

Affiliate Marketing

A Value-Added Service to Help Online Retailers Expand their Market Reach and Grow their Revenue Base



The Role of Affiliate Marketing in Online Retail

US Affiliate Marketing spending will reach \$4 billion by 2014. Forrester, September 2009

Affiliate Marketing is an online advertising channel that is proven to drive strong, cost-effective performance in the online retail space. In partnership with Gen3 Marketing, Demandware offers Affiliate Marketing to its customers as a value-added service to help expand their reach to highly relevant audiences, and drive incremental qualified shopping traffic. It can also be leveraged to drive qualified traffic to content on your site that is aimed at converting off line shoppers.

Affiliate Marketing is not new. Forrester estimates that US Affiliate Marketing spending will grow at a compound annual growth rate of 16% and reach \$4 billion by 2014.

Part of Affiliate Marketing's appeal is its low risk, pay for performance business model. Retailers only pay a commission for successful efforts, such as the sale of your products resulting from qualified traffic the affiliates drive to your site. It can help online retailers establish a strong brand presence on the web with very low initial and on-going costs of marketing.

Affiliate Marketing has evolved to include not only affinity and discount sites but also many that do a great job of promoting quality brands by marrying content (i.e. what influencers are buying) with commerce (where to buy

online.) As a result, it has been incorporated into the online marketing mix by many high-end brands and retailers to drive incremental revenue and qualified traffic online, while maintaining brand equity. They like Affiliate Marketing because:

- These sites influence the purchase process by focusing extensively on the right customers for the brand.
- The demographics of these sites are attractive:
 - Income: \$60-100k (31%), \$100k+ (22%)
 - Age: 18-24 (13%), 25-34 (32%), 35-44 (27%), 45+ (27%)
 - Gender: Female (53%), male (47%)
 - Geography: CA, NY/NJ, TX, FL, IL, PA, NE / SE U.S.

Affiliate Marketing is proven to work for many of the biggest brands and retailers online. It drives highly targeted visitors, complements the overall online marketing mix and is likely to be the most cost-effective channel used as a direct response vehicle.

Affiliate Marketing - Critical Success Factors

“Gen3 Marketing has allowed us to re-launch an affiliate program both profitably and with very quick return on investment. Our previous foray into Affiliate Marketing left us frustrated due to lack of internal resources in managing prospective and existing affiliates. Gen3 has made our program scale very rapidly by leveraging their extremely targeted expertise in the Affiliate Marketing arena.”

Jason Roussos,
President
Richlund Ventures
(LivingDirect.com/
CompactAppliance.com)

While the potential benefits of Affiliate Marketing are significant, realizing them can be challenging. Many online retailers get started in Affiliate Marketing by managing their program in-house or having it managed via an online affiliate network. They quickly find that it requires more dedicated resources and expertise than planned and that they don't get the results and value they hoped for due to:

- time required to organize and implement a program properly;
- complexity in managing all the different constituents in the affiliate network;
- time and ability to develop and maintain personal relationships with key publishers;
- difficulty keeping affiliate network and revenues growing.

There are four key areas which must be managed effectively to realize the full potential of Affiliate Marketing – Marketing Strategy, Relationship Management, Data Analysis and Compliance. Each has important considerations and requirements for success. Our partner, Gen3, brings unparalleled strengths and expertise in each of these areas.

Marketing Strategy

Many marketers start off on the wrong foot with Affiliate Marketing. They simply don't have the expertise in house and don't know what they don't know. Most make it someone's part-time job. If they do hire someone full-time, success is dependent on selecting and retaining the right person. Then cost often becomes an issue. Affiliate Networks, on the other hand, tend to be reactive and tactical, requiring specific direction from the client. Junior account management staffers with limited strategic marketing experience offer very little insight into how an

affiliate program fits into a company's overall marketing strategy.

Gen3 has developed a robust strategic approach to managing affiliate programs and a keen understanding that ROI matters most. Gen3 leverages proven strategies with regard to affiliate recruiting, optimization, discounting, PPC involvement and other tactics that produce real results.

Relationship Management

The time it takes to develop and maintain relationships with key affiliates should not be underestimated. They are looking to maximize their time by optimizing multiple programs at once. It's incredibly difficult to get their attention. Even the most experienced, well connected in-house Affiliate Manager will have a difficult time accessing all of the top affiliates. He/she only has a single program to offer and affiliate time is at a premium. At the same time, program managers at the networks generally don't have direct contact with affiliates. Rather, they work through an affiliate manager who is paid to champion the affiliate rather than the affiliate program itself.

Gen3 has strong ties with many of the web's biggest marketers and deep personal relationships with the top affiliates in every vertical – Affinity, Shopping, Content/Niche, Discount, Search, Social, etc. Gen3 speaks to them on behalf of dozens of clients on a weekly basis and meets with them in person at least quarterly. Gen3 identifies who the key affiliates are for each product/brand and is able to get their attention quickly because of this ongoing line of communication. Moreover, Gen3 actively recruits super affiliates starting on day one, enabling online retailers and brands to ramp faster than they could otherwise.

Gen3 has launched and grown over 75 programs and has helped generate an incremental 15-20% of site revenues for their clients. They added over \$3 million in incremental revenue for Demandware clients in 2009.

Data Analysis

The ability to benchmark results across programs, publishers and verticals is a huge advantage when trying to target and optimize your affiliate program. Networks have access to a tremendous amount of data, but tend not to use it because of potential confidentiality issues. Merchants that go the in-house route are limited to data from their own program or generic industry data.

Gen3 utilizes in-depth data on the performance of key affiliates. It knows the top performers for different target markets and is able to quickly identify productive affiliates (and categories of productive affiliates) and leverage that data to recruit, activate and optimize the affiliates on the client's behalf.

Compliance

There are a number of sensitive channel and brand conflict issues when it comes to Affiliate Marketing. Retailers and brands cannot always count on the affiliate to be aware of or concerned with these matters. When a company manages their Affiliate Marketing in-house, they have to learn this

through painful trial and error with each affiliate. Networks' compensation is tied to transactional volume regardless of quality. They simply aren't aligned to actively manage to avoid potential channel and brand conflict.

Gen3 has historical knowledge of non-compliant affiliates and utilizes tools to guard against rogue publishers. Gen3 knows which publishers do the right things and which don't and knows how to manage against potential channel conflict. Gen3 also has the knowledge to understand the requirements of different types of marketing and the implications of tactics such as online coupons, offers and exclusivity.

By combining these strengths with its expertise in business strategy and online marketing, Gen3 can jump start your Affiliate Marketing program and put the foundation in place for long term success. They are marketers first with senior-level marketing and consulting experience as well as vast client and agency side experience managing affiliate programs.

The screenshot shows the Ebates website interface. At the top, there's a navigation bar with 'Ebates Home eBay Travel Blog' and 'Online Rebates and Coupons at over 1,200 Stores!'. A search bar is present. Below the navigation, there's a main banner for 'Columbia Sportswear Online Coupons & Coupon Codes' offering an '8.0% Cash Back'. A 'Shop Now' button is visible. To the left, there's a sidebar with a 'Select a store' dropdown and a list of categories: Appliances & Hardware, Baby & Kids, Books & Magazines, Business & Office, Clothing, Computers, Electronics & Photo, Finance, Flowers & Gifts, Food & Wine, Games & Toys, Gift Cards, Health & Beauty, Home & Garden, Jewelry, and Music & Movies. On the right, there's a preview of the Columbia Sportswear website, showing a promotional banner for 'YOU DO REALIZE IT'S SKI SEASON RIGHT? POWER DOWN. HEAD OUT.' and a list of products.

Results and ROI with Gen3

“When Demandware first recommended we pursue the Affiliate Marketing channel, we were very skeptical about the ability to get anything in place in time for the holiday shopping season. But Gen3 was so efficient. They knew exactly which affiliates we needed to work with and the types of programs to put in place.. They had us up and running in time for two of the biggest shopping days of the season and we saw immediate results.”

Paul Zaengle
Director of Ecommerce
Columbia Sportswear

Gen3 Marketing has a proven track record of delivering strong results and ROI for Demandware customers. They have launched and grown over 75 programs and have generated an incremental 15-20% of site revenues for their clients. They added over \$3 million in incremental revenue for Demandware clients in 2009. They have demonstrated success taking over in-house programs, resurrecting abandoned programs, taking over network managed programs and accelerating time to market for new programs from scratch. Below is a quick look at the results of three recent affiliate programs deployed for Demandware customers.



Accelerating Time to Market

Columbia Sportswear is a global leader in active outdoor apparel and footwear and offers an extensive product line of outerwear, sportswear, rugged footwear and accessories sold in more than 100 countries. As one of the largest outerwear manufacturers in the world, Columbia has developed an international reputation for quality, performance, functionality and value.

Demandware provides Columbia with a scalable, full-featured e-commerce platform that enables complete control over its brand and user experience, while eliminating the technical burden of the IT infrastructure. As it approached the 2009 holiday shopping season, Columbia had no Affiliate Marketing program in place. It wanted to take advantage of the increased reach and visibility of relevant affiliate

sites for this critical time period, but it was running out of time. Gen3 was introduced by Demandware and was able to develop a solid plan and secure key affiliates for Columbia within days – just in time for Black Friday and Cyber Monday. The company saw tangible results from the affiliate program immediately and is seeing impressive growth in activity and revenue month over month.



In-House to Outsourced; Driving Continuous Growth

Frederick's of Hollywood is a world-renowned brand and leading trendsetter in intimate apparel. It has earned a distinct reputation for flattering women of all sizes with its sexy signature styles. It has more than 130 specialty retail stores nationwide, a world-famous catalog and an online shop.

Frederick's deployed Demandware to help grow its online sales while maintaining the flexibility to make site changes as market requirements dictate. At the time, it had an in-house managed affiliate program in place, but performance was disappointing and proving to be very expensive to manage. Gen3 took over the program and quickly increased program performance and efficiency. In just six months, Gen3 was able to cut program costs by 14% while growing affiliate sales volume by 30%.

“It’s great working with the Gen3 Marketing Team. They really know the industry and have taken the time to understand our business model and find creative ways that we can work with their clients to achieve mutually profitable results. I highly recommend Gen3 Marketing!”

Adam Viener
Chairman & Founder
Imwave, Inc.
Wiseaff.com Blogger



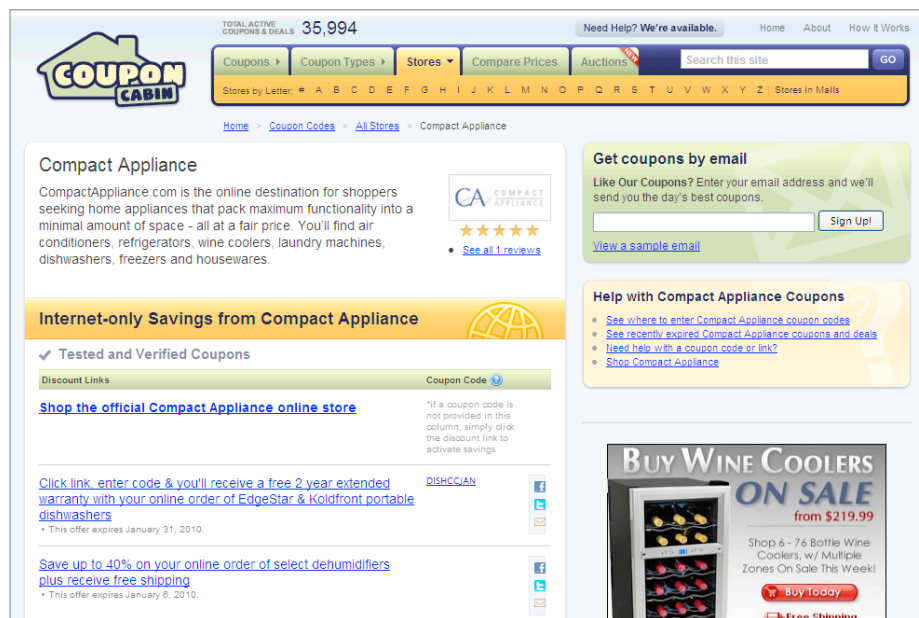
Resurrecting an Abandoned Program

Living Direct is an Internet Retailer 500 destination and Compact Appliance is one of the Living Direct shopping sites. It was created for people in search of distinctive home appliances that offer maximum functionality in a minimal amount of space.

After closing its original in-house program due to non-performance, Living Direct/Compact Appliance selected Gen3 to re-launch and manage its Affiliate Marketing program in 2007. Within one month, affiliates generated enough volume to warrant further investment in the program. By the third month, affiliate sales had doubled

and in the fourth month, they doubled again. The success of the program has continued. Affiliate sales comps grew 50% from 2008 to 2009. In one recent month, leveraging new content and site-wide offers, Gen3 helped Living Direct and Compact Appliance realize impressive gains vs. the same month the previous year:

- Affiliate \$ sales were up 89%.
- Affiliate order volume was up 54%.
- Affiliate average order value was up 23%.
- Affiliate conversion rates improved by almost 80%.



Affiliate Marketing Program with Gen3

Pre-Launch

- **Develop affiliate program strategy and budget** – We work with you to develop a pay-out / promotional strategy to ensure you are in-line with your competition.
- **Negotiate contract with Affiliate Network and develop program terms and conditions** – A successful affiliate program needs to run through an Affiliate Network that hosts creative and provides third-party tracking for affiliates. Demandware/ Gen3 has an agency relationship with Commission Junction, a first-tier affiliate network that provides significant savings to you.
- **Create affiliate resource site/ develop program creative** – We will work with you to develop great brand copy and creative for distribution to the affiliate base.
- **Program Launch** – At the end of this period, you will have a fully operational Affiliate Program that will be actively managed by Gen3 Marketing.

Post-Launch

- **Recruit targeted affiliates and 'Super Affiliates'** – We leverage our relationships with the biggest affiliate destinations online and ensure that your brand and site are represented on these sites.
- **Manually approve applications** – In order to protect your brand image, we personally select who is eligible to participate in the program based on our in- depth knowledge of the different affiliates.
- **Nurture relationships and correspond with affiliates** – We handle all affiliate requests on your behalf so that your organization can focus on the big picture.
- **Develop strategic marketing calendar** – We work closely with you to develop an online strategy that is married with your overall branding and marketing programs.
- **Oversee program administration** – We perform all necessary functions such as monitoring affiliate sites, managing payment and reconciliation, etc. so that you don't have to. These can be very time-consuming activities.
- **Analyze and report on program** – We have developed best practices for reporting on program milestones, recruiting, sales and profit ability achievements.
- **Test, Learn and Test Again** – We leverage our direct marketing experience to constantly test new ways to promote your brand to ensure optimal performance.

Summary/Next Steps

Affiliate Marketing can be an important component in the success of your online marketing efforts. It can quickly expand your market reach, drive qualified site traffic and increase online sales. Plus, its low risk, pay-for-performance model makes it one of the most cost-effective marketing channels available.

If your program is not delivering the results you expect or need, or you're just getting started with Affiliate Marketing, contact the Demandware Retail Practice team. In partnership with Gen3 Marketing, Demandware offers Affiliate Marketing as a value-

added service to help you maximize the success of your ecommerce site. Gen3 has unmatched expertise in Affiliate Marketing and can help you assess the state of your current program and determine whether it can deliver more for your brand and your marketing dollars. Working together, Demandware and Gen3 can also offer significant program cost efficiencies, simplify your program deployment and provide a single point of contact for technical support.

Action Plan

- Share this paper with your colleagues
- Evaluate your current Affiliate Marketing program and its current ROI
- Contact Demandware to learn more about its value-add Affiliate Marketing program and Gen3 Marketing

Demandware, Inc.

High-growth retailers and consumer brands looking to develop or extend the reach of their B2C ecommerce business trust Demandware as their strategic partner for ongoing success. Demandware solutions, comprised of the only enterprise-class, on-demand ecommerce platform and expert services, deliver merchandising effectiveness, proven site reliability and industry best practices that exceed profitability goals. Only Demandware provides a distinct time-to-market advantage for launching multiple ecommerce sites, customizing the consumer experience from content to code, and maintaining sites at the forefront of ecommerce innovation. Clients include industry leaders such as Bare Escentuals, Barneys New York, Columbia Sportswear, Crocs, Jones Apparel Group, Playmobil, s.Oliver and Timberland.

Demandware Retail Practice

The Demandware Retail Practice provides customers with proven expertise and industry best practices to optimize their ecommerce implementation and return on investment.

Gen3 Marketing, Inc.

Gen3 Marketing integrates business strategy and online marketing to drive measurable, scalable, sustainable results. Whether the goal is to drive sales, generate leads or promote a brand, Gen3 will develop and implement an online plan that is integrated with brand strategy and informed by industry and competitive dynamics. The plan will factor in ROI goals and test, learn and test again so that it can far exceed those goals. Gen3 brings unmatched expertise in Affiliate Marketing to Demandware customers. It has been implementing Affiliate Marketing programs since 2000 and was recently named Commission Junction (CJ) Agency of the year in 2009. Gen3 has long-standing relationships with major publishers across various Affiliate Marketing channels including all major loyalty/rewards, discount, community and search sites. For more information, visit www.gen3marketing.com.

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