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Lenox Powell: I'm Lenox Powell, the host and producer of the Outperform podcast. On these episodes, I talk with Acceleration Partners team members, industry partners and clients to bring you a behind-the-scenes perspective on what the world's leading companies and performance marketers are doing to outperform in their business and marketing partnerships.

Lenox Powell: Welcome to the Outperform podcast. Today I'm joined by Tara Watson, an affiliate program manager here at Acceleration Partners with over 15 years of experience in affiliate marketing. In today's episode, Tara and I discuss return on ad spend, or ROAS, and why affiliate marketing is actually one of the most effective marketing channels for increasing return on ad spend. Welcome Tara

Tara Watson: Thanks Lenox, I'm excited to be here.

Lenox Powell: So, Tara, we know ROAS stands for return on ad spend, but what is it exactly?

Tara Watson: So ROAS is a system of measurement, a KPI, which is a key performance indicator, that is used to determine how effective an online or offline marketing campaign is. It can focus on campaign elements such as social media, display ads, Google AdWords, ad groups. You can even drill down to look at individual keyword performance within PPC advertising and of course affiliate marketing as well.

Lenox Powell: Why do companies care so much about ROAS?

Tara Watson: Well, essentially, companies want to ensure that they're getting a good return on their media spend and just make sure that they're not losing money.

Lenox Powell: Do you think that companies are more concerned with their return on ad spend today than they were, say, five years ago?

Tara Watson: I would say in my experience, at least in the affiliate space, yes. As you noted at the top of the podcast, I've been working in affiliate marketing for a long time, over 15 years now, not to age myself. But, it's really only been in the past, I would say four or five years, that I've started to hear it mentioned by brands and clients. You would hear it mentioned in relation to other channels like paid search, paid social, and display, but not really specifically to affiliate, but with affiliate just becoming a larger part of many advertisers online marketing efforts overall, it's becoming a more critical KPI for brands to look at in their affiliate programs.

Lenox Powell: So let's unpack that a bit. From your experience, why do you think ROAS has become more of a focal point for brands in their affiliate programs?

Tara Watson: So I think it's because affiliate has changed drastically over the past five years. So when I say that, you know, what I mean is the early days of affiliate were just predominantly commission based, but we are seeing the model shift to a much more diverse and malleable option for brands, especially in terms of compensation. So because of this, there's just a lot more investment in the channel today as it has matured and evolved over time.

Lenox Powell: What's an example of that?

Tara Watson: Well, brands both large and small are entering into more CPA-based payouts with all kinds of partners, partnerships that go well beyond the traditional coupon deal and loyalty sites. With these new partnerships there can be more upfront investment involved, in addition to commissions like integration fees for placements. So I think that's an important element as to why brands are more focused today on their return on ad spend. Essentially, they want to know what that partnership investment will equate to on the back end.

Lenox Powell: So what I'm hearing you say is that instead of just paying on ... after a result has been generated and paying on the backend a commission, now there's different types of partnerships where some of these partners say, "Hey, we want more of an upfront flat fee plus commission on the backend."

Tara Watson: Yes, exactly.

Lenox Powell: What are some challenges brands face in general when trying to increase their return on ad spend?

Tara Watson: Well, increasingly brands are finding that they're going to have to pay more to either maintain returns or spend more to get any notable returns at all. I've heard about this a lot in relation to paid social campaigns recently. Competition is also just fierce in digital marketing overall. If brands have a lot of competitors in the space, they're competing for that share of voice, and seeing the ROAS decrease as a result, and pretty drastically overall.

Lenox Powell: Okay. So what about [inaudible 00:04:57] affiliate specifically? What are some ROAS challenges there?

Tara Watson: Well, I would say that one of the main ROAS challenges in affiliate is just time. So, in affiliate specifically, advertisers need to launch their program on a technology platform, be that affiliate network or a software service platform. That also includes transaction fees, integration fees with top affiliate partners, paid placements, and it's not uncommon for a smaller, less well-known company to see a lower ROAS initially because of these upfront costs involved with growing their name and brand awareness.

Tara Watson: Also, since affiliate is primarily relationship based, it takes a long time to cultivate these relationships and this can sometimes result in it just taking longer for a program to gain traction overall and resulting in a lower ROAS right out of the gate. All that being said though, costs overall tend to be significantly lower with affiliate than traditional paid marketing channels.

Lenox Powell: And why does ROAS typically tend to be higher in affiliate marketing?

Tara Watson: So I would say it tends to be higher in affiliate because affiliate is still primarily a pay-for-performance model. So while there may be some upfront costs like I referred to before, the majority of costs in the channel are related to commissions paid out after a result has been generated. So, for example, I'll take the direct-to-consumer mattress companies, for example. Many of these brands, as they've launched, their focus was on paid marketing and paid social campaigns to grow their brand awareness.

Tara Watson: However, in the past few years this space has become very crowded. There's a lot of competition there. So the cost to reach the audience via paid marketing has increased exponentially and in their marketing evolution and their desire to reduce their marketing spend overall, while still maintaining their high performance, they launch an affiliate program. And when they've come to us to manage their affiliate program, it's not uncommon for them to communicate how important it is to bring the right partners into their program that will help them both continue to expand their brand awareness, but also help them differentiate from their competitors in the space. In order to do this, they're willing to pay more up front. With partners ... specifically I would say like the mass media partners where they can provide editorial about the brand, even if it means a lower ROAS in the beginning, because affiliate has more than proven its ability to have a higher ROAS over the long term, and because they're pay-on-performance after a desired action has been delivered like a sale.

Lenox Powell: That's really interesting. I recently attended a panel discussion at a conference featuring one of the leading direct-to-consumer meal delivery companies and like your direct-to-consumer mattress company example, they too are in a highly competitive space and the brand representative on the panel shared how their first two years in business were all focused on getting their name out there and differentiating from the competition, and to do that they'd been focusing almost all of their marketing budget on traditional paid social and paid search marketing. In fact, Facebook was, using his words, their golden child, and they had an affiliate program early on but really didn't do much with it. In fact, it was considered the black sheep of their marketing family. Yet as their Facebook and search marketing returns kept going down quarter after quarter, their team decided to do some extensive testing and modeling and while not surprising to us as we're steeped in the affiliate space, their team was really surprised to find that their affiliate program had the most consistent returns in terms of cost, customer quality and lifetime value.

Lenox Powell: When he shared that from the stage during the panel, it was so fascinating to hear and see his enthusiasm and you could see people in the audience, like very similar companies, where the light bulb was going on for them, and he was very candid that now they're trying to figure out how to replace their Facebook spend with affiliates. So I found all that really, really interesting and super exciting.

Tara Watson: Yeah, exactly. That doesn't surprise me at all, having been in the affiliate space for so long. It's really exciting when brands see the light, if you will, because there have definitely been some misconceptions around affiliate, what it is and how it works, but that's really changing quickly and significantly. And like you said with this advertiser, this direct-to-consumer meal delivery company talking about you know, Facebook being their golden child and you know, becoming more costly, I specifically have heard that before from advertisers when they are launching their affiliate programs. It seems to be becoming more of a thing.

Lenox Powell: You had mentioned misconceptions. What would you say are some of the misconceptions around affiliate in terms of return on ad spend?

Tara Watson: One is that it's the same if not lower than traditional paid marketing, which just isn't true. It tends to be the opposite in fact. Another is that all of these channels need to be siloed. So, in fact, affiliate plays really well with other marketing channels and it should be seen as an important part of an advertiser's overall marketing strategy. When a multichannel approach is taken to marketing and elements like search marketing are run through affiliate, brands can realize even stronger return on ad spend.

Lenox Powell: It's interesting that you say that because that is exactly what the brand representative at the meal delivery company said on the panel and he shared how it was too expensive for them to do non-branded search because their space is so competitive, so they ran their non-branded marketing through their affiliate program and it was far more efficient and cost effective for them to do that, take that approach, then for them to do it on their own and his takeaway was essentially, look, you really do not need to be doing all these channels. If you manage your affiliate program correctly then you can optimize your paid marketing, your paid social, paid search, all of that, through your affiliate program and that removing the walls between affiliate and other channels will mean better alignment, lower CPA and of course higher ROAS.

Tara Watson: Exactly. That's definitely a key takeaway, and although affiliate is often referred to as a channel, it's really more accurate to call it a model because it's a framework for managing and leveraging partnerships and those partnerships are the ones that can do the paid social and paid search marketing and, so far, more efficiently and cost effectively than a brand trying to do it all on their own. So it's not about doing one or the other. It's about doing it all efficiently and with the best return on spend.

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Lenox Powell: Yeah, that's really good insights there. Especially now that brands are, as you mentioned, increasingly paying attention to ROAS for all of their marketing initiatives. So understanding it within both their affiliate program and from a multichannel perspective is really crucial.

Tara Watson: Yeah, absolutely.

Lenox Powell: Well, this is all such good information, Tara, thank you so much for sharing your insights with our listeners.

Tara Watson: Absolutely, thanks Lenox.

Lenox Powell: To those tuning in, as always, we appreciate your support of the Outperform podcast and hope you found this information helpful. We know your time is limited, so our goal with these episodes is to create content that's useful to you in your marketing role. In the show notes, we'll include some ROAS resources as well as an email address that you can use to send us ideas for episode discussion topics. Until next time, keep outperforming.