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THE RISE AND FALL OF AFFILIATE NETWORKS

IN THE BEGINNING: THE RISE OF AFFILIATE NETWORKS

Affiliate networks have existed for as long as internet advertising, and the basic model was a good one: find website publishers with real estate to spare and match them up with advertisers who have products and services to sell. Publishers would get a cut of the sale and advertisers were able to boost their revenue. It's not a unique idea; businesses have been using referrals as long as businesses have been around. Aside from the obvious online component, what makes affiliate marketing different from old-school referrals is the pursuit to track and pay those who have made the referral using accurate and reliable technologies.

Banners were one of the first digital ads to debut online in the early 1990s,and since then, the very nature of advertising and marketing has been forever transformed. As online publications searched for ways to monetize their ventures and pay contributors, selling ad space in much the same way that newspapers do became commonplace.

The digital advertising industry took off. Display advertising became more sophisticated and offered brands insight into different publishers to match offers with the right audience. For users, these systems also began to limit how many repetitions of the same banner ad that one person would be subjected to in an effort to decrease the annoyance factor. Tracking ROI became possible, and pop-up ads made their appearance. Paid search and pay-per-click were up next, followed by the ability to hyper-target audiences including the use of email marketing which allowed for some level of customization and the advent of modern-day native advertising was born.

So, where does affiliate marketing fit into this mix? Quietly growing alongside these more visible advertising and marketing efforts. A company called PC Flowers & Gifts is credited with being the first to engage in affiliate marketing, and by 1998 it boasted almost 3000 affiliate partners. A more well-known name was also growing a network of its own: Amazon. Launched in 1996, Amazon Affiliates is still one of the key players in the affiliate landscape today.

Amazon's framework involved publishers signing up to offer links to products on their website, and Amazon would pay a small commission in return. This framework would eventually become a template for others looking to launch their own affiliate networks in the future, and the pay-for-performance model of allocating and attributing commissions for conversions was a major distinction when other digital models were paying on impressions, views, and clicks. Large networks began popping up across the internet to accommodate brands that were not connected to Amazon. The invention of cookies allowed even more insight into consumer behavior, and by the time ecommerce became more commonplace heading into the early 2000s, affiliate networks were on their way to becoming a billion dollar industry.

Publishers began flooding into these networks looking for more ways to monetize their sites and claim a small piece of the ecommerce pie. Brands began to see the potential that affiliate marketing had to drive conversions, so in efforts to check all their "potential" boxes, they invested in the channel. And the networks were happy to take them all in. The more brands that joined networks, the more publishers that onboarded, claiming more value for the network and subsequently growing the 'network'. It became a numbers game of bigger means better. It wasn't long before networks became bloated and cumbersome—to the point where the revenue streams seemed to justify the fact that innovation had become stagnant. Since networks were the only viable option for brands, they didn't see the need to innovate. And why would they?

Compared to the continual refinement of other forms of digital advertising, affiliate marketing was at a standstill.

At the same time, the customer journey was changing. Rather than moving in a clean line from consideration to purchase, consumers were taking a less direct route as the consideration phase became longer and consumers navigated around the web looking for products, comparing pricing, and searching for deals. Affiliate marketing fits into almost every touchpoint of this purchase journey, but it was difficult to see exactly where. The credit for the sale was often given to the last point of contact, but increasingly, that final touchpoint was a coupon or deal site that was briefly visited just before making a purchase. In other words, it wasn't the coupon site that was driving the sale; instead, consumers were stopping the checkout process momentarily to search for offers on products they had already decided to purchase. These sites still held value for brands in terms of affiliate marketing, but there were also lots of valuable touchpoints in this new, nonlinear journey that were impossible to directly pinpoint.

The nature of how traditional affiliate networks worked was a bit mysterious to those on the outside—who really made up these networks? How could brands make connections with publishers? This lack of transparency was eventually overcome by other digital marketing channels that were moving toward delivering data-driven methods. For example, AdWords began offering optimization insights directly in the tool and Facebook offered targeting based on viewer demographics and interests. What's more, these data-driven channels were also able to demonstrate when and where impressions, clicks, opens and views were taking place, so advertisers could create informed strategies. Affiliate networks continued to play the numbers game with more and more publishers coming aboard while brands that were interested in affiliate marketing continued to choose the biggest networks because they had the most publishers, even if they weren't right for the brand or in the correct niche. Brands that made assumptions that the best providers had the largest publisher distribution proved wrong and the 80/20 rule held true and constant. Affiliate marketing networks became a commodity; and playing the numbers game was the only way to seemingly differentiate. And when those publisher numbers were at the forefront of marketers' minds, they had an expectation that a wide and vast network would enable them to cast broad nets to consumers and see subsequent revenue returns. But alas, that didn't happen. Publisher numbers were a facade: overpromised and underdelivered, affiliate marketing took a back seat.

Another large contributor of affiliate's back-seat status was the simple fact that less is always more when it comes to manual labor. When other channels offered automation and efficiency in workflows, affiliate didn't—and this confused marketers. It created channel hesitancy because it meant they needed to make a resource investment where they weren't necessarily guaranteed a return like they were accustomed to seeing in display or paid search.

It was also confusing that the distribution wasn't owned. Meaning, the inventory on publisher sites didn't function like display. A network couldn't guarantee traffic or conversions because they didn't own inventory or have an ad network…it was up to publishers to display the ads themselves. Not being able to guarantee or forecast performance across the aggregate of publishers created questions about the potential outcome, and ultimately a hesitancy.

Overall, the simple process and low-priority status of affiliate marketing kept it relatively unchanged in the beginning. However, as the publisher distribution base began to grow—and marketers continued to search for ways to monetize everyday web content—the landscape became cluttered and innovation stagnated. Advertisers were having trouble keeping branding in control, and there was very little transparency into who and what affiliate networks actually consisted of. Change was needed, but affiliate networks were not ready for any reorganizing because they were too busy riding the wave of the "first mover" advantage.

THE FALL:
AN AFFILIATE MODEL IN PERIL

Every boom has its bust and the dot-com bust around the turn of the century changed the landscape for most digital companies, and in many cases, this was for the best. Shaky foundations were cleared out, inexperienced investors moved along, and fundamental business practices were forced back into reality. As new ventures made it to the web, keeping the cash flowing was still a priority and affiliate networks kept on trucking and it was business as usual for many years.

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Following the dot-com bust, while many were forced to abandon or rethink digital, affiliate marketing was still in its infancy, and it didn't feel the impact that other digital dot-com brands did as a result. Additionally, in a climate of financial cognizance, affiliate marketing was attractive because of its pay-for-performance model: Don't invest until a sale is received. That attraction kept it moving and growing upward—even following the 2008 recession. Affiliate marketing actually gained steam in '08 because of the proliferation and adoption of coupon and deal sites. Consumers needed savvy ways to shop online and practice fiscal responsibility and savings destinations provided that avenue for consumers. And in some way, they helped shape and train the ways in which consumers shopped online. However, the rise of coupon and deal gave way to questions about the funnel value of affiliate marketing. Many brands started to question affiliate's value and if it only lived in a last-click position of a consumer journey, mostly because of the last-minute behavior of reaching a cart and leaving to search for a coupon code on a publisher site, only to return and convert, attributing credit to the publisher. That 'drive by' coupon sniping activity started to give affiliate marketing a bad reputation. And networks did nothing. Why? Because they were along for the ride, reaping the benefits of the performance model that created the opportunity for their passive income stream. Coupons were a cash cow. But the industry would soon be rattled.

Flash forward to 2012 when Google made a bold move by abruptly shutting down their affiliate network citing poor timing, a bad fit for Google's overall model, and steep competition from Amazon as reasons for pulling the plug after only five years in the game. A long list of brands was left stranded, including Netflix, Fandango, Target, Citibank, and plenty of others.

It is not surprising that other networks jumped at the chance to absorb these big names and fill their ranks with hundreds of smaller ones. What is surprising is that these networks were essentially still offering the same 20 year-old model: lots of hands-on, manual work, limited views into who publishers were and where their traffic came from and very few reassurances—and forecasts—of success. Standardized, one-size-fits-all pricing models barely fit anyone. What's worse was that affiliate networks seemed to behave as if there was no incentive to improve and instead methodically instilled into advertisers that there was nowhere else to go. For some brands, the inability to have the tools and reporting necessary to see what's really happening with publishers and the customer journey, to look inside and see exactly the metrics that show where engagement is happening, and reach is expanding, meant they didn't perceive this avenue as a good fit. For others, leaving affiliate marketing behind entirely seemed like a mistake, but the lack of transparency was preventing them from using the channel as a serious component of the rest of their digital strategy. Instead, it was more of a set-it-and-forget-it tactic to include on the side, but not one that would merit much serious thought.

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Meanwhile, publishers had a stake in this lack of visibility into the customer's journey as well. A whole world of content was opening up, from bloggers and vloggers to review sites and other non-traditional avenues that could all benefit from partnering with affiliate advertisers. Both sides of the operation had a piqued interest in leveraging affiliate marketing in a way that can boost all digital efforts, but nobody had the tools and specific insights to make it happen.

The complete failure of traditional affiliate marketing networks to innovate, grow, and stay current with technology and consumer habits leads to only one result: the deprioritization of affiliate marketing and a lack of success for both advertisers and publishers in the affiliate space.

To put it into clearer perspective, there were many reasons traditional affiliate networks failed. Chief among them were:

Lack of transparency
Networks offered limited views.
Brands didn't know who the publishers were or where their traffic was referred from. They couldn't see their demographics, monthly uniques, etc.

Lack of insights
Optimization recommendations and data insights were not available in the networks like they were in other channels.

Bloated publisher inventories
Acquiring more publishers became a numbers game and created expectation, but then the channel ultimately didn't deliver against that expectation thanks to the 80/20 rule.

Too much work
Manual work meant additional resources (read: time and money) were needed to run affiliate.

No guarantees
Networks couldn't guarantee performance or forecast traffic and conversions like search or display could because inventory was not owned. Therefore, marketers simply didn't know how to run the affiliate channel.

Misconceptions
Coupon and deal sites created this whole perception and notion that affiliate is only last click and that created questions about the incremental value of the channel.

THE AGE OF THE CONSUMER: CALLING THE SHOTS

A vital component of any advertiser's model are the people who will see ads, learn about products and services, and hopefully convert into paying customers. Where has the consumer been for the ups and downs of internet marketing? In some digital realms, small steps were being taken as early as 1995 to bring the needs of the web surfer closer to the forefront of advertising methods. Search advertising tried to meet consumers in the middle by only serving ads when it seemed the consumer would be interested in the information. Advanced advertising methods soon took hold. Personalization came in many forms including web and email personalization. There were new distribution channels like mobile that created a demand from consumers to enjoy the same consistent and seamless experience from brands. Paid social was also emerging as an entirely new channel. For perspective, Facebook and Instagram didn't even exist when affiliate marketing was born.

Data-driven solutions to marketing seemed to be everywhere.

Along with these small changes, consumers also started to push back on many forms of advertising. Pop-up and ad blockers became routine installations and ad blindness was prevalent. People were tired of being solicited and demanded real content instead. They wanted to be informed, to be courted, to be the focus of online spaces—and rightly so as their activity and dollars are the true foundation of any advertising network.

Inbound marketing became the next big thing, and social media marketing—along with their influencers—transformed virtually everything into a consumer-focused model. Along with those important changes, methods for targeting consumers and tracking their behavior were evolving by leaps and bounds. As marketers sought the younger demographics on social media, they also needed ways to be less intrusive to meet consumer demands. The new standard became targeting fewer, better-qualified prospects with high-quality, highly relevant advertising rather than merely bombarding crowds of people with a large volume of ad-related content.

Other landscape-changing events are also at play. First, most advertisers are painfully aware of the push for mobile-first content and the crash of the offline retail marketplace. People are simply not shopping how they used to; instead, the majority of the process happens online—and often on a mobile device. From the early stages of brand awareness to gathering information and converting, what defines "a purchase" usually involves many touchpoints over several days, sometimes even weeks or months for big-ticket items.

The other huge shift online is happening from individuals—from bloggers to Instagram Influencers—rather than big brands and major publishers. Everyone can have a voice online, and those voices have far more influence on shopping habits than anyone could have predicted even just a few years ago. High-profile celebrities can drive sales by simply having a product somewhere in their Instagram photos, and lower-profile influencers often have loyal followers continually looking for recommendations and ideas.

What these major shifts mean for brands is the clear need to have as much insight into their advertising networks as possible—and traditional affiliate networks are simply not providing the transparency that is needed. It is time to address the buyer's journey rather than just the sale.

CHANGE IS NON-NEGOTIABLE

Affiliate marketing works, there is no denying that. By 2020, it is expected to be a $6.8B industry and impact $70B in sales. There are still brands, however, that are hesitant to give their brand's integrity to a third party despite the many regulations and safeguards that have been put into place that protect it. Some brands do not think about affiliate as a critical component of their overall marketing mix: due in large to not having in-house resources and expertise to tell them how to interpret it. They may also fail to see the value because they haven't invested enough time into learning the channel. They're often taxed with doing more with less, and unless affiliate marketing can prove its efficiency and automation, it becomes a drain on resources, and ultimately deprioritized.

Brands need the ability to track their dollars. They need to see where specific publishers contributed during the nonlinear customer journey and to analyze reports to make sense of what's happening. This is where affiliate marketing actualizes itself as a manageable channel with real value and real metrics to back up that value. In other words, it's time to bring affiliate marketing into the 20th century so it can be a modern, viable component of your overall marketing mix.

Because of the pay-for-performance model of pricing, affiliate still offers value that no other channel can. For that reason, it is a powerful channel both on its own, and when used to leverage other digital channels. Affiliate marketing should no longer be on its own, operating on the side with a spread-it-thin-everywhere strategy that hopes for the best outcome. Instead, brands should be able to incorporate affiliate marketing into a full cross-channel strategy where the right publishers are matched with the right advertisers to get intentional results, and every incremental touchpoint that influenced the customer should be rewarded for their contribution to the sale.

It is also time to bring some much-needed automation to the time-consuming, mundane aspects of affiliate marketing so advertisers can free up valuable time and resources and focus on delivering advertising that works better for their consumers and the individual journeys they're taking. Brands also need transparent ways to identify and recruit high-quality publishers and curate a custom affiliate network of their own—a critical step when it comes to managing a brand's identity online. There is a strong consensus across both brands and publishers that affiliate marketing—working together to tell the same story—is where the greatest benefits will be found for everyone, including the consumer.

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Affiliate marketing has reached a crossroads. Brands can't simply ignore it, or their competitors will occupy that space and potentially gain too much traction, but networks are stumbling, failing to innovate and provide brands with the services that meet their needs rather than the needs of the networks. They create pricing models that are in their own best interests rather than considering models that meet the client's needs. Plus, networks are making recommendations to brands to optimize their advertising in ways that would benefit the network. For example, pushing the traditional last click to a coupon or loyalty site because those will drive revenue for the network.

Networks should be acting as a catalyst for change and providing understanding into the nonlinear buying cycle with education along the way. Instead, brands are being left to their own devices and stuck with any publisher who manages to sign up with an automated process rather than curating private distribution networks based on relationships and partnerships that provide mutual benefit.

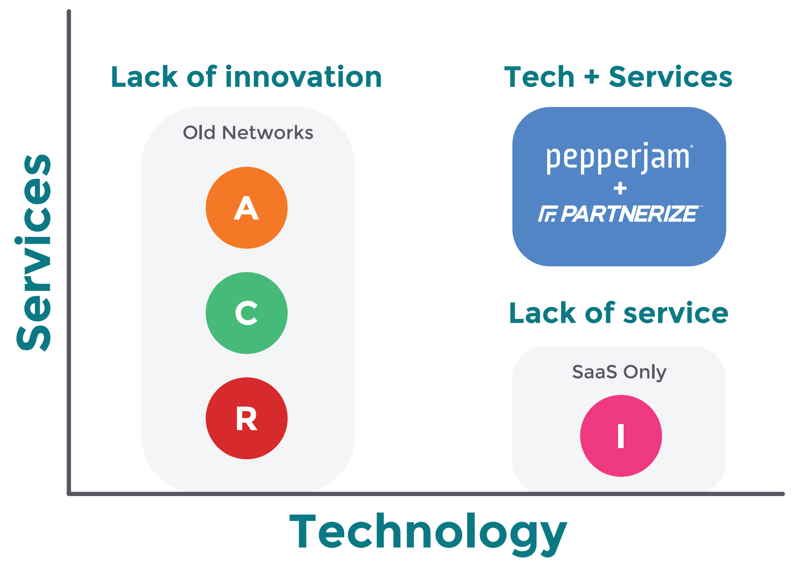
Networks should operate with full transparency, offering cross-device tracking solutions and the ability for brands to seamlessly connect publishers to their consumer experiences as they navigate from desktop to mobile download to purchase. Networks should cease playing the game of 'publisher count' and embrace the fact that some of the most resounding relationships are those that have been cultivated organically with a brand – brand ambassadors or loyal customers who turn into partners. It is a simple matter of quality vs quantity.

Further, brands should not expect modern affiliate platforms to provide the distribution for them, because the best distribution is unique and created organically with that brand—not with a network. A network's value is in providing technology and tools to help facilitate seamless exchanges between brands and publishers, whether they are B2B or B2C (think consumers turned influencers). Networks should also stop pretending that they own publishers' relationships because they're a dime a dozen—a commodity. The real value is giving the power to brands to easily curate their own network with tools and functionality that broaden their network beyond those that are already signed up to a platform. Networks would also be wise to invest in R&D and provide optimization insights to help the overwhelmed marketers understand what optimizations to make and how to pull levers that will equate to program success.

LOOKING AHEAD

The idea that there is not an affiliate-exclusive platform that will put you first is simply untrue. A platform that focuses on delivering the same care and attention that you give your clients does exist, but many networks have made the case to advertisers and brands that leaving would be too costly, too labor intensive, and that migration would be too difficult. Brands are being intimidated into staying with traditional affiliate networks and then leaving it siloed and off to the side rather than integrated into the bigger digital strategy. Of course, brands aren't to blame for this as traditional affiliate marketing doesn't fit into their systems or analytics tools and the networks aren't doing anything to resolve this.

COMBINATION OF SOFTWARE AND SERVICES CREATES A GLOBAL MARKET LEADER



Change is necessary. It's time to depart from traditional affiliate networks and their holding-all-the-cards method of operation. It's time to give brands transparency, custom reporting, and actionable insights so they can create winning strategies and optimize their programs both to make the most from affiliate marketing and to use it to leverage their entire digital strategy. It's time for modernized payment options that align with the brand's commission strategies and attribution models and comprehensive payment solutions all wrapped up in a system that includes program fraud prevention. In other words, true digital marketing integration.

Pepperjam is committed to innovation. We've been in the affiliate business for over 20 years and have completely transformed the way sophisticated marketers use affiliate marketing to find success in today's digital landscape. Ascend™ is the solution that performance marketers have been searching for to leverage the power of affiliate marketing with agile technology, smart automation, and critical insights to make profitable, data-driven marketing decisions.

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