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ÚSTAV EKONOMIKY

**THE ANALYSIS OF THE AFFILIATE SYSTEM IN A  
CHOSEN COMPANY AND PROPOSALS FOR ITS  
IMPROVEMENTS**

THE ANALYSIS OF THE AFFILIATE SYSTEM IN A CHOSEN COMPANY AND PROPOSALS FOR ITS  
IMPROVEMENTS

**MASTER'S THESIS**

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## **The Analysis of the Affiliate System in a Chosen Company and Proposals for its Improvements**

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Proposals and Contribution  
Conclusion  
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List of Appendices

### **Objectives which should be achieve:**

The main objective of this diploma thesis is critical analysis of the affiliate system functionality in a chosen company. Student will describe the principles of such system, analyse transactions, evaluate transactions and focus on options that can wittingly increase revenues in their system. Output of this thesis will be complete analysis of the affiliate system in a chosen company including recommendations to enhance current effectiveness.

### **Basic sources of information:**

BEAN, J. (2003). Engineering global E-commerce sites. 1st ed. San Francisco, Calif.: Morgan Kaufmann.

CHARLESWORTH, A. (2011). Internet Marketing. 1st ed. Hoboken: Taylor and Francis.

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RAYPORT, J. and B. JAWORSKI. (2001). E-commerce. 1st ed. Boston: McGraw Hill-Irwin MarketspaceU.

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## **ABSTRAKT**

Diplomová práca sa zaoberá províznym marketingom vo vybranej spoločnosti. Poukazuje na špecifiká a fungovanie Českého affiliate trhu a porovnáva teoretické poznatky so skutočnosťou. Hlavným prínosom práce je komplexný návrh provízneho programu za účelom zvýšenia efektívnosti.

## **ABSTRACT**

The diploma thesis deals with affiliate marketing in selected company. It points to the specificities and functioning of the Czech affiliate market and compares theoretical knowledge with reality. The main contribution of the work is complex affiliate program proposal enhancing previous effectiveness.

## **KLÚČOVÉ SLOVÁ**

provízny systém, provízny marketing, odmeňovanie, motivácia, partnerstvo, vzájomné zarábanie

## **KEY WORDS**

affiliate system, affiliate marketing, remuneration, motivation, partnership, mutual earning

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## **DECLARATION**

I hereby declare that the submitted diploma thesis is original and was elaborated independently. I declare that source citation is complete, and I did not infringe the copyrights of the third parties in my work (in sense of Act No. 121/2000 Coll., on copyright and rights related to copyright).

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# INTRODUCTION

Nowadays, marketing is an integral part of every business. It is a set of activities through which companies are trying to influence the surroundings, increase awareness of their brand or product, and force a customer to buy product from them. There are many ways how business can perform these activities and what marketing tools they choose. As for advertising, everyone seeks the most original and most effective solution. Often, we can observe duels between big companies surpassing the creativity of advertisements but also quantity and volume of money spent for advertising.

This leads to the fact, that people are exposed to an enormous number of advertising elements every day. There are ads about everything, from car brands, to product packaging. Advertising is everywhere and people started to filter and ignore it. This reality, is also observed by marketers who constantly creates new advertising but no longer present required results. Therefore, businesses either have to reduce advertising costs or look for new and more effective ways of advertising that will deliver results and measure benefits.

The Internet is an environment that allows to completely measure advertisement. Using certain tools, we can tell how many times each advertisement element was shown, how many people were engaged, how many people clicked on it and more. That is why efficiency marketing, which focuses primarily on performance is getting to the spotlight. In these cases, the trader generally pays for clicks or impressions, which does not necessarily bring sales to him, same as the poster seen outdoor. John Wanamaker once said, 'Half the money I spend on advertising is wasted; the trouble is I don't know which half'.

Affiliate marketing addresses this problem and focuses on a secondary performance which is represented by a measurable action taken on the website of contractor. For a measurable action or conversion, we can consider for example order completion, registration to the website, subscription to the newsletter or other target predetermined by the contractor. Therefore, the trader only pays, when his target is met. There is no waste of finance for ineffective advertising, which is the dream of every entrepreneur. However,

it should be noted that different marketing channels play different role in marketing and as the chef doesn't create pizza only from one ingredient, no businessman should build his business on just one marketing channel.

This diploma thesis deals with affiliate marketing as a form of internet advertisement. Affiliate represents relationship between partner and merchant, where partner is rewarded by merchant with a predetermined commission for each new customer he brings. Affiliate partners are basically marketers who are trying to acquire customers for merchant across all channels by directing them to a particular merchant website. Affiliate marketing exists in a certain form outside of internet environment, although it cannot be measured as easily as on internet and is generally referred as reward system. For example, if a tourist in a foreign town asks a taxi driver to take him to a good restaurant or souvenir shop, a taxi driver usually departs for such places, where he has pre-agreed commission.

The main aim of this diploma thesis is to analyse the use of affiliate marketing at ZEPA and draft recommendations that could enhance effectiveness of their affiliate program on Czech market.

The benefit of this work is getting acquainted with affiliate marketing and its real functioning on Czech market. The main benefits of the work are author's suggestions for improvement of ZEPA affiliate system in order to increase its efficiency. Diploma thesis is divided into two main sections, theoretical and practical. The theoretical part at the beginning describes the theoretical background for internet marketing and advertising. Followed by definition of affiliate marketing, relevant history, functionality of the internet channel including its advantages and disadvantages. At the end of the theoretical part, the diploma thesis deals with the affiliate marketing in Czech Republic,

The practical section is divided into two parts. The first part introduces the company ZEPA and analysis of its affiliate system. Second part is more comprehensive, as it contains a thorough instructions and recommendations that could enhance program effectiveness in order to achieve company goals and expectations.

## **THE OBJECTIVES AND METHODOLOGY**

### **Objectives**

The main goal of this diploma thesis is to analyse the use of affiliate marketing at ZEPA, pinpoint possible shortfalls of their affiliate program and draft recommendations that would improve the situation and enhance the effectiveness of their affiliate program on Czech B2C market.

### **Methodology**

When composing this thesis, author used several logical and empirical methods. First of all, it was a research of professional literature aimed at internet marketing, affiliate marketing and motivation. The research consisted in studying specialized articles on internet and in books, to get the latest knowledge from this fast-growing segment. The analytical and design part is based on theoretical knowledge gained during the research. These parts combine theoretical knowledge with practical experience for the purpose of creating effective affiliate program. The analytical part focuses on analysis of environment and possible solutions establishing rudiments for processing practical part. Practical part follows processed analysis from analytical part and with help of theoretical findings forms the outputs. When building affiliate program, it is necessary to follow the latest techniques to favourably affect site visitors as well as partners.

# 1 THEORETICAL FOUNDATIONS

## 1.1 Different points of view on internet marketing

For a better understanding of the term internet marketing, it is essential to clarify the term marketing first. According to Kotler (2007) marketing is defined as a social and managerial process through which individuals and groups satisfy their needs, and wishes by the process of producing and exchanging products and values. Marketing is not just about advertisement visible on televisions or billboards. It is a complex process which begins even before the product is manufactured. The main goal is to identify user needs and ultimately satisfy them in best possible way. Lifecycle of individual products is strongly dependant on marketing activities.

Those activities should improve, refine and adapt the product in the eyes of customer based on the sales results. Internet marketing can be then simply defined as achieving marketing goals through the use of digital technology (Charlesworth, 2011).

Zamazalova (2010) suggests that despite the fact that considerable number of users perceives internet marketing as blinking stripes that bothers and harass website visitors, it offers much wider possibilities. It is an additional communication environment, which alongside the support of traditional marketing tools brings completely new ways of communicating with customers.

Same rules apply for marketing over the internet as for classical marketing applied through traditional media such as print, radio, television, outdoor advertisement etc. However, internet is a very specific medium in its own way and differentiate from other traditional media thanks to it interactivity and dynamic development (Charlesworth, 2011).

Term internet marketing is often associated with the term e-marketing respectively e-commerce. According to Kotler (2007) e-marketing represents the company's effort to inform about the products and services, to promote and sell them on the internet.

## 1.2 Marketing mix on the internet

Marketing mix designed by McCarthy (1960) often regarded as 4P – Product, Price, Place and Promotion is still an essential part for creating and implementing marketing strategy for considerable number of professionals (Charlesworth, 2011). To better reflect service providing 4P was extended by three more dimensions – People, Process and Physical evidence to form 7P (Chaffey 2011).

Marketing mix is nothing different than the classic marketing mix. The rules are the same everywhere, and the company should not be perceived by customers differently on the internet compared to offline environment. Although the rules do not change, it is good to remember that the marketing mix applied to internet environment brings new opportunities to marketers on how to effectively achieve marketing goals.

Using the Internet to vary the marketing mix						
<b>Product</b> <ul style="list-style-type: none"> <li>• Quality</li> <li>• Image</li> <li>• Branding</li> <li>• Features</li> <li>• Variants</li> <li>• Mix</li> <li>• Support</li> <li>• Customer service</li> <li>• Use occasion</li> <li>• Availability</li> <li>• Warranties</li> </ul>	<b>Promotion</b> <ul style="list-style-type: none"> <li>• Marketing communications</li> <li>• Personal promotion</li> <li>• Sales promotion</li> <li>• PR</li> <li>• Branding</li> <li>• Direct marketing</li> </ul>	<b>Price</b> <ul style="list-style-type: none"> <li>• Positioning</li> <li>• List</li> <li>• Discounts</li> <li>• Credit</li> <li>• Payment methods</li> <li>• Free or value-added elements</li> </ul>	<b>Place</b> <ul style="list-style-type: none"> <li>• Trade channels</li> <li>• Sales support</li> <li>• Channel number</li> <li>• Segmented channels</li> </ul>	<b>People</b> <ul style="list-style-type: none"> <li>• Individuals on marketing activities</li> <li>• Individuals on customer contact</li> <li>• Recruitment</li> <li>• Culture/image</li> <li>• Training and skills</li> <li>• Remuneration</li> </ul>	<b>Process</b> <ul style="list-style-type: none"> <li>• Customer focus</li> <li>• Business-led</li> <li>• IT-supported</li> <li>• Design features</li> <li>• Research and development</li> </ul>	<b>Physical evidence</b> <ul style="list-style-type: none"> <li>• Sales/staff contact experience of brand</li> <li>• Product packaging</li> <li>• Online experience</li> </ul>

Figure 1 - Marketing mix on the internet (SOURCE: Chaffey, 2011)

Author believes that the most significant and most visible component of the marketing mix on the internet is communication with the customer through websites and internet ads. Therefore, this work will concentrate on this component of marketing mix in the next chapters.

## 1.3 Benefits of marketing communication over the internet

Despite the fact that the same rules apply to online marketing as for offline respectively traditional marketing, it is necessary to understand that it is a fast growing and very

dynamic environment. Therefore, it is important to emphasize the differences between marketing communication online and marketing communication offline. Unlimited possibilities of internet bring several advantages for marketing specialists.

A useful overview referred as 6I was designed in by McDonald and Wilson (1999) to describe internet marketing. The 6I stands for Interactivity, Intelligence, Individualisation, Integration, Industry Restructuring, Independence of Location.

### 1.3.1 Interactivity

Internet as a relatively new media that gives marketers an ability to work better with individual customers. Unlike traditional media, the customer is able to access the internet in order to respond and provide an immediate feedback to an ad, product or even services offered by seller. Once the ad has been viewed, the customer can also immediately buy product in contrast to advertising over television or on a flyer (Chaffey, 2011).

Before buying any product or service, most customers search different information about the specific product and regarding the company that is selling respectively providing. All this information is accessible using search engines, reading reviews, engaging in discussions on forums and so on. In other words, it is a pull mechanism, which in traditional media does not exist at all (McDonald and Wilson, 1999).

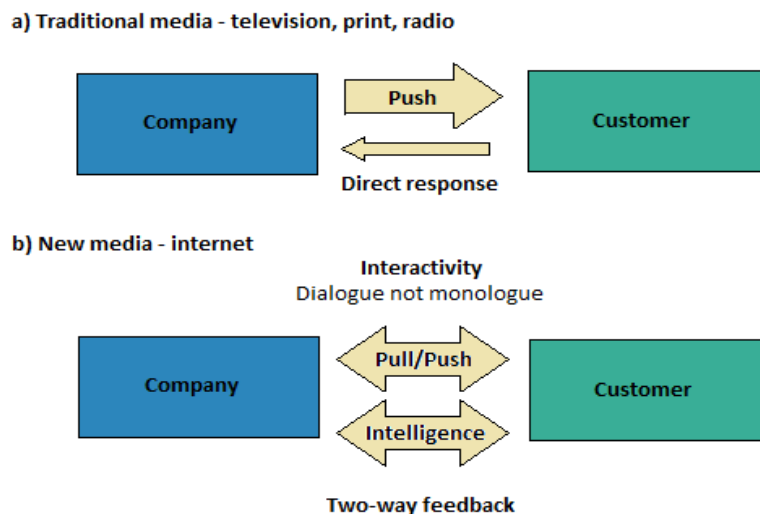


Figure 2 - Visualisation of communication models: a) offline, b) online (SOURCE: Chaffey, 2011)

Apart from the above, it should be noted that interactivity of customers with companies through social networks such as Facebook, Twitter and Instagram is rapidly increasing. According to Bednar (2011) social networks are based on three fundamental pillars. First, that most content is created by users themselves. Second, the basis is the relationship between users, mutual comments, links and evaluation. And last but not least that server providers are minimally interfering to day-to-day operations.

### **1.3.2 Intelligence**

With the help of various analytical tools, marketers can monitor behaviour, preferences and feedback of their customers. A skilful expert can evaluate this information and turn them into benefit of the company in promoting and selling products. The most commonly used analytical tool is currently Google Analytics (Chaffey, 2011).

### **1.3.3 Individualisation**

Another advantage offering great diversity to online marketing apart from offline marketing is based on individualisation and personalization. In other words, in targeting individuals. With relatively low costs, the company can reach individual customers and based on their specific preferences, recommend them an appropriate product. Compared to mass advertising in traditional media, which requires excessive costs, it is a very effective way to attract and convince customer to buy (McDonald and Wilson, 1999).

The pioneer for individual targeting is Amazon, however Google and Facebook also adopted this approach very quickly. They adapt recommendations and emails based on your online behaviour (articles, interests etc) respectively previous purchases. As your pattern change in time, so does the recommendations (Chaffey, 2011).

### **1.3.4 Integration**

In internet marketing, it is very important to integrate individuals forms of communication together, in order to achieve highest possible outcome. It can be an interconnection of individual internet communication tools, but also interconnection of



traditional and new communication media such as QR code placed on a flyer or billboard (Chaffey, 2011).

### **1.3.5 Industry restructuring**

Distributors, brokers and other intermediaries who play an important role in the traditional marketing, are replaced by new ones on the internet. The key is to create new intermediaries between customers and suppliers who provide services such as a supplier search or product comparison (Chaffey, 2011). A good example is [www.heureka.sk](http://www.heureka.sk) which is one of the largest shopping advisors in the Czech and Slovak online environment.

### **1.3.6 Independence of location**

Thanks to the internet companies have the ability to reach out to their customers and potential customers not only locally but also globally. It is possible to sell products internationally almost without an effort. This also allows customers to avoid visiting dozens of shops in person and offers them a possibility to save time and make an online order from comfort of their home (Chaffey, 2011).

## **1.4 Internet advertising**

Advertising is one of the forms of commercial communication. The purpose is to deliver advertised message to the targeted group and change its thinking and behaviour in order to enhance sales of the product respectively name of the brand. This concept can be applied also in internet environment where the target group is intercepted through various online channels. Based on how the target audience is addressed, we generally distinguish individual types of internet advertising into PPC advertising and e-mail marketing. However, this is not a complete list. Sedlacek (2006) recognizes 4 types of internet advertising:

#### **1. E-mail advertisement**

- Advertisement is whole e-mail (corporate news, e-zines etc)
- Advertisement is only part of e-mail (most common are advertising spots)

2. Image advertisement
  - Advertising stripes respectively banners
  - Pop-up windows
3. Text advertisement
  - Plain text ads (non-contextual)
  - Contextual text ads (linked to keywords and context)
  - Business text advertising systems (Seznam, Atlas, etc.)
4. Other forms
  - Viral marketing
  - Affiliate marketing
  - Soft selling
  - Content sponsorship
  - Microsites
  - Website optimisation not only for search engines

The tools of marketing communication can also be viewed from different perspectives. For example, they can be divided by their function, where some are more appropriate to brand building and others with more efficient character are more suitable to achieve immediate sales increases (Zamazalova, 2010). For a better understanding of this diploma thesis, author will elucidate those two types of ads.

#### **1.4.1 Brand advertisement**

Is intended to increase the credibility of the site, and wants to connect the brand with certain assortment and notification. Then, once the person is looking for the specific product, he should remember the particular brand, while believing in their credibility, resilience which should ultimately help him decide to purchase the product on that site. Brand building is a run on a long track and is impossible to accurately measure (Kelley et al., 2015).

The most popular form of a brand ad is image advertisement, that is displayed while users are browsing individual websites.

### **1.4.2 Efficiency marketing**

Is marketing oriented towards performance. However, it is not focused on primary performance (how many times was the ad displayed or how many clicks did the add experience) but mostly on secondary performance, which reflects measurable activity on the website of contractor. For a measurable action or so-called conversion, we can consider for example order completion, registration on the website, subscription to newsletter or other actions predetermined by contractor as targets before the start of the campaign (Perrey et al., 2016).

It seems obvious that each company will have different targets with efficiency marketing. However, it is important that the set goals are accurately measurable on each web. Typical forms of performance marketing include pay-per-click (PPC) advertising, optimization for search engines (SEO), e-mail marketing and affiliate marketing (Chaffey, 2011).

Pay-per-click (PPC) sounds self-explanatory as you pay per each ad click. In principle, this ad is only shown to people who search for certain information using search engines or are browsing some content and they are offered an ad related to this content. Pay-per-click is nowadays a very popular form for multiple companies. It is a simple way to target customers using pay-per-click systems from third parties such as Google AdWords, Sklik etc. in the moment when they are looking for it. This form of advertising is very diverse, because nowadays it displays not only text ads but also graphic and video ads. It also offers an ability to target customers by localization, language or interests. Another positive regarding this type of ad is that you pay for clicks not for views. Therefore, you pay only for customers that were somehow relevant or interested.

Search Engine Optimization often abbreviated as SEO is optimization for websites. Simply said it consists of specific techniques dealing with how to place websites on the best positions among search options. Site optimization consists of two main parts, on-page and off-page factors (Jones, 2008).

On-page optimization means editing directly on the web page to make them most accessible for search engines. On-page factors include page titles, structure of URL, structure of web page, page content, headlines, image descriptions and more (Jones, 2008).

Off-page factors occur outside of the web page and cannot be directly affected by web owners. They are referred as backlinks that are pointing to the site from other websites. These backlinks are crucial factor in ranking results. If many backlinks lead to the page from various sources, it means for search engine that this page is popular and therefore the search engine will prefer this page before others in search results (Jones, 2011).

E-mail marketing is also a very effective form of internet marketing. It stands for sending business announcements to the customer's mailbox, who previously agreed to receive them. Advertising e-mails tend to inform about new products, discounts and sales. Using the email, the merchant is also reminding customer with the range of services and products he provides (Rayport and Jaworski, 201).

## **1.5 Affiliate marketing**

Despite the fact that affiliate marketing is one of the forms of internet advertising it is still quite unknown in Czech environment. A large proportion of web site owners knows about it but they do not fully understand the principles of its functioning. On the other hand, on Czech internet environment there are unfortunately also web site owners that have never heard about affiliate marketing. Thanks to this unfamiliarity, affiliate marketing is seldom used on Czech internet environment.

Nevosádová (2008) defines affiliate marketing as a form of internet advertisement, where merchants offer to website owners (their affiliate partners) a financial reward for bringing a customer who performs a predetermined activity (for example buying a product or service, registering to newsletter) on the merchant site. She claims that in Czech language affiliate marketing is often miss-referred as a reward system, which is not entirely accurate, because the reward does not always have to be paid based on mediated sales.

Great positive regarding affiliate marketing is the fact that traders do not pay anything for advertising, unless the product was sold, or lead achieved. That is why Chaffey (2011) suggests that affiliate marketing is advertising with zero risk. However, zero risk for the merchant, means increased risk for the affiliate partner. Therefore, it is important to realize that merchants should not approach this channel as a medium that costs nothing and earns on itself without risk. On the contrary, they should invest as much time, ideas

and creativity as possible in this channel to convince affiliate partner that this cooperation is advantageous (Marketingsherpa, 2003). Determined affiliate partner with continual support will help achieve the desired results (Chaffey 2011).

## **1.6 History**

Before we dwell deeper into this channel, it is good to know how affiliate marketing was created and who stands behind this creation.

The founder of affiliate marketing is considered to be Amazon, who introduced it in July 1996 under the name 'affiliate associates', marketing based on a commission. Amazon discovered this option thanks to the owner of cooking recipes website. Visitors often asked her where they can get her book, and she recommended them Amazon. With the fact that most of them eventually bought it on Amazon as well, she contacted Amazon and demanded commission for delivering the potential customers. Amazon seized this opportunity promptly and began to offer this type of collaboration based on commission even to other web sites (Goldschmidt et al., 2003).

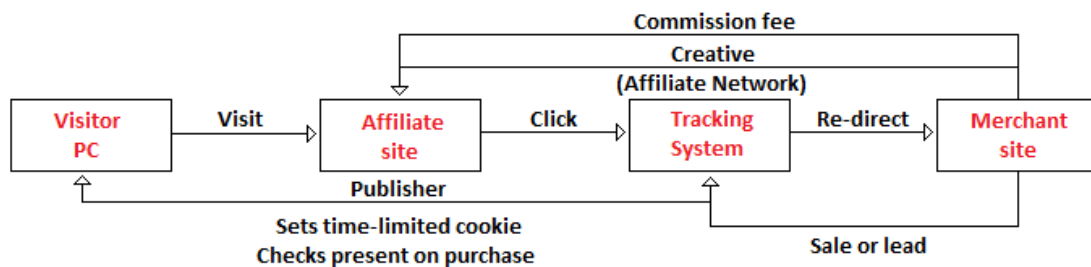
Despite the fact that the pioneer in the affiliate industry is considered to be Amazon, Collins (2000) asserts that there are many adult sites that used affiliate marketing long before Amazon did. He suggests that adult sites have come up with some of the best (and some of the worst) marketing concepts that are nowadays commonly used, such as video stream, payment per vision, etc.). Based on the above, we can see that simple thinking of internet users led to this collaboration as we know it today, where individual partners are properly rewarded for a good reference.

## **1.7 The principle of functioning**

The essence of affiliate marketing is a partnership between advertiser (seller) and affiliate partner. The advertiser or trader is the owner of the product or service, to which affiliate partners refer. Affiliate partner is the owner of the website that recommends too his visitors a particular product or service, for which they receive a commission from the sale. Basic principle of the functioning of the affiliate marketing can be described as following (Chaffey, 2011):

1. Affiliate partner puts any ad element delivered by advertiser or authorized by advertiser on his website.
2. The site visitor clicks on the ad unit that contains a measuring code.
3. The measuring software directs the visitor to the advertiser's site.
4. With the use cookies, the visitor's browser will keep customer information.
5. The visitor on the advertiser's site makes a conversion.
6. Seller pays a commission to the partner in a predetermined fashion (date, amount).

These six steps describe the basic functioning of affiliate marketing, for its better visualisation see *Figure 3*. In the following chapters, this diploma thesis will address individual parts of this process.



*Figure 3 - Affiliate marketing functioning (SOURCE: Rayport and Jaworski, 2001)*

## 1.8 Advertising elements

No good affiliate campaign will come without quality advertising elements. Advertising element is what user sees and what convinces him to click and be re-directed to the site of dealer. This chapter lists the most commonly used ad elements in the affiliate marketing along with guide on how to work with these elements.

Text links – relevant text links can be considered as one of the more effective advertising elements and not just in affiliate marketing. Text links are basic stones of the internet. They should navigate users of the site to other relevant sites to find what they are looking for. Many internet portals do not know how to put text links completely correct and they use them primarily to gain a better position in the search engine. However, if the link is located relevantly, for example in an article where it can help the user, its significance is

increasing, therefore click through and thus commission for affiliate partner is increasing as well (Bean, 2003).

Picture and Flash banners are any graphic form of an ad placed on the web of an affiliate partner that points to a seller's site. The beginning of internet advertisement is linked with different kinds of flashing and popping banners however at present less is sometimes more and beauty in simplicity took over (Chaffey, 2011).

Official name	Dimensions in pixels	Weight [KB]
<u>Leaderboard</u>	728x90	25-40
Square	250x250	25-35
Skyscraper	120x600	20-30
Rectangle	180x150	15-20
Full banner	468x60	20-30

Figure 4 - Recommended advertising formats (SOURCE: spir.cz)

Buttons were created by combining a text link with a graphic banner. These ad elements generally have a nice graphic form, and at the same time are located where it is relevant. Therefore, they should not disrupt the visitor from what he is doing on the website, but instead to help him navigate to other pages (Kotler, 2007).

Nájdite si najvýhodnejší internet, televíziu a domáce telefonovanie

Internet      Digitálna televízia      Telefón

Zadajte vašu adresu

Mesto      Ulica      Orientačné číslo domu ?

Porovnať >

Figure 5 - Example of Button (SOURCE: porovnat.sk)

Buttons have taken the graphical shape of banners, but their placement is similar to text links. Buttons are located primarily in articles and other pages with informative character. As the button picks up more sophisticated graphic form, it may significantly enhance the click through of advertisement (Penson, 2012).

Econsultancy released an interesting research in 2012 regarding the above advertisement elements, to determine which has the highest click through rate (CTR). This study was based on data received from website livecasino.co.uk. Over the period of 12 months, 10000 visitors have visited this site. The analysis of gathered data revealed these interesting facts and number (Penson, 2012):

- Of all the outgoing clicks from the website, the most clicked were buttons with 43%, second were text links with 34% and the least clicked were banners with 17%
- Nearly no one clicks on banners – it is almost a dead method of getting new visitors
- The click through rate of banners is increased by a clear definition of the advertisement message, adding a call to action and highlighting colour
- The button colour has a significant impact on its click through rate. Green button had click through rate of 43% while red button on the same spot had click through rate of only 29%, therefore 14% lower

Another type of ad element in affiliate marketing are forms. The advantage of the forms is that the affiliate partner does not need to send visitors away from their pages, but simply creates interaction on the very site. The fundamentals are widgets, those are web applications that an affiliate partner can add on his site to offer to visitors some additional useful functionality (Charlesworth, 2011).

Besides widgets, affiliate partners often have advanced form-based links. This type of an ad element is slightly more advanced and more technically demanding. Affiliate partners place an ad unit on their site in a way that the necessary information is obtained directly from an advertiser's server (Chaffey, 2011).



## 1.9 Types of conversion and payment models

A very important term in affiliate marketing, which also concerns individual payment models is a conversion. According to Janovsky (2006), the conversion is a process where the visitor becomes a customer. The media dictionary (Mediaguru.cz) defines conversion as the action we want on our website from internet users. Both definitions sound a bit differently, but ultimately define the essence of main concept. The principle is for the trader to determine in advance what action he wants from visitor on his web. Once this action is executed, the executor becomes customer, whether real or potential. The most frequently watched conversions are (Charlesworth, 2011):

- product purchase and service order,
- user registration,
- subscribe to newsletter,
- download program respectively demo,
- completion of the contact form,
- questionnaire filling.

As soon as the affiliate manager defines which action on the web page will be considered to be a conversion, he must determine the provision system on how to pay the partners. These two decisions are very closely related, and managers usually decide on the ground of different criteria. Everything depends on the set goal for the affiliate campaign. There are small differences between different payment models, but each one is successful in its own way. However, in affiliate marketing, the following three methods are most commonly used (Kotler, 2007):

- Pay per click model, where the advertiser pays partner for every visitor who clicked on a partner affiliate link and arrived this way to the advertiser's website.
- Pay per lead model, the advertiser pays an affiliate partner for every visitor that left some information on the web. Most often this is filling some form, which is considered a lead. An advertiser can expand its database of potential customers this way, rendering him able to communicate with those potential customers in future, which may lead to enhanced sells and thus increase sales.
- Pay per sale model, where advertiser only pays to the affiliate partner if the website visitor purchases a product or orders a service. Advertiser, may pay for a

single trade either a pre-agreed fixed amount or pre-agreed percentage of total sales.

Models pay per sale and pay per lead can also be characterized in one group, pay per action. Other types of conversions will also be included in this group, such as user registration or signing up for a newsletter. Nowadays, most affiliate programs focus primarily on this type of payment (Chaffey, 2011).

Pay per click in affiliate marketing brings much more risk than benefits, and therefore is nowadays used only by a few affiliate programs. Prussakov (2011) suggests that this particular payment method was slowly dying out because of great deal of fraud until eBay resurrected this method with its quality click pricing (QCP). eBay is one of the few advertisers using this method, as it is not appropriate for traders who doesn't have a high-quality system to prevent fake clicks.

Also thanks to the pay per click advertising through Google AdWords, or other advertising tools, it is only logical that this form of commission payment is already beyond the horizon in affiliate marketing. With tools like AdWords, traders have clicks indeed under control and therefore it is very unlikely, that it could be somehow tampered with. However, with affiliate partners, this likelihood increases, thus it is not very appropriate to think of this payment method when starting a campaign.

### **1.10 Conversions measurements and cookies**

Individual conversions are measured in affiliate marketing using a variety of technical solutions, which will be discussed more in the next chapters of this paper. The essence of measuring conversions are two different codes, that must be embedded on the site of both, affiliate partner and affiliate advertiser. The affiliate partner places on his website an ad element using a metering code, which contains a special parameter such as identifier of a particular partner. An advertiser inserts on a thank-you page of an order or form a conversion code, that appears whenever the customer redirected from the measurement code of that specific affiliate partner. Based on these two codes, the affiliate system recognizes, that it is a conversion and converts it into the system, where both partner and advertiser have access (Bean, 2003).

Clicking on any ad element containing affiliate measurement code will start cookies in visitor's browser. Cookies is a text file in the browser that serves to store information for future use. In affiliate, it stores for example information like where does the customer came from and who recommended him. If the customer closes the browser and buy later, a cookie commission will be still associated, unless it expires (Bean, 2003).

In affiliate marketing, cookies are active for a predetermined number of days. During that period, the affiliate partner is entitled to a commission. For example, if the advertiser sets the cookie to 20 days and the website visitor makes a purchase within the next 20 days, affiliate partner will be entitled to a commission payment. However, if the visitor makes a purchase on the 21<sup>st</sup> day, the partner is no longer eligible to receive a commission. From this, it is only logical, that the longer the cookies are active the more interesting the campaign is for the affiliate partner (Prussakov, 2011).

### **1.11 Types of affiliate partners**

When promoting merchant products and services, affiliate partners use different types of websites and different types of channel, to get a customer on their sites, who will then shop on merchant sites. It can be said that affiliate partners are basically marketers of a particular merchant. They must in some way promote their own website, which ultimately should lead to increased merchant sales. This chapter lists the most common types of affiliate partners with a simple description of their functioning. First, it is appropriate for better picture to state what types of partners are widespread in Czech Republic the most.

Content sites can be considered any type of site, which regularly publishes interesting and beneficial content for internet users. It can be various big magazines or even blogs. On such types of site, any advertisement element can be used, from text link to advanced iframes. Despite the fact that there is numerous content sites in Czech Republic, only a few are using affiliate marketing. The problem is that strong portals with high traffic, like finance.cz, knows how to make good money on their advertising space and therefore leave advertisers only option to pay for impressions and clicks. Thus, they have the certainty of earned money, which is obviously more beneficial to them, compared to using the advertising space for affiliate commissions (Zamazalová, 2010).

On the other hand, there is several small portals in Czech Republic, that are emerging primarily for purposes of affiliate program promotion. Those affiliate partners, creates a website that often resembles an original seller's site. The problem with these affiliate partners is that they often draw customers from the advertiser itself, therefore compete directly with them. Despite all this, the content types of web sites are the most used affiliate method in Czech Republic (Zekič, 2011).

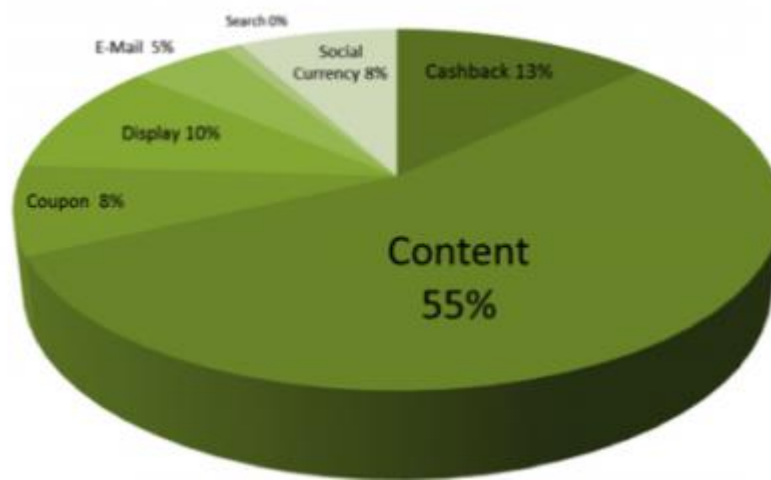


Figure 6 - Representation of affiliate partners in Czech Republic (SOURCE: Zeki 2011)

Affiliate partners who operate coupon portals work on a principle of seeking different rebates from different traders. All these discounts are then provided in one place referred as a coupon portal. This satisfies a demand from users that are often looking for coupons and special discounts whether from a particular store or in general. The owner of the coupon portal usually divides individual coupons into relevant categories. The user then clicks on the coupon of the store where he wants to shop. The voucher is displayed and the affiliate code will re-direct to the site of the vendor where the purchase takes place (Kotler, 2007). An example of such portal in the Czech Republic is [kuponyonline.cz](http://kuponyonline.cz).

Cashback portals are sites based on a principle of return policy to registered users from the amount spent in the store. This type of affiliate partner sacrifices a part of his commission from the advertiser and returns it to the users of his site. It is a very handy and yet a very simple way to promote an affiliate program. The cashback portal is also

about brand building. Users are constantly returning to buy through it in order to save hundreds or thousands of Czech crowns altogether.

For example, [plnapenzenka.cz](http://plnapenzenka.cz) is the largest cashback portal in the Czech Republic, which has been entrusted to this day by more than 250 000 users who have received altogether more than 35 million of Czech crowns to their accounts. A large part of this amount is made up of commissions from discount holidays, electronics, sports and pet supplies (PlnáPeněženka.cz, 2017).

Aggregators often referred as price comparison sites, are working with product data from advertisers. The partner compares the products from several vendors and the visitor can shop either directly through the site of the partner or be redirected to the site of a specific vendor of customer choosing. Product information is imported to the site with use of data feeds, such as an xml feed, available from an advertiser.

Another type of affiliate partner is an email partner that owns a database of email contacts from users, with a given permission to process their personal data, therefore also to use their email addresses for advertising announcements. Proper contact segmentation can also lead to a successful business. It is enough that the partner prepares interesting graphical set-out of an email and deliver it to a certain number of people. Email must contain links to advertiser's sites with affiliate metering code (Kotler, 2007).

The same way it is possible to collaborate with a partner that has a huge email database, it is also possible to collaborate with affiliate partners who have bigger or smaller groups of users on Facebook or other social media. By posting to a given group, partners are trying to increase their commission on purchases from users that are engaged in such group (Bednář, 2011).

Paid search in affiliate marketing is when an affiliate partner advertises via Google AdWords or any other tool directly to the sites of advertiser. This means that partner is essentially conducting PPC advertising instead of advertiser and his reward is commission from sale. The advantage is that a partner doesn't need to have his own pages, but he bears the risk of PPC ad display costs (Blake et al., 2015). This type of partner is therefore mostly among highly experienced PPC specialists and it is not yet spread in Czech Republic.

## **1.12 Advantages and disadvantages of affiliate marketing for merchants**

Now when we know how affiliate marketing is working, it is important to evaluate individual advantages and disadvantages of this internet marketing channel for both, merchants as well as affiliate partners.

Affiliate marketing is for traders advertising with zero risk. Advertisers only pay for an ad if the conversion takes place. These costs are not fixed, but variable and grow only in case of increasing measurable performance. Thanks to the cooperation with affiliate partners, ads can be present on a large number of sites in a given time, while targeting different public groups and oriented toward different kinds of products. Partners can also fill in spaces in search engines for phrases where merchant is not showing (Blake et al., 2015). Displays of graphic ad on individual websites also help to increase brand awareness and enhances the company branding. Thanks to the fact, that a large part of affiliate programs is automated, the costs associated with administration and ad buying are decreasing. The company can therefore advertise on a number of sites, which would be otherwise unable to manage and control (Nevosádová, 2008).

On the other hand, the merchant does not have individual sites and their promotion fully under control. Sometimes activities of an affiliate partner can cause damage to the company brand (Chaffey, 2011). In addition, in affiliate marketing, affiliate partner can become a serious competition for merchant in search engines. Another big problem is order cannibalization, where customer would buy on the web anyway, but goes for the lower price. This situation occurs most often when the customer compares prices on the aggregator or buy through cashback portal (Blake et al., 2015).

In the end, we can say that affiliate marketing offers for a trader more advantages than disadvantages. Nevertheless, it is one of the more cost-effective channels that allows to reach huge target audience.

### **1.13 Advantages and disadvantages of affiliate marketing for affiliate partners**

Affiliate marketing is for the owners of different websites another way that could potentially increase earning from their website on unused ad space. Given the automated character of affiliate programs, the communication process, ad placement and payment of commission is simplified. Affiliate partner doesn't take orders from merchant, only recommendations. A huge advantage for affiliate partner is that he doesn't have to worry about customer support, accounting and overall business frame, as it is the advertiser's responsibility. The only thing the partner has to do is to promote and stimulate sells of products through his sites (Charlesworth, 2011).

Even if partner does not have to worry about business frame, he takes on a big risk, if the customer does not make a conversion on the page. This risk is primarily tied with the cost of promoting an affiliate site. In promoting individual affiliate campaign, affiliate partners are very dependent on any decisions and actions of an advertiser. An advertiser may choose to end the campaign at any time. That is a great risk for a partner in case he built new sites specifically for that campaign (Kotler, 2007). Affiliate partner also bears the risk that the advertiser will not fulfil his commitment and will not pay the commission. During the campaign start up, an advertiser can lure an affiliate partner to a high commission which he can subsequently reduce. It might also happen that the advertiser hides some of the conversions that the affiliate partner has claim to (Chaffey, 2011). Another threat and disadvantage for the affiliate partner are deleted cookies. A potential customer who clicked on an ad element containing an affiliate metering code can then delete saved cookies from the browser and the affiliate partner will not be entitled to a commission. Another case is that the user can buy from another computer as from where the cookies got saved.

For affiliate partners, affiliate marketing poses a far greater risk than for advertiser himself. Therefore, it can be said, that for website owners, it is a pretty risky option how to earn on advertising.

What has been said previously is obvious from summarizing these advantages and disadvantages of both involved parties in affiliate marketing. As the partner faces a severe risk for using affiliate elements, it is more than important for merchant not to take

affiliates as cheap channels, but to work as much as possible with their partners in order to build good relationships and especially mutual trust. If there is a strong partnership established between a merchant and a partner, many of the above disadvantages can be crossed out, such as the risk of unpaid commission, damage to brand name and more (Chaffey, 2011).

## **1.14 Affiliate program options**

The possibilities for launching an affiliate program for advertisers who choose to try out affiliate marketing and run their campaign are following:

- Own affiliate program solution
- Rent or purchase of affiliate software
- Join existing affiliate network

### **1.14.1 Own affiliate program solution**

Own affiliate program solution is where advertiser develops custom software and designs custom affiliate interface that will be available to affiliate partners. The advantage of this solution is that it will meet all the requirements and needs of advertiser, as he is designing it according to his needs and ideas. In case of own solution, trader will avoid costs and fees tied with renting from affiliate network. Although it should be noted, that developing own software represents big initial investment, therefore it is not a cheap or easy matter. In Czech Republic, the best-known affiliate program with its own solution has travel agency [invia.cz](http://invia.cz).

### **1.14.2 Rent or purchase of affiliate software**

Many affiliate programs are built on software of another company, which developed it and then leased it to the merchants who have their own affiliate program. These are often referred as box solutions and have different functionalities. Such affiliate software generally allows the registration of affiliate partners, generates tracking codes, tracks traffic sources, conversions and much more. In this case, the trader only purchases software, tracks report and pays commissions. The advantage is that the trader may not



initially spend a lot of time and money on development of his own interface (Charlesworth, 2011).

### **1.14.3 Joining an affiliate network**

Affiliate network is a combination of various affiliate programs grouped around the common theme or interest, that are offered to potential affiliate partners who own websites with similar theme. For merchants, engaging in affiliate network is a very easy way to kick off a new affiliate program. However, care must be taken, to ensure that a network meets the needs of selected merchant.

Different affiliate network has different pricing models for advertisers. Some require entry fee for network access and campaign creation, others require payment of a certain lump sum which will serve to pay first commissions to affiliate partners. Almost all networks get a percentage of total commission paid, so the traders should take this into account when calculating costs. In addition to the network entrance fee, the trader has to look at how the affiliate network approaches to individual campaigns. Some network operators register campaign into the catalogue and wait what happens. However, there are also networks, who help the merchant with setup, campaign promotion and they also come up with new ways on how to increase revenue. For a trader, the number of affiliate partners the network has, should not be a sole decisive factor, as some networks are only geared to building a large portfolio of partners.

Affiliate networks are further divided into two types, depending on whether they are available to all affiliate partners or vice versa. Part of the affiliate networks requires verification of website relevancy and at least some minimal traffic on the page before it allows partner to register. On the other hand, there are networks that do not verify the relevance of the site or the number of visitors and they accept any partner that decides to register with them.

Additionally, affiliate networks have different approaches to displaying individual advertisers. Some show the entire catalogue of advertisers to all while others show only some of the advertisers and allow access to other only after registration and individual consent of interested parties (Vivnetworks.com, 2017).

## **1.15 Affiliate marketing in Czech Republic**

This chapter deals with affiliate marketing in the Czech Republic. Author put emphasis on the thinking of Czech businessmen and their view on affiliate marketing. Specific numbers and expenses for affiliate marketing will be shown. At the end of the chapter, a brief comparison with USA as an affiliate leader will be provided.

## **1.16 Contemporary status**

As it was already mentioned in the introduction of this paper, the affiliate marketing potential in Czech Republic is not utilized at all. Not every marketer knows or works with affiliate marketing and only a small number of website owners know about this ad space usage possibility. Therefore, it can be said that the Czech Republic is still far behind in this respect, compared to how affiliate marketing works abroad.

On the other hand, it is necessary to point out that affiliate marketing is experiencing steady development on Czech market in a good direction. Nevošádová (2008) identified these problems of the Czech affiliate market:

- While in foreign affiliate program you just need to register online, in Czech programs you have to sign a written contract
- The Czech affiliate marketing market is very fragmented and lacks a strong player, which would be able to consolidate and shield the program
- Traders still distrust affiliate marketing, therefore it expanded so far only to a few sectors like webhosting, travel and limited retail.
- Greater use of affiliate marketing is also prevented by the fact that on the Czech market there is no competition between affiliate networks and companies that offer operating solutions for programs.

However, in the last 9 years, Czech affiliate marketing has made a big step forward and these issues are no longer relevant. In affiliate programs, you just need to register online, you do not have to sign a written contract anymore. In 2010, a strong player VIV NETWORKS joined the Czech market under the auspice of world's largest affiliate network,

Commission Junction. In addition to VIV NETWORKS, several smaller affiliate networks have entered the market and they compete with each other. Affiliate has expanded into many other sectors, such as finance, energy, e-shops, discount portals and even health.

Yet, affiliate marketing is still unknown or misunderstood among Czech people. There is misleading information regarding affiliate marketing among traders for several reasons. There is only very little information sources on Czech market, on what the affiliate actually is. Also, realistic case studies demonstrating achieved success to show that affiliate marketing really works are missing (Roženský, 2014).

Ignorance and myths about affiliate marketing leads to the fact that we do not have on the Czech market many good affiliate partners to boost this channel. Many websites favour AdSense from Google, or selling ad space for fixed amounts. Only few people can use the real potential of this channel which should be improved in future.

There are several bigger internet traders in the Czech Republic, who thrives thanks to affiliate marketing. It is mainly due to the given e-shop, or an online service that is built well and user friendly, so the users like to shop there. Such attributes enhance affiliate marketing greatly. Examples are large internet e-shops like [www.mall.cz](http://www.mall.cz), or the biggest travel trips seller [www.invia.cz](http://www.invia.cz). These affiliate programs are among the largest programs in Czech Republic (Roženský, 2014). Below are the amounts paid to affiliate partners for each program.

### **1.17 Selected Affiliate programs**

Mall affiliate program was launched in February 2010 and in the first month of operation of their program, the turnover realized through affiliate program was 8 million Czech crowns. During that time Internet mall paid to his affiliate partners more than 250 thousand Czech crowns on the commissions. By the end of the year, there was more than 92 000 orders in program, and the commissions totalled at roughly 8.25 million Czech crowns. Thus, the average amount of commission is approximately 89.5 Czech crowns. The most successful period was December, for which Czech affiliate partners received 2.7 million Czech crowns. The majority of affiliate orders have been recorded by departments of small home appliances, videos and toys (Macich, 2011)

Invia affiliate program was launched in 2006 and to this day they paid to their affiliate partners approximately 30.7 million Czech crowns worth of commissions. The most used ad formats are xml feeds with a daily updated last-minute tour. The highest commissions are traditionally paid in summer months, where the highest number of tours is purchased (Invia.cz, 2017).

Program from Mall.cz can be considered as the most successful affiliate program in Czech Republic. In less than one year from release, they paid to their partners on commissions same amount as Invia in last two years of operation combined.

These numbers are in fact interesting; however, it is unfortunate that the latest or more comprehensive information on total sales and paid commissions are inaccessible to public. What is also worth mentioning is that the largest Czech affiliate network, VIV NETworks, reached 1.5 billion Czech crowns in sales through their affiliate network in 2016, representing a 36% year-on-year increase. Affiliate marketing is thus growing at a faster pace than the online business segment, which according to Association for Electronic Commerce increased only by 21% last year. An important share of total turnover was done by key affiliate programs from Mall, Kasa, Notino, Euronics, Zoot and Bata. VIV NETworks have seen growth not only in turnover, but also in other important parameters like commission paid to affiliate partners, which grew in 2016 to 101 million Czech crowns based on the total of 1.08 million orders (Vivnetworks.com, 2017).

From the above numbers, we can conclude that it is more than possible to succeed on the Czech affiliate market.

## **2 PRACTICAL PART**

This part of the thesis analyses the current affiliate program in a specific company – ZEPA Ltd. This company uses (among other things) online shop, and running a proper affiliate program could lead the company to a number of new customers on business-to-customer market, which would ultimately enhance the turnover.

The aim of the practical part is analysis of current state of affiliate program at ZEPA and design steps to improve the functionality and efficiency of the ZEPA affiliate program.

### **2.1 Company profile**

ZEPA is an abbreviation for Zeleziarstvo Palenik. It is a trading company founded in 1990 as a trade association and later in 2012 transformed into a limited liability company. At present, it offers a wide range of industrial goods, from dowels to electric tools and furnaces. The company is constantly expanding its portfolio of products for a number of stable and satisfied customers.

The company does not have a separate marketing department and all marketing activities are provided by the management of the company in cooperation with marketing agencies.

### **2.2 Current situation**

Company ZEPA has identified a potential of affiliate marketing and decided to launch its affiliate program for Czech and Slovak market with a flat 5% commission and 14 days cookies. The program was released in October 2015 with a vision of enhanced revenues. The company did not have any experience with affiliate marketing prior to launch and faced severe problems from very beginning.

First and only registered partner was bronze5.eu, which is a content website dedicated to Czech and Slovak gaming community. However, the partnership was not very fruitful as only four conversions in total amount of 91.37 Czk were recorded in the period of 2-month cooperation.

It is very hard to draw any graphs or conclusions from these data; however, we can say that the affiliate marketing did not work as intended for the company.

## **2.3 Shortcomings**

The above-mentioned situation could have happened for a number of reasons. For the purposes of this thesis I will mention three biggest identified shortcomings.

### **2.3.1 Own software**

The author tested the self-developed software of the company, and found out that it does not record conversions. This means that either it stopped functioning or never fully functioned. It would be better to use some proven technology, to attain some experience in the field and then eventually try to design own solution. Perhaps partners got frustrated by non-functioning tracking and moved to different program.

### **2.3.2 Insufficient program awareness**

The company did not want to allocate too many resources to this type of marketing and wanted to use it only as supplementary channel. That is a valid approach, however as the program was not registered in any catalogue or network, and with no-one actively searching for partners, there was no partner inflow as they did not know about the program. If the company wanted to use resource-effective way and still inform the public about its affiliate program, it could have placed a pop-up information page regarding the program on the main site, or after thank-you page. The program should have been registered with some affiliate catalogue, which are free of charge and are visited by website owners who inspire towards affiliate partnership - potential partners. Also, after 11 months of underperforming, acquisition page has been removed from the main page, therefore further rendering the program unknown.

### **2.3.3 Communication**

The information provided to the partner must be clear and well-structured, identifying responsibilities of all involved parties. The partner must feel willingness and interest of advertiser to cooperate. The welcome e-mail with extra motivation incentives should be present in the system or sent manually to individual partners.

All these shortcomings were caused by inexperience in the field and hesitancy of the company to allocate more resources to the channel. Therefore, in order to achieve effective affiliate program, author will design a complete step-by-step analysis to launch a new commission program, including examples and management recommendations.

## **3 PROPOSALS AND CONTRIBUTION**

### **3.1 Introduction**

Proposal includes all the activities that precede the launch of the program. Its part is analysis of competition and analysis of strengths and weaknesses, which will support the decision, whether run the program and continue in preparatory activities or not. Preparing the program further involves determining the affiliate program's goal, setting the commission and cookies validity, choosing right technology, tracking placement, setting business conditions and program management.

### **3.2 Competition analysis**

First step should always be competition analysis. This survey will be the first information on how the affiliate marketing is doing in the industry. If there are many competitors with affiliate programs with the same focus, the trader should be attentive and posed by question why doesn't he already has effective program too. Maybe because of affiliate program they can have a competitive edge.

The company sees as its largest competitors in the electro field these e-shops:

- [domacitechnika.cz](http://domacitechnika.cz)
- [elektrocr.cz](http://elektrocr.cz)
- [nako.cz](http://nako.cz)

None of these competitors have their affiliate program, which is a positive message for ZEPA, as it could gain a competitive edge. However, the question is, are these companies competing only on B2B market or also on the B2C market. Company ZEPA is considering an affiliate program to increase its market share on B2C, end consumer market. Therefore, these companies may not be relevant competitors, and it is necessary to analyse the wider business environment.

During the search, many e-shops offering similar range of assortment was found, that should be seen as competitors even though they are not seen by ZEPA that way. We will



verify if these merchants have commission programs and if so what are their parameters. Two potential competitors with affiliate programs were identified.

*Table 1 - competition analysis (SOURCE: author)*

	Competitor 1	Competitor 2
Name	aku-shop.cz	mall.cz
Program URL	http://www.aku-shop.cz/affiliate/affiliates/	https://www.mall.cz/affiliate-program
Commission	10%	Up to 8%
Minimum pay-out	1000 Czk	1000 Czk
Cookies validity	150 days	7 days
Strengths	Verified e-shop	Well-known e-shop, user-friendly interface, access to many partners
Weaknesses	Unknown technology, very narrow assortment	Bad reviews, extremely huge heterogenous assortment, majority not in stock, short cookies

The table lists a few basic information about competitor's commission programs and it is possible to get an idea of how the new affiliate program should look to be better and more intriguing to attract and ultimately acquire partners.

When searching competitors, it is advised not only to use internet search engines but also take a look at affiliate catalogues and try to find commission programs by category.

Company ZEPA sells goods beyond the borders of its state, and wants to concentrate its affiliate program mainly on Czech Republic and possibly Slovakia. However, it does not exclude the possibility to extend the program to other countries in the future and make the program available to foreign partners. That is why author conducted a brief research of commission of foreign competitors, which ranged up to 15% from the order.

### 3.3 SWOT analysis

In this step, we are acquainted with competitive field. The next step is to analyse ZEPA and identify strengths and weaknesses, opportunities and threats. Using SWOT analysis, we can get an overview of whether there is a chance to have own affiliate program that will be better than the ones from competition. Therefore, whether the company can compete on this market. SWOT analysis among other things, should always be present in the beginning of each forthcoming project to reveal eventual obstacles as soon as possible.

*Table 2 - SWOT analysis (SOURCE: author)*

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Market position</li> <li>• Quality products</li> <li>• Wide range of products – all in stock</li> <li>• User-friendly e-shop, optimized ordering process</li> <li>• Delivery to foreign countries</li> <li>• Little competition among advertisers</li> <li>• Margins and space to motivate partners</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• A small affiliate market in the Czech Republic</li> <li>• Warehouses in different country</li> <li>• Affiliate marketing is not very usable for the B2B market</li> <li>• Absence of marketing department – dependence on agencies and external staff</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Brand boost and company position on the B2C market</li> <li>• Acquiring a new sales channel and new communication options</li> <li>• Increase in company turnover</li> <li>• Effective advertising, limiting ad expenses</li> <li>• Affiliate market development, more quality partners</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• High expectations from affiliate program</li> <li>• Affiliate partner frauds</li> <li>• Damage to the name of the company due to bad partner promotion</li> <li>• New advertisers entering the affiliate market</li> </ul>

For affiliate marketing itself, it is possible to list many of the characteristics that could be mentioned in the SWOT analysis. However only key points are listed related to the launch of the affiliate program of related company.

Looking at the analysis, it is clear that the strengths prevail over the weaknesses and the opportunities over threats. The main weakness, which is based on absence of marketing department, can be removed by hiring a permanent professional. This could increase the crucial awareness of affiliate marketing in the company as well as impact on other marketing channels. Small affiliate market is a drawback, however as research showed, exponentially rising growth is present and can be also expected in the coming years.

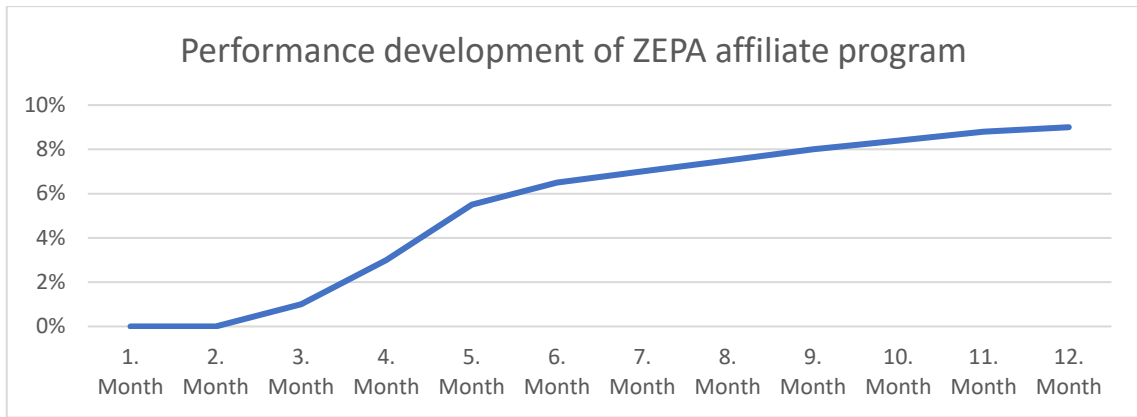
All threats listed in the SWOT analysis can be eliminated with a good affiliate program set-up, sophisticated business conditions and above all by quality affiliate work.

The analysis shows that the barriers to launch a new affiliate program for a given company are minimal and based on the many strengths, we can expect that ZEPA commission program will be a success.

### **3.4 Program goal**

The basis of each advertisement campaign is to determine the goal which should be achieved. As affiliate marketing is another sales channel, the trader will expect as many new customers and orders as possible, but program can also be aimed simultaneously to increase the volume of visitors, brand awareness or to improve position in search engines.

Goals set are the basis for the method of remuneration and other preparatory activities. Company ZEPA expects an increase in revenue from the program. It is said that the affiliate marketing can increase turnover by 5-10%. In some cases, there are dozens of percent. The expected development of ZEPA affiliate program performance is given in *Figure 7*.



*Figure 7 - Performance development of affiliate program (SOURCE: author)*

The figure shows the benefits of affiliate program in time. The results come mostly around the third month of purchasing the technology. This is because it takes some time to prepare program, find partners, and then partners need to customize their site and start with propagation. This gradual growth is common with most traders. Time length until first customer makes a conversion through new affiliate program is highly dependent on an advertiser, affiliate partner, but also graphic artist, programmer and lawyer (if these people were ensuring anything during the preparation of the program).

ZEPA can expect more than six percent growth in revenue, in the sixth month of the affiliate program operation. With further upkeeping the program and optimizing it, the revenue of affiliate program should have ever-rising tendencies.

The secondary goal of the company is not visitor's volume increase, but improved search engine rankings. ZEPA uses marketing agency services to place paid ads on search engines, but no longer for search engine optimization. Affiliate program can help with an organic placement on search engines. The fact that a large number of partners refer to an advertiser, the search engines evaluates as a mark that it is a good website and adds positive points, which affects the position of website in the search engine.

### 3.5 Determining rewards for partners – commission scheme

In affiliate program preparation, it is necessary to consider what reward we can offer to partner for promoting and delivering the customers. There are more ways, how to set the reward:

- Based on competition – smaller Czech electronics traders offer commissions up to 10%. Larger advertisers can afford to go with a lower reward 1-5% (mall.cz) and partners are still willing to advertise them, as the brand plays a big role here, acting as a guarantee for the partner. This method for determining the commission is used more by starting merchants, who do not have a history of orders and cannot determine how much they can offer. Experienced traders should of course not ignore competitive programs, but monitor them and take into account.
- Based on margin - is better way to determine a commission. If a trader offers products with a unified margin, he can easily determine what portion he can surrender to partners. More complicated is when each product category or even every product has a different margin. This is exactly the case with ZEPA. The margin fluctuates around 10-40% based on product.
- Based on cost – It is very good to take into account how much company pays for an order through other channels (pay-per-click from Sklik, Seznam, AdWords etc. Commission can be set at the same level, respectively lower, if there are additional costs expected for affiliate program administration.

The recommended commission scheme will be determined in this case with respect to competition and margin and is shown in the *Figure 8*.

Recommended provision scheme	
Increased commission for first 3 months	13%
Standard commission	10%
Growth of commission based on performance treshold:	
Bronze partnership	25000 Kc -> 11%
Silver partnership	50000 Kc -> 12%
Gold partnership	100000 Kc -> 13%
Platinum partnership	200000 Kc -> 14%
Diamond partnership	500000 Kc -> 15%

*Figure 8 - Recommended provision scheme (SOURCE: author)*

It is appropriate to increase the commission for a limited time when launching a new program, as it will attract more affiliate partners. The partner should of course be notified that this is a special temporary commission and that it will be reduced in future. If the partners were not notified in advance, the unexpected cut in the commission would definitely not contribute towards a good partnership relation.

Standard commission is recommended at 10%. There might be some competition programs with more than 10%, but the purpose is not to have the biggest commissions. It would be inefficient and unsustainable in the long run, to lead such price war. Quality and competitive advantage of the affiliate program should lie elsewhere, such as partners support, communication, advertising materials etc. Most of the partners are looking at the amounts of the commission, and decide based on it whether to join program or not. Partners, that perform affiliate partnership professionally, might need some additional e-shop information to calculate whether the collaboration would be worth their time.

Example: If an advertiser offers a 50% commission, it would surely attract many partners. But if average order value is 200 Czech crowns and conversion rate is 0.12% (1.2 people out of thousand visitors), the partner would not be attracted in cooperation anymore. The reason is that partner would get per each visitor delivered to website only 0.12 Kc (average order value times offered commission times conversion rate), which is not as attractive as the above mentioned 50%.

These figures at ZEPA e-shop are following:

- Conversion rate is at 4%
- Average order value is at 570 Kc

Therefore, the potential earnings per click (EPC) for partners with a 10-15% commission would be 2.28-3.42 Czk.

Some partners might also ask about the total monthly turnover of the e-shop. This information is usually not published automatically, but if the prominent partner asks for it, the trader should provide it.

## **3.6 Technology selection**

For the ZEPA affiliate program, two different technologies were selected. One affiliate network and one software solution. Individual variants will be described, including all the advantages and disadvantages they brings. An estimate of the cost-effectiveness of both option will be made and at the and one will be recommended.

### **3.6.1 Commission junction**

Commission junction is one of the world's largest and most used affiliate networks. It is an American technology. In the Czech Republic, it is definitely the biggest network on the market. Network size is measured by the number of advertisers and partners involved. More than 6000 active affiliate partners and 248 advertisers were registered under this network in Czech and Slovak republic, and partners were paid a total commission of 101 million Czech crowns in 2016.

#### **Advantages**

- Network size. New advertiser can reach all 6000 partners at once. Affiliate campaign start-up should be accelerated.
- A great benefit is local support. The main operator of this technology for the Czech and Slovak Republic is VIV NETworks. This company provides fast and quality technical support during work days.
- It is a high quality and very accurate technology with sophisticated statistics and reports. It is possible to measure the performance of individual partners in great detail according to several metrics and create different sets from them. The system also evaluates the most successful advertising elements and many more.
- There is a special department based in America for detection of fraudulent practices
- Technology allows advertiser to upload any kind of advertisement elements into the system (text link, static banners in various formats, flash banners, xml feeds etc.).
- Technology includes a billing module that facilitates the payment of commissions to partners. The advertiser practically does not care about the billing. The network

automatically pays the partners from an advertisers pre-charged account balance, all approved conversions.

- There is an option to set a different commission for each product.

### **Disadvantages**

- Technology has so many features, which eliminates simplicity and makes less intuitive and overall manoeuvrability harder.
- The program does not have Czech or Slovak localization.
- It is a more expensive technology.
- Advertiser bound by a 1-year contract.

### **3.6.2 Estimated cost of program operation with VIV NETWORKS**

Access to the network is subject to a one-time fee of 5000 Czk, which includes the initial program settings.

In addition, the network charges a transaction fee of 30% of each commission paid. So, if the commission for the partner is 10%, the actual cost for the order will be 13%. This 30% fee for each approved conversion must be at least 7.5 Czk.

Example: The customer order goods in amount of 100 Czk. Partner is given a commission of 10% which is 10 Czk. The transaction fee of the network is 30% from 10 Czk which equals to 3 Czk. This amount is below the minimum network charge and therefore the network will charge 7.5 Czk instead.

Every month the VIV NETWORKS charge a minimum monthly fee of 1000 Czk, which is balanced on transaction fees. Thus, if the trader pays more for transaction fees than 1000 Czk per month, the minimum monthly fee is no longer applicable. On the other hand, when transaction fees per month do not reach the value of 1000 Czk, the difference is credited to 1000 Czk.

The initial deposit on the account is 12 500 Czk at minimum. This amount is used to pay commissions to partners as well as pay for network charges. You only need to make another deposit when the amount in your account drops below a predetermined threshold.



Other costs are then associated with the implementation of tracking code, managing affiliate program, creating ad elements and communicating with partners.

### **3.6.3 AffilBox**

AffilBox is first Czech affiliate software developed by Mario Rozensky. It was first launched in 2011 and today more than 2500 advertisers and approximately 28 000 partners use the software together to promote.

#### **Advantages**

- AffilBox bets on simplicity. It is a very simple and intuitive tool that is easily editable.
- The software is fully in Czech language which simplifies the initial setting of the program and also future upkeep.
- Technical support by email is accessible 24 hours 7days a week or by phone during work days.
- Expert help with installing tracking codes to the advertiser website as well as set-up instructions available in Czech language.
- Price-friendly, as there are no transaction fees involved.
- AffilBox is hosted on the software provider's servers. Provider takes care of any updates and backups.

#### **Disadvantages**

- The product license is valid for one year; therefore, it is necessary to extend the license.
- Limited functions. The software allows only basic reports and simple statistics. From the ad elements, only hypertext link, static and flash banners can be offered to partners.
- In the basic version of the program, all conversions need to be manually validated one by one. It is possible to do validate in bulk but only with use of additional software.
- Some features are available at an additional cost.
- Billing and paying partners must be conducted individually.

- Partner search is purely on the advertiser shoulders respectively his affiliate manager. Therefore, in comparison with affiliate networks, the start of the program should be slower.

#### **3.6.4 Estimated cost of program operation with AffilBox**

The technology license costs 4 990 Czk without VAT and is valid for one year. There is no more transaction or monthly charges.

The other costs are then again associated with the implementation of the tracking code on the website, affiliate program management, ad unit creation and communication with partners.

#### **3.6.5 Technology selection for ZEPA**

After thorough consideration, author suggests using VIV NETworks for start-up of intended affiliate program. The benefits of affiliate networks to easily obtain affiliate partners comes handy, as company ZEPA, does not have a separate marketing manager which would be available to acquire these new affiliate partners on his own. The affiliate network has an extra added value for advertisers who are not proficient in managing affiliate program.

Sophisticated statistics offered by VIV NETworks, are not the direct reason to choose rather affiliate network but are also beneficial. AffilBox offers only basic conversion and visitor reports, who came from a partners site.

Another great benefit is that in chosen network partners automatically receive a commission on their account. In AffilBox billing needs to be solved individually with each partner. Therefore, the affiliate manager has to send billing documentation to the partner, who will then issue invoice, so the merchant can pay for it. The amount of time saved from this process by VIV NETworks can be used as an opportunity to thank the partners for their cooperation and discuss whether they are satisfied with the program and whether they identified any shortages.

ZEPA is likely to set a different commission on assorted products as their product margin vary significantly. Possibility to allocate different commission is therefore beneficial, otherwise some products could generate highly undesirable loss.

The last reason why VIV NETworks have been chosen is technical support from the side of provider. I personally have a very good experience with fast communication and quality responses to any affiliate questions. In addition, the software is constantly evolving to meet the requirements of all advertisers and partners. Also with increasing affiliate market share in Czech Republic and Slovakia, the localization is only a matter of time.

### 3.7 Break-even point projection

In 2016 the e-shop revenue was approximately 6 million Czech crowns. If we exclude the differences between individual months and take an average amount of 500 000 Czk and average margin of 25%, we can calculate the potential break-even based on above expectation.

*Table 3 - Breakeven point calculation in CZK (SOURCE: author)*

	1. Month	2. Month	3. Month	4. Month	5. Month	6. Month
Commissions/fee	-6000	-1000	-1650	-2500	-3750	-4250
Gross profit	0	0	1250	3750	6875	8125
Surplus/Deficit	-6000	-1000	-400	1250	3125	3875
Opening Balance	0	-6000	-7000	-7400	-6150	-3025
Closing Balance	-6000	-7000	-7400	-6150	-3025	850

Breakeven point will be reached 6 months after the launch of this affiliate program. This calculation does not involve additional time of ZEPA employees dedicated to communication with partners respectively administration.

### 3.8 Implementation of tracking code and testing

After selecting the appropriate technology, paying entrance and deposit fee, it is necessary to insert tracking code. The code counts conversions and calculate commissions. This tracking respectively conversion code is HTML code, that must be placed on the e-shop website only on a thank you page between tags <BODY> and </BODY>. This is a page of e-shop, that only appear to the customer after the order has been completed. There is a 'Thank you for your order' usually written on it. That is why it is called a thank you page.

```
<iframe height="1" width="1" frameborder="0" scrolling="no"
src="https://www.zepa.sk/tags/c?containerTagId=XXXX&CID=XXXXXXXX&TYPE
=XXXXXXXX&OID={IDobjednávky}&ITEMx={IDproduktu}&AMTx={JednotkováCenaPr
oduktu}&QTYx={MnožstvíProduktu}&COUPON={CouponCode}&CURRENCY=CZK&SKU
={IDproduktu}&PRQTY={MnožstvíProduktu}&OAMT={CelkováCenaObjednávky}"
name="Mall_itemsale"></iframe>
```

*Figure 9 - Preview of tracking code (SOURCE: VIV NETWORKS)*

This code includes two types of parameters, static and dynamic. Static parameters are invariant within a given code and typically relate to the identification of that account and action taken. They are represented by a subsequent letter X in *Figure 9*. Dynamic parameters include information about a particular order, like item identification, price without VAT, quantity and currency.

Therefore, value of the order (tax excluded) must be sent to related AMT parameter and so on. From these parameter values the program automatically calculates commission amount according to campaign conditions. The product ID should therefore remain unchanged respectively identical in feed of all involved parties to avoid discrepancies in expected and actual data.

As the merchant has no profit from shipping and VAT, it would not make sense for merchant to pay a commission from it to his partners.

Implementation of this code and parameter adjustment is not difficult and programmer should handle it easily within few minutes.

After code implementation process is done, it should be tested. This is conducted by VIV NETworks and if everything works as it should the advertiser account in network system will be successfully opened.

In this stage, the affiliate program is technically ready. However, it is still necessary to create advertising elements, specify terms of cooperation and program can be released.

### **3.9 Program conditions**

Although most of us do not read the terms and conditions and we are accustomed to tick such box right away, for trader this consent is very important and these terms should be an integral part of the commission program. Program conditions govern the relationship of a partner and advertiser, state what rights and responsibilities they have, state what they can, what they cannot and what consequences arise in case of violation of these rules.

Advertiser protects himself with these terms, against name damage, or to avoid partner requesting commission from orders received through forbidden way.

Preview of general terms and conditions:

By signing up to a commission program, the partner and advertiser confirms his/her own obligation to comply with these Terms and Conditions. The advertiser of the commission program is:

Company – Zeleziarstvo Palenik Ltd.

Street – Svatokrizske namestie 231

City – Ziar nad Hronom

ZIP – 965 01

Company ID – SK 20 23 36 0922

Tax ID – 20 23 36 0922

These terms and conditions govern the relationship between the advertiser and the partner. A partner represents a legal or physical person who has been registered in advertiser's commission program.

## 1. General conditions

1.1 The commission program is operated by Zeleziarstvo Palenik Ltd, hereinafter referred as the Advertiser.

1.2 Prospect, who registers in commission program is referred as Partner.

1.3 The Partner promotes products and services of advertiser through his marketing activities (on websites, e-mail, social networks, PPC).

## 2 The rights and obligations of the Partner

2.1 The Partner can request termination of the partnership at any time during his membership in advertiser's program. If he/she does so, the approved commissions will be paid to relevant account within 30 days from termination request.

2.2 The Partner may not promote products on pages, email, discussion forums and social networks that are in violation of the laws of the Czech Republic or in violation of good manners.

2.3 The Partner must avoid actions that would harm the Advertiser's reputation

2.4 The Partner cannot order the goods or services from advertiser, through its own commission link. If he/she does, he/she is not entitled to a related commission.

2.5 The Partner is obliged to protect his/her access details to the commission program, to avoid misuse by third party.

2.6 Partner can promote with the use of provided text and visual material by the Advertiser.

2.7 It is strictly forbidden to promote the Advertiser by sending messages (by e-mail, SMS, through forums, etc) that qualify as spam. If Advertiser identifies such activity from the Partner, this may lead to immediate termination of Partner's account as well as overall collaboration. As a consequence, the Partner loses any claims to commissions that are pending respectively unpaid.

2.8 Partner may promote the provider through PPC campaigns but cannot target keywords associated with the Advertiser's brand (e.g., ZEPA, Zeleziarstvo Palenik, www.zepa.sk, etc.).

## 3 Rights and obligations of the Advertiser

3.1 The Advertiser is bound to truthfully validate partner conversions without hesitation.

3.2 The Advertiser is not responsible for any damage caused by the promotion of partners involved in commission program.

- 3.3 The Advertiser is obliged to pay the Partner commission for the conversions made.
- 3.4 The Advertiser guarantees 99.9% system availability. Availability of system does not include unavoidable objective reasons (e.g., power outages, etc.) or interruption of operation due to system server updates.
- 3.5 The Advertiser has the right to change these Terms and Conditions at any time. Any changes in Terms and Condition must be escalated to Partners.
- 4 Commissions
- 4.1 The commission amount is stated in the commission program for each campaign separately.
- 4.2 Commissions will be approved after statutory time limit to return the goods expires.
- 4.3 Commissions will be approved for those conversions, where goods have been properly and fully paid for.
- 4.4 Cancelled and incomplete orders do not entitle Partner to a commission.
- 5 Commission payment
- 5.1 The Partner is entitled to get a commission payment if the sum of approved commission in the system is more than 500 Czk.
- 5.2 If a partner exceeds this amount, he/she has an option to request payment of his/her commission through the commission software.
- 6 Privacy policy
- 6.1 The Advertiser declares that the data will be protected in accordance with the relevant provisions of Act No. 101/2000 Coll., regarding the protection of personal data.
- 6.2 Partners who have registered with the Advertiser affiliate program, agree to receive email messages, that will be used to communicate information related to Advertiser campaign.

These Terms and Condition are valid from 14.09.2017.

### **3.10 Preparation of advertising elements**

Banners are the most common advertising element that partners use to promote. It is important to offer partners as many variations of banners as possible, so they can choose the one that suits their website the most.

Also, banner dimensions are very important. Everyone prefer a different size. However, there are several dimensions that are used the most. Therefore, every banner should be created in all of these sizes (Chaffey, 2011):

- Leaderboard 728x90
- Square 250x250
- Skyscraper 120x600
- Rectangle 180x150
- Full banner 468x60

It is recommended to create at least two sets of banners. One set, containing 4-5 different banners, each in several sizes should be more general. Showing logo or motto of the company. Therefore, these banners may not need to be changed, unless there is a change in logo. Partners can use general banners universally (Charlesworth, 2011).

The second set of banners should be targeted at specific products or product categories. For example, 'Mowers', 'Makita tools' and so on. The banner should have a relevant image and text to the products. Product banners are mostly related to some special action on the merchandise, like discount, transportation free of charge, etc.

The banner production should be ensured by graphic designer, or the production should at least be consulted with him.

There is also possibility to insert flash banners into the VIV NETworks system, which are mobile images respectively classic banners with moving elements, buttons, etc. These banners better attract attention.

If the partners do not like the created banners, they may want to create their own. Partners should be enabled to be proactive and creative in the promotion. However, their form of promotion should be monitored to ensure that it still communicate advertiser wishes.

### **Logo**

Some partners want to promote only the brand and all they need is the merchant's logo. Therefore, it should be inserted to the commission system along with the banners. Partners also occasionally asks for a logo with vector graphics, as it allows them to use



logo at any size without suffering from loss of quality. The merchant should be ready for this and provide this logo to respective partners.



*Figure 10 - Company logo (SOURCE: zepa.sk)*

### **Text links**

There are also partners who only need hyperlink to promote as they don't use any banners or feeds. Text link is placed in the article (most often it is a review of a specific product respectively brand) and the reader thus doesn't have the feeling that he just read through the page full of ads, which he must overlook as they saturate the Internet nowadays.

An example could be a partner with a content site where he writes his experiences with internet purchases and evaluates various e-shops. Let's say the partner bought something in the advertiser's shop zepa.sk, and was pleased with the goods and professional advice from the staff to help him. Therefore, he decides to recommend this e-shop. He writes a short review and puts prepared commission link in the text.

The link contains partner identification to count commissions for the customers delivered. Same link can communicate different ideas as it is very simple to alter the message in HTML code.

### **Coupons**

Nowadays it is difficult to get a new customer. Thanks to banner blindness it is necessary to look for other ways to reach to the Internet users. Users no longer hear that much on actions, discounts signs, etc. The user now has an ability to compare goods via aggregators and purchases therefore often represent fights for the lowest price. Another way to get customers is a coupon respectively discount code. It is a special code created by merchant, that gives the customer a discount on the purchase when he uses it in the purchase process. There are also special partners who promote only with discount coupons. These partners can bring substantial number of customers.

The discount can be a percentage discount from the total amount, but also a fixed amount. For example, discount 200 Czk for orders over 2000 Czk. Discount code can also be created for free shipping or for gifts.

It is important to monitor that the purchase with the code and commission paid is still profitable for the advertiser as the margin fluctuates. If the coupon represents a discount of 8% and commission paid to the partner represents 10%, together it is already 18%. The company is able to afford this amount in certain products but could have devastating effect with other. Everything should be well calculated prior to coupon creation.

For the coupon partners, author proposes to halve the commission paid to 5%. There is a minor adjustment needed for e-shop so it contains prerequisites where the coupon code can be applied. There must be a place where coupon code can be entered. After entering the code, the current order amount has to be recalculated based on the new multiplier given by discount code. This field is generally placed in the last step of an order form, just before submitting the order.

### **XML Feed**

There are partners who promote goods using XML feed. That is a file, that contains information about all products (prices, labels, availability, pictures, IDs, etc) which partners process and place on their own website to promote. It is mostly aggregators, who use this form of promoting. ZEPA has its XML feed ready and therefore it should be added to the affiliate network software for partners to use. It should be noted that some partners could ignore future changes of the xml feed and therefore would communicate bad respectively old information to customers, which is definitely undesirable for the trader.

### **Additional advertising materials**

Author did not create sample e-mails, PPC ads or content for social networks in this preparatory phase of affiliate program. It is not necessary to run affiliate program and there are not many partners who would use such advertising materials. Rather, partners will receive these materials at request.

### **3.11 Affiliate acquisition page**

This site informs potential partners about everything that comes with the commission program, but mainly reasons why a partner should consider registering with the advertiser affiliate program. Therefore, the site must motivate and encourage to act.

This acquisition page is generally located at the bottom of the website but based on the architecture of the ZEPA website it should be top right corner. It is purely on the advertiser to name the link to acquisition page, but it is recommended to use simple language that is intriguing and evoke interest in general population. Therefore, author suggest using something like 'Become a partner', 'Make money with us', etc. It is important that the potential partner can recognize the link easily by name.

The acquisition page should contain introduction of the company respectively e-shop, what products and services does it sell and why the partners should promote it. Among these reasons it is advisable to include also reasons why the company is unique on the market (e.g., exclusive importers, certificates, etc.). Next, why the partners should choose this affiliate program and how much it can earn to partners.

An important information for the partner is also who is the ideal respectively targeted customer for specific products. If he is a man or rather female, age, various demographics and geographic data, etc. The company should be able to define its customer. It will help partners with promotion. They can find out whether the targeted group of customers matches the visitors of their website, or if it is completely different. In such case, partners are often willing to create a new site, that will be matching with target audience and where it would be appropriate for advertiser to advertise. Of course, the affiliate program must be sufficiently attractive for partners in order for such action to take place.

Equally important is information about the seasonality of goods when there are drops in demand and on the contrary when it sells best. This would allow partners to be prepared better. Information regarding target group and seasonality can only be given to prominent partners, or after certain period of time since their registration.

See *Figure 11* for custom design of acquisition page for affiliate program of ZEPA.

Do you own a website, e-mail database or social network group? Recommend us to your visitors, friends or acquaintances and get a 13% commission for each of their order.

It is easy! Simply join the program and use our advertising elements for promotion. Once someone enters our e-shop through your link and conduct a purchase, you will receive 13% from that order into your account.

#### **Who are we?**

ZEPA is a leader on the market with industrial goods. Our assortment consists of approximately 60000 items and we have almost everything in stock, therefore we send right away. ZEPA has a long tradition on the market as it was founded in 1990. The company is constantly expanding its portfolio of products to satisfy the ever-growing demand.

#### **Reward for you**

When you sign up for the program, you will receive a bonus of 150 Czk to your affiliate account. Until the end of 2017, there will be a commission of 13% from each order your delivers, and after that the flat commission will be 10%. The more customers you bring the stronger your commission gets, up to potential 15%. More information in complete Terms and Conditions.

#### **Program conditions**

You are eligible for a pay-out if the amount on your account reaches 500 Czk. You can have a maximum of two payouts per month. Cookies are 30 days. Complete conditions can be found here.

**Register**

Do you need more information about our commission program? Is there something confusing or not completely clear to you? Do not hesitate to contact me.

My name is Vladimir Mesik (based on who will be responsible for the program) and I am an affiliate manager at ZEPA. You can contact me at [am@zepa.sk](mailto:am@zepa.sk)

**I am looking forward to our cooperation!**

*Figure 11 - ZEPA custom acquisition page (SOURCE: author)*

### **3.12 Campaign settings completion**

What is written in Terms and Conditions and at acquisition page should correspond with information in the VIV NETWORKS system, where it is necessary to inscribe all. Filling in information is not difficult. Network interface is in that manner well-arranged and looks like a paper form. First to be filled are global preferences where the name of the commission program (in our case ZEPA affiliate program), the currency (Czk), VAT

(21%), link to complete Terms and Conditions, partner approval method (whether automatic or manual), pay-out limit (500 Czk), registration bonus (150 Czk) must be filled in. In addition, logo of the company and contact information must be inserted.

The amount of commission is then set, which can be different for different product categories in case of need. This can be done using the column advertising campaigns. Each campaign can represent category of products with a specific commission based on the margin. For example, Makita tools (10%), Manual tools and connecting material (3%), etc.

Campaign settings take place in four steps. First, fill in the campaign name, the commission amount and campaign description. This is mainly for partners to quickly learn basic information about the campaign. Then add information about cookie validity (in our case 30 days). Then we can set up enhanced commission for partners with good performance as was stated above up to total of 5 extra percent per order with diamond partnership. Then software generates tracking code which we implement. In the next step banners and links to our campaign are uploaded. The last step is testing whether everything works as it should, which is conducted by network. If everything works, the commission program is ready to be released.

### **3.13 Welcome e-mail**

Our program is ready to be released, however it is appropriate to prepare a welcome e-mail which will be sent to all the partners that join the commission program. By e-mail we thank partner for his registration and we offer him support from our affiliate manager as well as sharing a wish of successful cooperation. It is like when a businessman establishes collaboration with a new business partner outside the internet.

See *Figure 12* for custom design of ZEPA affiliate program welcome e-mail

## ZEPA Affiliate Program

Good Afternoon, [insert partner name],

Welcome to the ZEPA affiliate program. You have been **credited a bonus of 150 Czk** for registration. We are very pleased that you decided to cooperate with us. We are a company with long tradition and we sell industrial products of all kinds.

For promoting us, you will receive **13%** of each order delivered. This is a special commission that is valid until the end of year 2017. Then the flat commission will be **10%** but can be enhanced with your performance up to an **additional 5%**.

You can find your special links and banners in VIV NETworks system through which you can promote us. If the banners do not fit, let us know.

We do not want to limit you by restricting any legal channels, therefore you can promote us on your website, e-mail, through XML feed, coupons, forums, etc. Additional promotional materials will be provided on request. Cookies are set to **30 days**.

If you have any questions, please contact our affiliate manager, who will gladly aid you.

Affiliate manager: Vladimír Mesík (based on who will be responsible for the program), am@zepa.sk



**We are looking forward to our cooperation!**

**Zepa Ltd**

Figure 12 - preview of ZEPA affiliate program welcome e-mail (SOURCE: author)

### 3.14 Program release

In this stage, based on the previous step the program is completely ready to be released and it is turn to acquire partners for affiliate program promotion.

### 3.15 Partner search

Since we chose for our affiliate program an affiliate network, we have an ability to reach a bulk of partners, who already knows affiliate marketing and who promote other affiliate programs. Therefore, to a certain extent we are outsourcing the work of affiliate manager to the network. The VIV NETworks were selected for number of reasons while their partners electric background was one of the key factors, as electric tools account for almost 50% of total ZEPA sales. The temporary enhanced commission will rocket ZEPA to the top of the VIV NETworks reward tables. Therefore, increased number of partners

will be intrigued and encouraged to join the ZEPA program. Therefore, it is necessary only to wait for response.

The manager can contact big coupon and cashback partners outside the network, as they generally agree with cooperation. It happens only exceptionally, that these partners would refuse to enter an affiliate program. Affiliate cooperation is the basic principle of functioning of these sites. It should be noted that only diminished commission should be offered to coupon partners. The most potential partners in this section are: Plnapenazenska.cz, Slevy.cz, Kuponyonline.cz, Vratnepenize.cz, Refundo.cz, Topkupony.cz, eslevy.cz, vasekupony.cz.

Another way to reach more partners would be through affiliate **catalogues**, which are sites, that contain listings of all affiliate programs. This is not an active search for partners. But if a partner is interested in promoting a certain type of merchandise and does not know a specific affiliate program that offers it, he goes through catalogue where our ZEPA affiliate program might be just right for him. The most used affiliate catalogues in Czech Republic are: katalog.affilblog.cz, affily.cz/katalog and mariozensky.cz/affiliate-katalog.

It is generally not necessary to contact anyone to add affiliate program to catalogue. Pages allow insertion of a new program. The advertiser respectively affiliate manager, only need to fill in a few details like brief description of the program, amount of commission, affiliate program registration link, pay-out limit and cookie time (requirements per individual catalogues vary).

### **3.16 Program management**

When the partners join the program, and start promoting, it is necessary that the affiliate manager monitor their activities and eventually direct them. Affiliate manager should communicate with partners and should be able to help them almost at any time in order to create strong partnerships. Further he should motivate partners to achieve better performances, prepare different competitions and bonuses. Equally important is to approve conversions and pay partners on time (relevant mostly to partners acquired

outside the network, as network does it automatically) to avoid bad reputation among partners.

Affiliate manager should be aware of how the partners promote and should regularly monitor their websites to check whether they promote true and up to date information's and banners. Should any advertising rules be violated, affiliate manager should resolve these in accordance with business conditions without further delay (Kelley, 2015).

Program management mainly involves communication with partners. Response speed and willingness of the affiliate manager will greatly influence the relationship with partners. It is recommended to achieve best results that affiliate manager is available to partners via e-mail 7 days a week and also on the phone during the business days.

Another important activity of program management is conversion approval. Partners bring orders, and to get paid for them, they must be checked whether they happened or not. Terms and Conditions of the program, states that conversions will be approved immediately after the statutory time limit for returning the goods expires, which is in Czech Republic 14 days. In VIV NETworks individual conversion can be manually updated. In case of conversion rejection, the advertiser should provide partner with a reason why he is not entitled to a commission, to diminish possible frustration.

The affiliate manager must also ensure that partners receive their commission in a timely manner. VIV NETworks do have a billing module so invoices don't need to be done manually and with each partner separately. This simplifies the process and ultimately saves time for involved parties.

After the one-year network contract expires, the company will face decision, whether to continue in the network or choose an alternative. There is a number of reasons why the company might want to leave the network. Maybe the company wishes to diminish its overall marketing costs, it may not be fully satisfied with the network, or maybe the company just want to explore and utilize other options that this channel offers. It is therefore crucial to develop strong partnerships with partners while in the network. If such alternative then takes place, those strong partners might remain loyal to the ZEPA affiliate program and cooperate even after it leaves the network. In this scenario author would



recommend using AffilBox. There are no transaction fees, which unburdens the trader and therefore provides space for future motivation of partners with extra bonuses.

The program management also includes other activities that are described in theoretical part (partner motivation, statistics analysis, etc.). These activities will be based on performance of the commission program, number and composition of attracted partners and overall volume of transactions.

## CONCLUSION

The aim of my diploma thesis was to analyse affiliate program at ZEPA and develop recommendations to increase its effectiveness. As the current own solution for affiliate program did not meet the company expectations and fell into disfavour for several reasons including structural, author developed detailed analysis, including examples for effective relaunch of the program. General procedure of creating new affiliate program was visualized, from determining the company's goals, choosing right technology, setting the program to acquiring partners and motivating them.

The diploma thesis relates to a particular company and its commission program, however it can also serve as a guide for other companies that would like to launch their own affiliate program.

Theoretical part describes how affiliate marketing actually works, what is required and for whom this marketing tool is appropriate. The technical side of the affiliate system (like tracking, cookies, measuring conversions, etc.) was explained briefly, as the thesis was intended as analysis for traders, not programmers. Author described everything as simple as possible to avoid misconstruction. The theoretical part also provides information about history of affiliate marketing, its advantages, disadvantages as well as individual ad elements.

In the practical part author analysed the current affiliate program and its shortcomings. Based on these findings a comprehensive instruction was drafted to achieve a successful commission program.

When considering affiliate program, it was necessary to conduct conversations with ZEPA executives. In particular, the subject of the discussions was to better understand the functioning of the company, aspects it deals with, who is their target group and what goals and expectations they have regarding the affiliate program. After obtaining information about margins, e-shop revenue, conversion rate and average order value, author was able to accurately choose suitable technology and draft detailed commission scheme including Terms and Conditions.

The company is sceptical about affiliate marketing, based on its previous experience, however author strongly recommends using the affiliate power and relaunch the program in accordance with above instructions. That way, company will pay for marketing that is effective and brings customers. It will not only strengthen its position on the market but also strengthen the brand name.

Author hopes, that ZEPA decides to relaunch it affiliate program and will be positively surprised by it results. Czech affiliate market is constantly growing. The rising trend suggests that companies are increasingly allocating more funds to internet advertising compared to other channels. Only a fraction of merchants knows about the strength of affiliate marketing and therefore this area still has a huge potential.

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