

Affiliate Marketing – Technology, Opportunities and Challenges

Bachelorarbeit

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1. Introduction

Today, an increasing number of people from all over the world have access to the World Wide Web (WWW). This enables companies to try to sell their goods or services over the Internet. The digitalization and the acceptance of this new medium have led people to change their habits and not to solely go to supermarkets or stores to buy their goods. More and more products are ordered online and are delivered to customers (cf. Fost 2014, p. 1). Many enterprises have observed this trend and used software to build online stores to reach customers online. With the arrival of the ability to trade products and services online, the use of shop systems has become necessary. The change to a new electronic commerce business model has forced software companies to build standard software systems for this use (cf. Treutner and Ostermann 2011, p. 8). Many companies trade their products online. This intensifies competition between online sellers, and leads to the point where they must use online marketing methods for potential customers to notice their online shops and visit their websites. One possible and effective instrument that companies could use to increase traffic to their online shops is affiliate marketing (cf. Duffy 2005, p. 161). Enterprises can, with the help of affiliate marketing, boost sales with little risk or cost. This instrument can be used efficiently because of a clear cost structure and focused communication with the target group, furthermore, partners of the affiliate program are rewarded on a purely profit-oriented basis, and marketing activities can be tracked and measured (cf. Duffy 2005, p. 161).

1.1 Motivation and Relevance

The continuous rise of the Internet and therefore of relevant technologies have transformed the way enterprises operate to sell their goods (cf. Sharma and Sheth 2004, p. 696). Time and national borders have become increasingly irrelevant, as have locations, as online shoppers can place orders, independent of the current place, at any time of the day (cf. Rohm and Swaminathan 2004, p. 750). Companies have the opportunity to sell their products 24 hours per day, seven days per week, and are not obliged to observe the opening hours of supermarkets or other retailers (cf. Sharma 2002, p. 78).

A study from the ARD/ZDF showed that 55.6 million people in Germany older than 14 years are online in 2014, which was 1.4 million more than in 2013 (cf. ARD/ZDF-Onlinestudie 2014). In addition, the study showed that half of these people also used mobile Internet (cf. ARD/ZDF-Onlinestudie 2014).

Figure 1 confirms the study by ARD/ZDF. The study showed that approximately 56 million Germans routinely use the Internet.

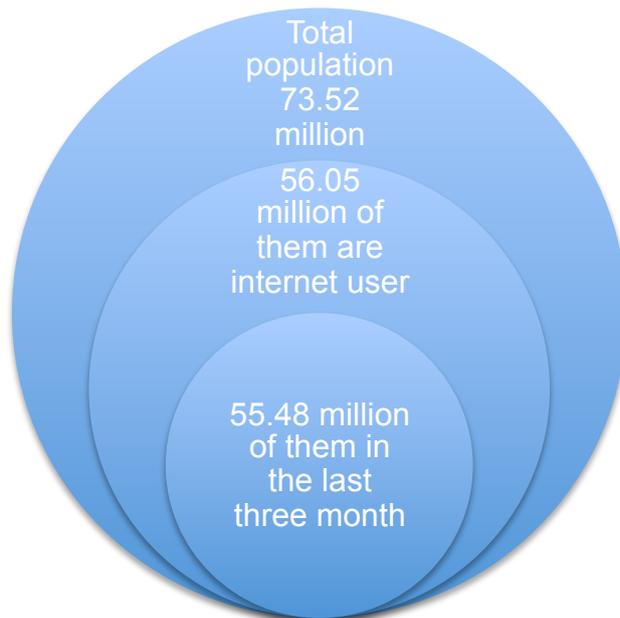


Figure 1: AGOF universe - Internet facts 2015-03. Adapted from: AGOF e.V., May 2015, p. 3

Notice: Only people older than 10 years were borne in mind

In addition, Figure 2 gives an overview of the percentage of online users older than 14 years who used the Internet for activities during the last three months.

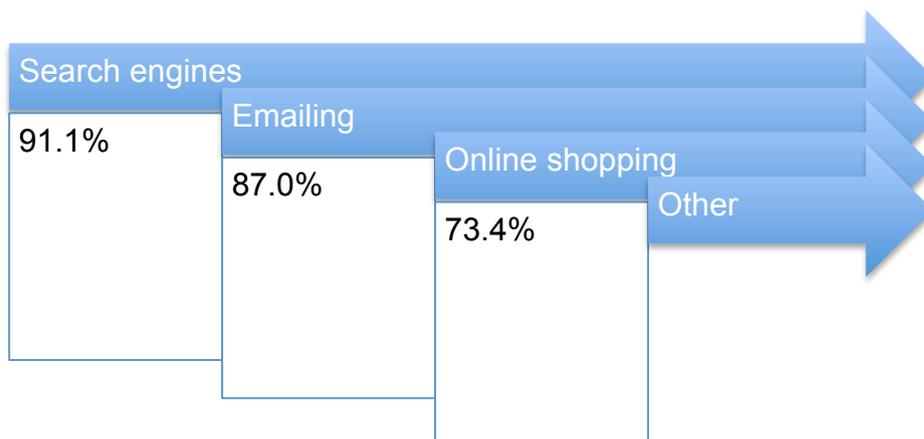


Figure 2: Priorities - Internet facts 2015-03. Adapted from: AGOF e.V., May 2015, p. 11

Notice: Internet user older than 14 years within the last 3 months

The data indicate a high number of online shoppers. Online shopping is, at 73.4 percent, one of the top three activities performed by people online, after using search engines and emailing.

Electronic commerce enables enterprises to sell goods either using a business-to-business, a business-to-consumer or a business-to-public model, but no matter who the customer is, selling online has two primary functions: direct sales promotion and direct order processing (cf. Bartelt et al. 2000, p. 3 ; cf. Timmers 1998, p. 2). Selling online raises the turnover of the enterprises and German companies achieved an average of 17 percent of their sales through the Internet in 2011 (cf. Bitkom 2012). Bitkom (2013, p. 5) showed that nine out of ten Internet users buy online.

This development is important for businesses, and creates a need for online marketing methods to become noticed by potential customers. There are several online marketing disciplines, such as search engine advertising (SEA), search engine optimization (SEO), keyword advertising, email marketing, online public relations, social media marketing, banner ads and affiliate marketing (cf. Lammenett 2012, p. 25). Affiliate marketing registered a large growth in 2005 of 75 percent, when compared to the year 2004 (cf. Lammenett 2012, p. 29). In 2005, the annual turnover was €105 million; affiliate marketing in Germany has in the meantime reached an annual turnover of €339 million in 2012, and is still growing (cf. Lammenett 2012, p. 29).

1.2 Structure and Objective

This bachelor thesis is divided into seven chapters. The first chapter provides an overview of the relevance of the topic and presents the main points that will be discussed throughout this thesis. The second chapter is separated into two parts; the first part organizes affiliate marketing in the online marketing mix, the second part deals with affiliate marketing and explains what affiliate marketing is, how the technology works and how it is tracked. To understand the functioning of affiliate marketing, a typical affiliate marketing process will be discussed. Chapter Three is dedicated to the research question “How can affiliate marketing help to increase sales?” and includes a discussion of opportunities for merchants and publishers.

In Chapter Four, the research question “What challenges does affiliate marketing have on the one hand for merchants and on the other hand for publishers?” will be examined. The fifth chapter discusses the limitations of the thesis. Chapter Six discusses recommendations for affiliate marketing to be used more successfully. The last chapter of this thesis presents the conclusion and provides an outlook.

7. Conclusion and Outlook

Information and communications technology (ICT) companies are consistently spending more on marketing and rely increasingly on online channels (Figure 11). The share of the online marketing budget has increased significantly, from 24 percent in 2013 to 30 percent in 2014 (cf. Bitkom 2014, p. 1).

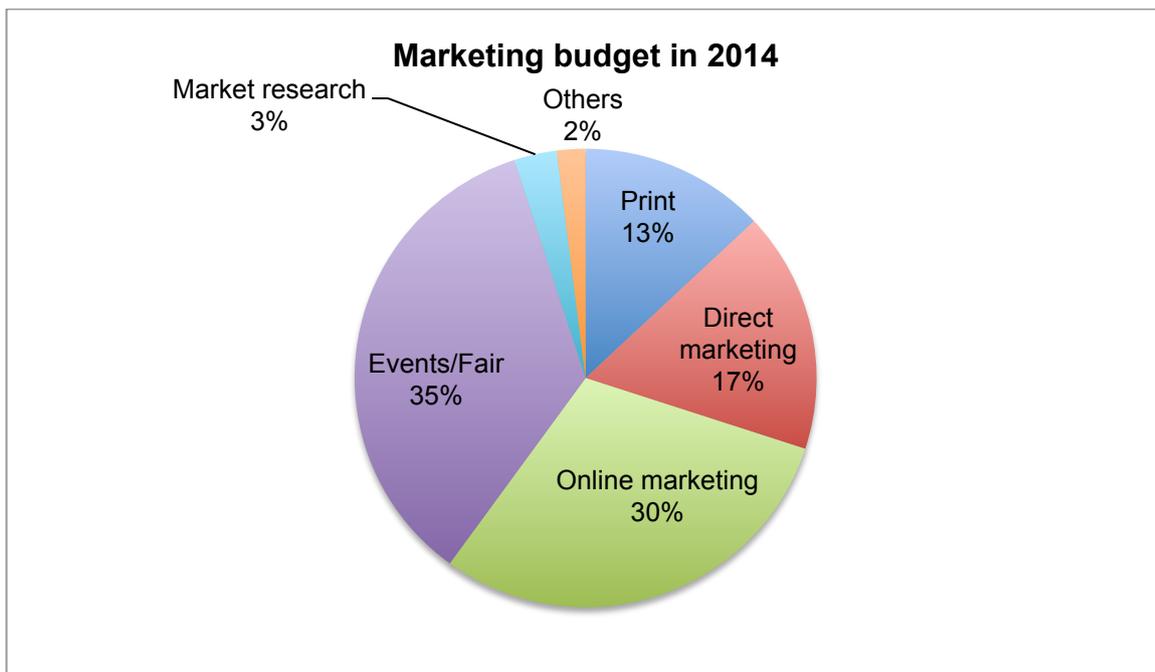


Figure 11: Marketing budget of ICT. Adapted from: Bitkom, 2014, p. 2

The spread and rise of the Internet continues, as an increasing number of people have access to this medium and use it more intensively. Originally using the Internet for communication and connecting with others, users then also proceed to search for information. The ability to buy not only offline but also online in online shops has led to an increasing number of enterprises building online stores and offering their services online. In order to make users aware of deals, it is important to invest in marketing. The instrument of affiliate marketing is an appropriate tool for companies to increase their sales. Affiliate marketing offers to both sides – merchants as well as affiliates – a great opportunity (cf. Lammenett 2007, p. 57). For the merchants, this means cost-effective performance-based customer acquisition and an increasing level of awareness. Affiliates gain advantages through the affiliate marketing system in creating a way to develop their own business, monetize their websites, and increase their revenues, and to do all this without developing their own products.

Affiliate marketing can expand the reach of the distribution of a large network of commercial and private sites if it is integrated into all business processes in the overall marketing strategy, not only as a small part of the marketing strategy (cf. Röck 2009, p. 105). However, as in other marketing disciplines, many small details decide the success or failure also of a commitment to affiliate marketing (cf. Lammenett 2007, p. 57). There was a time where merchants created an affiliate program that attracted many affiliates due to the lack of further competitors; currently, there is a wide range of affiliate programs from which affiliates can choose. Therefore, the acquisition of high performance affiliates has become more difficult. Today, those who are successful have good marketing strategies and implement these with consistency and discipline, furthermore, merchants must provide strong incentives through attractive commissions, good service, proactive communications with affiliates and click-intensive advertising material to gain a high click-through rate (cf. Lammenett 2012, p. 71). It can be assumed that affiliate marketing, due to rising advertisement spending in online marketing, will continue to grow and be an important source of income for affiliates as well as an important marketing instrument for enterprises that sell goods online.