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Jon Claydon:

So those industries that rely on being able to target an individual user, specifically with an ID that reflects, "Hey, I know who you are and I'm going to target you with this ad." That is going away.

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-scene's perspective on what the world's leading brands are doing to outperform in their business and marketing partnerships.

Lenox Powell:

Welcome to The Outperform Podcast. Today we're going to be talking about cookies. Specifically, third-party tracking cookies that have been ubiquitous in marketing for decades, and have played a key role in affiliate marketing for almost as long. However, in the words of Bob Dylan, "Times they are a changin'."

Lenox Powell:

Here with us on Outperform to discuss what's happening in the world of third-party cookies, and why we're entering a new era of cookieless tracking, is Jon Claydon, founder and CEO of Streamline Marketing, a leading performance marketing agency. In early 2021, Streamline joined forces with Acceleration Partners to expand global partner marketing solutions to brands. Welcome, Jon.

Jon Claydon:

Thanks, Lenox. I'm really happy to be here with you.

Lenox Powell:

Jon, I think it would be helpful to first lay the groundwork for our listeners. Explain cookies, and how they've historically been used in marketing.

Jon Claydon:

Yeah, happy to do that. Cookies are essentially part of the backbone of web activity in the way that websites and users interact with each other and with the various websites that they're visiting. They're essentially just pieces of code that live within the web browser that track user behavior. I think it's important to know that there are two types of cookies. There are third-party cookies, which are primarily used to track user engagement across various websites, and that's how a lot of online advertising is used to track consumer behavior.

Jon Claydon:

And then there are first-party cookies, and those are cookies that are used by the websites where users are essentially logging into sites. The way that you log into Facebook and you don't have to enter your password every single time you go back to Facebook, that's a first-party cookie that is recognizing you as the user have been there before, have entered your correct credentials so you're automatically let back in. That's essentially from a very high level what cookies are.

Lenox Powell:

Let's talk about affiliate specifically. Up until recently, how have cookies typically been used in affiliate marketing?

Jon Claydon:

The way that affiliate marketing uses cookies is they're used to track, again, consumer behavior as they move across websites and in affiliate specifically, how they essentially would make a transaction on an advertiser site. The cookie would track that behavior from an affiliate website as they click on an ad for an affiliate link, go to an advertiser site and then complete a transaction or submit a lead or some sort of other action that an advertiser is looking to track.

Jon Claydon:

The way that they've historically been used is, an advertiser would place a pixel on their confirmation page of their website, which is a simple line of JavaScript or an image pixel that would look and see if a cookie was present in the user's web browser from the affiliate network that that advertiser was using to track their affiliate marketing campaigns. If that cookie was present, it would record the information from that and then send that information back to the affiliate network to confirm that that consumer had clicked on an affiliate link from affiliate X, and then converted and bought a purchase or submitted a lead or some sort of action along those lines.

Lenox Powell:

Okay. You're very knowledgeable about this industry, and so just taking it a step back. If somebody is searching online for a pair of flip flops for summer, and they go to their favorite blogger's page and they're reading a blog post about some fun summer fashion, and they see, say a link in the post for a pair of flip-flops. They click on that. So what you're saying is, a third-party cookie, at that point because they clicked on that link, which would be an affiliate link for our examples, they'd click on that. A third-party cookie would be placed on that reader's site, so that would track their journey if they decided to purchase those flip flops, which is how the affiliate would get credit. Is that right?

Jon Claydon:

Yeah, that's correct. Actually, the way that it worked, or still does work in that context, they click on that link and it actually, the link directs them to essentially a different website which is the affiliate network's redirection URL. That website actually drops a cookie at that point on the user's browser. Again, from there, they're carried on to the advertiser's site and if they complete a transaction, the pixel that's on the site is looking for that specific cookie and then reading the identifiers that are in that cookie. That's a legacy way of tracking in affiliate, and that was done from the mid-90s up until very recently. That's how things had always been done.

Lenox Powell:

Gotcha. And so that's, I think you mentioned something very important. You're referring to an affiliate network, but there's also SAS platforms out there that do this. We generally refer to it as affiliate technology, and whatever the affiliate technology is, that is how that tracking link or that cookie has been able to be navigated through all these different individuals and pieces and parts to make sure people get paid properly and measured properly for their performance.

Jon Claydon:

Exactly.

Lenox Powell:

Okay. It sounds like most digital marketing channels, including affiliate have used cookies effectively for years to track user activity and marketing performance. What has changed?

Jon Claydon:

It's all about privacy and consumer privacy. We're seeing a radical shift in the way that large online entities are considering privacy and reacting to it. We're seeing regulation around privacy. A lot of the major web browsers have already made changes to affect third-party cookies, so Safari and Firefox as a default, essentially restrict third-party cookies or severely limit their ability to track users. The intention there is to protect essentially consumer privacy. And Google has now announced that in 2022, they will also be making large shifts in the way that they handle third-party cookies and essentially will be blocking them. So we're moving into in a much more consumer-friendly privacy world, and that's driven by policy changes and I think just broad consumer sentiment.

Jon Claydon:

We've recently seen this play out in the mobile ecosystem. Apple just released iOS 14.5, which had broad, sweeping changes to privacy and app tracking functionality. Essentially what they've done is, they've restricted apps from using the unique identifier that every mobile device has, from apps and advertising services for being able to use that identifier to target end users with advertisements. So if you've updated your iPhone to iOS 14.5, whenever you open an app now, you're given a prompt that asks you if you would allow this app to track your activity.

Jon Claydon:

What we've seen from the early data is that only 4% of users are actually opting in to allow apps to track their online activity, so this obviously falls in line with consumer sentiment. People don't want to be tracked broadly across the web, at least in the way that they perceive it. And subsequently, browsers and online commerce is moving along with that sentiment and making broad changes to the way in which they allow cookies to track end users.

Lenox Powell:

So this is pretty big.

Jon Claydon:

It's huge. It's very big.

Lenox Powell:

If third-party cookies, just cookies in general, are the way most affiliate activity has been tracked, most marketing activity really, what is the workaround for that? In other words, if cookies aren't used, how are brands able to track the performance of their partners within their affiliate program?

Jon Claydon:

So going back to the difference between first-party cookies and third-party cookies, there's an important difference there. Third-party cookies are going away, for the most part. First-party cookies are still very

much alive and well. The way again, websites work to be able to log into interfaces and to access the way in which websites operate, first-party cookies have to be there. That's how the web is built. So they're very much in line with consumer privacy. It's... Again, it's a cookie that the website itself is placing on the user's web browser or keeping it on their own server, and that just allows commerce and activity to happen in general. So first-party cookies are still very much alive and well.

Jon Claydon:

From an affiliate perspective, it is very much possible to track transactions and activity from affiliates using first-party cookies, as opposed to third-party cookies. There's a couple of ways in which that can be done. One is called a universal tracking tag, and all the major affiliate networks have this functionality now. Essentially what that does, it's a piece of JavaScript that lives across every page on an advertiser's website, and it will drop a first-party cookie instead of a third-party cookie when an affiliate refers traffic to that website.

Jon Claydon:

Subsequently, the same process would happen. The consumer would be on a site, they would add items to the cart and checkout, and that first-party cookie would be read by the tracking technology that is installed on the advertiser's website. It would record that and send it back to the affiliate technology that was tracking that activity. That's one option, and we see that across many of our clients today for how they're currently tracking affiliate activity.

Jon Claydon:

The other option is server-to-server tracking. It's very similar, where the brand is essentially recording information that's passed to them in a query string. So when a user is on the affiliate website and they click on a link, that link will go to the brand of the advertiser's website and there'll be some data and information that's passed in the actual URL of the link that's being sent to them. They'll record that information on their own servers and they'll know that it came from affiliate XYZ and it had a certain parameter in that string that they have to record. Then they send that back in a server call to the affiliate technology once a transaction has taken place. The affiliate technology will record that. They know the affiliate that it came from, they know the dollar value of the order, and they know the consumer that actually clicked from that, based on the parameters that are set.

Lenox Powell:

I feel like we need a visual flow chart. Have to try that.

Jon Claydon:

It's confusing, but I think from a high level, it's safe to say that although there will be a lot of changes that are going to happen and we don't fully understand 100% what Google is going to do in terms of their adjustments. But we feel pretty confident that the way that we track things in affiliate, and we're very nimble and we're able to do a lot of different ways of tracking things that I think are very privacy favorable to consumers. We don't see a large chance of things being disrupted in our industry when these changes roll out. And we think that affiliate and partnerships in general are fairly insulated from this type of change in whatever the browsers are going to end up doing.

Lenox Powell:

So it sounds like this is all fairly mainstream now in the world of affiliate marketing. Would you agree with that? I mean, is this pretty much consistent across all affiliate networks and SAS platforms and they're all structured to not deal with third-party cookies anymore and just focused on first-party and implementing all the technological aspects that you just outlined?

Jon Claydon:

Yeah. So every major affiliate network has the ability to track in ways that do not use third-party cookies. So they all have universal tracking tags, or they all accept server-to-server calls as ways to track success of campaigns. However, many advertisers have not updated their tracking protocols to these new standards. And so it's very important that brands that are still relying on legacy third-party cookie tracking technology, that they update their integrations with their various affiliate platforms to make sure that they're able to track things successfully as these changes roll out.

Lenox Powell:

Okay. So sounds like the affiliate industry is being very proactive about evolving away from third-party cookies for tracking purposes. What about other marketing channels that still depend on cookies for their performance tracking, such as retargeting and programmatic? What are the ramifications of that?

Jon Claydon:

So in short, we don't know for sure what's going to happen. There's going to be a lot of things and changes that come out when Google rolls out these adjustments. But I think at a high level, it's safe to say that it'll be a lot harder to measure the efficacy of those campaigns, whether you're doing retargeting or programmatic, because it will be incredibly difficult to track to the individual user and understand their engagement with advertising across the web when these privacy changes rollout. So to give you a real world example of how this is done today, say for example, you're on a website and you're reading about a pair of shoes and you're reading a review for that pair of shoes. And you might click on a link or see an ad that you engage with. You've probably experienced this, and I'm sure the listeners have experienced this as well.

Jon Claydon:

Once you do that, you're going to be flooded with ads for similar pairs of shoes when you're on Instagram or just browsing the web or you'll even get emails about similar types of things. That's all because there's a third-party cookie that is essentially being placed on your browser. And it identifies you as a specific user as being interested in that product. And there's a lot of businesses that make a lot of money and spend a lot of brand dollars doing that type of targeting behavior. And whether it's retargeting from the brand that you actually clicked on, or brands being sold, information and data about you specifically, where they're able to target you with relevant ads, that would be very, very difficult to do in a cookieless world that we're moving to. So those industries that rely on being able to target an individual user specifically with an ID that reflects, "Hey, I know who you are, and I'm going to target you with this ad." That is going away.

Jon Claydon:

So, so industries that rely on that are going to have a much harder time measuring the success of their campaigns. They'll be able to build lookalike audiences and there'll be personas that they can target, but it will be much harder to measure, "Hey, I sent this ad to this user, they saw it, or they clicked on that ad. And subsequently that converted into revenue downstream from that engagement." That is what is

going to be going away. And in affiliate, the great thing about our channel and again, we don't see any disruption to our tracking. It's very easy, relatively easy to measure the success of our campaigns because it's outcome-based. You're paying for a conversion, you know it originated on this affiliate website. It was this consumer that clicked on that ad and they went through and purchased and ended the checkout.

Jon Claydon:

So we know that our industry will likely not be disrupted relative to the way that other industries will. And subsequently, if you're a brand looking to have a very tight measurement on KPIs relative to your advertising campaigns, affiliate will be one of the channels in which you can be absolutely assured that when you're paying for a transaction, you know that it originated from that affiliate, and subsequently you know the ROI from it. Whereas if you're doing sort of broad programmatic or retargeting or those sorts of campaigns, it will be much harder to really directly measure the impact and ROI from your campaigns.

Lenox Powell:

Where does clearing your cache and cookies come into all of this? I tend to do this somewhat obsessively at the end of the day. I have a habit of just clearing my cache and I do it on my phone and everything else. How does that impact first party cookies?

Jon Claydon:

So it depends on... I think each browser has different ways of actually clearing your cache of cookies. I think that they're... even in Chrome, there're various settings for when you go in to clear your history. But if you are clearing your cache and you're clearing all of your cookies, it actually does remove first-party cookies. So if you've done that on Chrome, you'll notice that when you go back to a website, you have to log back in again and subsequently, that's dropping another first party cookie at that point. So from a tracking perspective, as it pertains to affiliate, or really any sort of other type of advertising campaign that is measuring commerce, when you clear your cache, you're getting rid of the ability of those websites or advertising mediums to track you. So in our world, if a user clicked on an affiliate link and didn't check out right then and there, but they decided to go and clear their cookie cache, that would actually break tracking. We wouldn't be able to track that activity at that point.

Lenox Powell:

It sounds like as third-party cookies are phased out, companies really would be wise to start closely evaluating which channels in their marketing mix still rely on this tracking method. And perhaps as you said so eloquently, rethink their approach and their budget allocation toward channels that have moved away from those types of cookies.

Jon Claydon:

Yeah. I think there's a couple things that can be done from a brand side. First and foremost, they should be building their first-party data infrastructure. So if they've relied on third-party ecosystems to track and measure performance of all their advertising campaigns, they should be heavily invested in their own internal first-party data collection so that they can still measure broadly across their marketing mediums effectively. Because again, all this stuff is going away in the very near future. And if they haven't done that, they're behind the game, but there's still time to make adjustments. We know these changes are rolling out next year. So there's time for them to adjust that.

Jon Claydon:

However, they should be very much aware that the success they've been able to have in the past by serving up those incredibly, highly relevant targeted ads to a specific end user, it's going to be a lot harder to do that in the future. And so if they are looking for ways to maximize again, that the ROAs and ROI of their ad spend, we think affiliate and partnerships in general is a great medium to do that through. Whereas likely what's going to happen, is the other advertising channels are going to be a lot harder to measure. We already know they're getting way more expensive. So if there is an option to shift and explore the channel in a deeper sense, looking at affiliate is a great option for them.

Lenox Powell:

So Jon, any final thoughts about this?

Jon Claydon:

The way that we track an affiliate is very much aligned with the way that websites right now are currently using first-party cookies to track consumer behavior on their sites. And so we believe that our channel will be again, insulated from these broad sweeping changes. And I don't think that there's going to be any major disruption to what we're doing. However, we don't know until things are rolled out. And it's interesting. You look at what happened with iOS 14. The initial estimates were, what we had heard from advertising tracking platforms that were focused on the mobile ecosystem, they thought there would be maybe 30 to 40% of users would actually opt in and allow apps to track them. And that was yesterday and we're at 4%. So we may have ideas about what's going to happen, but it's harder to predict one, consumer behavior and what users are going to ultimately end up doing.

Jon Claydon:

And also we just don't know how that will affect policy changes. Google may have been watching what happened with Apple, and was trying to determine how strict they would be with third-party cookies or privacy changes or things like that. And maybe they wanted to see what happened with Apple's roll out of this to determine what they might do on their side. And what we're seeing right now is pretty unanimously across the board. Users don't want to be tracked like this, that is what we're seeing from the data. And subsequently, if I was to predict what Google might do in their ultimate roll out of this, I think it is going to be a lot stricter. There's varying ways of how strict they can be with controlling cookies and tracking and privacy.

Jon Claydon:

I think if they look at the data for what they're seeing on the Apple side, they'll probably be leaning heavier towards the stricter side of things, in terms of restricting what they'll actually allow advertisers to do. And again, I don't think that's going to affect our channel. I think we'll be really well insulated from that. We should be okay with our abundance of different ways that we can track. And generally, we're not a privacy invasive type of advertising medium. However, until it's actually rolled out and we see what it looks like in a live instance, it's really hard to predict what that ultimately is going to look like.

Lenox Powell:

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Jon, thank you so much for taking the time to explain all this to our listeners. It is a lot to digest, but having a better sense for how all of this could impact their marketing outcomes will only help in the long run. So again, really appreciate it. And thank you so much.

Jon Claydon:

Thanks so much for having me. It was great to talk through it and it's going to be an interesting next few months as we see all this stuff roll out and see how it affects everything in the online advertising world, but exciting things ahead.

Lenox Powell:

Well to you out there listening, we appreciate that you do, and hope you found this information helpful. If you did, please give us a rating or review anywhere you listen to your podcasts. Until next time, keep Outperforming.