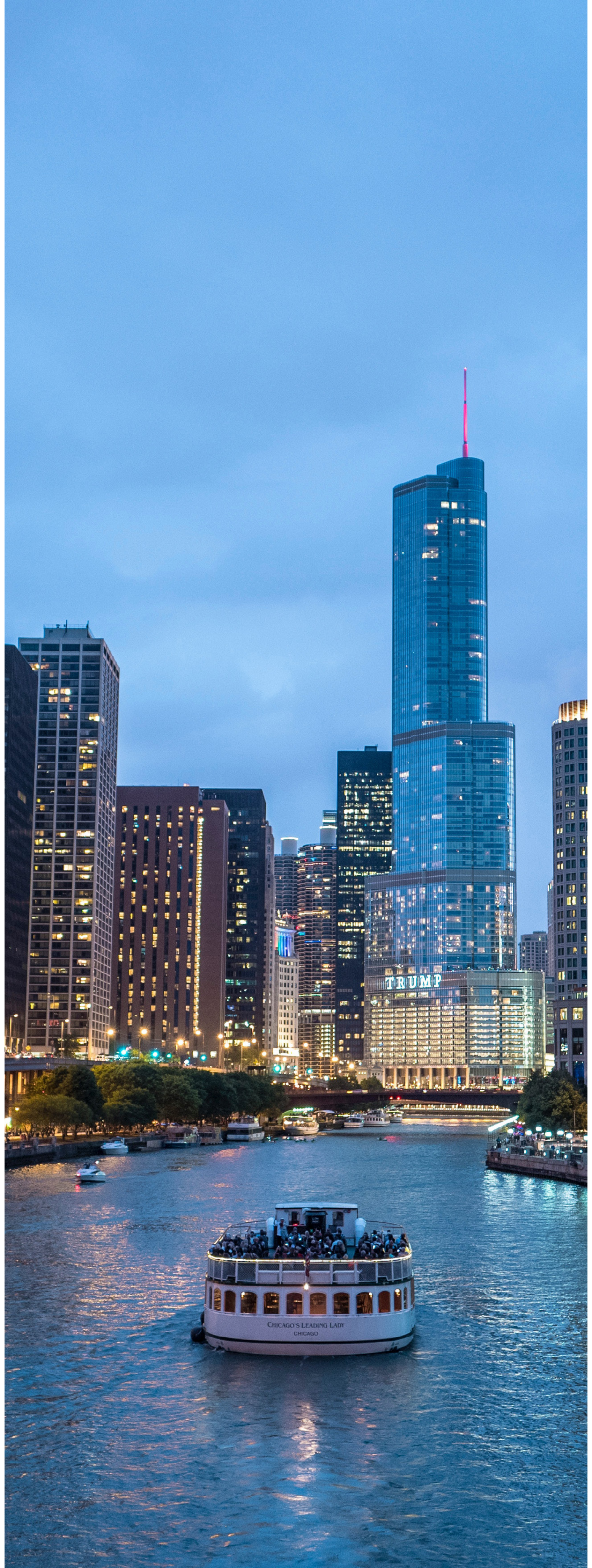
The increasingly large Chinese-American population has led to China's Singles Day also making waves in the US, competing with Black Friday as one of the year's biggest calendar events for online sales. Chinese-American affiliate sites such as SMZDM, DealAm, 55Haitao and Dealmoon have all profited from US brands beginning to create seasonal promotions or sales events around this day as a means of tapping into this burgeoning audience as well as from the fact that the US is second only to China in the world as a destination for online cross-border shopping.

With a host of internationally recognised brands who are generally well set up for cross-border ecommerce, the US is a natural destination for such global shopping interest. Affiliate websites have helped to accommodate and encourage this appetite. Their platforms provide a virtual shop window for brands to showcase their products to entirely new customers across the globe and in doing so they play a vital role in sustaining the US' status as an online shopping superpower.

United States Local Market Q&A

ACCELERATION PARTNERS
Robert Glazer
Founder & CEO, Acceleration Partners (RG)

GIVING ASSISTANT
Katie Horgan
Director of Business Development &
Co-Founder, Giving Assistant (KH)



What is the most innovative thing you've seen in affiliate marketing locally?

RG The first thing that comes to mind is the convergence of influencers into the performance model. While the initial fervour seen in 2014 to 2015 has subsided, there's still a great deal of interest in working with influencers, particularly niche influencers with a strong social media following between 10,000 and 100,000. The vexing challenge that brands still face is how to determine the ROI of influencer campaigns.

This is where the affiliate model comes in. The model is structured to connect high-value content affiliates with top brands, track their performance, and compensate them according to the outcomes they produce. Often this is sales, but it's also lead generation, new customers, and brand awareness. The primary piece of the puzzle that's missing is proper tracking and oversight.

The way forward for brands is to integrate these content creators into the broader performance ecosystem. This trend is already underway, with greater oversight, clearer performance metrics, and the recognition that the concept of influencers is essentially a rebranding of services that content affiliates already offer

KH The most innovative development in the US has been the use of browser extensions as well as new tracking methodologies tackling some of the industry's biggest challenges: app-to-app attribution tracking, cross-device tracking and online-to-offline tracking, etc.

What do you see as the strengths of using affiliates as a digital channel in your region?

RG I think the strengths of partnering with affiliates in any region are that they are strong, influential brand advocates – content affiliates in particular. In addition, affiliate is really the only model that allows companies to track performance and ROI.

Consumers have also become more sophisticated and demanding about how they shop. By partnering with affiliates, companies are better able to reach these discerning consumers in a more authentic, scalable, brand-aligned way. Consumers prefer to research brands and products on their own and tend to leverage blogs, videos, and social feeds to learn more and get 'independent' recommendations – all of which are the marketing wheelhouse of affiliates.

KH The greatest strength is the fact that it is completely performance-based commissioning. As a brand, you only ever pay for the performance that you want to incite. This alone is a huge strength for the channel.

Where do you see the biggest opportunities in the affiliate market in your region lying?

KH I think that by educating marketing executives on the benefits of affiliate marketing, as well as creating official certification opportunities and hosting ongoing educational events, the industry will be able to attract top-level talent.

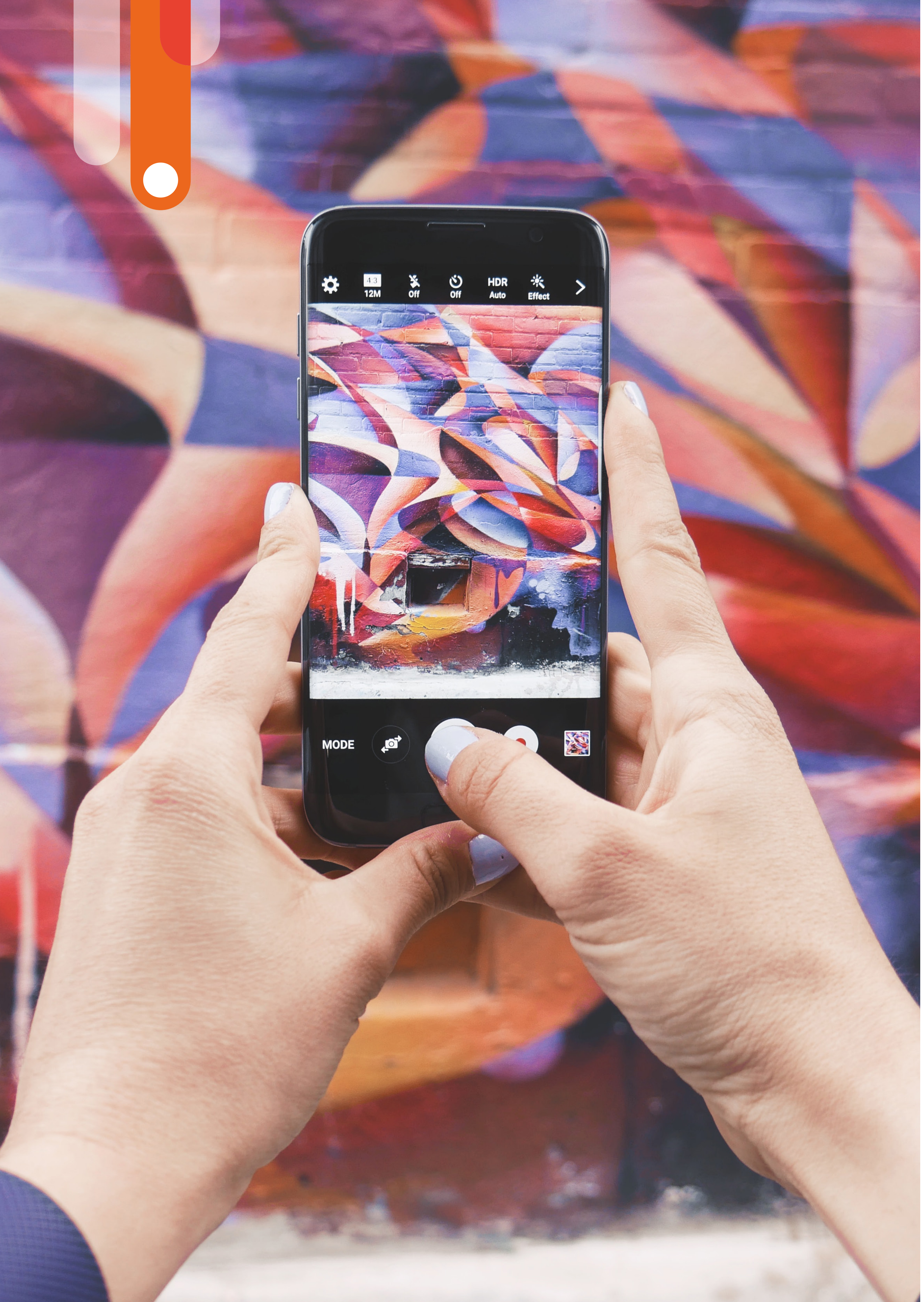
RG By advocating what I call a Performance Partnerships framework. In this framework, all the elements one traditionally associates with high-end affiliate marketing are included, plus new channels, such as app-to-app marketing, business development, digital partnerships, post-transaction offer platforms, and influencer marketing. In a Performance Partnership, there are four essential attributes:

1) There must be a CPA element. Unless brands can make a clear connection between the results they're getting and the amount of money they're paying, there's no clear performance link.

2) Transparency is essential. It's about developing a quality relationship and having clarity, understanding, and ease about what's being done to promote and represent the brand. In a Performance Partnership, you know what your partner is doing and how they're doing it.

3) There is a real relationship. Affiliate marketing can be anonymous. You may pay for thousands of leads or sales, without truly understanding where they came from. By contrast Performance Partnerships are about knowing and trusting what your partner is doing, which requires quality communication.

4) A real-time tracking and payment platform. Performance Partnerships use real-time tracking platforms to handle operating agreements, tracking, and payments. These platforms also provide transparent real-time reporting to both parties.



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Affiliate marketing in the smartphone era

Ten years ago, Steve Jobs walked out onto a stage in San Francisco and declared that his company was about to revolutionise the fledgling smartphone market. Apple is not a company famed for its modest understatement when promoting their own products, but it's safe to say that the launch of the now iconic iPhone had an impact that reverberated far beyond the contours of the handset industry and most probably beyond the imaginings of Jobs himself too.

There have been over one billion iPhones sold in various iterations since then and the device swiftly raised the bar for other smartphone manufacturers. This ushered in a new era that saw adoption rates across the globe rise to the point where roughly half of the world's adult population now own such a device.[1]

Global smartphone penetration rates, select countries (%)

01 United States 81%
02 Canada 66%
03 Brazil 40%
04 Sweden 76%
05 Denmark 89%
06 Netherlands 75%
07 Germany 74%
08 United Kingdom 81%
09 France 61%
10 Italy 72%
11 Spain 85%
12 China 49%
13 South Korea 76%
14 Australia 80%

We live in an age now where much of our lives are mediated through these sleek, dark slabs of plastic and glass. In October last year, global mobile web browsing overtook desktop web browsing for the first time. On average we spend almost three hours a day on our smartphones and one in ten adults check their phone immediately after waking. 90% of Japanese smartphones are waterproof because they're routinely used whilst showering.[2]

The statistics vary but they all point toward the same conclusion; we are increasingly addicted to our phones. We have become dependent upon them to such an extent that the term 'nomophobia' has been proposed to describe the fear of being without your phone. We use them to talk, to share, to photograph, to locate, to read, to research and, most importantly for advertisers, to buy.

> "We use our phones to talk, to share, to photograph, to read, to research and, most importantly for advertisers, to buy."

As people have increasingly used their handsets to browse and buy products so brands have followed them onto the platform, competing for their attention. Over $100bn was spent worldwide on mobile advertising last year and that figure is set to rise further as we collectively spend more and more time using our devices and interacting with media through them.

Over two thirds of all digital time is now spent on a mobile device. That time is incremental too – it sits in addition to the time we already spent historically using the internet on desktops. In the US alone there was a 25% increase in total time spent consuming media on mobile devices in 2015.

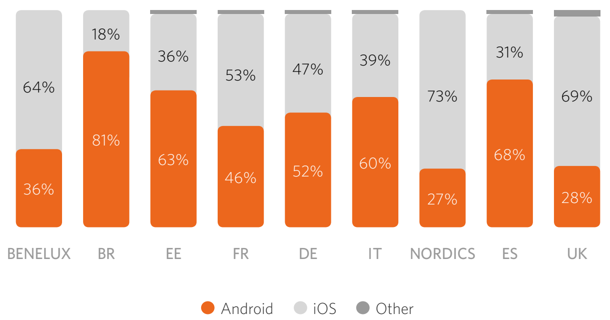
Smartphones have radically altered the manner in which we access and use the internet and whilst this has grown the opportunities that advertisers now have to target and promote their brands to audiences (reflected in the massive growth of investment in this area), it has also complicated the ways in which they can monitor and incentivise this behaviour effectively.

For the affiliate industry these same opportunities and obstacles are similarly abundant. Across our global network we've seen a significant uplift in both the traffic and sales that are now derived from mobile devices in recent years.

Whilst this general uplift is interesting in its own right, mirroring a wider global trend, the real, practical insights to be gleaned from this change are only available once we start to dig deeper into the details of the data and consider the reasons of how and why these changes are occurring and what effect they have on affiliate programmes.

For instance, beyond knowing that our Brazil network sees around 16% of sales occurring on mobile devices, it's perhaps more interesting to note that of those sales over 80% of them occurred on smartphones using Android operating systems. Meanwhile in the Nordics, only 27% of smartphone sales occurred on Android, the remaining 73% all came from iPhones using iOS. Knowing this and also knowing how this regional difference in handset preference impacts something like the average basket size of transactions helps us to make more informed marketing decisions in these regions.

Smartphone sales share by operating platform (%)

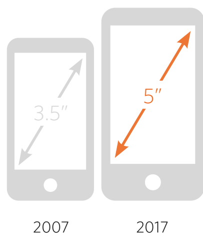


Any advertiser running a global campaign with affiliates in both these regions is therefore able to use this insight to better tailor their marketing efforts to regional users and the devices that they're engaging with the brand on.

Being a performance-focused industry, one of the first factors that is worth considering is how the smartphone and tablet perform as conversion devices. Sales have been the ultimate benchmark for the affiliate world for as long as it has existed, its model predicated upon the CPA metric. And when we look at the conversion rates for these devices we can see that despite desktop gradually losing its share of traffic and sales over time, it still remains the most effective platform on which shoppers will buy products. This makes intuitive sense. Online shopping was a phenomenon birthed on the PC and user familiarity with this desktop experience gives it a distinct advantage over other subsequent platforms. The ecommerce journey on desktops is, on the whole, a standardised one and shoppers are used to the notion of inputting their payment details into a website to complete their purchase.

By contrast early attempts at mobile ecommerce were hampered by an unfamiliarity with this experience on a phone screen and users were less willing to submit sensitive personal information in such an alien environment. This, combined with other factors such as websites which weren't optimised for mobile devices and smaller handset screens which made navigating these sites even more difficult, made the whole online mobile experience a distinctly unappealing one, unsuited to browsing content and purchasing products.

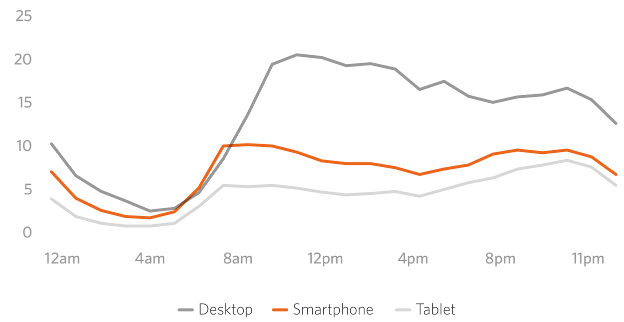
Over time though, all of these things have improved to a point where customers are clearly happy to use mobile devices in a manner akin to desktops. While the original iPhone launched back in 2007 had just a 3.5" screen, today's giants approach nearly a 5" screen size.



Google's constant updates to its algorithm have in recent years sought to actively promote those sites with mobile-optimised versions that make user navigation easier. The aptly named 'Mobilegeddon' update in April 2015 was the most significant of these, signifying that a website's 'mobile-friendliness' would for the first time be considered a ranking value by the search engine.[3]

However it's worth noting that the improved user experience for mobile sites hasn't meant a completely identical transference of user behaviour. There are distinct differences in the way in which people browse and shop via their smartphones, tablets and desktop devices and a quick look at one of the year's most popular global online shopping days, Black Friday, illustrates this point well:

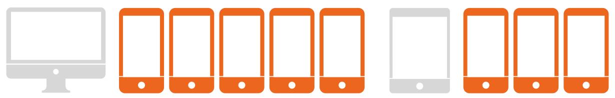
Black Friday 2016 sales by hour



The chart above illustrates the number of sales that Awin tracked on desktops, smartphones and tablets by the hour across the course of Black Friday 2016. This is an aggregation of sales data across all of Awin's global markets and offers a 24-hour window of insight into user shopping behaviour on different devices.

As we can see from the chart, for the majority of the day the desktop is still the primary form of choice for shoppers globally wanting to take advantage of the multitude of discounts and offers available from Awin's retailers. However it's notable that the smartphone briefly overtakes the desktop as the most popular device of choice for purchasing items, between 6 and 8am; smartphone primetime for Western Europe's commuters. According to one recent report a fifth of all UK online shopping sales occur during people's daily commute and the Black Friday morning spike mirrors this trend.[4]

Whilst the UK is clearly a frontrunner when it comes to smartphone sales this was also a trend seen in several other regions. The same early morning period saw over 60% of revenue tracked via handsets in both Sweden and the Netherlands, both nations where smartphone penetration rates are relatively high and there is a mature state of mobile ecommerce.



Black Friday is also an opportune time to understand more general trends around devices. When we look specifically at the growth that each of these devices has seen as sales-drivers on Black Friday compared to the previous year, it becomes clear that smartphones are the burgeoning device of choice for consumers. Compared to 2015, across the network smartphones sales grew on average at five times the rate of desktops and three times that of tablets.

But it's important to remember that this growth from smartphones is not consistent across all sectors. There are particular products and brands that benefit most from smartphone activity, where the online shopping experience is relatively simple, the price points tend to be generally lower and customers are more willing to purchase impulsively, without too much deliberation.

Take 'fast fashion'. With a young demographic and appealing to the 'mobile first' generation, such brands all over-index for smartphone traffic and sales.

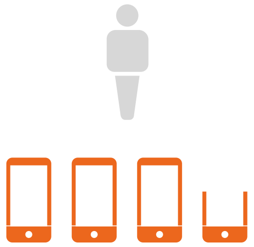
In the UK in December 2016 around 44% of sales were attributed to smartphones in this sector compared to 28% each for tablets and desktops. In France handsets drove 31% of all revenue in the womenswear segment, double that of the network as a whole. The Netherlands witnessed a similar pattern.

In comparison, when we look at a sector such as travel where the average basket value is higher and the degree of research and deliberation a customer undertakes before committing to purchase is much higher (up to 161 sites are visited 45 days prior to a booking according to Expedia's latest research[5]), the conversion rate for smartphones drops significantly.

> "What is clear when we talk about the status of smartphones is that they play a highly influential role beyond just last click conversions."

We should be careful not to write off mobile devices for these industries though. Their conversion rates might be lower by some margin for sectors such as travel, telco and finance but there is still a sizable amount of mobile traffic being tracked for such brands. And what is clear when we talk about the status of smartphones is that they play a highly influential role beyond just last click conversions .

It's at this point that we must talk about the proverbial elephant in the room that is present in any discussion of device usage in online advertising today: cross-device tracking.



The average digital consumer now owns 3.6 connected devices according to recent research[6] and their online journeys are frequently device-agnostic. They move seamlessly from desktop to tablet to smartphone, picking up their journey where they left it on the last device. Google research reveals that over half of people now use more than one type of device on an average day and over a fifth are using these devices simultaneously or 'double-screening' as it's known.

This situation inevitably threatens the status of the cookie, the linchpin of online tracking methods historically and the backbone of traditional affiliate tracking. With many customers continuing their online journeys across different devices the cookie becomes something of an anachronism, able only to provide a stunted view of these journeys and losing track of customers as they ghost from smartphone to desktop or tablet.

Affiliate marketing, with its wide and varied ecosystem of publisher websites which cover every phase of the customer journey, from inspiration and research to comparison and conversion, must be able to monitor this movement accurately in order to attribute rewards fairly. If we are limited to a single-device view, cross-device transactions are going unrecorded and therefore unrewarded.

Recognising the emerging pattern of behaviour early on, Awin launched its own cross-device tracking solution in 2015. Since then, the network has collected more than 40 million user profiles for cross-device tracking from all around the world. These profiles are all stored using encrypted, deterministic, first-party data to create links between devices (see 'Cross-Device Tracking' box). To put that number into perspective, last year the Office for National Statistics estimated that the UK's active internet population was around 51 million people.

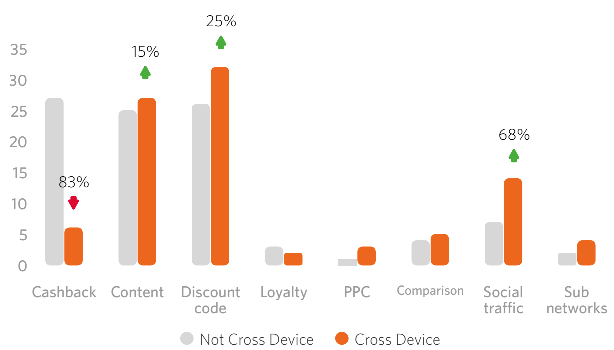
This volume of data means we have been able to understand better how people use different devices at different stages of the customer journey. Whilst the latent power of the smartphone as a conversion tool has come to the fore in recent years for sectors like fast fashion, its real power, more generally speaking, lies in its field of influence.

We know that the majority of consumers are using multiple devices in their path to conversion. And much like we know that a large proportion of traffic from content sites is influencing traffic, the same can be said of smartphone traffic. If we combine these two elements, we know that customer journeys are typically starting out on mobile devices by browsing content sites, particularly niche bloggers and social content affiliates who are over-indexing for smartphone traffic.

This fact is brought into sharp focus when we analyse how many cross-device sales smartphone-orientated affiliates drive for one of the network's large retailer programmes.

The chart here illustrates the share of sales for this advertiser by affiliate type that occur on just one single device versus those that have taken place after a customer has moved across different devices.

How might a programme change with cross-device tracking?



What is clear here is the degree to which content sites and particularly affiliates that drive social traffic are benefitting from the ability to track cross-device activity.

When we place this insight into the context of understanding where these affiliate types sit in the traditional customer journey, firmly towards the top of the sales funnel where people are open to inspiration and are initially researching their potential purchase, it highlights just how much influence would go recognised without a cross-device tracking solution in place.

Cross-Device Tracking: Probabilistic vs Deterministic Tracking

There are two methods for tracking the movement of a single user across multiple devices, deterministic (like Awin's) or probabilistic. Probabilistic matching involves the use of a variety of anonymised data points such as the device type, IP address, web browser and user location to build profiles through the use of statistical algorithms that connect and match these to one probable identity that can then be tracked across devices. This is the technique utilised by a number of prominent third-party mobile tracking companies.

By contrast deterministic matching uses first-party data from users to make a match between a person and a device that they have actually logged in on. This type of tracking is utilised by the likes of Facebook and Google who are able to tap into their huge base of user data to monitor the movements of people across different devices.

Not everyone is in the convenient position of Facebook and Google, already sitting on an enormous pile of first-party data that they can access to track this movement at scale around the world. For many companies seeking to understand the movement of their customers across different devices in an online shopping journey, the appeal of a probabilistic approach is compelling. The solution allows them to achieve scale without having to overcome the inevitable hurdles of attaining that hard-to-source first-party data.

However the drawbacks are significant, particularly in an industry such as affiliates which is premised upon transparency and upon advertisers paying for sales that have been driven to their sites by their affiliate partners. Accuracy is paramount in our industry and for that reason alone the need to ensure that the profile tracked on one device matches that on another is essential.

When we also consider that those customers are more likely to be browsing this content on a smartphone and that social traffic affiliates will primarily derive theirs from mobile-first platforms like Facebook, Twitter and Instagram, we get an indication of just how transformational the ability to view this user journey can be for a brand's affiliate programme.

What was once seen as a simple, linear movement taking place quickly is actually revealed to be a complex, expansive journey with multiple touchpoints and an array of partners contributing to the eventual sale.

By contrast it is interesting to compare the state of cashback partners when cross-device is turned on. The number of cashback sales that involve more than one device drops significantly. Cashback's model, designed to incite a user to convert immediately means that it makes sense for single device sales to make up a higher proportion than cross-device.

Because a certain segment of consumers has been accustomed to ensuring they receive their cashback, the path to purchase is typically quite straightforward and as a consequence cashback and also loyalty platforms drive notably less volumes of cross-device sales.

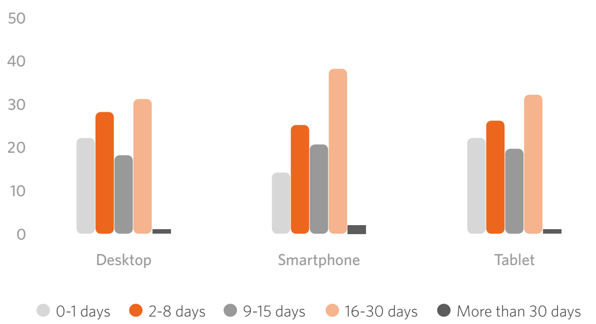
Cross-device tracking has also forced us to reconsider notions about an affiliate programme that were thought to be set in stone. For time immemorial it has been understood that in the vast majority of instances a user clicking through an affiliate link will then convert within 24 hours but often in an even shorter window than this.

It is for this reason that there has often been debate around the idea of shortening the industry standard 30-day cookie window which, at first appearance, would seem to offer more than enough room for any belated sales to still be tracked and rewarded.

However the introduction of cross-device tracking has revealed that the typical length between the initial click on a smartphone through to a conversion taking place on a secondary device is distinctly longer than first thought. If we look at sales that were initiated on a smartphone and subsequently converted on a desktop just over 20% were on the same day.

By contrast the number of sales occurring between 16 – 30 days is in excess of 30% and there are even instances of sales being tracked that exceed the normal cookie window that has generally been established by advertisers. These are genuine sales which under the normal conventions of an average affiliate programme would simply not be rewarded . So rather than shortening the standard cookie window should we instead be discussing lengthening it?

Sales lag by converting device when smartphone initiates



The mobile world is a manifestation of digital so it's impossible to do justice in a few thousand words to the scope it offers. While mcommerce has been a core focus over the past few years, there has been a shift towards more mobile web-to-app as well as app-to-app connectivity. This additional insight helps further our understanding about how consumers switch between the varieties of platform that retailers – not to mention publishers – offer. Networks, alongside ad tech companies, have developed additional functionality to help track this activity.

> "Apps have an inbuilt advantage to directly market to their users which begs the question as to whether a lifetime customer value model is more fitting for affiliates."

Inevitably with any such developments, further questions arise about the best remuneration for publishers given classic CPA rewards may not always be appropriate or reflective of customer value delivered. Additionally, apps have an inbuilt advantage to directly market to their users through prompts and alerts that can potentially shut affiliates out from future purchases raising question marks about whether a lifetime customer value model is more fitting.

This will be an area that companies will seek to push more resource into, possibly seen as the next iteration of tracking to sit alongside cross-device capabilities. With initial feedback from affiliates who have partnered with brands on app-tracked campaigns suggesting the seamless connectivity produces a slicker and faster path to purchase, which in turn leads to improved conversion rates, there will be increasing demand for the technology to be assimilated within the affiliate marketplace as standard.

One additional area of tracking that has achieved some success but perhaps not as much as many thought a few years ago, is the online to offline piece. In The Awin Report we touch on a couple of examples featuring brands who have used voucher codes via affiliates' apps and mobile sites to drive customers into stores based on geolocation data. As well as the obvious sales-driving mechanism, additional insights have demonstrated that they are a useful tool for upselling additional products in-store as well as a device for driving new customers.

Ultimately what is clear in any discussion of how devices are being used today in affiliate marketing is that the modern landscape is an increasingly complicated one. The additional insights that have been gleaned so far from assessing the roles of smartphones in comparison to tablets and desktops have posed more questions than offered definitive answers. We are still learning about how customers interact with these different devices and we will go on learning as their usage continues to evolve and change.

That learning curve will only get steeper as advertisers and affiliates attempt to keep pace with younger generations and developing nations for whom the smartphone is their primary or only online portal, not a supplement to other devices. On an average day teen internet users worldwide spend more time online on their smartphones than any other device, almost four hours a day, and more than any other previous generation.

Meanwhile Africa is a continent that has seemingly leapfrogged the 'normal' steps of basic online infrastructure with many nations' inhabitants adopting smartphones as their first and only means of accessing the internet. 16 smartphones are sold every minute in Nigeria alone and by 2020 there are predicted to be twice as many smartphone connections in Africa as there will be in North America.

It's therefore essential that the affiliate industry continues to review and adapt even its most fundamental tenets in order to retain its position in a cutting edge digital market. What we've learned so far has shed new light on the role and value of affiliates in this new world of multi-device usage and the health of the affiliate industry is dependent upon such insight.

With the launch of Apple's new handsets, the iPhone 8 and iPhone X, released ten years after the first, ground-breaking iteration, affiliates stand ready to anticipate the next steps in this mobile revolution.

The importance of global retail events

The growing globalisation of retail through ecommerce is aided by increasingly standardised marketing methods. This is reflected in the rapid adoption of global shopping events which enable brands to project their biggest and best deals to a worldwide audience. In 2016 Black Friday, the day after Thanksgiving, went mainstream for the first time in countries such as The Netherlands and France, the day acting as an additional lever for brands looking to expand their footprint. This represents a huge opportunity for retailers with affiliate programmes, but what are the practical considerations and logistical challenges retailers face in order to maximise both sales and profit?

Borders are breaking down

Retail is becoming increasingly international and global in focus. With lower barriers to entry and logistical advantages such as drop shipping, ecommerce is powering trade beyond a country's physical borders. One of the consequences of the influence and popularity of brands who are exporting their retail presence to multiple markets is their power to harness shopping events that may have previously been limited to individual countries.

The most obvious one that is cutting across borders is Black Friday.

For most this has no cultural relevance; it's simply an opportunity to shop. But for Americans it's an important calendar event that sits the day after Thanksgiving and has long been a part of the extended, four day holiday weekend. As we shall see this could be partly why, from an ecommerce perspective, the US actually proportionally lags some other countries.

Black Friday for the rest of us didn't really exist before 2010. It was only when retailing behemoth Amazon decided other countries were ready for exposure to it that it started to gain a foothold. It seems appropriate that Amazon should be the retailer who did so. Their aggressive expansionist plans have changed the retailing landscape in the handful of countries they operate in forever, with many of their sales techniques proving to be game changing.

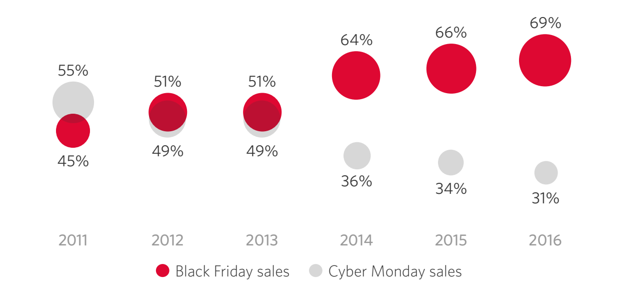
The UK was an obvious target. As one of the first two countries the US retailer started operating in outside of its own borders and with one of the largest per capita online spends, the UK offered fertile territory for Amazon with no competition for Black Friday attention.

Putting aside whether the frenzy that accompanied[1] it was the real reason many customers were left disappointed or whether it was a cynical ploy to raise awareness, there's no doubt it fostered a fevered appetite the following year and every Black Friday since.

More widespread retailer adoption followed which led to a shift in the importance of Cyber Monday, the UK's traditional peak online shopping day. Other countries have also jumped on board, albeit more recently, with globally focused retailers primary exponents of Black Friday. In doing so they have helped cross-pollinate and homogenise shopping peaks.

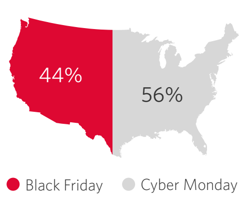
As this graph shows, until 2011 Cyber Monday remained a bigger day on the network in the UK for peak. The following two years this shifted and Black Friday became the (marginally) bigger day for the first time. 2014 saw this pattern dramatically alter, with the gap widening even further. 2017 could see Black Friday capture more than 70% of revenue share across both days:

Black Friday and Cyber Monday revenue split 2011-2016



It is a demonstration of how rapidly events can transform the online landscape that Cyber Monday has slipped from many people's consciousness in the space of a handful of years. Indeed it languishes to some degree as a poor relation, a relatively 'average' day's trading during Christmas.

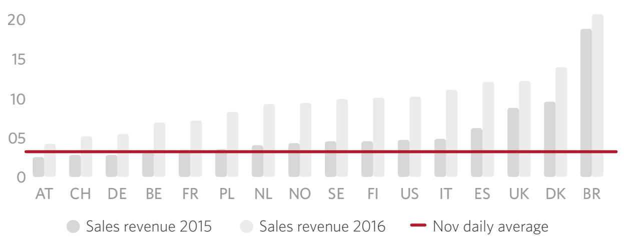
US share of sales between Black Friday and Cyber Monday



This isn't universal, as mentioned, the US retains Cyber Monday as a pre-eminent online event as this split of network sales between the two days shows:

There was much talk in the US in 2016 about how Black Friday had flopped but with a narrowing of the gap between it and Cyber Monday, perhaps the flow of traffic is just heading online.

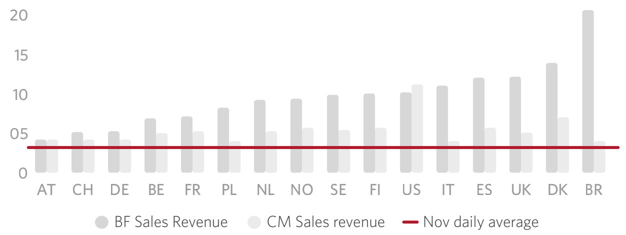
The increasing importance of Black Friday generally across the Awin business can be summarised in this chart that plots an average day's trading in November when compared to how Black Friday performed in 2015 and 2016 across the network:



The huge year-on-year growth shows that Black Friday outperforms a normal November day's trading everywhere, even in some of the larger European markets such as France and Germany which have proved resistant to its charms in previous years.

A consequence of this has inevitably been to bring peak trading earlier in the calendar. If we assume that Black Friday for countries outside of the US carries no cultural significance then it's a movable feast that – in theory – could fall on any arbitrary day if enough advertisers colluded to whip up media and consumer interest.

In this chart we can see the proportion of sales split by revenue between Cyber Monday and Black Friday across the global Awin business (the yellow line again representing an average day's trading for November):



The obvious outlier is the US, where Black Friday has remained an in-store event with the following Monday maintaining its delineated position as an online event. 2017 could be the year the tables turn.

One of the consequences of Black Friday has been to whip up general awareness and interest in Black Friday. Brands should expect additional exposure through the affiliate channel which raises the question of whether they want to embrace these primarily discount focused events, or whether they choose to step aside and let others play the game.

Some markets are seeing a degree of backlash. In the UK, supermarket Asda famously pulled back from Black Friday promotions in light of a media storm about fights in their stores for cut-price televisions. The images were a corporate PR nightmare and Asda hasn't touched Black Friday since, instead choosing to focus on everyday low pricing.

This strategy is employed by other brands who prefer to manage their sales and margins – and potentially their brand equity – by not discounting. What is interesting however is how it might be possible to both avoid price driven deals while still piggybacking off Black Friday and other similar events.

Looking at network data from 2016 we can identify those retailers who chose not to run Black Friday deals.

Two well-known brands decided to opt out of Black Friday, one who has never engaged in any offers and promotions around the day, the other scaling back, having previously done so.

Taking into account the sales they generated on Black Friday we can see:

While these numbers fall well short of those achieved by brands who hit Black Friday hard with their biggest and best deals (one department store saw a tenfold increase in transactions from the previous week), they demonstrate that consumers are in full buying mode and are prepared to pay full price for goods and services. Therefore affiliate offers do not have to be limited or centred on the obvious sales' levers of cashback and coupons.

Those sites can still play a part though as brands could run non-cash based offers and discounts. Value-adds, free delivery, and so on can act as the additional push to convert a sale.

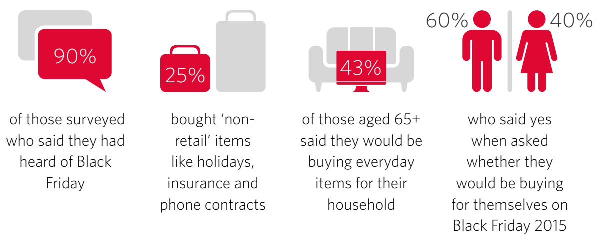
It's also important to consider Black Friday is not just a gifting event. Situated in the retail calendar less than one month before Christmas there is a natural assumption that present buying is front of shoppers' minds. Some Awin commissioned research from 2015 however, shows this isn't the case.

The study asked approximately 1,500 consumers a series of questions about their knowledge of Black Friday and, if they intended to shop, what would determine their buying behaviour.[2]

The results were particularly illuminating when we asked the question, 'Who will you be buying for on Black Friday?' The unashamed answer was that exactly half of those polled would be buying for themselves with six in ten of those aged under 24 and a massive seven in ten Londoners choosing to treat themselves on Black Friday (perhaps indicative of the greater proportion of younger people in the capital).

It's important to stress this isn't to the exclusion of others. Overall 69% of those who said they would be taking advantage of Black Friday deals stated they would be buying for friends and family, so there is an undoubted crossover. With that in mind retailers need to be mindful that they're appealing to different kinds of buying behaviour. Therefore for retailers who don't fall into the retailing category, don't assume the affiliate channel isn't one you can't take advantage of.

This is further illuminated when those surveyed provided context about the types of products they were looking to buy, with almost one third seeking out a household product or service, this number over-indexing for higher incomes, city-dwellers and the older generations.



Previously many telecom companies have run best in breed deals and seen hugely impressive returns. In 2015 six of the top 20 advertisers by commissions were drawn from the telecoms' sector.

If broadband, finance and service based companies want to embrace Black Friday, there is a natural audience waiting to take advantage of their offers.

An additional trend emerged in 2016 and that was whether retailers were choosing to capitalise on Black Friday ahead of the big day. While there is no doubt it remained the pre-eminent trading day, there was a noticeable shift with some brands choosing to run week long deals, a handful opting for a month full of promotions.

2016 data from the Awin network showed there was some movement; Black Friday saw a 33% increase in sales revenue. The Monday of the same week experiencing an uplift of 56%.

The inevitable outcome of this approach is to push consumers into buying earlier and earlier. Whether other brands choose to ape this in order to capitalise on consumer awareness remains

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to be seen. What Black Friday behaviour shows us, if anything, is that shopping online can be disruptive and disrupted by technological developments as well as agile retailers looking to steal a march on the competition.

If anything it shows that if the deal is right then consumers will find it. They are increasingly savvy about where they shop, but the inevitable outcome is that the finite amount they have to spend will cause displacement. 2016 saw November as the peak month on Awin for the first time defying the perceived logic of December being the most important trading month.

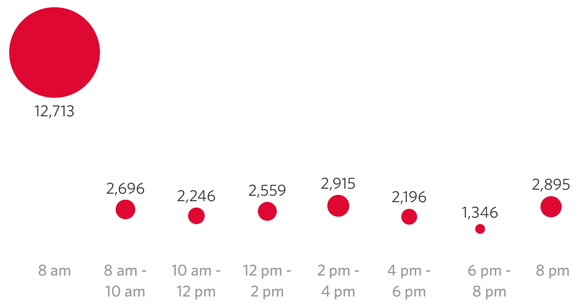
One consequence of established, global retail events is an awareness by brands that customers may not be buying products at the time of day they assume they will. It was only a few years ago that Black Friday deals started mid-morning in local time. However a consequence for shoppers in the Far East is that this is the middle of the afternoon or early evening.

However starting offers at say, midnight on Black Friday in London, means Chinese consumers will have the opportunity to take advantage of the same deals when they're getting into work. Certainly across the network we saw an uptick in the volume of sales originating from Asia in the early hours of the morning in Europe.

Taking the UK time zone and then considering the eight hours difference to China, it's easy to see how important it is for advertisers based outside the country they're targeting to be aware of when consumers are likely to shop.

Also given Black Friday offers may only run for 24 hours this will have implications with pre-8am being the previous day in Europe and the US:

Sales from a Chinese retailer on the UK Awin network
(using UK time)



For merchants who deliver to multiple territories, an interesting exercise is to ask your network or tracking provider what the share of sales is between the countries transactions are recorded in. By doing so brands can start to understand how to offer more targeted communication. Additionally lists of affiliates based outside the country the retailer is located in can act as a useful way to start building an international programme without needing a local presence.

This can be possible with dedicated support that appreciates regional variances. Media packs that are translated into local languages, alongside banner creative and the ability to pay affiliates in their local currencies all aid cross-border collaboration.

Consider both where the affiliate is based and where the sales originate. There are a raft of non-Chinese based publishers for example who still appeal to a Chinese audience. Large migrant populations may still hanker for products from where they or their families originated from. Additionally it's worth considering the appeal of products beyond home borders. Beauty products sold by UK retailers, for example, have proved particularly attractive to consumers in the Nordics.

Some retailers have already adapted their affiliate campaigns from their regional base to tap into latent groups of publishers in markets across the world. One of the beauties of affiliate marketing is the wealth of niche and localised content that can be tapped into. With networks taking a more globalised view, so the ability to create brand partnerships between countries is easier than ever.

With such a global audience Black Friday is truly a 24-hour operation, indeed with retailers looking at stretching the event beyond a single day, the resources and effort needed are turning the event into a marathon rather than a sprint.

While Black Friday is undoubtedly the event that has had most impact on global affiliate networks there is an additional shopping day that dwarfs it but has yet to fully translate to a Western audience.

Singles' Day is the largest online retail event anywhere in the world.

Falling on November 11th, the event was initially an anti-Valentine's day celebration, invented in China in the 1990s. With the advent of ecommerce, however, it became appropriated by Chinese shopping giant Alibaba with the resulting 2016 Singles' Day tracking $17.8bn/€15.9bn/£14bn; probably a figure more than double that spent on Black Friday.

Adopting a marketplace approach, it's uncommon for smaller retailers to have their own standalone proposition, instead relying on the Alibaba-owned monolith Tmalls to push their products. With a 57% share of all ecommerce in 2016 it dominates the Chinese retail landscape. By contrast Amazon's Chinese arm drives less than one per cent of all transactions (0.8% share).[3]

China also has a tradition of generating sales through consumer-to-consumer recommendations rather than traditional advertising. This too could impact the complexion of the affiliate model there as epitomised by some of the Chinese affiliates that do well on the Awin network; possibly with a stronger reliance on social media channels and Weibo.

Singles' Day numbers are staggering and illustrate why it represents both a huge opportunity and daunting proposition for brands eager to tap into the burgeoning Chinese middle-class and their disposal incomes.

On Singles' Day 2016 Tmalls processed 650m transactions. To put it another way, if Singles' Day was a country, the revenue generated in that 24-hour period would put it as the eleventh largest ecommerce economy, just ahead of Brazil's annual haul.

Contextualising the size of the affiliate market in China is difficult and no empirical information exists, but it should be assumed the opportunity is significant especially, as mentioned, in social media.

One additional consideration, Singles' Day is more than just a shopping event. Think about how Black Friday is currently marketed. Price point banners that scream discounting, sales and offers; there's nothing subtle about its positioning and this can be a turn off for retailers. It can often jar with the big budgets poured into brand building Christmas campaigns and distract from the equity that these marketing efforts are trying to both create and protect.

Perhaps there exists an opportunity to do something more interesting with Black Friday, akin to how the Chinese have done with Singles' Day. There it has been built into an entertainment event with big name celebrities flown in from around the world to lend their sparkle to something more than just buying online. Such is the attention the day inevitably attracts, some brands run teaser campaigns and product showcases weeks in advance. They allow consumers watching to pre-order and then buy on the day. Dubbed 'retailtainment' by Forbes[4], Alibaba has ambitious plans to export Singles' Day in the Chinese mould to neighbouring countries.

With Tmalls featuring 5,000 international brands from 25 countries and with more than 30m Chinese consumers having bought products imported from overseas, the need to understand how to market beyond the rather blunt instrument of Black Friday is brought into sharp focus. For now affiliate marketing manifests Cyber Weekend through the obvious discounting and cashback channels.

With some markets tracking as much as 50% of their revenue through coupon and voucher portals on Black Friday, it's still very much price led through the Awin network. For certain sectors it is even more so, womenswear dominated by site-wide reductions pushing content, cashback and loyalty partners into obscurity, even if it is just for one day.

Whether the approach of Singles' Day will influence the future of Black Friday remains to be seen. But there is a feeling that it will need to become more creative and evolve if it is to build upon previous successes and not find itself superseded by another as yet unforeseen retail event.

Brand safety and self-regulation

All industries are subject to some degree of regulation. Some have the benefit of decades, even centuries, to evolve and with it a complementary set of guiding principles that help shape the framework within which they operate.

For the digital industries this has presented a challenge. Rapid growth and fast moving technological changes have resulted in traditional regulators struggling to keep pace with new business models and the way consumers are marketed to.

There is an additional threat that those same regulators impose onerous and arbitrary regulation which is damaging to the future development of the industry.

However, we shouldn't fear a set of rules that determine how we work. They help establish trust and build confidence with consumers and brands; they are also an indication of an industry's growing maturity and acceptance of responsibility.

Approaching this topic from a global point of view, however, is far from straightforward. As mentioned elsewhere affiliate marketing is at different stages of development and therefore the regulatory conversations in some regions have yet to commence. It is further complicated by certain markets evolving in different ways.

Take, for example, the subject of affiliate disclosure and how consumers are made aware by publishers of the commercial partnerships implicit within their content. This issue has garnered the attentions of both the Federal Trade Commission (FTC) in the US and the Advertising Standards Authority (ASA) in the UK and, while they have different regulatory responsibilities and the enforcement differs, there is a common thread across the two countries which we'll explore later.

Similarly the industry is also shifting towards a realisation that it can shape how disclosure is tackled. But this can only be achieved if likeminded companies come together to do so; something that is easier to do in some territories than others. However we also need to consider that in other markets the conversation about disclosure has yet to happen with little or no mention of it as an issue. Therefore the issue is complicated by both the appetite for change and the infrastructure to elicit it.

For a global organisation like Awin this presents a dilemma. Do we approach each market differently, paying attention to the local needs and respond as and when we need to, or do we roll out a global solution and encourage debate in countries where it doesn't currently exist?

What's the point of regulation?

Regulation exists for a number of reasons, many of which will resonate with those working within the affiliate marketing space.

One may be a collective desire to create a set of recognisable standards, a framework that everyone can operate within and act as a guide for future development. This would fall more into a self-regulatory approach, something that any sector should favour as it allows experts within their fields to determine what those standards are, rather than those outside of it.

A second which follows on from this is the fostering of professional conduct; by creating a set of standards an industry sends a clear signal that it is mature enough to recognise the importance of doing so. For any rapidly growing industry, this helps to establish benchmarks where few may exist.

Another imperative for regulation is critical to the understanding of this topic, and that's when an industry has to regulate because it's failed to curtail certain elements and where there's an obvious commercial necessity to do so in order to negate longer term damage.

In the UK there has been a tendency to build a strong self-regulatory set of principles that has tackled all areas whereas in the US the lack of coordination among industry players hasn't evolved such a framework and companies look to the FTC for direction. There are other initiatives that exist elsewhere. In the Netherlands work has been done in the voucher code space, an area of widespread contention that has been a conduit for best practice in a number of countries.

Inevitably certain topics or issues rise to the surface and these act as important markers in an industry's development. Use of certain promotional methods that directly target consumers are more likely to be scrutinised especially as these areas have grown significantly over the past ten years.

Alongside individual initiatives aimed at tackling these areas, Awin employees across our markets have moved into prominent positions within industry bodies with the country managers of Italy and Germany playing active roles in affiliate industry collaboration.

What are the issues in affiliate marketing?

Taking the trajectory of affiliate marketing growth, one of the most defined trends over the past decade has been how brands' promotional offers are marketed to consumers through the channel.

This has largely been via the medium of voucher or coupon sites. With the growth of the savvy shopper, so portals that feature the biggest and best deals have also emerged to become some of the largest affiliates.

The consequences are multi-faceted. Firstly brands who work with these affiliates want assurances on how increased investment is manifested in the on-site coverage they receive. They also know the greater the audience, the more people will engage with them which means the messaging has to be accurate and any codes and coupons must work.

Inevitably with any growth area within the channel more and more businesses will try and emulate that success, putting their own spin on the concept.

If we trace what happened in this sector, certain affiliates chose to feature content that was both inaccurate and misleading. Codes didn't work, some weren't created for the affiliate channel and offers, sales and codes were often obfuscated by being bundled together with little if any delineation. In the worst cases the sites acted as little more than examples of clickbait, designed to drop cookies rather than bring true value to both retailer and consumer.

For networks and affiliates who were trying to do the right thing and offer a genuinely useful service, this had the potential to lead to retailers abandoning the coupon space altogether, frustrated by the misrepresentation of their brands.

The first sign that the industry wanted to address the disarray that existed was through a code of conduct. This code would outline broad principles as well as highlight specific tactics with advice and clarity on what would be deemed acceptable. The code would be balanced so as to offer unequivocal guidance without being overly prescriptive. Principles led by nature, it was agreed upon by the member networks of the Affiliate Marketing Council and would apply to the UK voucher and coupon space. Accompanying it would be an audit process, and complaints and disciplinary procedure.

The first code was launched in 2008 and the core principles remain unchanged today. The overarching concept of building a positive consumer experience still sits at the heart of the code and is always referenced whenever non-complaint activity is assessed; do we believe the affiliate created the content to game the system or not?

The latest iteration of the code can be viewed in more detail on the IAB site[1] but in a nutshell it addresses most of the main areas of contention including:

- On-site content must be accurate and true and not seek to mislead
- Consumer interactions with content should be measured and within their reasonable expectation
- Coupons and vouchers should be differentiated from sales, deals and any other offers
- Only deals intended for the affiliate channel can be monetised
- Nothing presented on site can bring the channel into disrepute

Acting in the spirit of the code sits as an umbrella over the entire code of conduct. That is, companies should look to find and exploit loopholes but 'do the right thing' by the channel.

> "In one document the issues were addressed, a positive story attached about an industry regulating for the wider good and alleviating potential advertiser fears."

In essence, in one document the issues were addressed, a positive story attached about an industry regulating for the wider good and alleviating potential advertiser fears. While the code hasn't been an unmitigated success with occasionally faltering enforcement and patchy adherence, it remains a vital and cornerstone marker.

It is also worth considering it has been flagged to advertising regulators in the UK and other bodies when they revisit their guidance in light of the growing importance of digital marketing.

Wider adoption

Such has been the success of the code it has served as a blueprint for other countries with Spain[2] and the Netherlands interpreting both the principles and practical recommendations with Awin-specific or wider industry guidance. Germany went one stage further[3] and expanded on it to include reference to gaming search engine results with misleading or incorrect information prior to the UK including it in 2017.

The code has developed over time and the latest iteration, released in June 2017, makes reference to mobile screens and natural search listings, demonstrating that any such rules have to be iterative and flexible to mould to an ever changing digital climate.

Aside from voucher codes, downloadable software also attracted the attention of the UK Affiliate Council and a separate code of conduct was launched in 2010[4] with an updated version released in 2015.

This particular issue is an interesting one as it juxtaposes the variances between the two largest affiliate markets, the US and UK.

The trend of downloadable software (toolbars, browser extensions and any other downloaded widgets that appear when navigating online) is well established in the US. Much of the activity is considered lower quality with a propensity to bundle in quite spammy, clickbait traffic. In other words business that can be detrimentally associated with the affiliate channel. While some software adds tangible benefit to the consumer, it was felt an established process was the best way to assimilate it within the UK market.

With the rollout in the UK, any business activating downloadable software via the affiliate channel has to adhere to these set guidelines (one of the most important is not permitting any tech to be bundled in with other software). Critically no software can overwrite existing affiliate traffic which means that the lower funnel actions that are often associated with downloadable software cannot negatively impact content sites who may be present earlier in the purchase path.

Where the downloadable guidance differs from the voucher regulations is the latter was born from necessity, the former anticipated a potential growth area that could prove problematic. The ease of rolling it out both stopped unwanted applications from overseas but also required tech companies to demonstrate their software added value to retailers. In one sense it demanded affiliates making use of the technology innovated for the wider good.

Platform Affiliate Netwerken (PAN), a Dutch body comprised of local affiliate networks, also regulated in the toolbar space, releasing their recommendations focused on transparency in 2011[5].

Importantly the incidence of cookies being dropped without consumers being fully aware was prevented.

The Performance Marketing Association (PMA) in the US is probably the best supported and most established affiliate representative body of any market. The focus for the PMA has been in tackling topics that are specific to the US (such as the so-called Affiliate Nexus tax[6]) as well as providing general support and information about the industry. It has generally steered away from creating its own codes of conduct in favour of advising on how national laws impact affiliates. However it has offered visibility on a whole range of topics with guidance on how best to monitor and approach various models that may be monetised through the affiliate channel through such freely available resources as their Retailer Agreements Guide.[7]

Regional Affiliate Bodies

Australia iabaustralia.com.au	France Late 2017 launch	Germany bvdw.org
Italy iab.it	Netherlands vpan.nl	Poland iab.org.pl
Spain iabspain.es	Sweden iabsverige.se	United Kingdom iabUK.net
United States thePMA.org		

The growing importance of affiliate disclosure

One area the PMA has focused on is awareness of the Federal Trade Commission (FTC) which has a broad remit aimed at protecting US consumers against advertising fraud.

There are precedents in the US where the FTC has investigated affiliate activity. With the ability to initiate federal litigation if necessary, it has the teeth to clamp down on fraudulent practice.

The area the FTC has been most vocal on recently within the broad sphere of affiliate/influencer marketing is disclosure, the act of clearly stating to consumers the existence of commercial relationships between advertisers and affiliates.

There is a good reason why this has grown in prominence. The emergence of social media platforms has empowered an army of brand advocates who can easily post commercially powered links to Facebook, Twitter and Instagram.

Similarly, burgeoning sub networks such as RewardStyle and Skimlinks have also made it easier for anyone with online content to append links with affiliate tracking. Additionally the growing trend of micro-blogging and influencer marketing has bred a generation of voices (not to mention celebrities) who are having an increasingly important sway on consumer buying choices.

This has resulted in a significant increase in the number of monetised links that are being accessed with resulting concern that this may lead to endorsements being financially influenced. For consumers this could result in their decision being swayed by how much the affiliate stands to earn rather than whether the product or service is fit for purpose.

In a recent letter from the FTC, it reminds publishers about their responsibility to explicitly state to their audience the existence of a commercial relationship, specifically when using Instagram.[8]

> "A recent letter from the FTC reminded publishers about their responsibility to explicitly state to their audience the existence of a commercial relationship."

The letter states that "if there is a 'material connection' between an endorser and the marketer of a product – in other words, a connection that might affect the weight or credibility that consumers give the endorsement – that connection should be clearly and conspicuously disclosed"

It goes on to drill down into the detail by classifying that such connections might "consist of a business or family relationship, monetary payment, or the provision of free products to the endorser. The Endorsement Guides apply to marketers and endorsers. FTC guidance makes clear that marketers should advise endorsers of their disclosure responsibilities." Thus the burden of responsibility is shared between publisher and brand.

In making explicit reference to 'influencers' the FTC also makes it known it is familiar with the latest trends in content marketing and brand relationships.

The FTC in September 2017 provided updated, unequivocal guidance to advertisers to ensure the disclosure of any free item supplied to an influencer including a product sample, coupon, paid sponsorship, and even a link exchange. This disclosure must be unavoidable, in the same method or presentation as the rest of the content to ensure it is easily noticed, read and understood.

While many influencers and affiliates will go to great lengths to ensure the advice and coverage they offer to brands and their products is based on their actual endorsement, rather than swayed by network payments or freebies, being clear will ultimately build trust with consumers.

In April this year the Competition and Markets Authority (CMA) in the UK published an open letter in which they highlighted three particular cases where companies had failed to clearly identify when they had paid bloggers or online publications for featuring products in their blog content and articles.[9]

They concluded that everyone involved in endorsing products and services online has a responsibility to ensure they are appropriately labelled as such. The CMA also clarified this extended to bloggers, vloggers and those posting via social media channels (such as Twitter) alongside traditional publishing operations such as online newspapers.

Consumer protection law already states that paid-for editorial content has to be labelled as such so for larger publishers with an offline background this is familiar territory. However in our age of influencers a precedent has emerged that could lead to a future run-in with the regulators.

One of the difficulties is possibly because individual affiliates may be completely unaware of the rules. Sadly ignorance is no defence and therefore the affiliate industry – probably led by the networks – has an obligation to inform and provide practical solutions.

The CMA advises publishers that when they accept payment to endorse something they need to make sure the content is clearly identifiable as being paid-for. They state labelling posts or videos as advertisement features or promotions would send a clear indication.

To date there have yet to be any specific breaches that the CMA has identified as being affiliate in nature but it feels like it could be just a matter of time.

Around the same time as the CMA guidance, the Advertising Standards' Agency (ASA) in the UK, which investigates complaints about advertising, issued guidance in conjunction with the Code of Advertising Practice (CAP) – which makes the advertising rules - about affiliate marketing.[10]

This isn't the first time the body that regulates advertising has shown an interest in our channel. In fact a few years back a group of affiliate networks (including Awin) met the regulator to explain how the affiliate model works, so it was clear at the time this was something the networks needed to be vigilant about.

In the updated advice, ASA and CAP detailed various affiliate models and how they might choose to offer on-site disclaimers.

> "The varied nature of affiliate marketing means there are a huge range of media which require different regulatory solutions."

This point is particularly important as the varied nature of affiliate marketing means there are a huge range of media which require different solutions. Consider a tweet's 140 character limit. What sort of disclosure should an affiliate using Twitter offer? The CAP guide actually offers specific direction, stating "on Twitter, as space is limited, labelling the content with "Ad" or similar is likely to be the clearest way of identifying it as advertising."

As websites offer significantly more space to experiment with disclosure solutions, the guide offers this advice: "although not a requirement of the Code, affiliate marketers may choose to explain the nature of the relationship between themselves and the company by stating that they receive a small share of sales through the inclusion of links, promotional codes etc."

On this latter point, this was something Awin assisted affiliates with four years ago, with the launch of a one page website, Paid for Advertising.[11]

The tone of the content is conversational and aimed at explaining, in simple terms, how content may have a commercial relationship attached to it. The focus is on the value exchange the internet trades on in order to facilitate so much free content.

While the site is simple by design, the intent is clear. Some affiliates choose to link to it, often featuring it within their 'About' pages.[12]

The future of disclosure will probably be more formal and increasingly universal. It is worth considering whether certain developed affiliate markets have not explored this topic because they have more stringent and trusted data privacy regulation in place which could result in consumers feeling they are more protected from being duped or misled online. It is difficult to draw direct causal correlation between the two but in the UK and US where data privacy is more flexible or less legislated on, the biggest shift towards additional regulation in this space exists.

Some markets have yet to examine this issue but it can be flagged as something that will undoubtedly grow in awareness and importance.

Beyond the issues: general principle-based agreements

As mentioned, the voucher and coupon space acted as a specific universal problem that the industry worked to address. More widely it helped feed into the desire for a broader, principle-based approach to 'doing the right thing' by the industry.

According to the German BVDW (a local trade body), the launch of a general code of conduct that all elements of the affiliate industry could ascribe to "ensures the quality of affiliate marketing by taking appropriate measures to achieve as much transparency as possible".[13]

It covers in substantive detail what a network's responsibilities are in terms of tracking failures (compensation with guidance on how this should be calculated), how banner creative should be facilitated and which business models are considered acceptable. There are also separate documents for the other industry players.

The code has 60 signatories including affiliates, advertisers, networks and agencies and by adhering to the code the constituents are issued with a certificate that shows they accept the broad principles. It also demonstrates they are willing to be scrutinised as a complaints procedure accompanies the accreditation.

The UK has taken a similar approach with two Charters, one for advertisers,[14] the other publishers.[15] These are more instructional and guiding rather than enforceable but touch on the practicalities of running affiliate programmes.

These initiatives seem a logical step. Any shift towards harmonisation encourages likeminded companies to band together and present a united front when subject to external bodies demanding clarification on the business model and practices.

The macro viewpoint

So far the issues explored have been done so from the perspective of an affiliate marketer but there are also global themes that are all-encompassing. The most obvious as we approach 2018 is the revision of European data protection laws.

The General Data Protection Data Regulation (GDPR) is a new Regulation from the European Commission that will come into force in May 2018. Among other things it is designed to make data privacy laws relevant for the digital age, empowering consumers to take control of their personal information and how it is used.

As a regulation it automatically comes into force in May and does not need to be transposed into local jurisdictions. From a UK perspective, the decision to leave the European Union will have little to no bearing as the UK will still pass the Data Protection Bill (DPB) which will emulate the GDPR thus ensuring continuity and consistency with the rest of Europe.

"Non-European businesses cannot escape the clutches of the GDPR regulation as it impacts any company with customers in any member state."

The GDPR is a huge, wide-reaching piece of legislation that covers every aspect of data protection. The whole marketing industry is one aspect, so affiliate marketing, while impacted, is just one small consideration. At the time of writing, the full ramifications for the marketing industry are not fully understood as some definitions in the GDPR have yet to be fully fleshed out. Non-European businesses cannot escape the clutches of the regulation as it impacts any company with customers in any EU member state.

From a general marketing perspective the definition of personal data has broadened meaning information such as IP address will now be included. Additionally the way this information is stored will be important. The ability to 'semi-anonymise' it (through a concept known as 'pseudonymisation') is encouraged.

Consumer opt-in will be required with consent at the heart of the regulation. How that data is then collected, stored and erased will need to be assessed. The fines for any companies not adhering to the new Regulation have been designed as deliberately punitive.

There is not enough space to do justice to the GDPR in this guide but needless to say it is a major topic that should be front of mind for any digital businesses. Local organisations responsible for data and information regulation will be able to advise; remember as a regulation there will be complete harmony in how this applies, therefore advice from one such body should cover implementation in all territories.

The final major change to data law will be covered by the established ePrivacy Directive (cookie law) which is to be revised and will also become a regulation. The legislation has become notorious for the rash of pop-up notifications that ensued asking users to accept data collection methods on the website they've visited. The full ramifications of this are yet to be known but again, this is a topic that will resonate with affiliates and advertisers alike.

The Performance Marketing Association Q&A

Tricia Meyer
Executive Director, The Performance Marketing Association (PMA)

What do you see as the PMA's role in creating best practice for the affiliate industry?

The PMA is in a unique position in that we are made up of all of the different players in the industry without bias for or against any specific vertical, platform, or type of affiliate. Because of that, we are able to take feedback from everyone and combine it to create best practices that take into account varied perspectives and business models. As a non-profit, we are successful only when the industry as a whole is successful. That gives us an incentive to promote best practices that are aimed at the health of the industry. Not only do we need to continue to create the best practices, but we need to work to achieve voluntary buy-in from the players to ensure that the best practices are followed.

Do you think trade and industry bodies should be more forceful in creating their own self-regulatory frameworks?

Across many industries it has been shown that when industries self-regulate successfully, the government is less likely to impose regulations that harm the industry. In addition, the government is more likely to depend on the industry's self-regulatory schemes when crafting its own regulations rather than crafting regulations without the knowledge and experience of the industry players.

Have you encountered much pushback from partners who believe best practice guidance stifles innovation?

It's rare that we have received pushback. In general most of our pushback comes from genuine differences in opinion as to either the ethics of certain types of marketing or the extent to which best practice violations should be monitored and/or punished.

How important it is for advertisers to be involved in shaping the future direction of our channel?

Bringing more advertisers to the table has been one of the biggest goals of the PMA in the last few months. They bring a perspective that is essential to our understanding of how to keep our industry thriving. Not only do they have access to data that we do not, but they have different goals and objectives to the affiliates, networks, solution providers, etc.

What do you believe are the most salient regulatory issues we need to address as an industry?

Proper disclosure of affiliate relationships is one of the biggest regulatory issues that the PMA wants to tackle in the next year. Although our focus is on what the Federal Trade Commission requires, other jurisdictions have their own consumer rights laws that are similar. Our hope is that by crafting best practices that will satisfy government disclosure regulations, we will not only help industry players to be more compliant but also contribute to the overall reputation of the industry.

As affiliate marketing becomes more global in outlook, do you envisage a more universal adoption of best practice and self-regulation across territories?

As affiliate marketing becomes more global, there is an absolute necessity for more universal best practices across territories. We are already seeing confusion on the part of all parties as to what applies to whom depending upon jurisdiction. The self-regulation process can go a long way toward building a bridge of best practices across different countries with varied regulations. Because many of the regulations are enacted in the best interests of the consumers anyway, there isn't any reason that we cannot forge best practices that would span jurisdictions, with an eye toward pointing out specific regulations in different countries.

What do we mean when we talk about influence?

In Malcolm Gladwell's book The Tipping Point (2000)[1] the Canadian journalist investigates the phenomenon of how niche ideas and trends become popularised. One of the concepts he describes to help explain this is The Law of the Few, a term he uses to describe how a small selection of highly influential people can be all that's needed to turn a small, local trend into one that reaches a tipping point and subsequently goes viral on a mass scale. He describes three different types of people whose particular characteristics allow them to act as tinder boxes for this kind of social epidemic; Connectors, Mavens and Salespeople.

Connectors are those people with extensive and broad social networks whose ability to effectively communicate with this group of followers allows them to transmit their ideas quickly and at scale.

Mavens are those who have a particular passion and are esteemed as being knowledgeable experts in their field. Their authority on a subject means that others will look to them for guidance on relevant issues.

Finally, Salespeople are those that are experts in the art of persuasion, able to convince others of their viewpoint and compel them to follow suit.

Gladwell's book goes on to describe numerous examples throughout history of these different types of people and their ability to take a small, niche trend or concept and transmit it successfully to a far larger audience through the sheer potency of their status as Connectors, Mavens or Salespeople within a given context.

> "Revere's influence was so effective that it ultimately led to the American Revolution."

The most famous of these is Gladwell's retelling of Paul Revere's midnight ride on horseback across Boston in 1775 to warn the local towns and villages of the impending arrival of British troops the following morning. Well connected, well informed and an expert communicator, Revere was able to rouse the local militia to the extent that they were able to fend off the subsequent British attacks successfully. In fact these initial confrontations were so successful that they ultimately led to the American Revolution – all courtesy of a word-of-mouth epidemic initiated by one influential man.

The Tipping Point was written at the start of the 21st century, years before the notion of influencer marketing had attained the zeitgeist status within digital that it currently enjoys. Yet there are more than a few shared characteristics between Gladwell's description of Connectors, Mavens and Salespeople that fit our current understanding of how influencers operate within the digital eco-system.

Their ability to reach large numbers of people through the networks they have cultivated on various social platforms, their reputation for being authoritative on a particular niche subject or trend and their promotion of themselves and their lifestyles in an aspirational and compelling way to their followers mean they combine all of the elements that Gladwell identifies as characteristic of this personality.

It's therefore easy to see why, given these attributes, advertisers are drawn toward influencers as a means of getting their own brand messages out to the wider public effectively. There are now more than 2.8bn people using social platforms like Facebook, Twitter, Instagram, Weibo and Snapchat across the globe with the average user spending more than two hours interacting with them each day[2]. Using such partners to tap into this enormous opportunity has meant that influencer marketing has rapidly become a key component of the contemporary digital marketing mix.

But for all that we recognise the increased importance of influencer marketing, understanding where it fits within a brand's overall advertising strategy, how to measure the success of a campaign and the best means of paying for that activity are all topics that are still fraught with contention.

Whereas for the most part much of this activity was traditionally perceived as sitting under the wing of a PR department and assigning budget from there, the channel's digital identity has over time seen it increasingly draw closer to performance marketing channels such as affiliates where campaigns can be tangibly measured and refined.

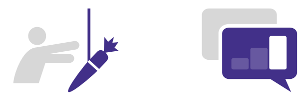
As the number of people using social platforms has increased (last year saw another half a billion new users sign up to social platforms) so too has Awin's global network swollen with those affiliates whose primary form of promotion has been via their social content.

This influx of a completely new affiliate type has been refreshing and brands have demonstrated an eager appetite to collaborate and work with them. At Awin Germany a successful collaboration between Stapp AG, a monetisation tool for leading influencers, and Daniella Katzenberger, a German reality TV personality, saw them using affiliate links to promote recommended products to fans via a dedicated website and mobile app. The campaign was so successful that the participating brand saw a 120% increase in sales over the first six months.

However this kind of immediate success is by no means the rule and it has not been such an easy fit for other influencers. The last-click model is a proverbial round hole unsuited to the influencer's square peg whose remit necessarily gravitates towards the upper echelons of the standard sales funnel. Their activity generally acts to incite inspiration in its audience rather than necessarily driving immediate conversions.

When we look for instance at a comparison of the performance of those affiliates such as vouchercode or cashback websites, which are primed for converting customers, against these influencers there is a clear discrepancy in the relative rewards that each type can earn in the channel as it is currently structured.

Global ratio of average clicks to sales for incentive vs social content publishers



With an established industry payment model which rewards the last converting click and so much more money to be made from focusing energies on inciting that behaviour it's no surprise to see many affiliates developing business models that concentrate on conversion rather than inspiration.

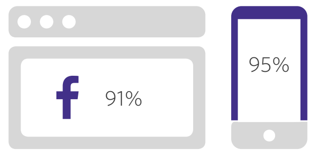
Incentive sites are thriving and have become brands in their own right with huge bases of deal-savvy audiences. Basket abandonment partners have entered the market helping advertisers optimise the conversion levels of those users that visit their website without purchasing anything through the use of email remarketing and display retargeting tactics.

By contrast the rewards that influencer affiliates are deriving from their efforts pale in comparison because of the nature of this obsession with the last click. The relative imbalance is further exacerbated by influencers' over-indexing of mobile traffic against other publisher types. As is discussed in our chapter on device usage, we know that smartphones are primarily used as initiating and researching devices for online shopping and that users are increasingly switching devices before going on to purchase on another device, usually desktop.

Combine this with the fact that of those 2.8bn people globally engaging with social networks 91% of them are doing so via a smartphone[3] and we can see that not only are influencer affiliates losing out because of their position at the top of the funnel but also because users are engaging with them on a smartphone much of the time. The ability to monitor this activity across devices has been hampered by a lack of improved tracking technology.

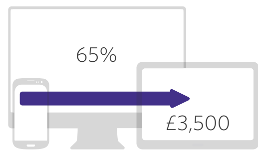
Whilst this is a dilemma that Awin has confronted through its own cross-device tracking solution there is still some way to go throughout the industry in terms of ensuring that this movement is tracked and attributed correctly and established as an industry standard.

If we look for example at an advertiser programme that is currently tracking cross-device sales on the network we can see the extent to which a social content publisher driving sales primarily via its sizable Facebook audience benefits from this improvement in tracking.



Over the course of 2017 so far this affiliate has driven over 800 sales for the brand. 91% of these sales have been driven via their Facebook page and of those, 95% came through the Facebook smartphone app. Clearly we can see the extent to which a social audience is more often than not also a mobile audience.

With cross-device tracking in place we also see that 65% of their 800-plus sales have involved a user moving from one device to another before then purchasing. Based on the commissions being offered by that advertiser this amounts to over £3,500 in commission that this publisher previously wouldn't have earned simply because the technology wasn't in place to attribute these sales accurately.



Without cross-device in place this influencer's earnings would be two thirds smaller than they actually should have been. That's a significant sum of money which that publisher legitimately earned. The implicit question it poses is, how much other genuine activity is being missed through a lack of such visibility?

To remedy this state of affairs requires not just a technological improvement across the industry though, it also requires a conceptual evolution of what constitutes 'performance'. If the channel is serious about recognising and rewarding influencing activity then new tools, payment models and services are required that can more accurately reflect the contributions being made beyond just the last click.

Top-up payments like those made through Awin's 'Payment on Influence' tool are a start and allow brands to reward influential affiliates for the traffic they drive that ultimately culminates in a sale, thus still tying influence back to a tangible, measurable return. But this is still just a small initial step in a longer journey that must involve a radical change of mind-set on the part of advertisers around the expectations they have as to what success looks like when working with such partners.

Whilst sales are a justifiable benchmark to place against affiliates whose focus is primarily on conversion this is not a helpful manner in which to assess the merits of influencer partners. Instead there are a variety of other metrics which some brands are beginning to measure as a means of monitoring their effectiveness during a campaign.

In the Nordics region where influencer marketing is particularly well established and popular as a marketing tactic, brands will frequently partner with bloggers and social influencers using a combination of CPC, CPM, CPA and tenancy payments to better reflect their contribution.

Awin now routinely use third party analytics tools such as GroupHigh, which provide in-depth detail on influencers' audience size and quality, to support with more effective affiliate recruitment strategies. The tools allow staff to understand not only how large an influencer's following might be but also how engaged it is, tracking the number of likes, follows, retweets, etc. that their audience displays.

Establishing a means by which an advertiser campaign can be measured using these metrics on a 'Cost Per Engagement' basis for example is something that would bring us closer to a more realistic understanding of an influencer's actual contribution.

Wider industry recognition is improving with awards for best content campaigns more prevalent and the UK's Topshop and Look Fantastic programmes both garnered recent accolades for their innovative approaches to working with influencers specifically. Similarly in France, Awin's work with French retailer La Redoute and their collaborations with bloggers saw them pick up an award at the prestigious La Nuit Des Rois ceremony.

Of course education is also a key aspect to nurturing and developing the influencer trend within the affiliate channel effectively, and that goes for all parties. Network staff, advertisers and affiliates all need to understand more about

> “Education is a key aspect to nurturing the influencer trend within the affiliate channel, for networks, advertisers and affiliates.”

each other’s perspectives and needs in order to reach an effective consensus.

The network’s UK publisher team has for the first time appointed a dedicated Influencer Consultant with extensive first-hand blogging experience to help advocate the position of influencers from within the network and to support in coordinating tailored influence campaigns for interested advertisers. Simultaneously Awin’s investment in the influencer platform Tailify[4] (inset) earlier this year also demonstrated the appetite for this type of activity.

TAILIFY

Recognising the burgeoning trend for brands keen to work with influencers Awin made a strategic investment in the influencer platform Tailify in July 2016. Founded in Scandinavia, the platform connects advertisers with influential content creators to build powerful campaigns on social media.

The company comes with an exceptional pedigree having been selected as one of five start-ups for the L’Oreal and Founders Factory accelerator programme as well as recently being identified by Starcom MediaVest as “the start-up most likely to revolutionise the media industry.”

Awin advertisers around the world now have the opportunity to collaborate with Tailify’s broad community of social media influencers, and publishers active on social media can take advantage of Tailify’s innovative platform and range of advertising campaigns.

The partnership helps bring together performance marketing’s robust reporting and efficient commercial model and influencer marketing’s community of engaging content producers.

Influencers themselves need to be aware of their own responsibilities too, both to the advertisers that invest in them and for whom they undertake campaigns for, but also to their audience of followers. Regulatory bodies and advertising authorities around the world, recognising the increasing popularity of social advertising campaigns through influencers, have been quick to advocate standards of transparency around sponsored content that influencers are promoting on behalf of brands.

In the US the Federal Trade Commission sent out over ninety letters earlier this year to prominent celebrities, influencers and marketers insisting they should clearly and conspicuously disclose their relationships to brands when promoting or endorsing products through social media[5]. Meanwhile the UK’s rulebook on digital advertising, the CAP Code, was updated in March 2017[6] to establish a similar precedent for all affiliate sites but with specific reference to bloggers, vloggers and social media affiliates.

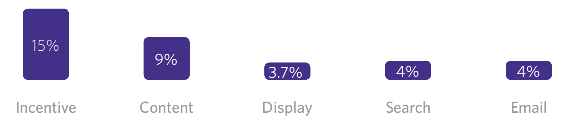
If these affiliates are to remain influential then they need to ensure that they adhere to this kind of transparency. Their authority within their social networks derives primarily from their reputation and relative impartiality. Audiences engage with them because of an implicit trust in their judgements and opinions and an oversaturation of sponsored posts from an influencer, particularly when that sponsorship isn’t declared, will over time tarnish their reputation and diminish their trusted status. Finding the right mix of genuine content and promotional activity is a delicately poised balancing act which must be approached carefully. For more information on this subject see the ‘Brand safety and self-regulation’ section.

So far our discussion of influence has focused purely on those publisher types that form a more conventional idea of what an ‘influencer’ might look like; bloggers, social media personalities and celebrities. However it’s also worth considering the more general conception of ‘influence’ and how that is currently recognised in the channel.

Although the influx of bloggers and social media personalities is something of a more recent phenomenon that the network has seen in terms of new affiliate sign-ups there is a case to be made for affiliates more generally being considered as influencers in their own right. When we speak of ‘influencer marketing’ what we might really be referring to is affiliate marketing in its most literal sense.

After all, influence can be derived from all kinds of publisher type. In fact one of the most interesting insights to be gleaned from the initial roll-out of Awin’s Payment-on-Influence tool was the surprising amount of influence that incentive sites were seen to be driving. One advertiser programme illustrated this with around 15% of their sales influenced by incentive-based affiliates and sizable influence also coming from email, search and display affiliates in addition to the expected contributions of content affiliates:

Number of advertiser sales influenced, by publisher type (%)



Yet when we consider that discount code sites like RetailMeNot count over 2.5m followers to their Facebook page, dwarfing the followings of most content affiliates, this starts to make more intuitive sense and compels us to review the static categorisations that we have traditionally used for such publishers.

What are all affiliate types if not the original online Connectors, Mavens and Salespeople that brands seek to partner with in order to engage with their loyal audiences? Whether it’s a cashback site with a base of users keen to find the best deals for buying a new pair of shoes, a comparison site enabling holidaymakers to compare the price of a hotel stay or a community forum offering a space where members can exchange money saving tips on a range of products, all of these sites hold an invaluable and influential sway over their users’ subsequent consumer choices.

Their ability to connect with them and to inspire, inform and influence them goes much further than just that last converting click, which is really the only click that matters from a remunerative perspective.

Consider the sheer volume of additional engagement affiliates can offer without reward. For example, across the channel affiliates can drive billions of impressions or clicks but if this does not result in conversion, the activity is deemed not worthy of payment. Imagine Google not being paid for clicks, or display advertising not receiving payment for impressions served. It is unthinkable. However, without rewarding for additional activity that sits around the conversion it is exactly what is happening across the affiliate channel.

Looking just at the UK affiliate market in 2016 the IAB’s Online Performance Marketing Study[7] estimated that there were around 5.6 billion clicks recorded across the channel via affiliate and lead generation campaigns. But only 171 million of these resulted in a transaction of some kind, whether that be a sale or a lead. That means that there were over 5.4 billion clicks that didn’t result in a direct transaction and therefore, on a stringent CPA affiliate model, 5.4 billion clicks that were generated for free.

This is not a viable business model for affiliates and, particularly at a time where other online publisher revenue streams are being squeezed by the impact of ad blocking and programmatic efficiencies, the channel must adapt quickly to offer a genuinely positive alternative means of monetisation.

Whilst The Tipping Point was primarily focused on the power of influence within a wider, social context, in the book’s conclusion Gladwell was quick to recognise the advertising value to be gained from this type of word-of-mouth process. “There are plenty of advertising executives who think that precisely because of the sheer ubiquity of marketing efforts these days, word-of-mouth appeals have become the only kind of persuasion that most of us respond to anymore.”

Cutting through the noise has always been a struggle for advertisers, particularly now with so much competition from so many different sources of media. Influential affiliates offers brands a means of tapping into precisely this kind of appeal. Simultaneously the influencer trend offers the affiliate channel an opportunity to recast itself as the primary means of doing this in a manner that is both transparent and measurable. Its last click legacy mustn’t prevent it from seeing this opportunity slip through its hands.

Emerging publishers and new technologies

Innovation is the lifeblood of the affiliate industry. A constant stream of new business models and ideas entering the channel mean it is always evolving and keeping pace with the latest digital trends. Here is our hand-picked selection of the latest affiliate entrants from across our global network that we think are set to raise the bar, disrupt the status quo and change the way we market...

BOOM 25

Company website
www.boom25.com

Year founded
2017

Employees
8-15

Territories
UK

Primary sector focus
Apparel, Food and Beverages, Supplements

What problem does it solve?
Boom25 brings the thrill back to online shopping, making it fun and exciting again!

How does it work?
Boom25 allows every shopper the chance of getting their money back on their purchases, effortlessly and free of charge. Every 25th shopper who buys via Boom25, wins their money back. It's that simple.

What's your USP?
We believe in simplicity. Boom25 brings an experience no other has done before. It's exciting, easy and free of charge.

Playlo

Company website
www.playloapp.com

Year founded
2017

Employees
2

Territories
Global

Primary sector focus
Entertainment and Gaming

What problem does it solve?
We recognise there is too much music and too much choice out there which is making it harder for people to enjoy. It also makes it difficult for new artists to emerge in a democratic way.

How does it work?
Playlo allows users to challenge other users, brands, streaming platforms or radios with their favourite song and they can be rewarded with prizes or voucher codes.

What's your USP?
We gamify music discovery. Playlo is like Eurovision but it's made of 18 music genres and to play you don't have to be a singer, you only need to choose one good song.

CloudTechnologies

Company website
www.cloudtechnologies.pl

Year founded
2011

Employees
55

Territories
EU and US

Primary sector focus
All sectors

What problem does it solve?
We provide data to online advertisers and help them in planning their ad spend. Our OnAudience.com platform, one of the biggest data warehouses in the world, processes anonymous information from over 9 billion profiles across 40 markets. The OnAudience.com platform integrates data management with programmatic buying, including DSP and Mailing Exchange. It is a tailor-made solution for performance marketing focused on prospecting customers and ecommerce platforms. We have also created UnBlock technology which allows publishers to successfully monetise blocked ad inventory.

How does it work?
UnBlock is a unique method of online advertising which can display any format of advertising to users who have installed ad blocking plugins into their browsers and acts as an advertising network where publishers can sell their ad space. UnBlock also uses big data analytics and behavioural profiles via data from the OnAudience.com platform to target suitable audiences.

What's your USP?
Cloud Technologies provide unique services and products for advertisers and publishers that enrich and monetise data. Through products such as OnAudience.com and UnBlock, partners can successfully convert blocked impressions and display ads to ad block users. For publishers, it reclaims lost revenues. For users, it keeps the internet free of charge.

INCREASINGLY

Company website
www.increasingly.co

Year founded
2016

Employees
10

Territories
Global (UK, US, AU)

Primary sector focus
Multi product retailers

What problem does it solve?
There is a massive disconnect in the way retailers can cross-sell in-store versus on-site. In-store a retailer can use product placement and store reps to encourage cross-selling. On-site the greatest solution we have for cross-selling is product recommendations (people who bought this also bought that).

Amazon, of course, uses product recommendations as part of their on-site experience but also uses dynamic product bundling to enable 1-click purchases of multiple products. Dynamic product bundling is little used by the vast majority of retailers because it is complicated to manage. This is because all market solutions are manual.

How does it work?
Increasingly is AI for cross-selling. We enable dynamic product bundling on-site and enable cross-selling in marketing and in-store.

With features including dynamic discounting and personalisation, we are driving revenue uplifts of +15% and average order value uplifts of +12%

What's your USP?
Bundling is contributing 25% of overall sales. Thanks to amazing client support we are finalists for Best Ecommerce Product of 2017 from The Ecommerce Awards and Retail Systems Awards. We use AI to solve a real business problem and are the first to bring this to market.

monotote

Company website
www.monotote.com

Year founded
2014

Employees
16

Territories
UK and EU

Primary sector focus
All sectors

What problem does it solve?
Publishers are in a daily fight to stay relevant, the rise of ad blockers makes it more complicated to make money from adverts. They need to capture an audience's imagination as well as anticipate and shape user expectations. Up until now there has been a serious disconnect between the point of inspiration, and the point where you can purchase the product that inspired you. Monotote technology is changing this.

How does it work?
With Monotote's "Buy Now" buttons consumers have the ability to directly purchase products from images and videos on the publisher's website without ever being redirected to the webshop of the retailer. We call it "purchase at the point of inspiration". Monotote's solution gives publishers full control over the shopping experience. Customised buy buttons, white label shopping carts, simple integration and an easy-to-use dashboard to automatically tag images and videos.

What's your USP?
We are making shopping online aspirational, exciting and easy. The customer spots a product they like and can purchase it there and then without ever leaving their favourite site. Our universal checkout allows them to shop from multiple retailers and checkout in one easy payment. One click and it's yours.

PAPĒM

Company website
www.papem.it

Year founded
2016

Employees
10

Territories
Italy

Primary sector focus
Apparel and Design

What problem does it solve?
According to Google, the number of consumers who research products on their smartphones before purchasing them in physical stores is growing by 120% per year. Despite this increasing need for informed purchasing decisions, online researches often lead to unreliable and incomplete information on who sells what and where products are available online and offline.

How does it work?
Papèm shows products in stock in fashion stores near you. Find the product you like and Papèm will tell you how to shop in a way that best suits your needs. Users navigate through inspirational content, categories, brands or via a map. Once they find a product that suits them, they can find the nearest store that sells it or they can buy it directly online.

What's your USP?
Papèm provides consumers with an omnichannel fashion app allowing them to have all fashion brands and boutiques at their fingertips. They have a shopping companion supporting them across physical and digital touchpoints and can decide how to convert (online or offline) depending on their needs. Brands can increase their reach by joining the first omnichannel community for free. Fees are completely linked to performance and brands can deliver hyperlocal campaigns to improve their performance and reach out to even more relevant users.

pouch

Company website
www.joinpouch.com

Year founded
2016

Employees
11

Territories
UK

Primary sector focus
All sectors

What problem does it solve?
For consumers, we make it easier to find and redeem valid voucher codes when shopping online. For retailers, we solve two core problems; the first is to reduce cart abandonment by keeping Pouch users onsite and inside the conversion funnel, therefore increasing retailer sales. Secondly, because we sit in the browser, we allow our retailers to target their ideal customers as they shop anywhere in the world. This results in the most incremental sale in digital marketing.

How does it work?
Once downloaded to your browser, Pouch will notify you when you visit a website that we have a valid voucher code for and that you can use at the checkout. Pouch can help retailers improve sales and conversions three ways. Firstly, by keeping the user on the retailer site and preventing basket abandonment using the 'Pouch Shopping' tool. Secondly, by enabling brands to target shoppers via the 'Pouch Promotions' tool as they shop on relevant websites (including competitors'). Thirdly by using Pouch's 'Email & Social Media' campaigns to promote deals to our highly engaged shoppers on our email, Facebook and Twitter channels.

What's your USP?
Being browser-based we have unique access to our users' shopping behaviour as we are technically 'integrated' on every website in the world without the need for code. This means we can work closely with retailers to target the right customer with the right voucher at the right time.

SNATCH

Company website
www.snatchhq.com

Year founded
2016

Employees
28

Territories
UK and US

Primary sector focus
Gaming and Marketing

What problem does it solve?
Advertising has changed. The broadcast approach doesn't work anymore and consumers no longer tolerate being 'talked at' meaning budgets are being wasted on disengaged audiences. Snatch revolutionises the advertising relationship by putting the power back into consumers' hands, allowing them to choose the brands they want to interact with and creating a platform where brands are actively sought out by consumers.

How does it work?
Snatch is a virtual treasure hunt played via mobile with brand integration at its heart. Players log into the app daily and are met with a list of prizes available to win, tailored to their interests. Virtual parcels containing real prizes are dropped around the players who can then find them using an Augmented Reality feature. Once collected they must retain a parcel for six hours, at which point the prize inside is revealed. However, during that time players can snatch parcels from one another and deploy tools to both protect their own parcels and snatch parcels from others.

What's your USP?
We set out to challenge the status quo on how brands and consumers interact and create a platform that's mutually beneficial. Snatch provides a marketing platform that gives access to highly engaged consumers actively seeking interaction with brands.

appiness

Company website
appiness.mobi (spott.tv)

Year founded
2015

Employees
30

Territories
EU and Brazil

Primary sector focus
Media and Retail

What problem does it solve?
Fast-forwarded TV commercials and ad blocked internet advertisements are a thing of the past. Today, people are inspired by products used and clothes worn in TV shows, by celebrities in the streets or by influencers on social media.

How does it work?
Spott is an online platform that showcases products through 'Spotts', photos or videos enriched with recognised products, characters and locations. Viewers can interact with content and are even able to buy what they see. Our mobile apps allow users to synchronise Spott with video content by sound, like Shazam does with music. Only relevant content is presented based on users' subscriptions and search patterns.

What's your USP?
For the user, Spott combines an interactive second screen app and a contextual inspiration platform. It bridges the search gap by providing immediate purchase options within content that inspires them. For broadcasters, Spott is a new way to make adverts relevant again. Users interact with content they are interested in using the Spott app, resulting in real-time data insights and a higher return on investment. Their content is not interrupted by commercials, thus fastforwarding no longer has an impact on the ad investment. In addition, broadcasters can go to advertisers and brands with hard numbers. Brands and stores also benefit with the collected data from Spott enabling them to create targeted campaigns focused on specific, relevant audiences.

shopsuite

Company website
www.shopsuite.com

Year founded
2016

Employees
7

Territories
Netherlands

Primary sector focus
Fashion, Beauty, Lifestyle, Home and Living

What problem does it solve?
Publishers are suffering decreasing ad income because of falling print numbers and competition from new advertising channels. Banner fatigue has provoked the use of ad blockers causing advertisers and publishers to seek out native advertising forms. Ecommerce is a huge opportunity for publishers but this involves an up-front investment and requires a different kind of skillset.

How does it work?
Shopsuite enables publishers to start their own ecommerce store where they can sell products from various retailers without any of the technical know-how. The store can be integrated and fully tailored to the publisher's site. Our dashboard and browser extension allow publishers to select relevant, locally-deliverable products, and product data is automatically updated. Also, our extensive toolkit has widgets that help integrate products into publisher's content. Finally, we offer several branded content placements that enable publishers to better serve their advertisers and generate more revenue from their traffic.

What's your USP?
The ease with which publishers can enrich their site with a tailored store and branded content facilities. We offer publishers a new business model and offer brands a way to generate exposure and traffic simultaneously.

Can voucher codes drive incremental value?

The affiliate industry is one that changes in complexion from year to year, shaped by consumer trends and new technology. A constant presence in the publisher mix over the past decade has been voucher-led affiliates who have seen exponential year-on-year growth, outstripping the general performance of other publisher categories. Buoyed by an increasingly demanding consumer they have been a huge success, expertly tapping into an innate need while nailing conversions. They have cultivated an industry within its own right that has continued to innovate across devices, with the ability to tap into customers at every stage of the purchase cycle.

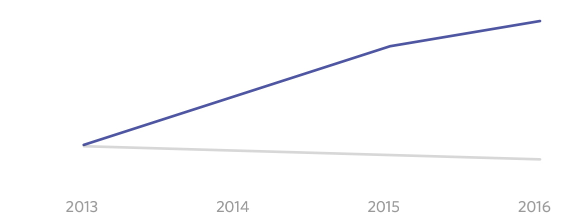
But they have also been a controversial presence for almost as long as they have existed and not just for one particular reason. Critics have been vocal from all sides of the industry, singling out what some have claimed to be aggressive and sometimes misleading tactics. Advertisers question the role voucher code publishers play in generating customers they feel they could have secured themselves, and without the resultant margin hit. Other publishers bemoan the attention they receive and many believe that their own efforts are being swept aside by perceived goal-hanging tactics.

Few can doubt their power and effectiveness, but with such a decisive mechanism they also divide opinion. So how can we assimilate these various concerns and provide a more measured approach to how to work with sites making use of codes and coupons, whilst maintaining confidence in their ability to drive both sustainable volume and value? How can we ensure they continue to be seen as a powerful and vital arm of the affiliate channel, and what are brands and publishers doing to futureproof their existence?

The growth curve

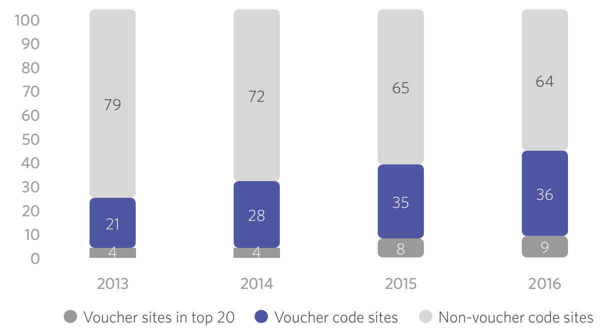
The burgeoning growth of voucher codes and sites that feature them is unquestionable. If we look at Awin's global data, tracking voucher code publisher growth against the network as a whole, we can see how the growth of voucher code publisher commission (purple line) compares with the general growth of network commission (grey line) from 2013 to 2016:

Voucher code growth vs rest of network growth (commission) 2013 - 2016



We can also see below the volume of voucher sites that constitute the top 100 affiliates on the network during the same period:

Proportion of voucher sites in top 100 revenue-generating publishers



Codes are both ubiquitous and popular. A 2017 YouGov survey of a cross-section of UK consumers found one in four had used a voucher code website in the past six months, with many more using them outside of the destination portals. It's estimated that around 132m US shoppers will redeem an online voucher in 2017[1], rising by another 13m over the next four years, and a CETELEM survey found just over half of Spanish consumers had at some point used an online coupon.[2]

This growth has undoubtedly been boosted by the universal nature of codes and the long-established retail phenomenon of discounting that has meant they feature significantly in all of the markets served by Awin. Voucher code sites have taken a traditional marketing tool and created an online version for the digital age. Additionally, this ubiquity has meant certain regional voucher affiliates such as Global Savings Group have used home success to expand into other markets in a way that hasn't been seen in other publisher segments.[3]

But voucher coding is limited to a handful of deal aggregators and this goes to the heart of one of the difficulties of measurement, that of classification.

Given affiliate marketing is digital in microcosm we need definitive segmentation of affiliate types to both show the variances between them but also highlight how they all need to be managed differently; the needs of a blogger are considerably different to those of a cashback site for example.

However as a push mechanic that cuts across affiliate classification, vouchers aren't limited to a single affiliate category and can be utilised by all affiliates to enhance their propositions. To add to the complexity, voucher code sites do not just make commission from those codes being redeemed.

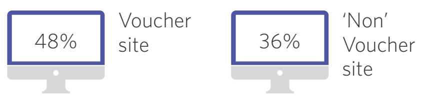
Take a mainstream voucher code site for example. They will obviously feature codes on site but they will also have sections that make reference to sales, offers, deals and promotions. These will be clearly marked as such. Therefore if transactions are generated from consumers clicking on a sale offer, rather than a voucher code, how do we summarise their performance? We can obviously split this activity out but top level analysis becomes tricky. What if that affiliate also sends an email to their user base that leads to vouchers being used? Does the method of communication or the mechanic that drove the ultimate conversion count?

For one major voucher code site, generating hundreds of thousands of sales per month, 52% of their sales did not involve a voucher being redeemed. Consider also that vouchers may be product or range specific (therefore not site-wide), so a consumer could discover a specific code that is not redeemable against the product purchased but still continue to transact.

A further complication of classification occurs when we look outside the obvious sites we categorise as voucher code publishers. It's now common practice for retailers to issue content sites and bloggers with their own unique codes. In this instance a code may be redeemed but the affiliate in question is not a voucher code site. This further confuses our classification of what constitutes a voucher code site.

A fashion curation site, generating their sales from smartphones apps, still generated one third of their sales from voucher redemption, despite their content being focused on discovering new clothing lines. They clearly add value at an early, exploratory stage of the purchase cycle yet are also able to drive significant revenues from something that is largely seen as a conversion mechanic.

Percentage of sales that resulted from a voucher code being redeemed



To further blur the lines, cashback and reward sites can offer codes in conjunction with points or a monetary-based reward, the effect of a double consumer incentive in action. Alongside this, codes can be used in price comparison and paid search, as well as online and offline.

Therefore, it's important not to funnel ourselves too much down the route of simply isolating voucher sites as the manifestation of codes online. In fact, it may be more accurate to refer to coupons and vouchers as a device rather than an affiliate type.

That isn't to say there aren't specific concerns that need to be addressed with voucher code sites in particular, but it would be an error to focus on them exclusively. It may be more accurate therefore to refer to 'affiliates who make use of vouchers', rather than 'voucher code affiliates'. By using this definition we separate the affiliate from the mechanism.

What will become apparent is that coupons and codes are not a one-size-fits-all solution and can be both customised and controlled.

But before that, let's dial back and lay some foundations about the industry and where it has come from.

The evolution of codes

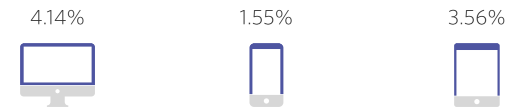
Coupons, codes, discounts, deals and offers. They are not a product of the internet age. People have been taking advantage of retailers' desire to push their latest and greatest products for well over a century. Be it in the form of a cut-out coupon to exchange at the till or stamps to collect that convert into goods, retail has evolved a trigger mechanism that has trained consumers that there is often a value-add or bargain to be had beyond the advertised price.

With the growth of online commerce, so the opportunity to aggregate these offers and deals presented itself and was jumped on by a handful of companies who recognised the pull of a one-stop shop. If they could attract large audiences, the ability to drive revenue for advertisers would become apparent and completely tangible. The perfect conduit for that was the affiliate channel, with its payment on performance ethos and its ability to tap into thousands of advertisers in a relatively short space of time.

Tapping into an almost pathological desire by some consumers to 'game the system' and pay less than a casual customer going direct to a retailer has paid off handsomely for the main protagonists who, in turn, have gobbled up smaller voucher code sites. Retailmenot is considered the main coupon behemoth; a US company that has acquired market-leading businesses in the UK and France with a current revenue of around $300m.

In an age when advertisers are focused on click-to-sale conversion rates, knowing that tweaks and site changes can result in small, but proportionally significant uplifts, voucher sites have always enjoyed impressive results.

Looking at global data for Q4 2016, according to Monetate's Ecommerce Quarterly report, they claim general conversion rates across devices as follows :



If we now consider the conversion rate, for example, of a major voucher affiliate for a fashion brand compared to a popular affiliate segment within the sector, a product comparison site. Coupons are generally a critical part of a fashion programme's make up, but similarly product discovery through affiliates like Lyst and Shopstyle mark this out as a particularly innovative and diverse sector.

Taking these two notable affiliate types and choosing a typical performer for each we can see huge variance in performance:

Voucher	27.1%	35.13	0.84
Editorial	5.4%	29.84	0.20

In this example the editorial affiliate is on a commission rate almost double that of the voucher site but a combination of a more than fivefold click to sale rate and 18% higher average basket for the voucher site, means they have to drive four clicks for every single voucher code site interaction to pull in the same revenue. It would, however, be difficult to draw the conclusion that vouchers deliver four times as much value as other affiliate types.

What it does demonstrate is a voucher site has a much greater propensity to turn a potential customer into a paying one. A consequence of this is an assumption that voucher sites typically feature further down the sales funnel. Due to the affiliate channel's adherence to the last-click wins model, this arguably has an associated impact upon other affiliates.

Putting aside the value discussion for the moment, this general assumption that voucher affiliates are responsible for overwriting a wealth of affiliate content, is mostly associated with so-called content and blogger sites. Many feel they use their power, reach and range to sweep away small affiliates who lack the ability to position themselves closer to the customer.

There is a kernel of truth in this but the variances and vagaries mean it is impossible to draw definitive conclusions. One way is to understand what happens when more than one affiliate is involved in a sale and which types of content are responsible for superseding earlier dropped cookies.

> "Voucher sites are far more likely to overwrite and be overwritten by other code affiliates than any other affiliate type"

Assessing the same two affiliates mentioned previously for the fashion programme sector shows us that voucher sites are far more likely to overwrite and be overwritten by other code affiliates than any other affiliate type. This has the effect that they are more likely to be involved in a multi-affiliate sale than on average.

When we look at transactions that involve more than one affiliate and which types of affiliate lose out, as many as 90% of a deals-based portal's sales will be credited to a similar site, compared to about half of a blogger or price comparison site's 'lost' sales. In other words, the trend for consumers flitting between other code sites and dropping cookies before completing a purchase on that site or a similar one is pronounced compared to a much more mixed picture for blogger content where the split between other affiliate models tends to be more evenly spread.

One of the reasons for this, as explored elsewhere in the report, is that blogger content tends to be more 'early funnel', exploratory and discovery in nature and as such can easily be picked off by affiliates tapping into consumers who are more inclined to purchase later.

This should be a consideration when working with affiliates drawn from a wide spectrum. Just because their traffic is aggregated within the boundaries of a singular affiliate programme, does not mean their activity is uniform in nature or designed to perform the same function.

If, however, a broad definition is sought for voucher code sites, we could feasibly label them as conversion experts. They thrive from a defined goal of offering the best deals and strong calls to action. This is in contrast to bloggers who invest heavily in content but don't necessarily attach such a strong message to transact there and then. But that is not to say content sites cannot offer codes and coupon sites don't invest in content. The blurring of boundaries makes defining broadly based marketing strategies difficult.

> "If a broad definition is sought for voucher code sites, we could feasibly label them as conversion experts."

Delivering value: guaranteeing control

Delivering value from voucher codes is always a subjective issue. Among other considerations will be whether the brand ever discounts, the frequency of distributing codes, the suitability of a site-wide deal versus specific products, whether a value-add (such as free delivery or bolt-on) rather than a price-led discount is more attractive, the competitive advantage that codes can offer (is the retailer's product or service unique?), technical set-up capabilities and an appreciation of what margin is available.

A test and learn mentality will also require robust interrogation of the sales and customers delivered in order to determine future voucher strategy. What is the incidence of new customers? Does a 10% off code deliver a different type of customer to a 20% off code, and will the offer produce different results based on working with different partners? In working with a voucher site, what does a customer delivered by an email campaign versus one referred by their app look like?

Looking beyond the sheer volume of sales delivered can offer a myriad of options to consider. It can be bewildering for advertisers who may also be suspicious about voucher coding as a strategy.

They also know if the relationship is handled by an affiliate network or agency they are hit with a triple cost: the network or supplier fee on a transaction, the commission paid to the affiliate and finally the margin given away in the voucher itself.

But one of the major boons of affiliate marketing is that the cost is controllable. So, assuming that all three are within the target return on investment then the financial impact shouldn't be the overriding concern.

Ultimately what can compound and exacerbate the advertiser concern is when they have little control over the distribution of vouchers. Some will thrive off the viral nature of a killer deal, but for seasoned users of voucher codes, having a system in place to monitor their use and on which sites they appear is vital.

There are certain mechanisms that help achieve that goal.

Generic vs. exclusive codes

Exclusive codes are typically offered to a single partner and will almost certainly guarantee additional exposure as part of an affinity deal. Advertisers can also ensure that only the affiliate that the code was intended for will get commission for transactions using the code.

Single-use codes

A greater level of control can be exercised by issuing single-use codes; unique to an individual consumer. There are additional technical requirements to implement single-use codes but this ensures that it isn't possible to share voucher codes. This enables advertisers to issue a fixed number of voucher codes that are able to be redeemed for further control over costs and distribution.

Only showing voucher code box for traffic from voucher code sites

One of the main areas of concern among retailers is that consumers have been 'trained' to search for voucher codes when they reach the basket, often when a voucher box is shown on the checkout page.

With some technical work, it is possible for advertisers to remove this box when the referring traffic source is not a voucher code site. Additionally, it is possible to pre-populate the box with a code from an affiliate if they have been issued with a code to use, thus negating the need for them to leave an advertiser's site in search of a code, as well as allowing a more seamless transition from the affiliate who drove interest with a code (be it a voucher code specialist, blogger or another content-focused site).

Email Voucher Code Case Study

With the largest voucher code sites having access to databases in the millions, an Awin retailer carried out A/B testing with one of the largest voucher code sites to monitor the impact on conversion rates when offering an exclusive discount compared to a generic offer of free next-day delivery.

Both email shots consisted of 200,000 users who were newly registered with the voucher code site. The group exposed to the exclusive offer saw a 4.7x increase in conversion compared to the target group who received the generic offer as well as generating a disproportionate number of new customers.

Monitoring click-to-sale lag times

By monitoring how long a customer has taken to click through from a voucher site to completing a purchase it is possible to draw some (albeit arbitrary) conclusions about how likely that consumer was to buy or how much value the code site added. This can be used to decide how much commission to pay or better understand how frequently this happens. A key consideration is to measure this activity across all digital touchpoints and across all devices.

While not common, occasionally an advertiser may implement a 'basket freeze', declining such sales or, if another affiliate was present earlier in the sales funnel, awarding the commission to them instead based on a very short click-to-sale time.

Alongside some of these more practical solutions, the wider industry has recognised a broad self-regulatory framework that provides a blueprint for publishers in the sector which is useful. All major markets have tackled to some degree the issues that are typically raised, with some, such as the Netherlands, Germany, Spain and the UK, enshrining similar best practice guidelines.

In the main these cover the look and feel of the content as featured on a voucher code portal, dealing with areas that may have been deemed to be misleading to the consumer. They have taken as their focus whether the content adds value to the consumer and if the intention of the codes and coupons listed is clear and obvious.

For more details on the regulatory work on this particular topic, please see the 'Brand safety and self-regulation' section of The Awin Report.

The age of the multi-channel voucher affiliate

Beyond these quite functional solutions, a test and learn strategy whereby the results are digested and fed back into a future approach, can further aid understanding of the value voucher sites deliver.

Online/Offline Voucher Code Case Study

TOPMAN

Men's fashion retailer TOPMAN set up a trial with a selection of local voucher code sites' to test their ability to offer customers both online and in-store discount codes. They did this by distributing a standard, site-wide 10% code. The positive impact on sales and revenue was as they had expected, but one of the most positive outcomes from the trial was an increase in the average spend from customers in the retailer's stores. Possibly buoyed by the ability to cross-sell and upsell in a real-world environment, as well as the customer's ability to experience the products first-hand, the average value of in-store baskets jumped by 10% compared to the 6% hike that they witnessed online.

> "Most consumers want their money to go as far as possible, and they will often use a code to actually buy more"

That vouchers can drive additional spend isn't surprising. According to a study from RapidCampaign in February 2015, promotions influence 28% of consumers to spend more, 27% to buy from retailers they wouldn't ordinarily have done, and 25% to buy products they didn't intend to.[4]

Vouchers also appeal across the demographic. Discounts are often viewed (incorrectly) as a way of cash-strapped consumers maximising their budgets. But generally, most consumers want to make their money go as far as possible and if there money to be spent, rather than shell out less, they will use a code to actually buy more.

The TOPMAN example also demonstrates the importance of using a multi-channel and seamless approach to marketing offers. A consumer may be on the high street and the push notification that voucher sites can offer via their apps pushes the customer over the shop's threshold.

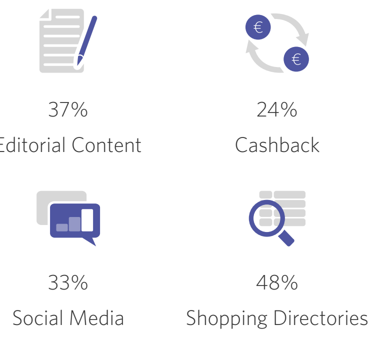
Consider voucher sites now mirror retailers in their ability to tap into consumers at every stage of the path to purchase, from discovery to checkout. From an exploratory email early in the week to an on-site promotion through to geo-fenced mobile alerts and then in-store redemptions at the weekend. These multiple options mean advertisers can shape their acquisition strategies according to the channels open to them.

This is of course premised on affiliates offering more and more data and advertisers have a role to play in this by passing additional data points to networks so that more qualitative conclusions can be made.

Let's consider new versus existing customers, an increasingly common standard by which longer term value is associated. By simply passing back to a network whether a shopper is a new customer, campaigns can be interrogated to see what trigger or platform helped drive above average numbers. In addition, sharing customer ID against each transaction enables longer term contributions to be understood for both new and current customers.

Let's consider an Awin advertiser's performance data for August 2017. Without even starting to analyse the specifics of any activity that occurred within the campaign we can draw top level insights about new customer numbers:

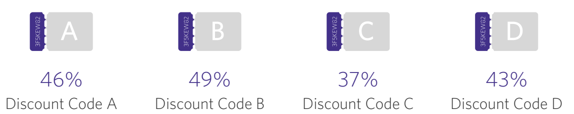
New customer percentage by publisher type (%)



In this example we can see voucher traffic is adding almost as many new customers as existing, in contrast to editorial content sites and cashback. However, it would be foolish to make any rash assumptions based on broad brush categorisation. Without further insight we also don't know if there were specific campaigns or activity being run by large publishers within each category.

Drilling the data down further it is possible to isolate four major discount code sites and cross-reference their numbers:

New customer percentage based on sales



With very little analysis we can see that not all affiliates are created equal and neither are all affiliates within their own categorisation. By layering targeted campaign usage of specific codes, be they 'stretch-and-save' (based on a minimum spend), site-wide or product specific, it's then possible to assess the most effective triggers.

By taking into account such insights and intelligently using them to work with such partners tactically, advertisers can begin to better understand the value that can be driven by these affiliates, a value that is undeniably incremental.

Voucher Code Innovation: Case Studies

Creative use of codes

The perception of voucher codes has historically been a reductive one, that they are simply a mechanism for driving sales. However, with enough robust data made available and time dedicated to fully analysing their use we can build up a more accurate picture of their real value to brands in influencing a shopper's inclination to buy a product or service.

The affiliate channel is a natural environment for testing such tactics and carrying out such analysis. Over the years we have seen innumerable examples of voucher code publishers from around the world demonstrating their value in a variety of unique and creative ways. On the following page you'll find a selection of the most innovative and interesting ones we've witnessed recently from across the Awin network.

WE

In the Netherlands WE Fashion partnered with The Voice Kids via Awin. Upon voting in the finale, viewers were sent a thank you text message and below a featured video was a call to action button offering a 20% off code on children's clothing. Achieving a 4.5% conversion rate and driving 53% new customers, the campaign fulfilled the dual objectives of branding from the 11,000 who clicked the video as well as exposure to new shoppers.

uniqodo

Code control as mentioned is a key concern for advertisers. British tech company Uniqodo enables brands to run fully customisable voucher code campaigns and partnered with Travelodge to deliver a full voucher CRM system. From targeting travellers using airports with geo-targeted discounts, to Travelodge's email subscribers receiving unique offers and regular customers being targeted with loyalty offers. The range of codes included non-cash promotions such as free breakfasts with the effect of more users signing up to the company's newsletter which in turn grew their customer database.

Global Savings Group

The Dutch office supported the Global Savings Group in 2016 with their new concept called 'Voucherback' which rewards consumers with a code after making a purchase. This meant coupons and offers could be used for non-traditional voucher brands such as those in the telecoms sector. Given discounts can't be offered directly by retailers on mobile phone contracts due to the need for parity in store and online, the post transaction code was an innovative way of working with incentive traffic. A Voucherback test with two Awin Telco clients saw around 150 voucher redemptions, an uplift of nearly 200%.

vouchercloud

A well-known hotel booking site wanted to use smartphone geo-targeting to target potential customers over the Christmas party period who may have missed their last train home through push notifications and mobile exclusives. Popular site Vouchercloud set up geo fences around train stations and popular Christmas party venues in the two weeks prior to the big day accompanied with an exclusive 10% code. Mobile sales increased almost threefold and revenue by more than 150%. Overall sales and revenue tracked almost five times higher than the previous period.

Delivering lifetime value in the affiliate channel

With every year that passes the affiliate channel grows in both size and sophistication. It has experienced a number of phases, from inception to wider acceptance, and now that it is firmly part of many brands' marketing mix, it is transitioning once again.

As companies find themselves accessing more data than ever before, and with the dedicated resource and advanced business insights tools to measure it, so we can see the channel morphing into one that is increasingly focused on evaluating value rather than just volume.

Consider affiliate marketing's strength is built on its eminent measurability. To date this has been based largely on quantitative metrics: volume of sales, clicks, revenue and how this breaks down by affiliates and devices. The next phase of affiliate marketing will be based on a more three-dimensional approach, deepening relationships and improving targeting communication through additional data layering. In turn it is to be hoped the insights will solidify the robustness of the channel, increase confidence in the budgets invested and provide greater clarity on the longer term value it offers.

As ecommerce matures so advertisers want to understand their customer bases better. They also want to provide context for the channels they're investing in. Affiliate marketing to an extent has remained a relatively standalone channel. Partly because so much of the budget sits outside agency relationships but also because it's viewed as a nuts and bolts channel, affiliate marketers now want to define its success by more than rows and columns on a spreadsheet.

The next phase of the channel is looking beyond standardised, 'classic' measurement that has been the norm since the industry's inception, around which reports and user interfaces have been built.

This requires a concerted effort by all involved parties to work in a coordinated way to make sure the new constituent parts connect. For existing accounts this may require reintegration. It will also need the brand side marketing contacts to greenlight passing back additional data points that may raise question marks about why the need exists to capture more information. In order to keep the wheels in motion, the value exchange between both parties may need to be redefined; give the network more information and receive more incisive recommendations about how to spend affiliate budget more wisely.

Some metrics are already starting to permeate the wider affiliate landscape. One of the key metrics that advertisers want visibility on is the split of new versus existing customers that affiliates are able to deliver. Those publishers with the ability to attract new customers are often seen as preferential to those driving customers that had previously purchased. While certain publisher types are able to control the delivery of new customers to an extent, the majority of publishers will have little influence over this but it acts as an important marker.

Increasingly advertisers are also placing a significant emphasis on retention, and customer lifetime value is becoming an ever more important metric to measure affiliate performance against.

With this shift in focus it is important to understand the value of customers that affiliates drive and whether the traditional payment models offered fairly reflect this.

What becomes clear as soon as a 'next generation' affiliate programme is considered is how an amalgamation of additional data points, rather than one in particular, helps build a much clearer picture of the tangible benefits individual affiliates can add to an advertiser. This in turn helps progress the relationship from one that may be somewhat anonymous to a closer, affinity based partnership.

What is lifetime value?

Measuring the impact of an affiliate programme is typically based on a one-off sale and one-time reward in the form of a commission. This in itself offers a window into affiliate contribution but does little to provide context. Building a fuller picture around that sale by understanding lifetime value is becoming increasingly typical. When we talk about lifetime value we're effectively trying to measure how much a customer is worth to a business over their lifetime. This can be calculated by looking at the total spend of that customer over their lifetime with the business, minus the cost of acquiring that customer. Also, any additional spend in marketing to the customer could be added to the equation to get a fairer representation of the cost involved in customer retention.

The affiliate channel has proven to be an extremely cost-effective way of driving new customer acquisition, with the upfront cost the commission paid to an affiliate for delivering this new customer. This will vary greatly from sector to sector but it is worth factoring in the expected lifetime value of a customer into the bounty offered for a new customer. For example, a telecoms company will know that a valuable customer is one that takes out multiple products. Customers that are more engaged with a company are less likely to churn, stretching their value over an extended period. For a publisher that has demonstrated the ability to generate highly profitable customers for a business, it is only fair for them to be rewarded for doing so .

"For a publisher that has demonstrated the ability to generate highly profitable customers for a business, it is only fair for them to be rewarded for doing so."

Additionally, advertisers are able to profile their affiliate base over time. The data will uncover the publishers that are typically driving customers that are returning often and increasing their lifetime value. This data can help shape future decisions, further allowing advertisers to determine the worth of acquiring a new customer and setting their commission for new customers in a more intelligent way.

How are companies looking at lifetime value?

The concept of lifetime value is something that is measured by a number of large companies outside of the affiliate channel.

In 2013 research was undertaken to determine the estimated lifetime value of Amazon customers. It uncovered that Amazon Kindle owners spent approximately $1,233 per year purchasing from Amazon compared to $790 for other customers.

Similarly, Amazon Prime performs a startling customer retention rate and, in a study conducted by the Consumer Intelligence Research Partners, it was uncovered that Prime members spend $1,340 annually. Given that was four years ago, it is likely to be even higher now.[1]

Average annual spend on Amazon by different Amazon customers

amazon prime	amazon kindle	amazon
$1,340	$1,233	$790

By applying customer lifetime value to the development of Amazon Prime, Amazon knows exactly how to get the most out of their most profitable customer segments. Additionally, the halo effect of capturing more and more data about an individual customer helps shape the broad range of additional services and tech that Amazon can promote to them.

Online streaming service Netflix also made fundamental changes to their business in order to improve the lifetime value of their customers. They knew that an average customer would stay on board for 25 months and the lifetime value of a customer is $291.25. This has an impact on the amount they are able to spend on acquiring a customer, marketing to that customer and for that customer to remain profitable. They also know that their customers are impatient and some cancel because they don't like waiting for movies to arrive in the mail. Due to this they added a feature allowing you to stream films online.

By tracking the changes they made to their business model, Netflix was able to reduce their churn rate to just 4%.[2]

Why is lifetime value so important?

Lifetime value has become an increasingly important metric for advertisers to measure their affiliate performance against. With the number of customers who can be determined as 'new' constantly decreasing and becoming more expensive to acquire, keeping a customer who is loyal to a brand can be a lot more profitable.

Churn rates for new customers can be high, especially in a homogenous market where there is little, if any, product differentiation. The value accrued over the lifetime of a customer far outweighs that of acquiring a new customer who churns over a short period of time.

Historically the affiliate channel has been seen as a cost-effective way to drive new customer acquisition. With advertisers having access to a wide range of diverse publishers with significant audiences, they have always been well positioned to reach new customers they may not have typically had access to.

The metrics shouldn't stand in isolation – the affiliate channel can be incredibly effective at driving new customer acquisition. But if those new customers churn, has the value in acquiring them become irrelevant?

Customer lifetime value becomes an increasingly important metric for advertisers as acquiring new customers becomes harder to achieve . It can be more cost-effective, not to mention more profitable, to increase spend across an existing customer base rather than spending additional effort chasing new customers who may well purchase as a one-off.

"Customer lifetime value becomes an increasingly important metric for advertisers as acquiring new customers becomes harder to achieve."

Similarly affiliate marketing does not exist in a vacuum. By aligning channel data with additional digital data, a broader understanding of its impact is revealed. This underlines the importance of incorporating affiliate within wider discussions and ensuring it isn't measured in isolation.

Why the shift from new versus existing customers to delivering lifetime value?

As mentioned, the two metrics should not be seen in isolation, but there has certainly been a recent shift in focus. This is clearly a step in the right direction for fairly rewarding publishers for their ability to help with customer retention as well as simply driving acquisition. Just rewarding publishers for driving new customer acquisition ignores the role an affiliate has played in retention and diminishes the overall value they bring to a brand. It also ignores the question of who owns the customer. The pure fact that a customer has clicked on an affiliate link prior to purchasing is a show of intent, and indicative that the publisher has influenced the purchasing decision. Just because a customer has shopped from a brand previously, it doesn't mean they would have again, regardless of the interaction with the affiliate site.

In sectors where there is a significant amount of competition, continuing to attract new customers becomes more difficult. Indeed, with the rise of incentivised traffic sources the bounty to encourage 'switchers' far outweighs the investment in commission structures that are geared to reward driving repeat purchase. It is also worth considering that regulators are increasingly demanding online providers make switching and comparison sites as easy as possible to use, potentially highlighting the potency and enhanced focus on customer retention

The initial focus on driving new customer acquisition was borne from the concept of the incrementality of a customer. In this sense an incremental sale is determined simply as a customer who wouldn't have purchased had it not been for the involvement of the publisher. However, this is an overly simplistic view of incremental activity.

An alternative view on incrementality could look at the value of the customers being delivered through the affiliate channel. A long-term customer who is influenced to return numerous times and has a high lifetime value could be considered more incremental than a new customer who makes a one-off purchase, never to return. Ultimately affiliates and advertisers should work hand-in-hand to deliver the highest quality customers; new versus existing customers as a measurement is only one element of that.

Flexibility in payment models - understanding the value of an existing customer

In order to fairly reward affiliates for their role in driving customer loyalty and life time value there is a requirement for flexibility within payment models beyond our static and traditional approach of standardised commission rates.

While the last click CPA model is one that is traditionally used and not fundamentally broken, it lacks the flexibility as a reward mechanism to truly reward publishers that are driving the most profitable customers.

Understanding the role of influence within the affiliate channel is also a key facet of moving away from a standardised commission model. By identifying the influencers driving early funnel interest, a fair model would reward them for the influence they held over a purchase. Again, it all comes back to the data. While these influencers may not be driving acquisition, their role in the customer journey undeniably has an impact on the overall value of the customer. By casting a keen eye over the data, it is possible to see the values of the sales that each partner is influencing. Taking this data, it is possible to roll out a flexible commission model that not only rewards the converter of the most profitable customers, but also those that held influence upon the sale.

Where historically paying a higher bounty for a new customer was commonplace, up-weighting affiliate commission for those driving valuable customers is preferable to penalising affiliates for driving existing customers, especially when this is largely out of their control.

How then can additional data parameters coupled with post-conversion analysis help reward publishers who are adept at delivering the most profitable customers for a brand?

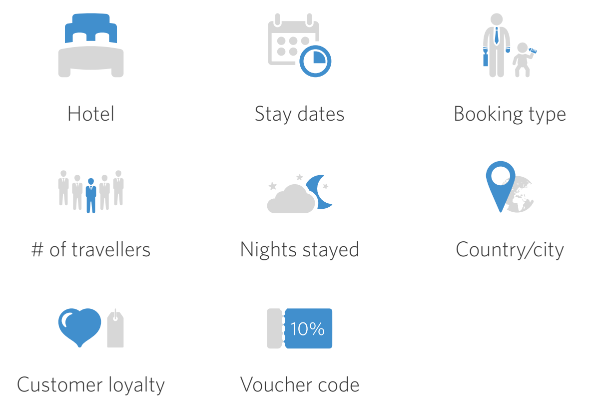
Additional data parameters and post-conversion analysis

As one of the more developed markets for the affiliate channel, a lot of best practice from advertisers operating within the UK can help to shape global strategy. Advertisers that are able to pass back additional data points with each transaction are better able to understand the value of the customers that each affiliate partner is referring.

By analysing the data that is captured, advertisers can begin to make predictions based on the types of customer that are typically being referred through each publisher. This in turn allows an advertiser to set a more intelligent commission structure based on what they know about the customers being delivered.

Take a travel programme for example. By passing back stay dates as an additional parameter, advertisers can start to understand how far in advance travellers are booking before their stay. Combine this with data around the destination and the number of travellers, and advertisers are thus able to build profiles around the most desirable customers. If they have unsold inventory for a particular destination they can utilise the customer parameter data to determine which publishers should be targeted that are adept at driving last minute bookings. Conversely, they can identify any affiliates that have long booking to stay lags to encourage the conversion of travellers that like to book well in advance.

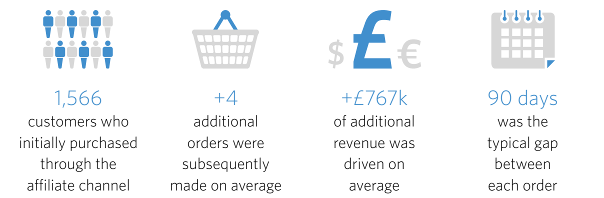
Custom parameters that can be passed back in the travel sector



Similarly, retailers can use additional data parameters to help segment their affiliate base. By putting together a profile of their ideal customer, they can use these parameters to identify the publishers that are driving these most desirable customers. For example, this could be a customer that has purchased before, has made at least five previous purchases and has paid using a credit card. Segmenting customers in this way allows advertisers to understand which publishers to work with to drive these customers and also to tweak commission rates to be truly reflective of the value they bring.

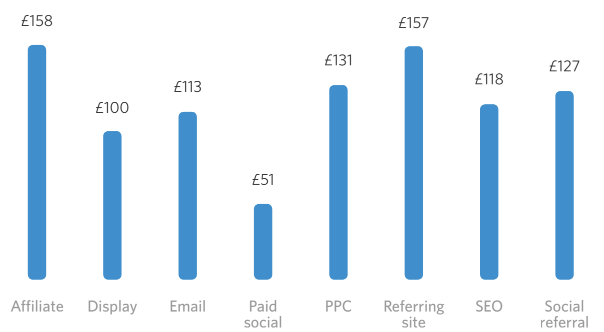
Sharing additional post-conversion data can also help determine the lifetime value of a customer that has been referred through the affiliate channel.

Taking an example from the UK, a department store was able to extrapolate the value of a customer referred through the affiliate channel over a prolonged period. They identified patterns in repeat purchase and the additional product categories they were purchasing within:



This helped to identify the product categories potential customers were likely to purchase, having previously purchased within another category. Armed with this data, the advertiser was able to identify that a customer that purchases within the furniture/homeware category was also likely to purchase within the childrenswear category within six months of the initial purchase. This enabled them to effectively target their messaging with each publisher by understanding their audience, moving a step closer to personalisation within the channel. This advertiser was also able to identify the additional value over time that was generated by the customer, regardless of the channel that drove subsequent purchases .

Average spend per additional order, by channel



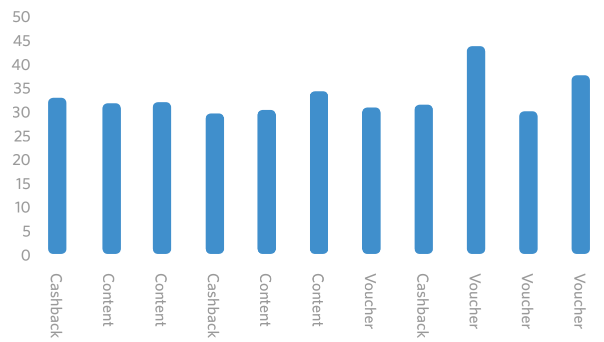
Only by better understanding the repeat purchase behaviour and lifetime value generated by each partner can an effective, intelligent commission structure be set to reward this true value.

Ultimately the more data that is captured the easier it is to stitch it together to provide more intuitive and automated insights. In turn, algorithms could be created with scoring against affiliates based on specific advertiser requirements. Business intelligence tools are moving towards the flexibility of creating reports by the user to facilitate recommendations based on data captured. This is next-generation affiliate marketing and those companies capturing additional data points, investing in robust analytics tools and training employees to use enhanced reporting functionality, are those best placed to succeed.

An additional example comes from within the telecoms sector. Post-conversion data has been shared to understand the value of a customer over a protracted period. The value of a contract was considered at the point of purchase, and additionally at three months, six months and one year after the purchase. The key metrics that were analysed were the share of customers that originally took out a contract who had subsequently churned (cancelled their subscription), and also the overall value of their package at each of these stages.

A typically held misconception of the channel is that incentivised traffic sources refer less valuable customers than those that were not presented with an incentive to purchase. However, the data uncovered that customers who purchased through voucher code and cashback sites were less likely to churn and also had the propensity to increase the value of their package over time.

Customer's subsequent package value by publisher they were referred by originally (£)



This also meant that the affiliate channel was more cost-effective and able to drive more profitable, longer-term, engaged customers than other online channels as well as other routes to market. Armed with this data the advertiser was able to adapt their commission structure to ensure the publishers delivering the most valuable customers were rewarded accordingly.

The advertiser/publisher value exchange

Within the affiliate channel, each party has access to a wide variety of data points. Once combined, these can become extremely compelling. While an advertiser is able to pass back additional data points alongside each transaction, the publisher also has a wealth of data on their audience. Sharing this data opens up a number of possibilities to target the most relevant audience segments with the correct offers. While there has traditionally been a reluctance to share this data, a true value exchange will drive the channel further forward. This knowledge-sharing will prove invaluable. Advertisers will be able to benefit from driving customers with a higher lifetime value, while publishers will receive a greater bounty for delivering these highly desirable customers.

> "While once it was enough to simply deliver quantity, the quality of customers is an increasingly important metric."

There is no doubting that customer lifetime value will continue to become a more prominent measure of the success of an affiliate programme. While once it was enough to simply deliver quantity, the quality of customers is an increasingly important metric.

New customer acquisition is typically a key performance indicator for the majority of advertisers, while customer lifetime value has traditionally been overlooked. With access to a wider array of data, it is possible to uncover the true value of customers that have been delivered.

Unlocking this data can enable advertisers to gain a more complete understanding of the customers that are being referred through the affiliate channel and indeed through each individual affiliate. Additional data layers being passed back alongside each transaction coupled with further post-conversion analysis can reveal the publishers driving the most profitable customers. This in turn will ensure they are able to be rewarded more handsomely for acquiring the most desirable customers.

The next affiliate battleground will be fought around data and that is not something to be feared. The work carried out by certain advertisers to date has helped explode myths, generated a more rounded view of the channel and assured other brands nervous about investing in it more heavily. Transitioning from our rather one-dimensional view of the channel should be embraced and it falls upon all of us within the industry to tell the next generation of affiliate stories through data.

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Credits

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Rob Davinson
Kevin Edwards

Design
Georgia Burge

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Laurens Aalbers
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Verity Beard
Marco Bersani
Francesco Calzà
Amanda Castro
Emin Mansur Cengay
Ben Corrigan
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