

AFFILIATE MARKETING – What's the big deal?

Affiliate marketing is not a novel concept. However, proliferation of internet and other digital mediums have given a new life to affiliate marketing by making it far more effective and easy to adopt.

Influencing customers to act



Definitions of affiliate marketing vary from as broad as “a performance-based marketing in which one or more affiliates is rewarded for each customer influenced by the affiliate's own marketing efforts” to as narrow as

“Affiliate marketing is the practice of an advertiser paying a third party to publish ads on their web page”. Various payment structures exist such as percentage of sale and fixed sum for conversion. While definitions may vary, all affiliate marketing programs have clearly defined actions and payments linked to achievement of those actions.

Characteristics of Affiliate marketing

- Clearly defined action to be achieved by affiliate
- Based on affiliates' own marketing efforts
- Payment on achievement of pre-defined actions

Pay only for results achieved



The primary advantages of affiliate marketing are:

- Payment on actual (and not on potential) benefit realization
- Lower cost of acquisition (Vis-à-vis conventional paid channels)
- Potentially leaner marketing team (due to outsourcing of marketing effort)

Affiliate marketing is 25-35% more cost effective than other mediums

Growth Ahead!!



Affiliate marketing in India accounts for less than 10% of digital marketing spend, against 15% in some matured markets. Growth of affiliate marketing spend would be driven by three key factors:

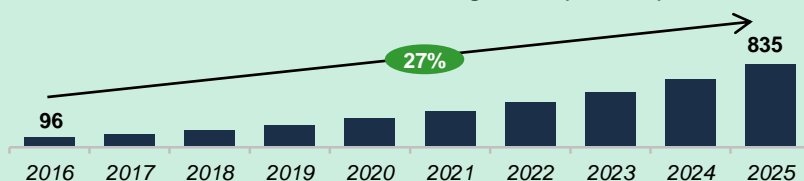
- Increasing digital marketing spends
- Adoption of affiliate marketing by new industries beyond e-commerce
- Improved ecosystem for affiliate marketing on mobile platforms

As per TSMG estimates, the industry would grow over 8 times to reach USD 835 Mn by 2025 from USD 96 Mn in 2016 (CAGR: 27%).

“Currently, the technology in the mobile space is not able to effectively attribute sales to the affiliate which drove the last click. I strongly believe, with the power of this media, performance marketing on mobile platform will gain further prominence and the mobile ecosystem would evolve to mirror the internet based ecosystem for affiliate marketing”

- Parul Bhargava, CEO,
vCommission Media Pvt. Ltd.

Size of Affiliate Marketing in India(USD Mn.)



What's changing?

The current face of Affiliate Marketing is set for a revamp. The drivers responsible are a mix of some conventional and upcoming technology evolutions. What's more interesting is how these technology evolutions are set to challenge some of the traditional boundaries of affiliate marketing. TSMG has identified 3 most prominent trends that will re-shape Affiliate Marketing.

Tracking entire customer journey



Technologically, it has always been possible to track route to conversion – i.e. websites, blogs, etc. that customer journeyed through. The affiliate marketing phenomena arising out of the same is referred as Multi-Touch Attribution (MTA). It attributes sales not just to the last source but also to other affiliates that were a part of the customer journey. In India, majority of attribution continues to be the last point of conversion, which is expected to change in line with global markets, where 20% of advertisers have shifted to MTA in recent years.

Integrating online and offline channels



Consumers are amphibious between the physical and digital world. Integration of online and offline world through concepts such as Online-to-offline (O2O) and augmented reality would facilitate a user to pick up a coupon online and redeem it offline. The phenomena holds immense potential to expand current horizons of affiliate marketing in India.

Better Algorithms



Further evolution in affiliate marketing algorithms are expected to result in:

- Decrease in click frauds
- Ability to measure more evolved and performance oriented KPIs
- Better tracking on mobile platform

The new face of Affiliate Marketing

Above mentioned drivers have the potential to change the way companies currently look at affiliate marketing. Some of the key implications that will make companies re-visit their marketing strategies are:

Rise of non-traditional affiliates



Different affiliate mediums are suited for influencing differing stages of purchase decision. The increasing capability of digital marketing to influence customer purchase cycle, and adoption of MTA would re-align the spend across mediums. Currently, news sites, blogs & cash back / coupon sites are the most

common forms of affiliates, given their ability to drive sales. Lesser used mediums such as social media, E-mail and review forums (videos, articles & blogs) would gain prominence as brands look to influence earlier stages of purchase cycle.

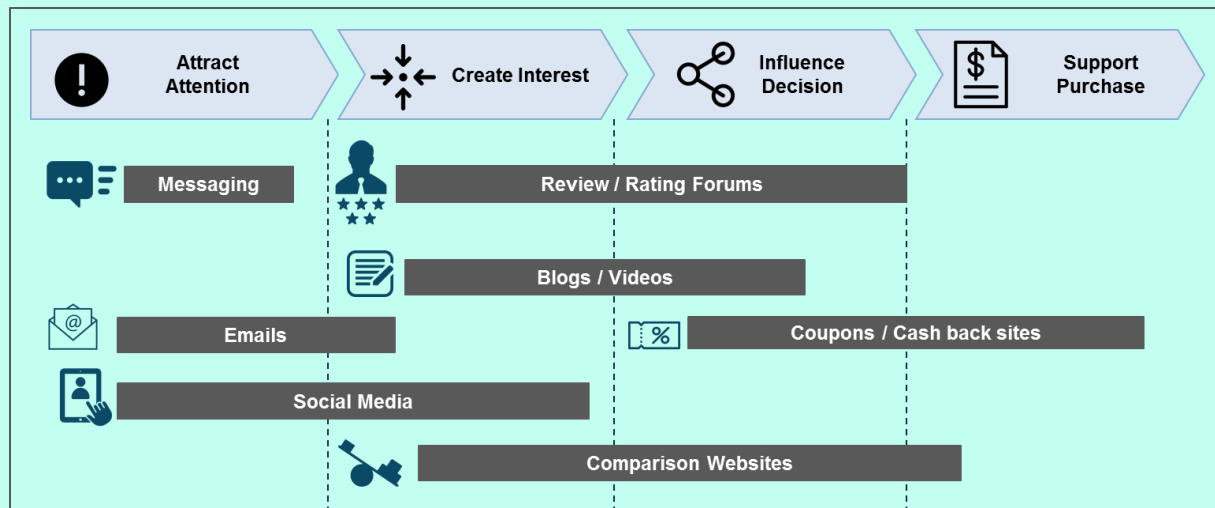
Neha Kulwal, CEO, Admitad India, feels the same way. She said "MTA will enhance the commission flexibility in which advertisers can top up commission to publishers who are early contributors to the sales funnel. According to International data it will lead to 70-80% increase in traffic and 20-25% increase in sales for long tail/Content/Blog based publishers

Drivers:

- Ability to influence purchase decision online
- Multi-touch Attribution

retaining the cost per acquisition funnel. More of content and contextual based websites would be happy to promote the affiliate programs and not just keeping adsense on their site and eventually it will help to get more of such publishers on board”.

Illustration below highlights the role that various affiliates are ideally suited to play across the purchase cycle.



Increased adoption by larger group of industries



Affiliate marketing today is primarily being leveraged by product categories brought or consumed online. Offline categories have found it difficult to effectively leverage the potential of affiliate marketing.

However, increasing use of affiliate marketing for influencing decisions, and integration of online / offline channels would drive such companies to invest more in affiliate marketing programs. Hence, traditional industries like BFSI, Automobiles &

Real Estate will allocate more money to affiliate marketing programs.

Drivers:

- Integration of online & offline channels
- Ability to influence customers purchase cycle
- Improved transparency and reduced frauds
- Higher penetration of affiliate on mobile phones

Table below illustrates some of the key affiliates that would be used by various industries

S.No	Industry	Key Affiliates
1	FMCG	Social Media, Peer reviews
2	E-Commerce	Comparison websites & Coupons/ Cash back
3	Automobile	Influencer blogs, Comparison websites
4	BFSI	Comparison websites, Product reviews
5	Entertainment	Social Media, Peer reviews

The change is already visible in the market, with some of the non-traditional industries such as wedding planners and event planners already adopting affiliate marketing.

Evolving engagement models



With industries maturing, the role envisaged for affiliate marketing would also evolve. With new actions being driven and KPIs being tracked, the overall engagement models for affiliate marketing are set for revamp.

Some early indicators of the trend are already emerging. For example, ecommerce using affiliate marketing for 'Leads' and Mobile App 'installs' has moved to 'Sales' and 'Usage time'. Experiments in BFSI industry are underway to drive overall sales of credit card and not just lead generation.

"KPI's for the ad campaigns are evolving from CPM, CPC, CPI, CPA to CPE and the advertisers are keen to move towards performance-based payouts. Further, with ads and offers being able to be served to customers based on their geographical location in real time, the performance metrics can be tracked to the finest details with the current available tracking techniques, which is a boon to the affiliate industry."

– Venkatesh C.R., MD & CEO, DCI, ADATHA, Galatta & GMASA

Ability to foresee and leverage changes is the key for sustainable growth in the long run. The same is all the more true in technology dependent industries. Affiliate marketing as we know today will change rapidly. Thus, companies need to re-align their marketing strategies in line with the changing times.

"Industry often takes a myopic view on affiliate marketing by limiting it to sales. We, at TSMG believe that technology evolution would not only drive but also re-shape affiliate marketing in India. Companies across industries should re-align their conservative outlook towards affiliate marketing thus driving disproportionate results."

- Sourabh Gupta, EM, Technology & Digital, TSMG

About Tata Strategic

Founded in 1991 as a division of Tata Industries Ltd, Tata Strategic Management Group is the largest Indian own management consulting firm. Tata Strategic has undertaken 1,000+ engagements, with over 300+ clients, across countries and sectors.

Tata Strategic provides creative, implementable solutions to complex problems faced by CEOs. We address 'top-of-mind' needs of the client top management through a range of contemporary offerings including strategy formulation & strategy deployment. We also provide implementable solutions for business process improvement, cost reduction, supply chain transformation, project delivery excellence and organizational effectiveness.

Contact: **Sourabh Gupta**
Engagement Manager, Technology & Digital
Email: Sourabh.gupta@tsmg.com
Phone: +91 22 6637 6704

About IAMAI

The Internet and Mobile Association of India [IAMAI] is a young and vibrant association with ambitions of representing the entire gamut of digital businesses in India. It was established in 2004 by the leading online publishers, but in the last 12 years has come to effectively address the challenges facing the digital and online industry including mobile content and services, online publishing, mobile advertising, online advertising, ecommerce and mobile & digital payments among others.

Twelve years after its establishment, the association is still the only professional industry body representing the online and mobile VAS industry in India. The association is registered under the Societies Act and is a recognized charity in Maharashtra. With a membership of over 260 Indian and MNC companies, and with offices in Delhi, Mumbai and Bengaluru, the association is well placed to work towards charting a growth path for the digital industry in India.

Contact: **Nilotpal Chakravarti**
Associate Vice President
nilotpal@iamai.in

Disclaimer: The contents of this report are based on data and information compiled from various public sources & interaction with industry personnel. Tata Strategic is not responsible for any errors or omissions in the data / information provided. It is intended for providing general information and overview about the sector and should not be regarded as comprehensive analysis for business decisions. Tata Strategic Management Group accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.