ARE YOU RECEIVING HONEST REWARDS FOR HONEST SALES?

A whitepaper from Affiliate Window: March 2016

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1. Introduction

At last year's Performance Marketing Insights we presented on 'The Hidden Commission Killers in Affiliate Marketing'. This explored the concept of a number of factors across the affiliate channel which could lead to the erosion of commission publishers could expect to earn in return for the sales they have generated.

De-duplication, lack of basic mobile tracking and the inability to track consumers across device were just some of the many factors that could lead to a reduction in commission. With the majority of these sitting outside of a publisher's control, should advertisers be reconsidering the commission rate they are willing to pay or how commissions are awarded?

One thing there is a definite need for across the channel is transparency. It is vital that advertisers are clear on commission rates they are paying and how their programme is set-up. This will have an impact on the amount of commission a publisher can expect to earn from a sale.

One of the key areas where we need to see an increased amount of transparency is the reasons an advertiser may have for declining sales. It's an issue we know a lot of publishers feel strongly about, and one the entire industry needs to tackle.

There can be multiple reasons for a declined commission – the terms and conditions of the programme may have been breached, the sale attributed to another channel or the order could have been returned of cancelled. What is important is that publishers are given visibility over the reasons their sales have been declined, and any advertiser practices that don't conform to the standards we expect in the industry are addressed.

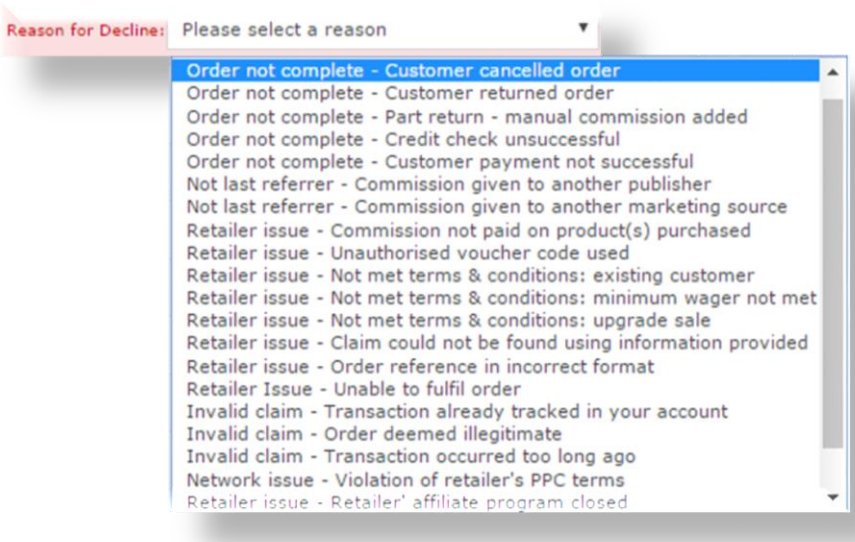
In this document we take a look at how decline rates across the network have changed over time and the key trends behind these reasons. We also consider the best practice for advertisers when handling declined sales.

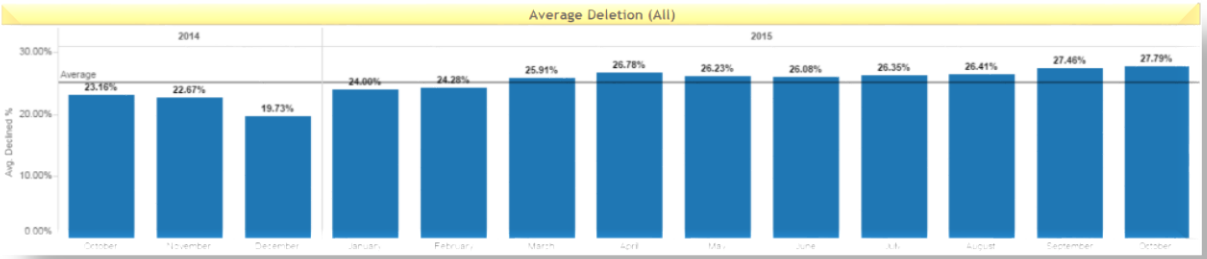
2. Average decline rate across the network

The chart below considers the average decline rate across the network from October 2014 to October 2015. Despite a wide variety of opinions on this topic from across the industry, it's clear that decline rates are not changing as significantly as many think. However, there is an upward trajectory that needs to be understood.

Typically, just over a quarter of all transactions that take place across the network are declined. As mentioned this could be for a number of appropriate reasons but it is important to provide transparency over these.

For every transaction that is declined, the advertiser needs to provide a reason as to why these sales were rejected and this has enabled us to monitor the trends in decline rates.





3. Decline reason trends

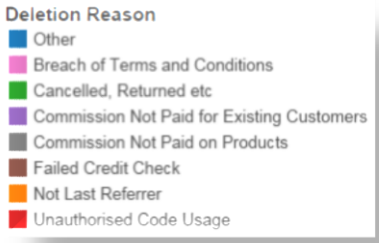
Decline reasons can broadly be grouped into seven categories – ranging from orders that have been cancelled or returned through to publishers breaching the terms and conditions of a programme. All other reasons for declining a sale have been grouped into 'other'.

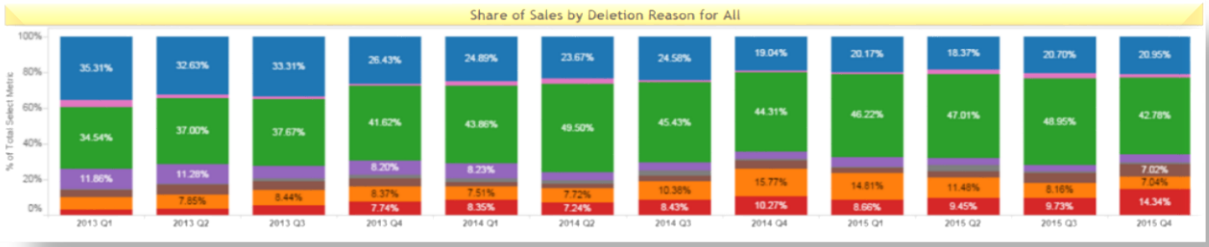
The decline in the share of orders that have been rejected due to 'other' shows a positive step in providing greater transparency.

One clear trend is that the most common reason a transaction is likely to be declined is due to an order being returned or cancelled by the customer before it has been fulfilled. Typically 40-50% of all declined transactions across the network are due to returns. Undoubtedly, an increasing number of retail clients coming into the industry, and working with Affiliate Window, has contributed to the focus on returns as being the biggest single contributing decline reason.

With cancelled/returned orders having such a significant impact upon declined rates, should these be factored in before setting commission rates? This is something that is explored in greater detail later in this document.

There has also been an increase in the reasons 'Not Last Referrer' and 'Unauthorised Code Usage' which are also covered in more detail below.





4. Adjusting commission rates to take into account returns

With a significant proportion of all declined sales being due to returns/cancellations, it is an area where there needs to be greater visibility.

An advertiser will know what their average returns rate is across the business. This could be factored in when setting commission rates. Lowering commission rates but paying out on returns would provide greater visibility to publishers while also negating the costs associated with manually processing declines due to returns. In most of the large retail programmes on our network, we don't see a significant variation in returns rates across different publishers.

While applying this across all publishers is viable, understanding the return rates for key partners will allow for commission rates to be tweaked to reflect an individual publisher's value.

Similarly, there is an increasing trend for advertisers to pay reduced (or no) commission for existing customers. This is a topic that remains hotly debated amongst the publisher community. With publishers typically having little control over whether or not the customer they are referring is new or existing is it fair to penalise them for sending a customer that has purchased from the advertiser previously? Surely a better way to look at this could be to better reward those that are driving new customers? Or change the reward mechanism only for publisher models that are susceptible to sending high numbers of existing customers?

You can read our thoughts on new vs. existing customers in our recent white paper which is available here.

Understanding the value of customers through the affiliate channel should form the basis of intelligent commission setting. By factoring in return rates, the number of customers failing credit checks and the share of new vs. existing customers, it is possible to set up bespoke commission rates that are reflective of the true value of each individual partner.

5. With more advertisers looking at external channels – what is the impact?

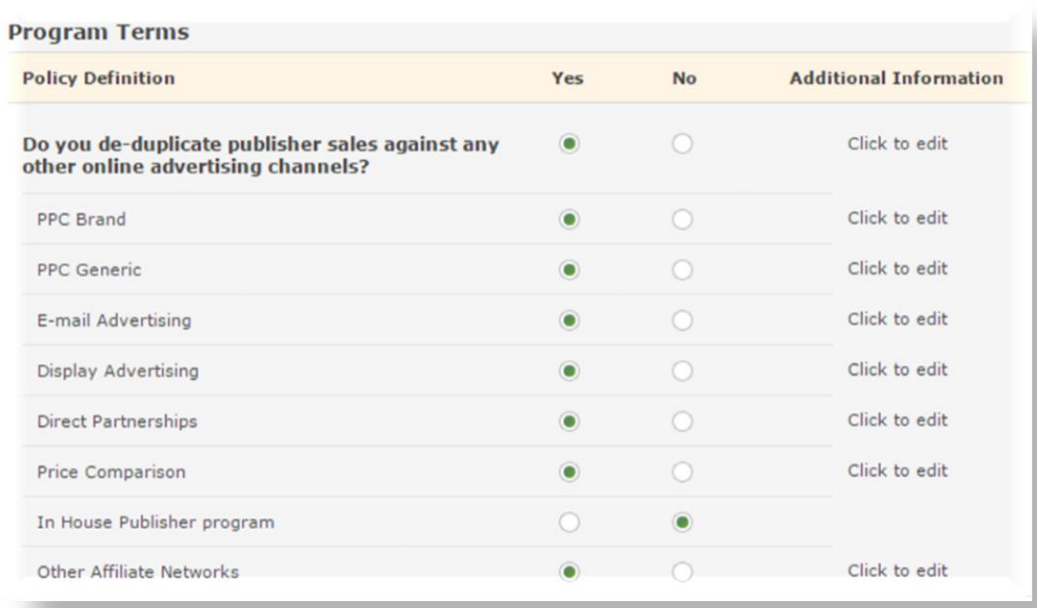
With the rise in the number of advertisers looking at cross channel interactions, the share of sales declined with the reason being 'not last referrer' is increasing.

The chart below takes a look at just the advertisers who have used this as a reason for declining sales. While across the whole network this was 7% in Q4 2015, when focussing just on the advertisers that have declined sales for this reason it increased to 11%.

To really put this in context it is important to consider the proportion of advertisers that are using 'not last referrer' as a rejection reason. Around 30% of advertisers across the network have declined sales due to the referring affiliate not being the last referrer. This means that another paid media channel was deemed to be the last referring channel, and therefore awarded the sale. While less than a third of advertisers decline sales because they are awarded to other marketing channels, it is common in the affiliate industry for advertisers not to pay commission if another paid media channel has been the last referring channel. This logic is applied dynamically during the customer's transaction for some advertisers, so publishers do not track sales where affiliate was not the last referring channel. While it has become commonplace in the industry, there remains a tangible feeling that this kind of de-duplication unfairly penalises the affiliate channel over others purely because of the CPA reward.

Although the sale has been converted by another channel that is de-duped against the affiliate channel, it is important to understand the role of publishers as influencers as well as converters. It's something that most advertisers still overlook in favour of a crude, last-click outlook that is applied across all channels.

Each advertiser on the network has to clearly state their de-duplication policy which will be displayed to publishers.



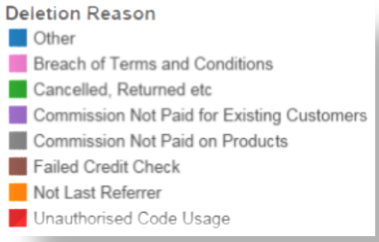
Program Terms

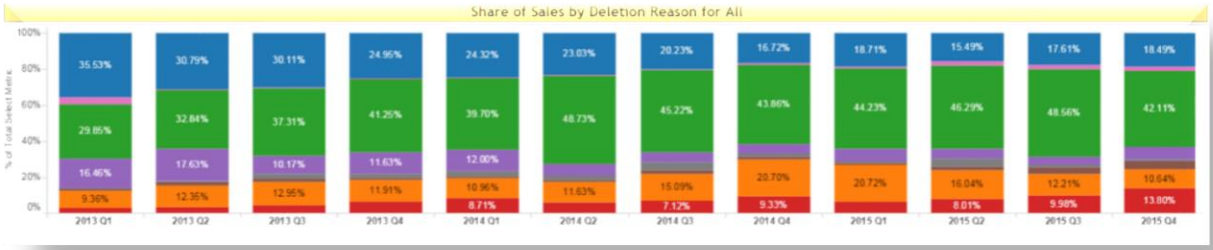
Policy Definition	Yes	No	Additional Information
Do you de-duplicate publisher sales against any other online advertising channels?	●	○	Click to edit
PPC Brand	●	○	Click to edit
PPC Generic	●	○	Click to edit
E-mail Advertising	●	○	Click to edit
Display Advertising	●	○	Click to edit
Direct Partnerships	●	○	Click to edit
Price Comparison	●	○	Click to edit
In House Publisher program	○	●	
Other Affiliate Networks	●	○	Click to edit

Utilising the tools available from Affiliate Window it is possible for advertisers to identify publishers that are effective at influencing transactions and reward them for that influence.

This has led to a challenging of convention and is a positive step away from a model which is effective at rewarding the converters but neglects the influence of those publishers that are present in the earlier stages of customer journeys.

You can watch our recent webinar on the topic of affiliate influencers here, or read our guide on this here.





6. Voucher code rejection rates – how to work better with voucher codes

Another reason for declined sales that has increased over time is the use of unauthorised voucher codes. Standing at just 3.2% in Q1 2013, by Q4 2015 this accounted for just over 14% of all sales across the network that are declined. This is undoubtedly connected to both the growth in the popularity of voucher code websites and the greater proliferation of user generated content in the voucher code space.

Voucher code usage is something that has come under increasing scrutiny across the channel. With almost one in seven sales that are declined across the network with a reason relating to voucher code usage, it is certainly an issue for advertisers and publishers alike.

The chart below provides some greater transparency over the reasons behind declines related to voucher code use. It is evident that this is typically due to an unauthorised code being used (a code that should not be used in conjunction with an affiliate sale) or a code that was exclusive to another publisher.

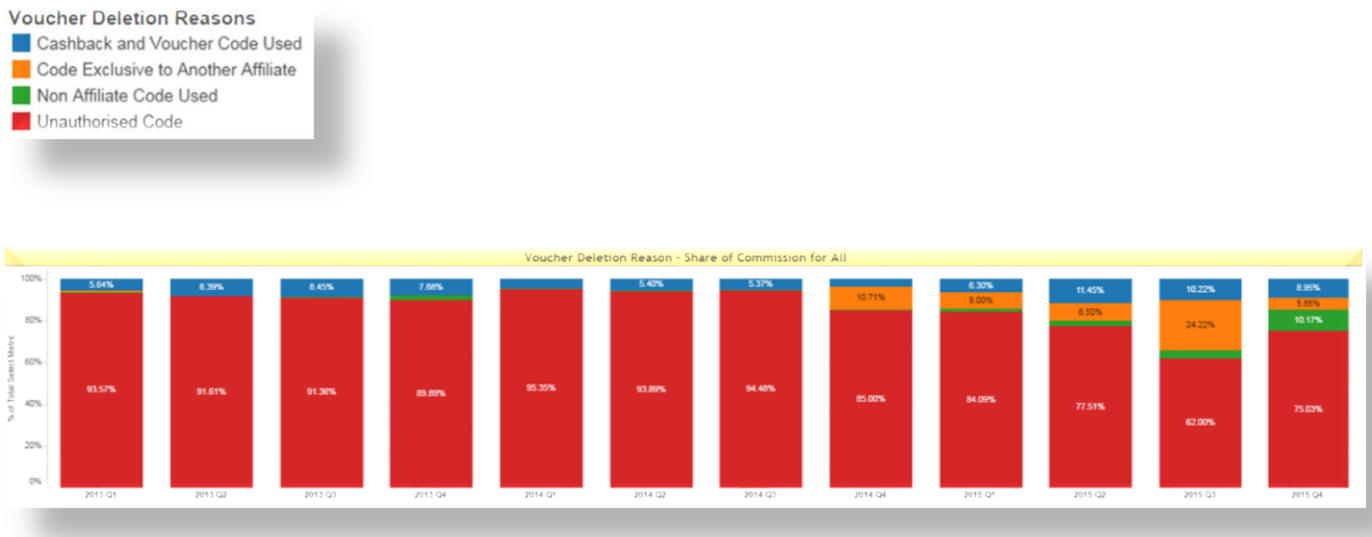
There is a clear need for advertisers to have greater control over the distribution of voucher codes. It remains very difficult for publishers to prevent the users they refer from picking up codes from across the Internet. But at the same time, advertisers that publish a lot of voucher codes into different paid media channels need to have a mechanism for controlling how they are used.

There are tools and technologies available to advertisers to enable better management and control of codes. Uniqodo for example can help advertisers manage their code distribution, ensuring they can be limited to the publisher/channel they were intended for.

Advertisers also need to ensure their voucher code terms and conditions are clearly communicated.

Although a small proportion of voucher code declines, around 10% are still attributed to customers trying to combine using a voucher code with receiving cashback.

You can read more on voucher codes in our white paper from last year.



7. Best practice guidelines for advertisers

Declined sales have a considerable impact on the amount of commission that affiliates are able to earn. The impact of declined sales on affiliates has received a lot of focus recently. Although the impact of declines on affiliates is actually relatively stable across the network over the last few years, there are clear trends around returns, last referrer sales and the use of codes that need to be more transparently managed across the industry.

Our mantra at Affiliate Window is 'honest rewards for honest sales'. While there are legitimate reasons for declining transactions it is important that advertisers make these clear.

While visibility is key, the setup of a programme and an advertiser's validation policy can help to optimise an affiliate programme.

- Provide full and accurate reasons as to why a sale has been declined
- Factor returns/cancellations into a commission rate and pay for all transactions to minimise rejection rates
- Validate sales promptly once the returns/cancellations period has passed and follow the network's advice around best practice for validations in your vertical
- Consider the role of affiliates as influencers and be flexible with payment models to recognise this influence
- Ensure de-duplication rules are properly published and applied correctly, following the network's best practice for de-duping against paid media channels
- Tighten up terms with cashback sites to clearly state that cashback will not be awarded where voucher codes are use
- Work with a voucher code platform that can ensure single use codes which are only redeemable through the voucher code site they were issued to
- Consider how appropriate/practical it is for content publishers to lose commission if a customer they refer has picked up a 'non-authorised' code from somewhere else on the Internet
- Asses affiliate partners on an individual basis and set a commission rate that rewards their value

8. Summary

With a quarter of sales across the network declined each month, it is extremely important to understand the reasons behind this, and ensure advertiser's properly appreciate the implications these declines have on their publishers.

For greater transparency and fairer payment metrics, it is vital for advertisers to act upon this. The principle of declines has been around for a long time in the affiliate channel. But the fairness of declined commission on publishers needs to be carefully managed by the industry.

One of the primary reasons for declining sales is due to an order being cancelled or returned. Each advertiser will have insight into what their typical cancellation or return rate is and could adjust their commission accordingly to take this into account post decline.

By providing greater transparency to publishers, they will be able to make more informed decisions over the advertisers to promote. Those advertisers that are rewarding publishers honestly and fairly for sales are the ones that can expect to benefit most from a mutually beneficial relationship.

This whitepaper was brought to you by the Affiliate Window Strategy Team.

As the largest network in the UK with access to half of the top retail, travel and telecoms brands we bring you unrivalled insight into the affiliate and wider performance marketing space.

To keep up to date with the work of the Strategy Team you can [sign up to our monthly newsletter here].

Or alternatively why not check out the [Strategy Hub]?