PERFORMANCE MARKETING ASSOCIATION

2018 Performance Marketing Study: Full Year 2018

Taking the Pulse of Performance Marketing in the US

Performance Marketing Association

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PMA Performance Marketing Study: Full Year 2018: Taking the Pulse of Performance Marketing in the US

In the first annual Industry-wide study of its kind, The Performance Marketing Association (PMA) has gathered data from eight of the leading affiliate/performance networks and platforms to assess the overall size of the US performance marketing industry.

Performance marketing is defined as the industry in which brands compensate third party publishers in exchange for driving conversions or leads to the brand, commonly also referred to as affiliate marketing. Third party publishers use comprehensive forms of advertising tactics that are measured through performance marketing tracking links, most often provided by networks and platforms like the ones surveyed for this report.

The study, conducted by PricewaterhouseCoopers (PwC), in conjunction with the PMA, found that the performance marketing channel's continued growth is driven by adoption for its measurability, trackability, attribution, and compelling return on investment (ROI).

Performance marketing also delivers a very attractive return on ad spend (ROAS) compared to other digital marketing channels. Mobile matters more than ever as consumer shift online shopping behaviors and spend more time online. And content affiliates and bloggers lead the way when it comes to performance marketing ad spend.

Continued Performance & Affiliate Marketing Growth

According to the PMA report, spend on performance marketing in the United States in 2018 is estimated to have been $6.2 billion.

By collecting anonymized data from eight major networks (AWIN, CJ Affiliate, Impact, LinkConnector, Partnerize, Pepperjam, Rakuten Marketing, and ShareASale), along with publicly available data, PwC determined the overall value of the performance marketing space, which comprises more than 200,000 businesses and individuals.

To date, there has not been a comprehensive study of the US market based on data from all of the major networks and solution providers. This first of its kind study commissioned by the PMA shows the major foothold of performance marketing as a trusted, proven, and highly-valued channel for businesses.

"Compiling these results required an unprecedented level of cooperation across the industry," Rachel Honoway, PMA Board of Directors President, says. "With a fair amount of trust and a common goal, our members came together to produce the one thing that this industry has lacked for decades: a concretely stated value."

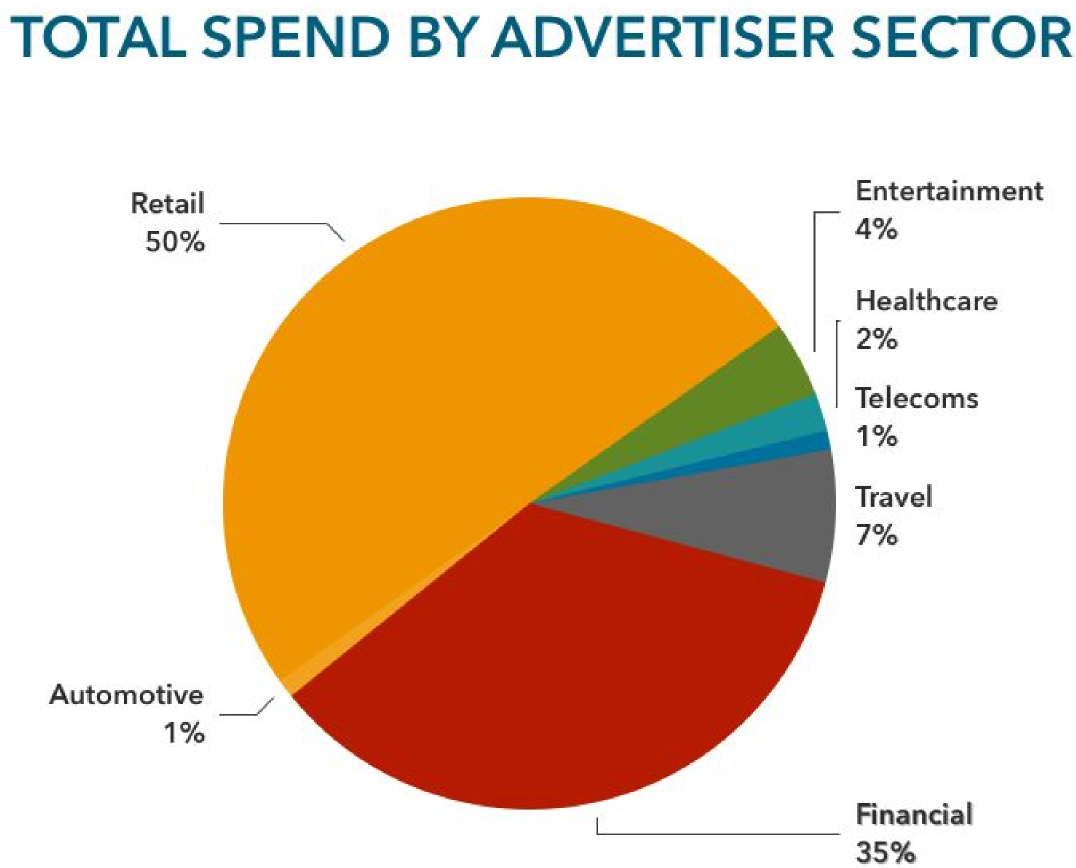
The PMA study shows that industry spending has already surpassed some previous research. An affiliate marketing study conducted by Forrester Consulting and commissioned by Rakuten Marketing[1] found a robust affiliate marketplace that was estimated to be $5.94 billion by 2018 and is expected to grow to $6.8 billion by 2020 - with a compound annual growth rate of 10%. Over 80% of advertisers and 84% of publishers have reported running an affiliate program, according to Forrester.

Strong Return on Ad Spending (ROAS)

Performance marketing continued to show that it delivers. The ROAS, based solely on survey results, delivered a ratio of 12:1, excluding Financial Institutions. This number reflects the high-value of the channel for businesses that want the most bang for their marketing buck.

1 https://go.rakutenmarketing.com/hubfs/Networks_Help_Drive_Affiliate_Marketing_Into_The_Mainstream.pdf

Growth By Sector

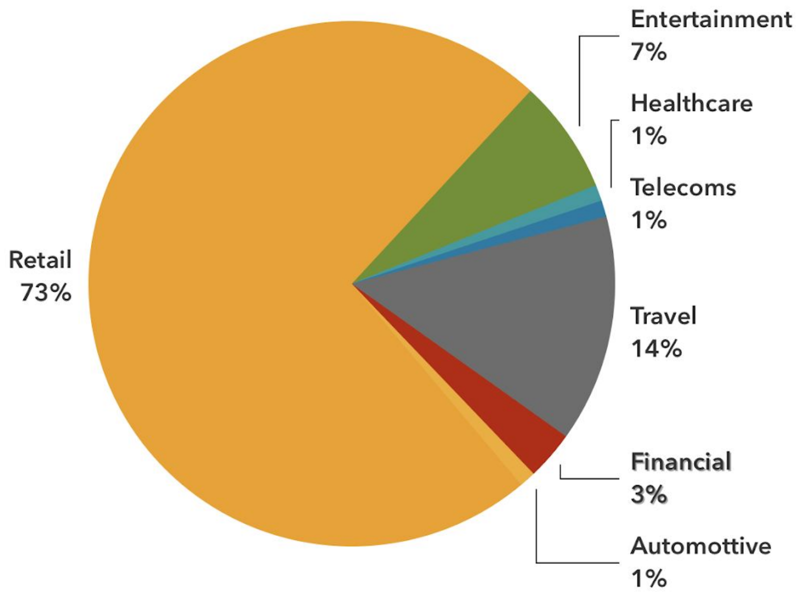


from PMA Performance Marketing Study: Full Year 2018

Performance marketing has made great strides in all types of businesses. However, Retail made up half of the total ad spend by sector. This reflects the amount of money spent on advertising placements, premium advertising placements, influencer spend, commissions paid on sales generated, analytics and performance tool fees, technology spend, set-up fees, and data cleansing fees for each industry vertical

Clothing & Accessories accounted for the majority of the Retail ad spend and topped the list with 31%. Department Stores ranked second with 26%. The Health, Beauty & Wellness vertical was third with 11%, while Home & Garden, and Computer Products each had a 10% share of ad spend in the retail sector.

TOTAL REVENUE BY ADVERTISER SECTOR



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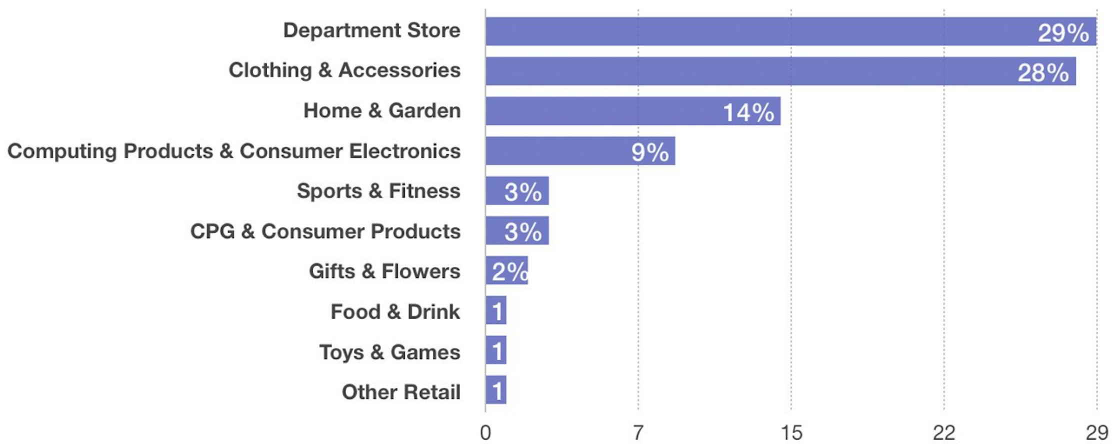
Retail accounted for 73% of revenue by ad sector, which refers to the amount of money earned by an advertiser as a result of its investment in performance marketing. Department Store (29%), and Clothing & Accessories (28%) revenue represented 57% of all retail revenue. According to the report, Travel came in second with 14% of the Retail market. Entertainment & Media ranked third with 7%. Rounding out the advertising sectors were Telecom, Healthcare & Pharma, and Automotive, each with 1%.

Retail Revenue Breakdown



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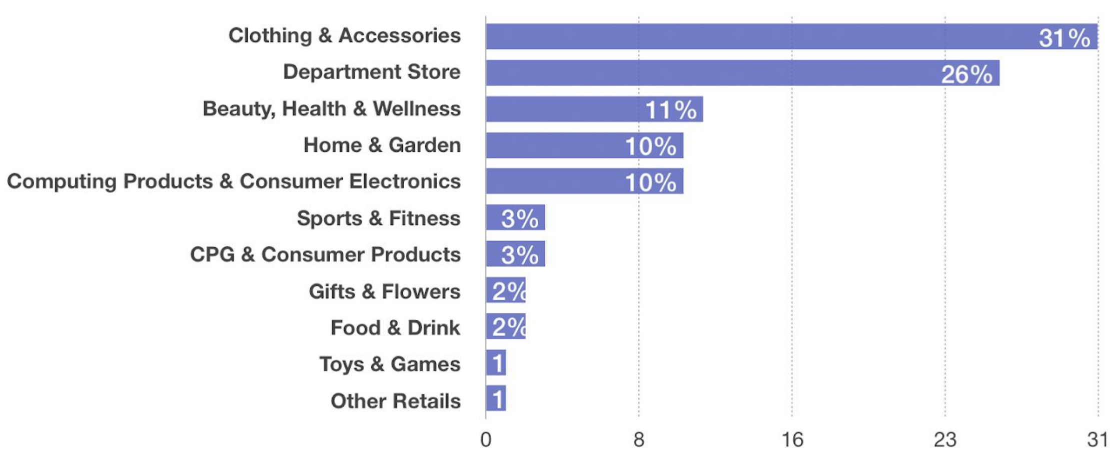
Retail Ad Spend



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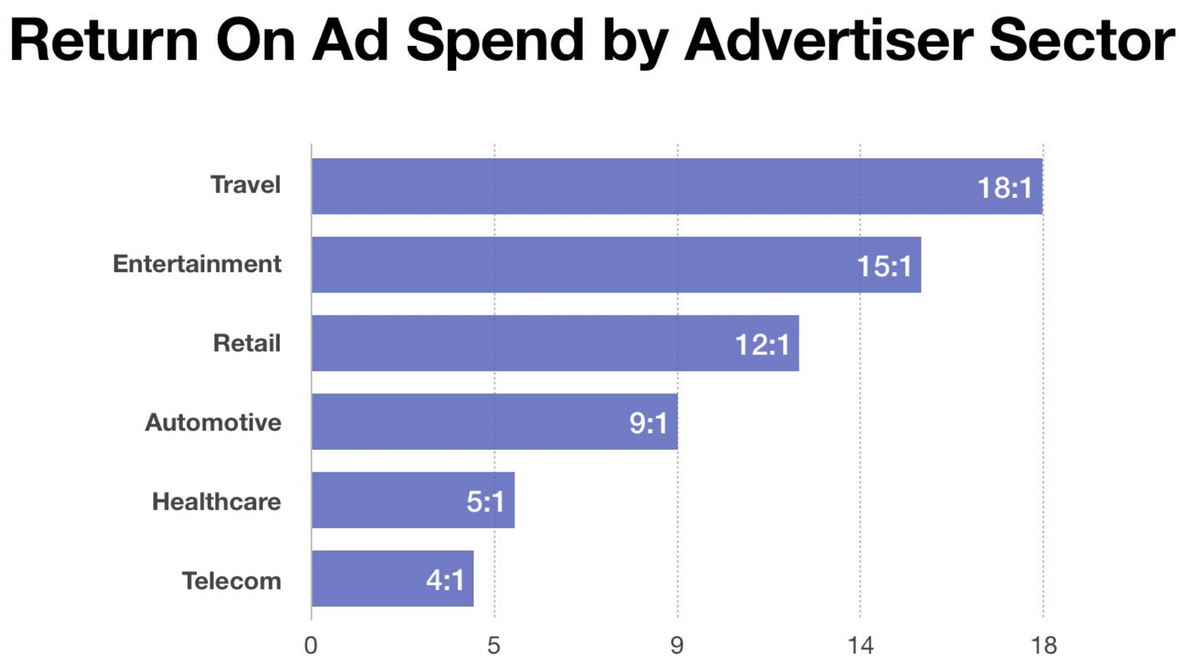
ROAS by Advertiser Sector



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The shift in consumer behavior toward more purchases that offer experiences is reflected in the return on ad spend (ROAS) by advertiser sector. According to the PMA study, Travel came out on top with am 18:1 ROAS, followed by Entertainment with a 15:1 ROAS.

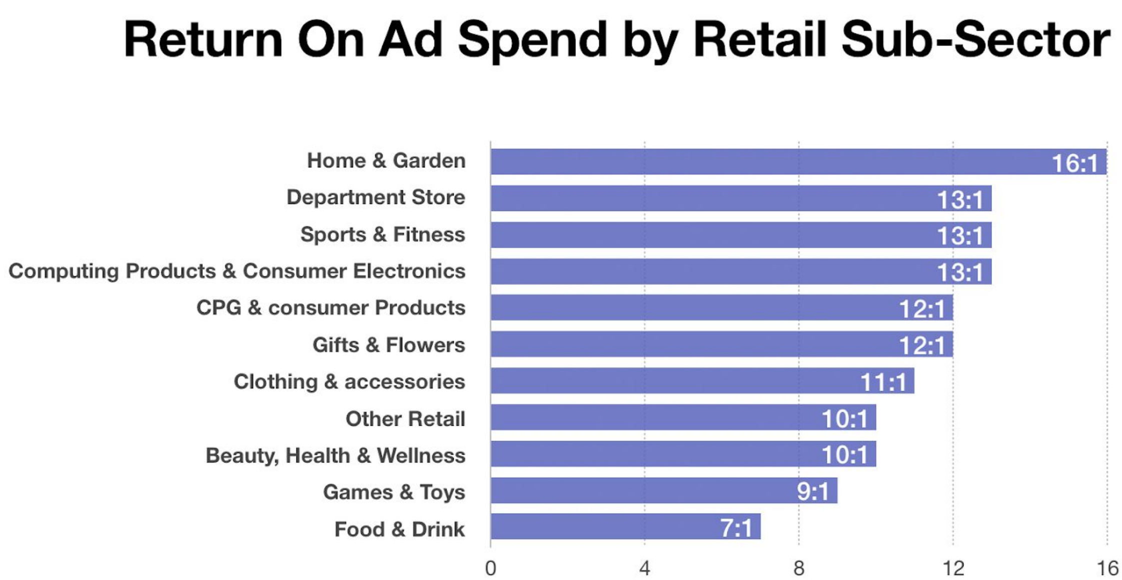
Millennials (those born 1980-1996) are now America's largest generation by population and are estimated to spend more than $1.3 trillion in annually. This generation not only highly values experiences, but they are increasingly spending money on them. This includes travel, concerts, athletic pursuits, cultural experiences and events of all kinds. A study by Harris Group found that 72 percent of millennials prefer to spend money on experiences.[2]

Still, according to the PMA study, Retail remained strong with a 12:1 ROAS, Automotive (9:1), Healthcare (5:1) and Telecom (4:1) rounded out the list, according to the report. It is important to note that Telecom commissions are often high CPA payouts with either no immediate

[2] http://eventbrite-s3.s3.amazonaws.com/marketing/Millennials_Research/Gen_PR_Final.pdf

associated revenue or only the first month of revenue. (Similar to the Financial Institutions discussion below.)

Within the Retail sector, Home & Garden showed a 16:1 ROAS. Department Store, Sports & Fitness, and Computing Products & Consumer Electronics all has a 13:1 ROAS. CPG & Consumer Products, along with Gifts & Flowers showed a 12:1 ROAS.



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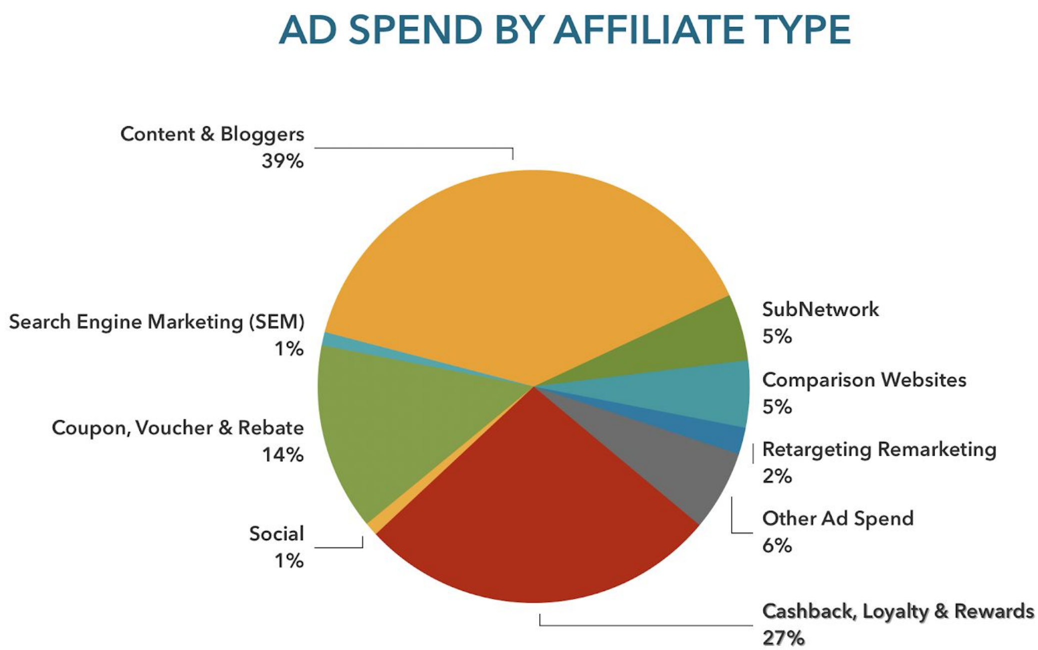
Financial Institutions

While Financial Institutions accounted for 35% of the total advertiser spend, they only represented 3% of the total ad revenue. And when it comes to ROAS by advertiser sector, Financial Institutions were a 1:1 return.

Although that figure might seem low, it’s important to note that what and how Financial Institutions sell (mostly services as products and use affiliates for lead generation on CPA basis) is very different from most of the other categories.

So, due to the nature of revenue generation on these financial products, ROAS for Financial Institutions may be lower because revenue is generally realized outside of the ‘affiliate action’ window. In these instances, the commission is paid prior to any revenue recognition by the advertiser.

Affiliate Commissions



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The remaining or other ad spend is by Affiliate Type and how much money was paid to affiliates by the affiliate network, excluding any costs related to technology spend and set-up fees.

Although, affiliate marketing often conjures up the idea of affiliates pushing coupons and discounts, that appears to be shifting. Affiliates no longer want to be pigeonholed as a specific type of affiliate and are diversifying their promotional efforts to attract additional consumers and increase conversions. For example: fashion destinations offer cash back and many loyalty sites have incorporated product content.

Publishers are looking to avoid a single classification or label because it's no longer descriptive enough to give a true indication of their business model. These traditional (and outdated) labels often create misconceptions about their consumer demographic and can cause brands to forego opportunities to leverage these destinations to drive traffic and reach audiences that the brand itself may not have been able to otherwise access.

Cashback, Loyalty, and Rewards websites do not top the list of ad spend by affiliate. This category ranked second with 27%, with Coupon, Voucher, and Rebate websites coming in third with 14%.

Affiliate sites with Content and Bloggers ranked at the top with 39%. This surprising number shows that content really is king. Brands have long aspired to fuel their marketing programs with content. To date, however, content has not effectively taken shape nor shown its ability to deliver, with scale. That is changing as content affiliates and bloggers have clearly demonstrated to retailers and brands that they are effective at driving traffic and ultimately conversions.

This trend also indicates that brands paying on the last click (which historically was believed to be coupons and discount codes being applied at the time of the sale) is also shifting. Networks now have the technology to offer the ability to split commissions and allow multiple touch points in the conversion funnel to be compensated for their contribution to the sale.

Trends

Influencers

Influencer marketing is still on the rise and projected to reach more than $10 billion by 2020. According to a Mediakix study, US influencer marketing spend on Instagram alone was estimated to be $1.3 billion in 2018 and expected to grow $2.3 billion by 2020. [3]

There are similarities and parallels that overlap to affiliate marketing. Influencers can be affiliates and affiliates can be influencers. Really the only difference comes down to the payment and relationships with the brand.

This collision has created opportunity in the affiliate marketing category for influencers to have access to brands, and provided a means for monetization.It will be crucial to take advantage of increasing advertiser and brand investments in influencer marketing. That will require performance marketers to redesign the model which must compensate influencers on a commission basis for performance, versus a flat fee for brand awareness. Developing the right campaign will be key, as 85% of marketers have been turned down for a variety of reasons, the inability to agree on payment being the most common, according to the Mediakix State of Influencer Marketing Study.

[3] https://mediakix.com/blog/instagram-influencer-marketing-industry-size-how-big/

Incrementality

Brands and retailers have long asked the question ‘is affiliate marketing incremental’. Meaning, are their affiliates delivering sales and conversions that the brand would have received without the affiliate in the mix.

Incrementality can be traffic or revenue or conversions or additional order value. Incrementality is not one singular metric or state. It is also unique within each company. With the rise in feature and tool innovation in affiliate marketing (tools to help marketers change how they allocate or attribute spend based on their individual value) there seemingly has been less question about affiliate marketing’s “incrementality.

The rise in content publisher contribution has offset some of the stigma. Nevertheless, there are still some naysayers that question affiliate marketing value and try to use the channel as ‘turn on/turn off’ model. That poses a challenge because it’s not a broad lever that can easily be pulled. It requires individual publishers to remove links, creative etc. and that does not occur with the flip of a switch like it may in display media.

Brands that have a clear understanding of how incrementality is being analyzed within their company will be able to create a process that provides specific numbers and creates actionable items to further improve this metric within their affiliate program and throughout their entire marketing strategy.

To gain this understanding, brands will need to include a comprehensive set of data on consumer events for their partner marketing channel. Through advanced analysis, that attribution data when combined with performance insights across the marketing mix, helps to identify the relative importance of different touch points toward driving a conversion. This will aid brands in determining the effectiveness of their affiliate efforts as well as their overall marketing strategy and ad spend.

Mobile

According to eMarketer, mobile commerce (mcommerce) grew 33% from 2017 to 2018, and is expected to grow another 30% in 2019, representing more than $270 billion worth of total retail ecommerce sales in the US.[4]

Given this growth, it will be key for affiliates to prioritize mobile-first initiatives that deliver traffic to mobile-friendly websites and mobile apps, which will be treated as premium by affiliate networks.

[4] https://www.emarketer.com/content/the-mobile-series-mobile-commerce-infographic

Methodology

"Ascertaining the size of our industry is important not only for those currently involved in it but also for those considering joining it," Tricia Meyer, PMA Executive Director, says. "The value of affiliate marketing comes from both our size and our ability to adapt to changing markets. The results of the study show we can drive revenue across various verticals and through diverse publisher types."

PwC collected and analyzed a full year (2018) of self-reported quantitative and qualitative data from eight affiliate networks and platforms, along with publicly available information to determine the industry size and scope as well as identify insights and trends related to performance marketing.

Participants

AWIN
CJ Affiliate
Impact
LinkConnector
Partnerize
Pepperjam
Rakuten Marketing
ShareASale

About the PMA

The Performance Marketing Association (PMA) is a non-profit trade association founded in 2008. It is the only trade association representing the performance marketing industry. The PMA's mission is to champion and protect accountable performance marketing. Our main goals are to promote the growth of the industry, to help model standards and best practices, and to advocate on behalf of the businesses that comprise the performance marketing industry The PMA strives to raise the profile of performance marketing by demonstrating the value of this multi-billion marketing channel, which comprises more than 200,000 businesses and individuals. With the PMA leading the charge, businesses will continue to grow and succeed, the quality of work will be demonstrated, and further quality participation in the performance marketing field encouraged.

A SPECIAL THANK YOU TO OUR PARTICIPATING

PMA INDUSTRY CHAMPIONS

AND ALSO

For more information on the PMA, our resources, or membership, please visit www.thepma.org.