

Out of time?

Are affiliate networks' days numbered as advertisers start to manage affiliates themselves and media agencies launch their own networks?

» In March this year, Ebay joined Amazon in becoming one of only a few major brands that handle their affiliate marketing in-house. The decision to shift the business from Commission Junction to the Ebay Partner Network was taken, it said, to allow the auction giant to have "a direct relationship with our affiliates, innovate faster and deliver new products and tools in a more timely and efficient manner, providing new revenue opportunities for our affiliates and creating a more streamlined experience for our buyers and sellers".

With Ebay having more than 100,000 affiliates, managing them in-house is a mammoth task, so it's no surprise it has hired in some expert help in the form of media agency R.O.Eye. What's interesting is that R.O.Eye is not only managing Ebay's network but is among a growing number of media agencies that operate their own private affiliate network as well as managing campaigns on behalf of clients through third-party networks such as TradeDoubler, Commission Junction, Buy.at and Affiliate Window (see table, page 40).

R.O.Eye has been joined by ILG (with its Pan network), BLM Quantum (QPan) and Walker Media (Wasp) in launching networks in the last 24 months. They join Altogether Ads, the network launched last year by full-service agency Altogether (nma.co.uk 26 October 2007). With agencies becoming network owners, as several market forces come together to create a perfect storm.

The worsening economic outlook is sharpening clients' focus on performance channels over brand advertising, while the end of Google's Best Practice Funding programme will leave a revenue gap in many media agencies' pockets. The launch of an affiliate network can plug this and satisfy the demand from clients for a more joined-up approach to their digital advertising.

Poaching affiliates

This trend raises a number of issues for clients, networks and agencies. First is the conflict of interests between a media agency owning a network and running campaigns through another. While most networks have contracts prohibiting agencies from 'stealing' their best-performing affiliates, in reality there's nothing they can do about it.

The largest UK affiliate network, according to the *nma Marketing Services Guide 2008*, is TradeDoubler. But it seems that size merely makes you a bigger target in the affiliate networking world. UK MD Ben Wood says, "We assume if we're being used alongside a private network our data will be analysed and it may be part of a long-term strategy to move that affiliate to a private network."

Yet the networks don't think ill of the media agencies for doing this. They take a pragmatic approach to the new market dynamic and feel that, if they're doing their job, there's no reason an affiliate should want to leave. "We focus on making sure an affiliate who has the choice will stay with us because we offer them the best value and they know we're middlemen, so they're as important to us as advertisers are to media agencies," says Wood.



The second issue revolves around the evolving model of the media agency and whether it's suited to the world of affiliate marketing. Networks argue their business model is triangular, with the advertiser and affiliate equally as important to the network. They say this relationship doesn't translate to the media agency world, where the link between advertiser, agency and media owner is linear, with an agency traditionally viewing a media owner as merely a provider of inventory.

This is a view roundly denounced by the media agencies. "It's utter claptrap," says BLM Quantum MD Dan Clays. "Of course our primary interest is with the client who pays the bills, but they will only have success if they work effectively with the affiliate."

The third major consideration is the reach of an affiliate network. Volume is key to affiliate marketing and affiliates moving to a private network may experience a drop in volume, the hope being this will be accompanied by an increase in conversions. With agencies setting up their own private networks, where affiliates are hand-picked to join, the question arises whether the best affiliates are being poached by private networks.

"We launched Pan to focus on the premium end of the market," says Faith Carthy, group MD of ILG Digital, which owns media agency i-level. "We're having a much closer dialogue with key affiliates, who are getting more sophisticated. Each agency has a different view of where affiliates fit in, but we're looking at the top of the market and leaving the middle- and long-tail to the networks."

The consensus is that there's undoubtedly still a need for third-party networks – not least because campaigns sometimes need great reach and a closed network can't provide that – but that they're increasingly being left without the top-performing affiliates. "Once an affiliate's connection would have been with the third-party network when they were recruited," explains Clays. "In time that relationship becomes zero and it's now with our in-house affiliate team and the client. I'd be at pains to

quick facts

- In March Ebay joined Amazon in becoming one of only a few major brands to handle their affiliate marketing in-house.
- Media agencies are launching into the affiliate market as network owners.
- There's a potential conflict of interest between a media agency owning its own network and running campaigns through a third-party network.
- Volume is key to affiliate marketing and moving to a private network may result in a drop in volume.
- It's increasingly likely that advertisers will launch in-house affiliate operations or build direct relationships with key affiliates through their media agencies.

Client Coverage

NMA - R.O.EYE

"We'll see agencies deal directly with affiliates, but we'll also see affiliates mature"

Mark Kuhillow, R.O.Eye

uk affiliate networks

Network	UK turnover	Year to	Founded
TradeDoubler	£61,400,000	12/07	1999
Buy.at (now part of Platform-A)	£26,151,366	12/07	2000
Affiliate Window	£19,560,080	06/07	2000
Online Media Group	£13,395,000	08/07	1999
Quotation Junction	£5,000,000	03/07	2003
R.O.Eye	£4,837,635	10/07	2004
Webgains	£2,813,376	12/07	2005
Affiliinet UK	not available	--	2005
Commission Junction	not available	--	2000

source: nma Marketing Services Guide 2008

CARTER "In terms of getting content to our key affiliates, it makes more sense to work through one of our agency partners"



say there's still a role for third-party networks, but I'd be surprised if their founders hadn't envisaged a day when affiliates wanted to be closer to the advertiser."

The fact that a major brand like Ebay moved its affiliate programme in-house seems to be proof of this assertion, even if the auction giant then recruited a third party to manage its network. For Cian Weeresinghe, Ebay's internet marketing manager, the move was about getting closer to affiliates and the flexibility they can deliver. "When we did allow paid search affiliates it was because we weren't agile enough to manage certain areas. We were like a big machine, whereas they could be nimble and find niches. For example, an affiliate called iRabbit managed to build an iPhone version of Ebay before we did."

In some cases, the dual approach is the only way an advertiser can achieve its goals. Sports broadcaster Setanta is a BLM Quantum client whose affiliate programmes are run both through the latter's QPan network and by the agency through Buy.at, part of AOL's Platform-A. "It means we can go after two different types of affiliate," says Ben Carter, online marketing and acquisition manager at Setanta Sports. "Quantum can be more communicative with affiliates in QPan as our programme is very content led, plus it knows our business really well."

Setanta views the third-party network proposition from Buy.at as a long-tail one, giving campaigns important reach. But when it comes to the key affiliates, there's no doubt QPan is the stronger partner. "Buy.at manages thousands of affiliates and that's great in terms of numbers. But in terms of getting content to our key affiliates who drive traffic, it makes more sense to work through one of our agency partners," says Carter.

What works for one brand doesn't necessarily for another, however. Online bike retailer Wiggle has recently signed up to use Affiliate Window's network after years of running its own programme. Steve Mills, creative marketing manager, says the decision was taken as Wiggle doesn't have the internal resource to operate an affiliate programme on a large scale.

"Four or five years ago affiliates just had a site like a forum or a chat room, they weren't dedicated to making money like they are now," he says. "If we kept our programme in-house or tried to grow it, we'd have to start employing dedicated staff, but we can't afford to."

Wiggle's move shows that for many smaller advertisers the breadth of a network's offering and its dedicated administration services make it attractive. It's only when a brand has affiliates who are driving a very large amount of business that it becomes viable to operate in a private network through a media agency.

The final question is what this will mean for the market if the trend continues. R.O.Eye was the first agency to cross over into affiliate network territory when it launched Traktor in 2004. Its role in the affiliate market now spans agency (pushing programmes through third-party networks), network owner (Traktor) and outsource service provider (its Ebay affiliate programme deal).

From this position, R.O.Eye MD Mark Kuhillow predicts that the market will change even more radically and that it's not all great news for agencies, which themselves are only one step from disintermediation. "We'll see agencies deal directly with affiliates, but we'll also see affiliates mature," he says. "Some of the PPC affiliates could become agencies in their own right."

Room for everyone

There are a number of factors conspiring against networks at present. Affiliate management technology is becoming commoditised due to off-the-shelf management products being available. Advertisers aren't keen to pay over-rider bonuses as well as agency fees, and prefer to develop closer relationships with affiliates who know their business. This can now be done more cheaply and sometimes more effectively through either an in-house or private network operation. The response of the third-party networks is to focus on reach and service.

"There will always be value in working with big networks that know what affiliates want," says Liane Dietrich, UK MD of LinkShare. "There are plenty of overlaps in this business where we can interact with affiliates we haven't previously worked with."

Webgains MD Robert Glasgow agrees, adding that the raft of media agency networks won't impact the third-party networks too heavily because they don't have the capabilities to generate the amount of distribution needed to attract advertisers or the account management services that affiliates cherish. "You need enough scale to generate significant revenues and also give the level of service that affiliates demand," he says.

It's increasingly likely that we'll see advertisers either launch in-house affiliate operations or cosy up to key affiliates through their media agencies, as it makes sense to stick closely to those affiliates who have become important to their business. However, the death of the third-party networks is greatly exaggerated as reach is still important, even if it no longer rules outright. ●