PwC Strategy

The Value of Online Performance Marketing in the UK

A study by IAB UK and PwC

January 2014

pwc

iab Internet Advertising Bureau UK

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Contents

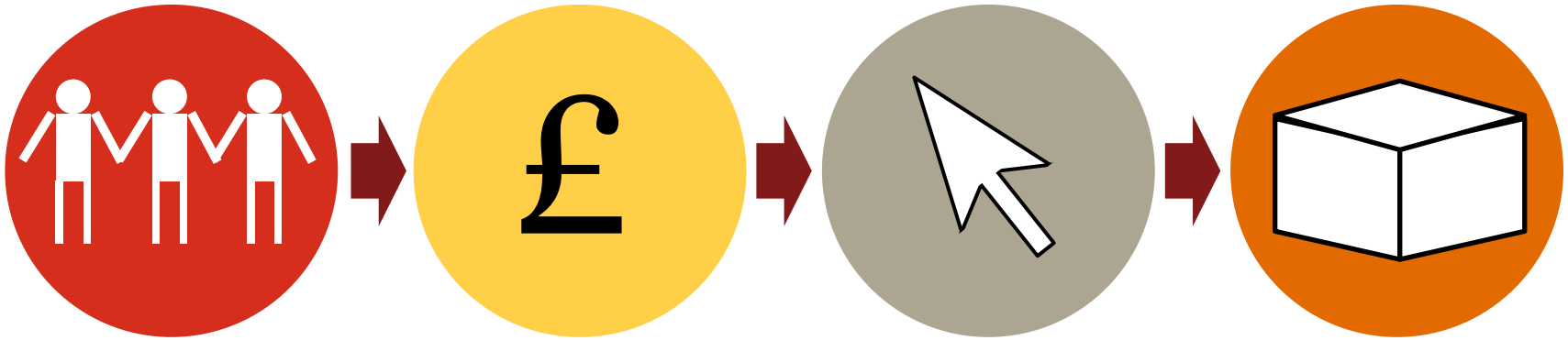
Summary

1

Background

- The findings set out in this report focus on Online Performance Marketing spend, Online Performance Marketing activities by UK businesses, and the value of sales generated through Online Performance Marketing in the UK
- Our findings are based on a **survey of 27 industry participants** (including the major affiliate network and lead generation providers in the UK) and further industry assessments:
  - Survey undertaken between October and November 2013
  - Survey figures are based on participant declarations and have not been independently verified
  - Further estimates (e.g. based on reported results) for companies not directly participating in the survey, including certain price comparison sites, large publishers which operate their own affiliate programmes, travel aggregators and publishers, B2B publishers (lead generation) and sectors believed to be under-represented in the study (e.g. gaming sector)
  - In addition, we carried out **26 in-depth interviews** (including advertisers, publishers, media agencies and survey participants), which informed our analysis and supported our estimates
- Spend on Online Performance Marketing activities attempts to **capture total spend on Online Performance Marketing activities**, rather than just media space buying, i.e. including commission on sales generated, technology spend, set-up fees, consultancy fees, data cleansing
- In addition, the study seeks to capture the **value of sales generated by Online Performance Marketing and its value to the UK economy**

Key findings (1) – 15% like-for-like growth in 2013



In 2013, there were ***c.4,000 advertisers*** *actively engaged in the OPM market…*

…expected to ***spend c.£1bn,*** *across* ***c.12,000*** *publisher sites…*

…driving ***4bn 'clicks'*** *by consumers, which converted into* ***c.200m transactions****…*

…to generate ***c.£14bn of sales*** *for advertisers*

On a like-for-like basis we estimate Online Performance Market spend will have grown by c.15% in 2013 (vs. 2012)*

*2012 like for like figures:
Advertiser spend of c.£890m, and sales generated of c.£12.5bn

Note: Stated figures are based on survey results and PwC estimates, informed by interviews with market participants and public information where available, for methodologies used please refer to Methodology and Definitions section
Source: PwC survey results, PwC estimates

Key findings (2) – finance, retail and travel are the largest sectors

Key sectors*

Top 3 sectors by share of **advertiser spend**, 2013

- *Finance – 36%*
- *Retail – 21%*
- *Travel – 17%*

Key publishers**

Top publisher sites by share of **advertiser spend**, 2013

- *Comparison websites*
- *Cashback websites*
- *Content websites (e.g. blogs)*

Consumers***

Consumer insights, 2013

- ***Over 60%** of consumers are aware of how publishers are rewarded through Online Performance Marketing*
- ***Over 50%** of consumers have become repeat customers of a company or service which they have discovered through Online Performance Marketing*
- ***c.45%** consumers redeem points or cash-in vouchers at least once every month*

Note: *Based on survey results and PwC estimates, **Based on survey results only, ***Based on consumer survey commissioned by the IAB, for methodologies used please refer to Methodology and Definitions section
Source: PwC survey results, PwC estimates, IAB commissioned consumer survey

Key findings (3) – The OPM industry continues to evolve

Increased use of mobile devices for ecommerce	• Our survey suggests that **up to c.20% of leading players Online Performance Marketing advertiser spend is on mobile and tablet devices** • However, a number of participants are still unable to track mobile device specific revenues. There are also a number of sectors in the Online Performance Market which, due to their nature, generate high volumes of mobile traffic but limited numbers of actual mobile transactions (because of the complicated nature of the transaction or relatively high transaction value)
Increasing links with the 'offline' performance market	• The **boundary between the 'online' and 'offline' worlds is becoming increasingly blurred** through innovations such as card linked offers (which enable consumers to link retailer offers directly to their personal credit/bank card) and location targeting
Development of new payment models	• The industry is increasingly **moving beyond the use of basic CPA/CPL payment models to maximise the value gained from both large publishers and also the 'long tail' of smaller publishers** (e.g. on a CPC or tenancy basis)
Growing use of technology platforms and solutions	• A number of **new tracking and analytics platforms** are present in the market which enable advertisers or agencies to manage part (or all) of their affiliates in house • Similarly, personalised retargeting and shopping basket recovery technology platforms increasingly enable advertisers to **retarget consumers** who did not initially make/complete a transaction, to improve conversion rates
Greater internationalisation of the OPM market	• While this report is focused on the UK Online Performance Market, we note that **(i) UK advertisers are seeking to drive sales through the use of non-UK affiliates and (ii) UK affiliates are seeking opportunities to partner with non-UK advertisers** to generate incremental revenues

Note: *Based on survey results only and a limited sample size – this estimate is likely to understate the share of mobile devices as a number of survey participants were unable to provide mobile advertiser spend
Source: PwC survey results, PwC estimates

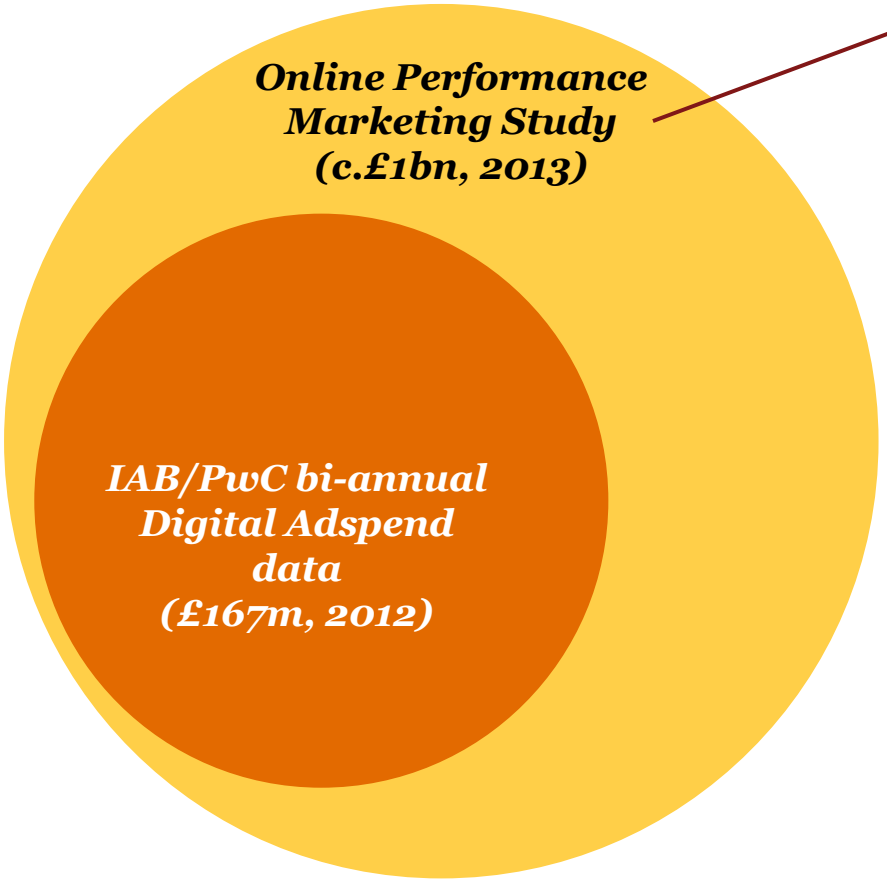
Introduction

2

Introduction to the report

- **This study was first commissioned by the IAB in 2012 – in an attempt to better understand and capture the value and size of Online Performance Marketing activity in the UK. This year's study looks to build on that report, and through subsequent research, interviews and survey data, has enabled us to refine our views on the market**
- The IAB currently captures some information on Online Performance Marketing in its bi-annual Digital Adspend study, produced in conjunction with PwC. The data captured through this method shows that in 2012 advertising in the Affiliate Display category was worth £99 million, Lead Generation £30 million and Affiliate Search £38 million (total £167 million). In 1H 2013, the aggregate total was £80 million
- However these totals are derived only from above-the-line advertising spend (by a sub-set of industry participants) and **the consensus is that these figures do not fully represent the contribution to the digital industry made by the Online Performance Marketing sector**
- **The objective of this project is to conduct a more comprehensive study of the value of Online Performance Marketing, and its contribution to the digital activity and ecommerce in the UK**, focusing on:
  - Total spend on Online Performance Marketing by advertisers, including growth in 2013 and 2014 forecasts
  - Differences in usage of Online Performance Marketing in different sectors
  - The total value of sales generated by advertisers through Online Performance Marketing
  - High level estimate of Online Performance Marketing's value to the UK economy

The OPM study in context



Key differences:

- *More participants are included from the wider Online Performance Marketing industry in this market sizing exercise*
- *We are capturing total spend, not just media space 'adspend', i.e. including commission on sales generated, technology spend, set-up fees, consultancy fees, data cleansing*
- *We have undertaken additional modelling of non-survey participants in the Online Performance Marketing space (based on publicly available financial data, market interviews and desk research)*
- *This survey gathers more granular data to better understand underlying trends and dynamics of the Online Performance Marketing industry*
- *In addition, this survey also seeks to capture the value of sales generated by Online Performance Marketing and its value to the UK economy*

Source: IAB Adspend, PwC survey results, PwC estimates

What has changed since last year?

New for 2013:

Changes and additions to underlying assumptions

- **Refinement of a number of modelling assumptions** from last year's survey, factoring in more detailed / tiered commission structures in a number of sectors

- **More detailed modelling in travel, automotive, gaming and B2B** through 'deep dives' into these sectors:
  - Travel – modelled a number of major travel aggregators and publishers following interviews with market participants to confirm the operating model and payment structure of the sector
  - Automotive – interviews with, and submissions from, a number of specialist automotive publishers
  - Gaming – interviews with, and submissions from, specialist technology providers
  - B2B Tech – interviews with, and submissions from, a number of specialist B2B Tech publishers

Changes to the survey results

- **Additional survey questions** on the number of 'clicks' generated by affiliates and lead generators to understand: **(i) the conversion journey** between a customer 'clicking through' from a publisher and making a transaction, and **(ii) the additional brand awareness** generated by Online Performance Marketing

- The **mix of survey participants has changed since last year**, with a number of new participants and previous 2012 participants not submitting to this year's survey. This has led to a number of mix changes in our survey data (particularly in Lead gen) and hence this has impacted our market size estimates

Assessing the "Consumer angle"

- A **consumer survey** commissioned by the IAB to highlight the use and value of the Online Performance Marketing channel from a consumer's perspective

This report has been commissioned by the IAB, working with key industry stakeholders (1 of 3)

Company	Logo	Website
Ad Pepper Media		http://www.adpepper.co.uk/
Affiliate Window		http://uk.affiliatewindow.com/homepage/about-us/
Affilinet UK Ltd		www.affili.net/uk
BSkyB		https://darwin.affiliatewindow.com/merchant-profile/1487
BT		https://darwin.affiliatewindow.com/merchant-profile/3041
Comission Junction		http://uk.cj.com/
Debenhams		www.debenhams.com
DGM Australia		www.dgm-au.com
Digitalbox Ltd		http://www.digitalbox.com/
Digitas LBi		http://www.lbi.com/uk/
Havas		http://www.havasmediagroup.com/
Lolagrove		http://www.lolagrove.com/

This report has been commissioned by the IAB, working with key industry stakeholders (2 of 3)

Company	Logo	Website
Motoring.co.uk		http://www.motoring.co.uk
MVFGlobal		www.mvfglobal.com
Navigate Digital		http://www.navigatedigital.com/affiliate-marketing
Nectar		http://www.nectar.com/eshops/index.rnectar
Nonstop Consulting		http://www.nonstopconsulting.net/en/
Omnicom		http://partners.omnicomaffiliates.com
Online Media Group		http://uk.omgpm.com/
Optimus Performance Marketing		http://uk.optimus-pm.com/
Performance Horizon Group		http://www.performancehorizon.com/
Quidco		http://www.quidco.com/
R.O.EYE		http://www.roeye.com/contact/
Rakuten LinkShare		http://www.linkshare.co.uk/

This report has been commissioned by the IAB, working with key industry stakeholders (3 of 3)

Company	Logo	Website
Red Letter Days		http://www.redletterdays.co.uk/Home
Savoo		http://www.savoo.co.uk/
Steak Digital		http://www.steakgroup.com/
Tradedoubler		http://www.tradedoubler.com/
TTH Media Ltd		http://tenthousandhours.co.uk/
Value Click		http://www.valueclickmedia.co.uk
Vodafone		http://www.vodafone.co.uk/
VoucherCodes.co.uk		www.vouchercodes.co.uk
Webgains		http://www.webgains.com/public/

Contributors to the report

We have received detailed survey submissions from:

- Ad Pepper
- Affiliate Window
- Affilinet
- Cake
- Commission Junction
- Emedia
- Havas Media
- IDG
- IgnitionOne
- IPT
- Lbi
- Magnetise Media
- Motoring.co.uk
- MVFGlobal
- Nectar
- Neo@Ogilvy
- OMG
- Performance Horizon Group
- Quidco
- Rakuten Linkshare
- ROEye
- Savoo
- TechTarget
- Ten Thousand Hours
- Tradedoubler
- ValueClick Media
- WebGains

We have conducted interviews with:

- 9 publishers including specialist B2B and automotive lead generation sites, travel aggregators, cashback, voucher codes and loyalty websites
- 5 survey participants from affiliate networks
- 6 technology platform providers
- 3 media agencies involved in Online Performance Marketing across a number of sectors
- 3 advertisers in the automotive, telecommunications and travel sectors

We have also received support from the IAB Online Performance Marketing steering group:

- Affiliate Window
- Commission Junction
- Neo@Ogilvy
- Tradedoubler
- ValueClick media
- Lbi
- Magnetise Media
- Omnicom
- Savoo

Methodology & Definitions

3

Our definition of Online Performance Marketing

Definition:

*A form of online advertising that differs from traditional online display advertising, as payment is triggered by an **outcome** (e.g. a user initiated action such as a purchase or submitting contact details)*

2 principal forms:

Affiliate Marketing:

In the affiliate model, users will typically click an advertisement and be re-directed to the advertiser's website to complete the transaction, following which a fee is paid to the content owners once the transaction is completed

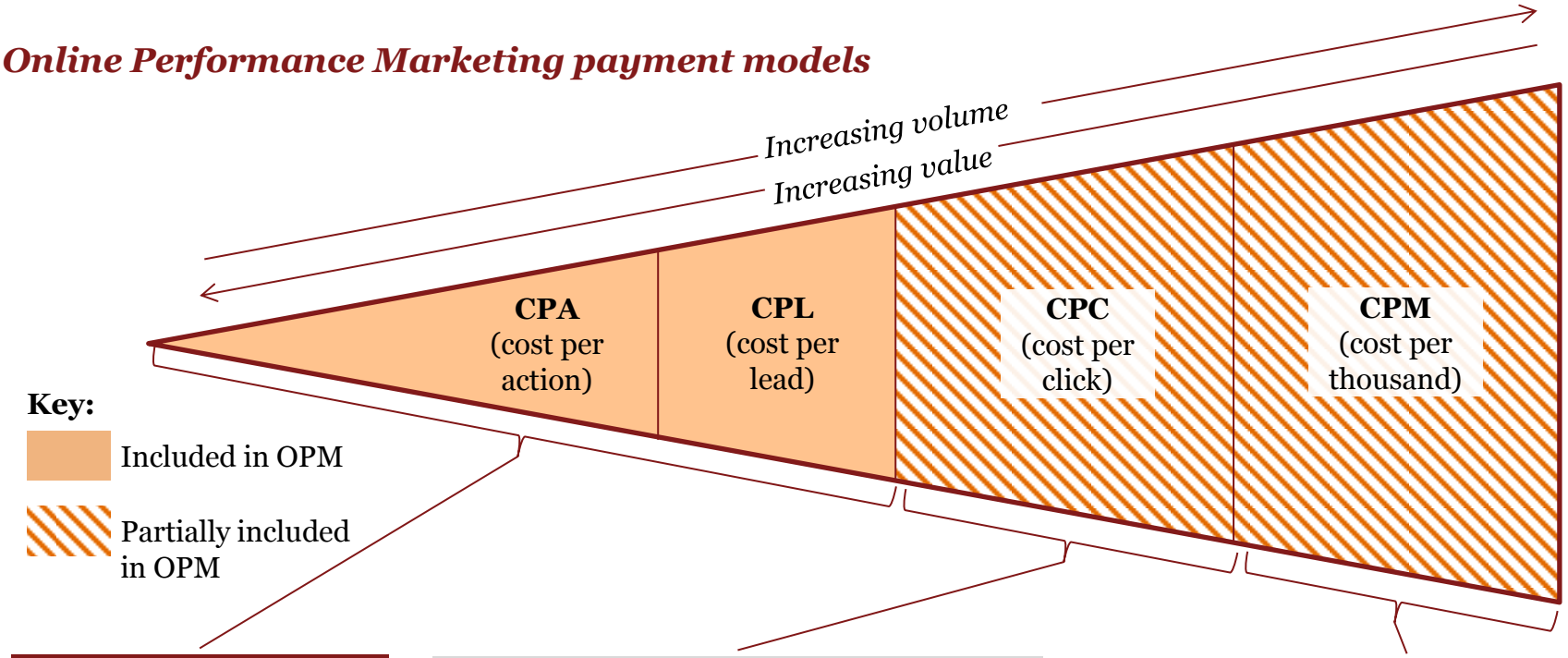
Lead Generation:

In the lead generation model, users will typically enter their details (e.g. into a lead capture form) which are then passed onto the advertiser, following which a fee is paid to the content owners (payment is on a per enquiry basis)

Note: please see the appendix for further details of Online Performance Marketing business models

Our definition of the Online Performance Market includes some CPC and CPM payments in addition to CPA and CPC payments

Online Performance Marketing payment models



Typically, affiliates and lead generators are remunerated on a CPA (cost per action) or CPL (cost per lead) basis

Our definition also includes some advertiser-publisher relationships which are based on a CPC model. This is common for affiliates which generate large volumes of user click through and high conversion rates. Examples include travel aggregators and price comparison websites

We have also considered a small amount of additional CPM based revenues. These revenues occur where publishers with an 'affiliate' relationship with an advertiser also receive payments for tenancy or content sponsorship (from the same advertiser) to improve affiliate sales conversion

Note: For more detail on these payment models please see the appendix

UK Online Performance Market eco-system

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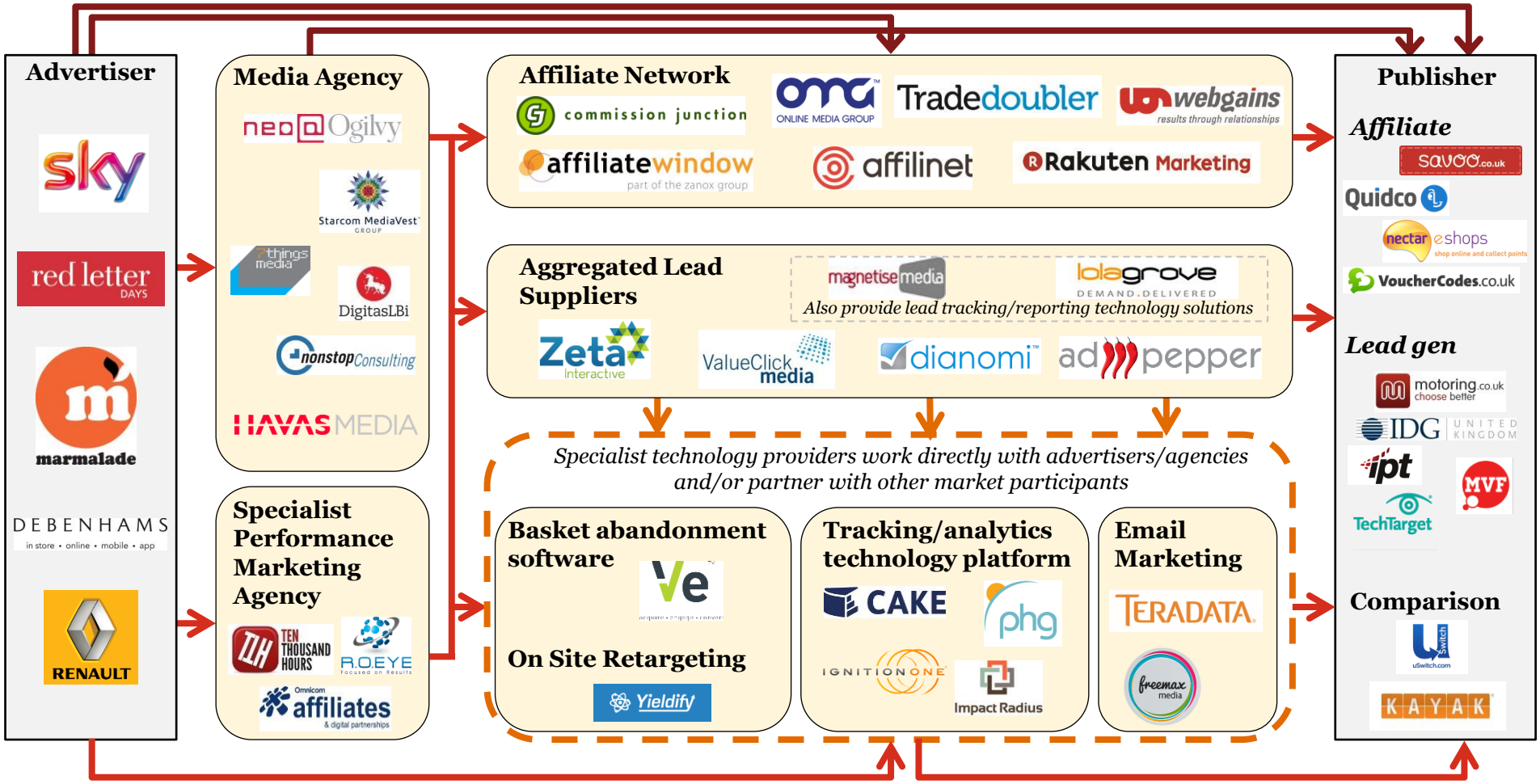

Note: companies may act as a 'publisher' and as an 'advertiser', or work across multiple segments of the value chain

Methodology for estimating advertiser spend

Online Performance Marketing expenditure by advertisers

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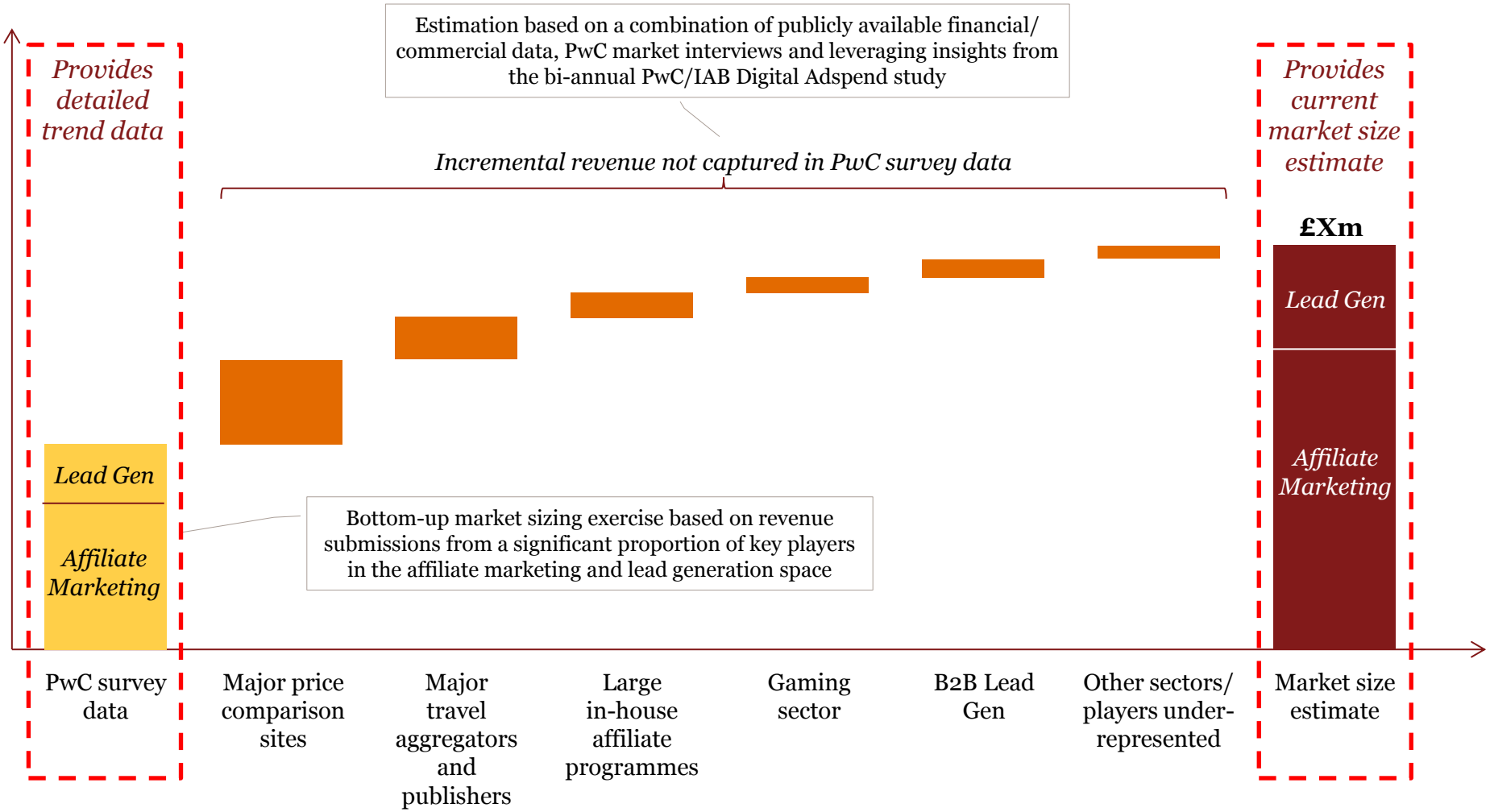
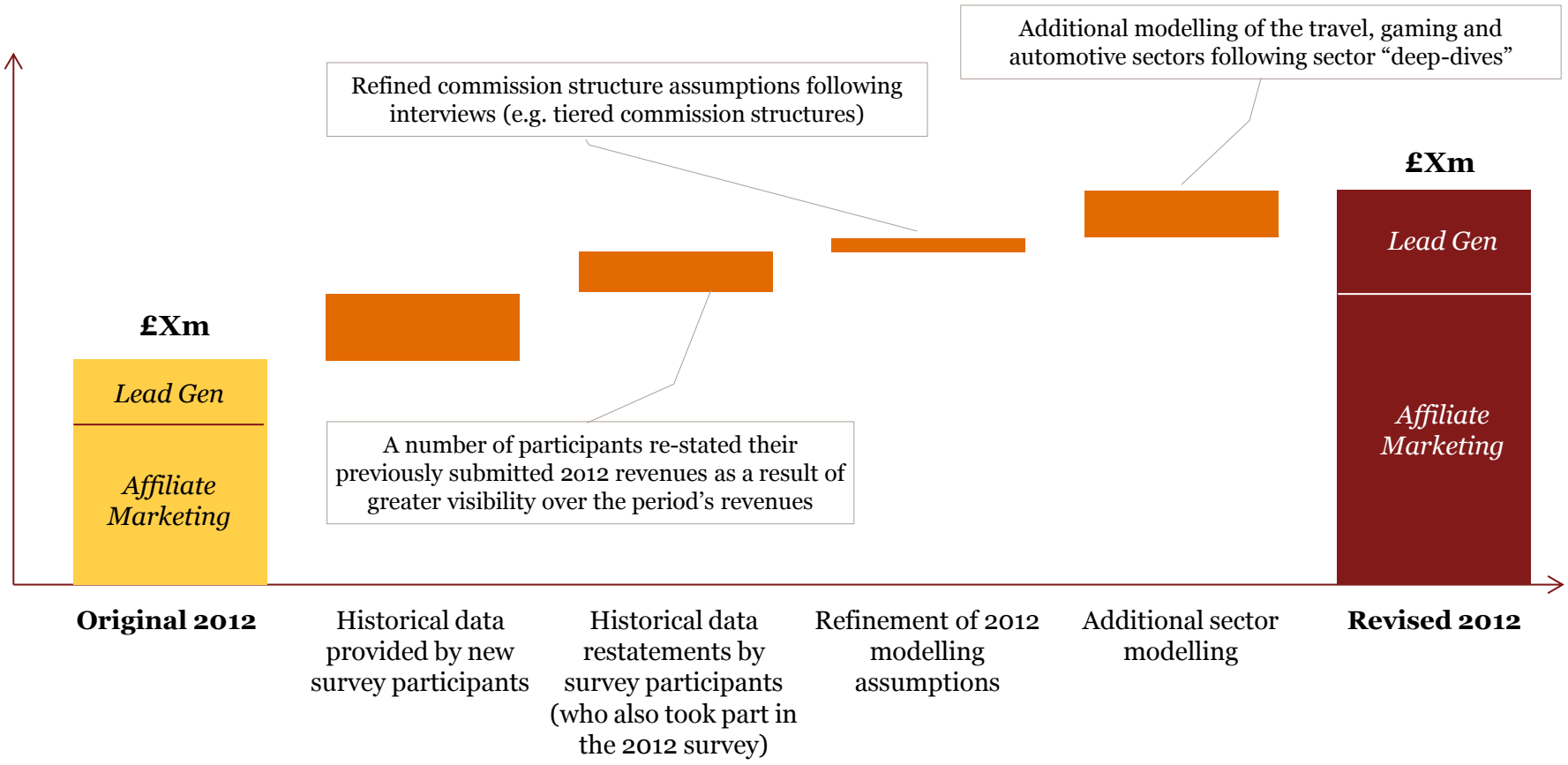


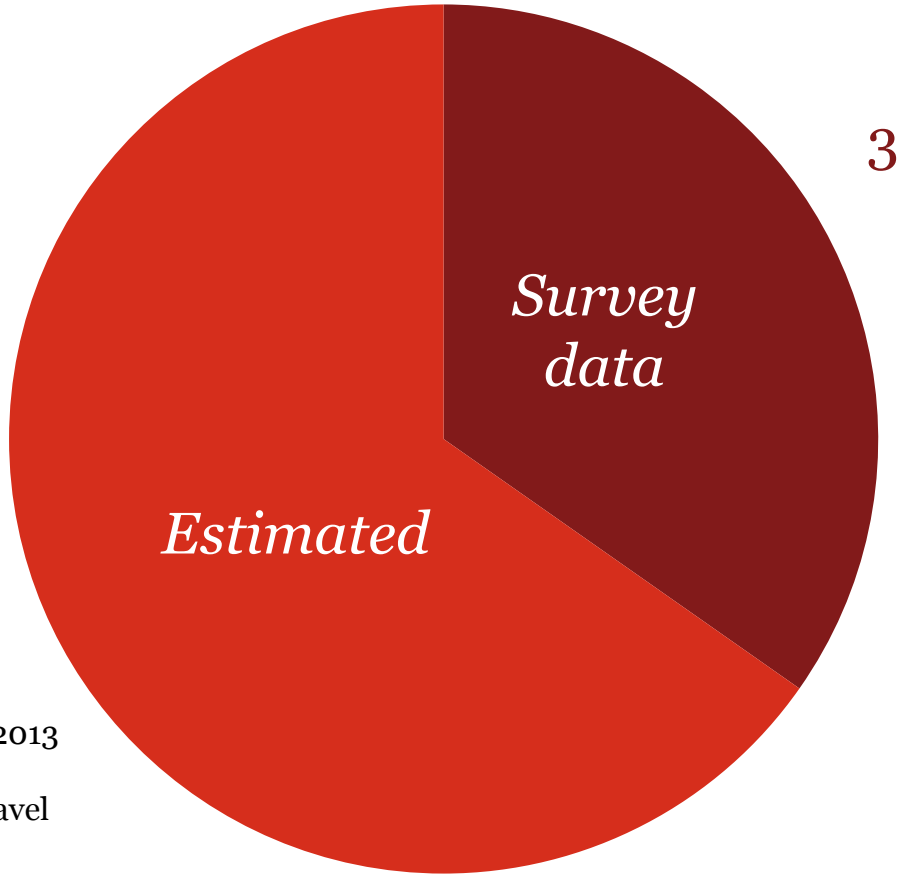
Revisions made to the 2012 study methodology and assumptions

Online Performance Marketing expenditure by advertisers



Methodology for estimating advertiser spend

Online Performance Marketing expenditure by advertisers



34% (2013)
(37% - 2012)

66% (2013)
(63% - 2012)

Growth of estimated share in 2013 resulting from additional estimation of, for example, travel aggregators and gaming technology platforms

Key assumptions in modelling of incremental revenues

Online Performance Marketing expenditure by advertisers

Revenue item	Methodology
Major price comparison sites	We have used publicly available financials of the major price comparison sites, including revenue/industry/business model breakdown where available. Reflecting findings from our market interviews, we have made adjustments to reflect the percentage of this revenue which is non-performance marketing related, and discounted revenues already captured through the networks in our survey
Large in-house affiliate programmes	In the retail sector, market interviews highlighted two major in-house programmes (eBay and Amazon). Spend on affiliate marketing, commissions and sales generated have been estimated through a combination of publicly available financial information and market interviews
Travel aggregators	We have used publicly available financial data for a number of major travel aggregators combined with in-depth interviews with aggregators, agencies, networks and publishers to estimate OPM related spend
Gaming sector	We have used publicly available financial data of the major online gaming companies to identify spend on affiliate marketing. Supplemented by market interviews with gaming affiliate marketing specialists and market share analysis, we have estimated the overall spend on affiliate marketing by the major online gaming companies
Automotive sector	We have interviewed a number of major automotive manufacturers, specialist automotive publishers and agencies to estimate OPM related spend in the automotive sector
B2B Tech Lead Gen	We have received submissions from a number of B2B Tech lead generators and estimated market share for a number of others using market share analysis. This has been informed by a number of interviews with specialist B2B Tech lead gen providers
Other sectors/ players under-represented	Through market interviews we have identified a number of key players in the performance marketing sector not captured in our work. We have estimated incremental revenues for Telecoms lead generation, Automotive lead generation, and one other player in the Online Performance Marketing arena. This has been supplemented by cross checking data captured in the PwC/IAB Digital Adspend study

Methodology for estimating sales generated

Advertiser sales generated by Online Performance Marketing

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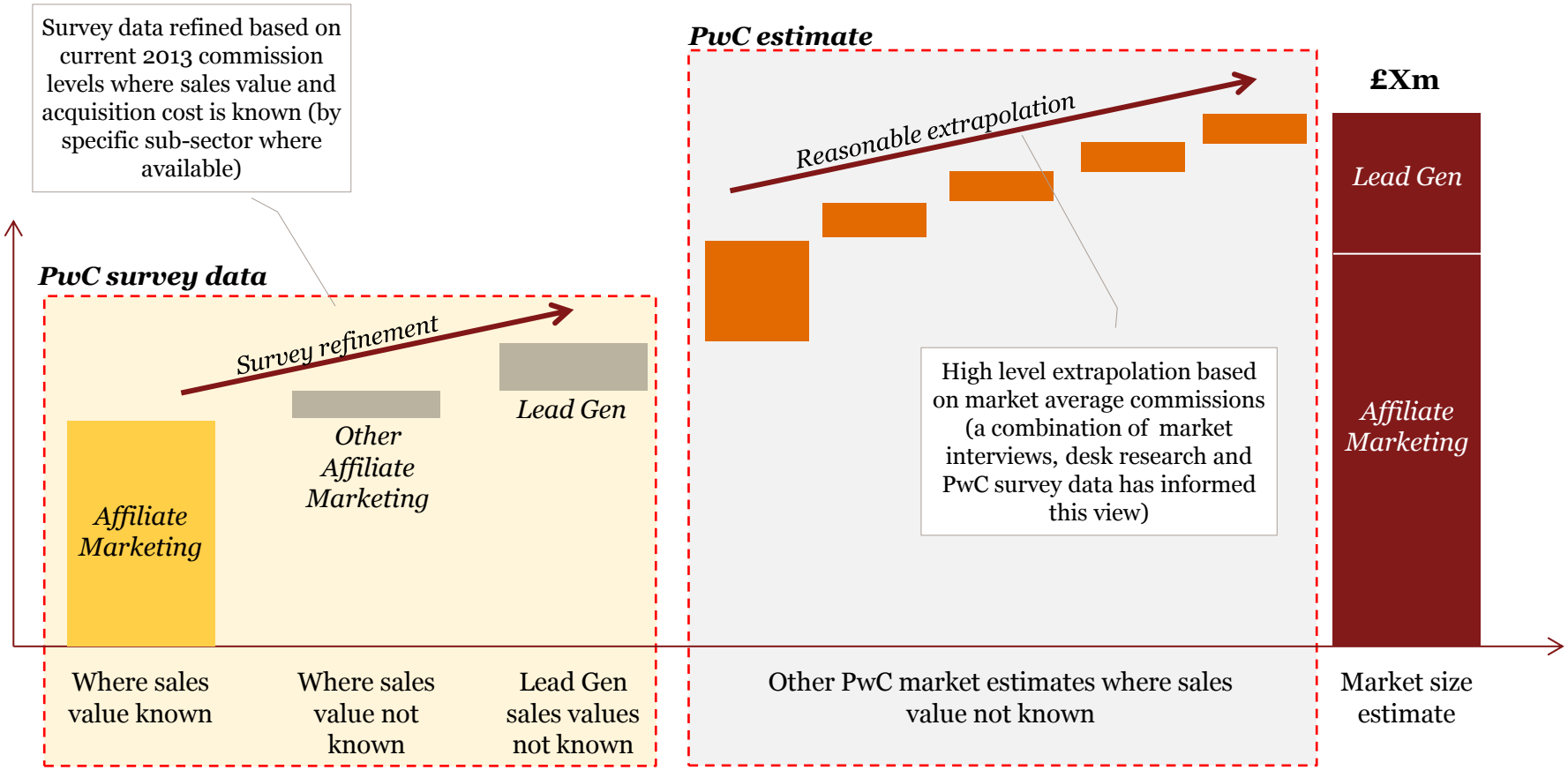

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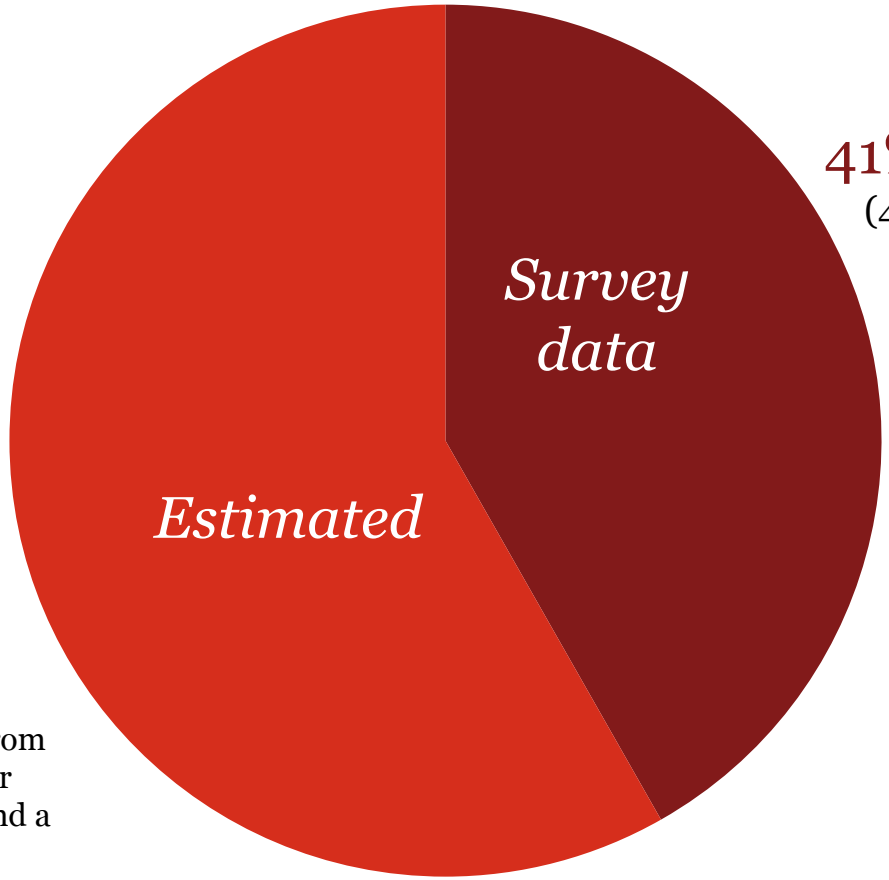

41% (2013)
(47% - 2012)

59% (2013)
(53% - 2012)

Growth of estimated sales generated in 2013 resulting from additional estimation of, for example, travel aggregators and a refinement of commission structures in other sectors vs. 2012

Key assumptions in modelling of incremental sales

Advertiser sales generated by Online Performance Marketing

Revenue item	Methodology
Major price comparison sites	Through a combination of market interviews, desk research and relevant (sector specific) survey data already collected from the networks and lead gen companies, we have estimated the average commissions applicable to this segment of the market. This is then used as a proxy to scale up incremental sales generated from this market segment. If no specific detailed information was uncovered in our work, an average commission was applied (as taken from our survey data)
Large in-house affiliate programmes	
Travel aggregators	
Gaming sector	
B2B Lead Gen	
Other sectors/ players under-represented	

Items not captured in our market estimate

Additional agency commissions	• Our current survey data focuses largely on affiliate networks and lead gen companies, and as such there is likely to be additional commission on top of this from media agencies
White label or 'off the shelf' tracking solutions	• We have received submissions from some technology tracking providers but there is likely to be additional spend through other providers which we have not been able to capture in this year's report
Smaller price comparison sites	• Our estimate includes a sample of some of the UK's largest price comparison sites, but has not considered the longer tail of price comparison sites (up to 50)
Smaller travel aggregators	• We have modelled a number of the largest UK travel aggregators and publishers, but have not considered a number of smaller aggregators
Spend on other technology/ secondary services	• Our survey has not captured the total spend on all 'secondary' technology services which support the industry, e.g. website building, data analytics, data feeds, retargeting etc.
Other sectors under-represented in our work	• There is likely to be additional spend made by certain sectors (e.g. Energy & Utilities) which we have not been able to verify or capture in this report

Key findings

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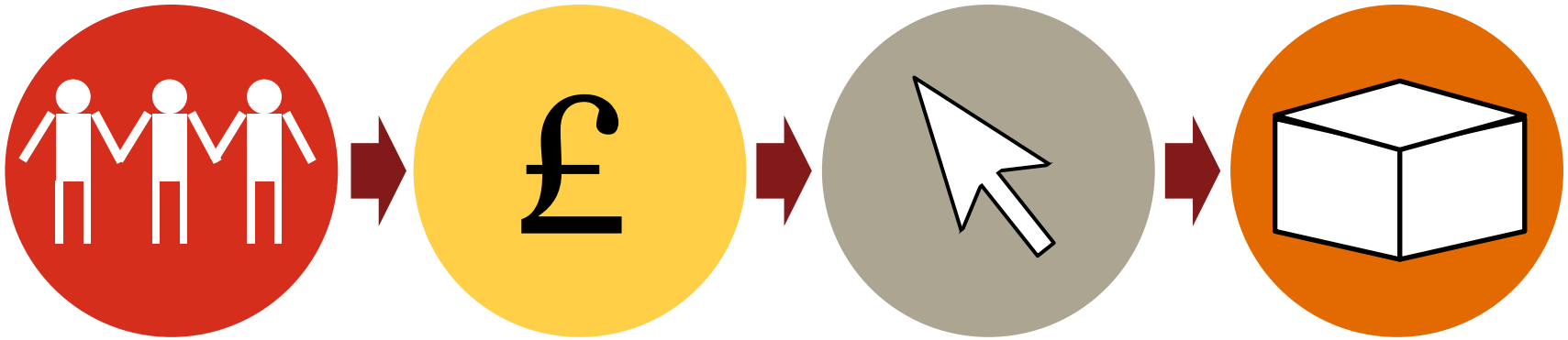
Key findings (1) – 15% like-for-like growth in 2013



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Consumer insights, 2013

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- ***c.45%** consumers redeem points or cash-in vouchers at least once every month*

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Source: PwC survey results, PwC estimates, IAB commissioned consumer survey

Market participation

c.4,000 Advertisers* (c.15% LfL growth y-o-y)

This includes many of the biggest brands in the UK market, as well as a long tail of SMEs, all of which rely on Online Performance Marketing as a key driver of customer sales

As well as some of the largest and well known price comparison, cashback, voucher and loyalty sites in the UK, this also includes a long tail of publishers who increasingly monetise its website content through Online Performance Marketing

c.12,000 Publishers* (c.20% LfL growth y-o-y)

*Based on reported estimates and discussions with leading affiliate networks and lead generation companies

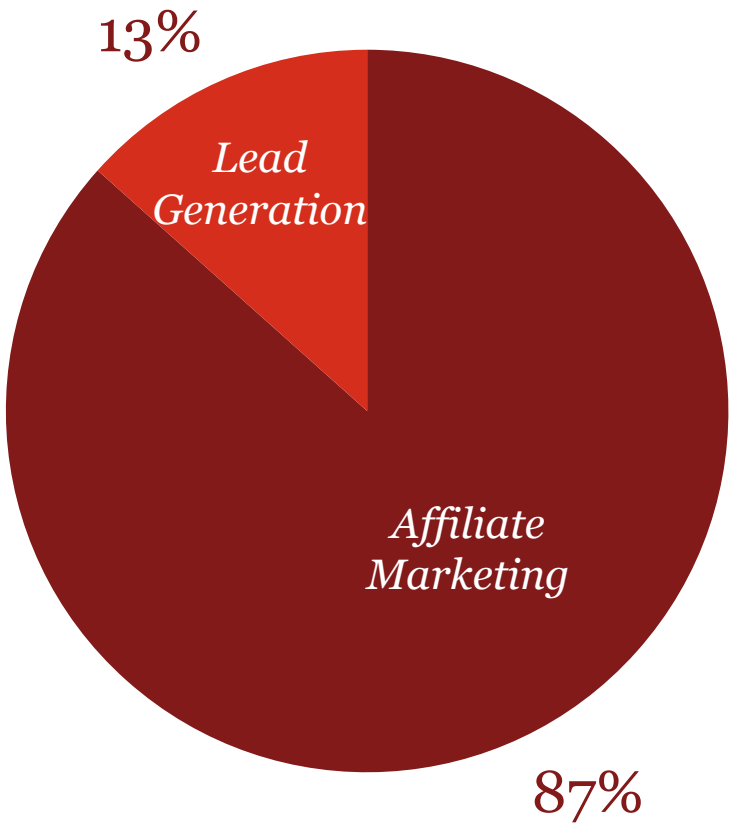
Source: PwC survey results

Advertisers spent c.£1.0bn in 2013

Online Performance Marketing expenditure by advertisers

2013

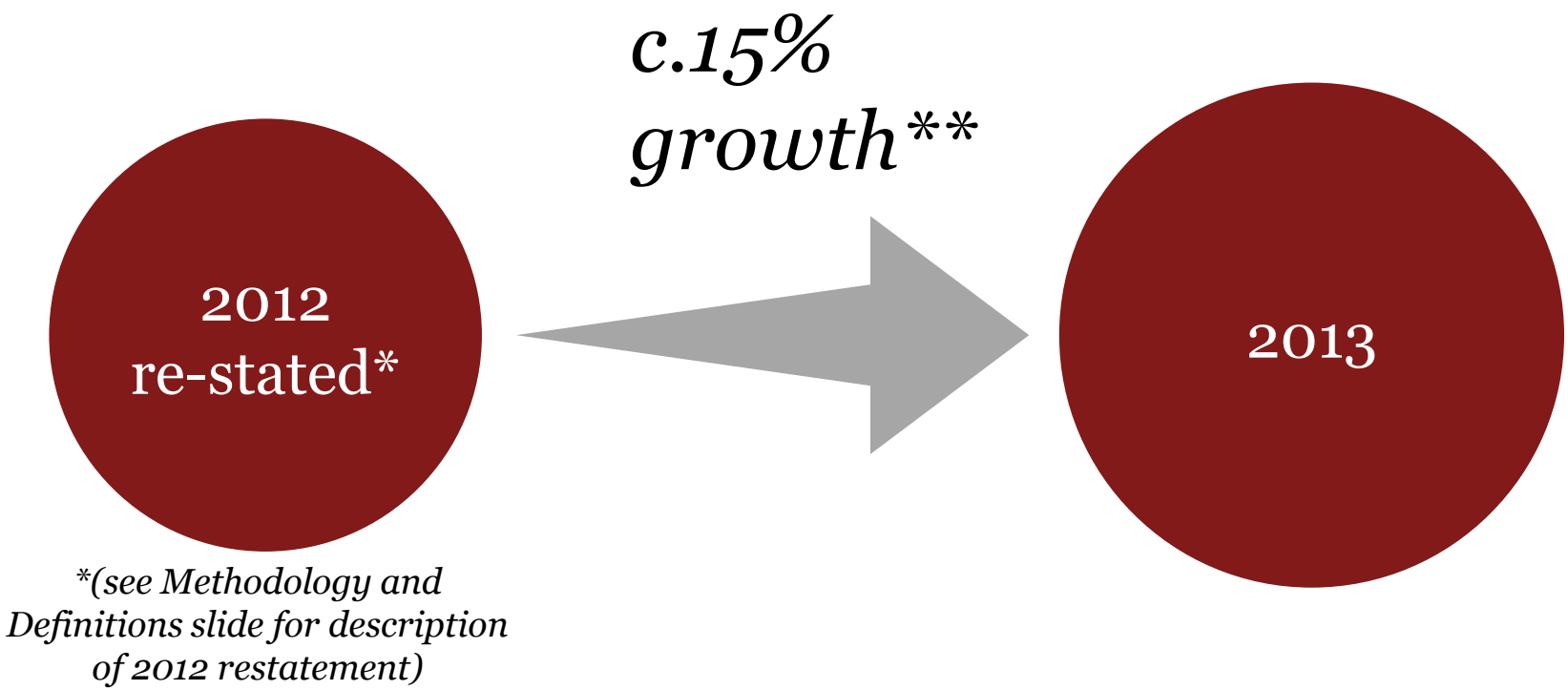
c.£1.0bn



Source: PwC survey results, PwC estimates

We estimate advertiser spend grew by c.15% during 2013

Online Performance Marketing expenditure by advertisers 2013 vs. 2012 re-stated



*(see Methodology and Definitions slide for description of 2012 restatement)

Note: *Re-stated due to survey restatements, additional survey participants and additional sector modelling, **Growth rate based on survey participants and PwC estimates for modelled sectors
Source: PwC survey results, PwC estimates

Advertiser spend by payment model

Online Performance Marketing expenditure by advertisers, 2013

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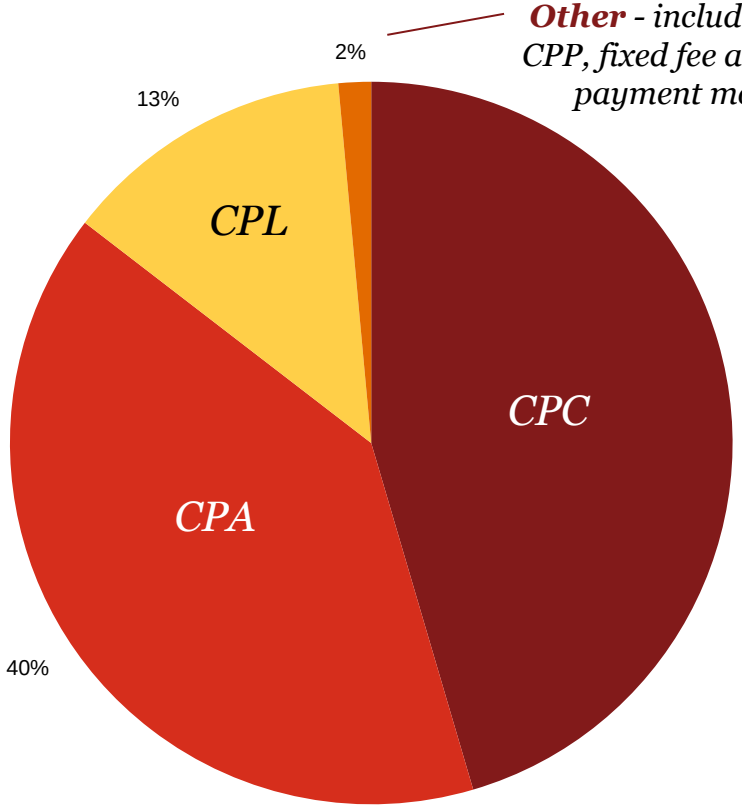


Other *- includes CPM, CPP, fixed fee and other payment models*

CPC *- includes major price comparison sites and travel aggregators.* ***Ultimately these transactions are measured on sales generated for advertisers, but advertisers agree to pay on a CPC rather than CPA basis***

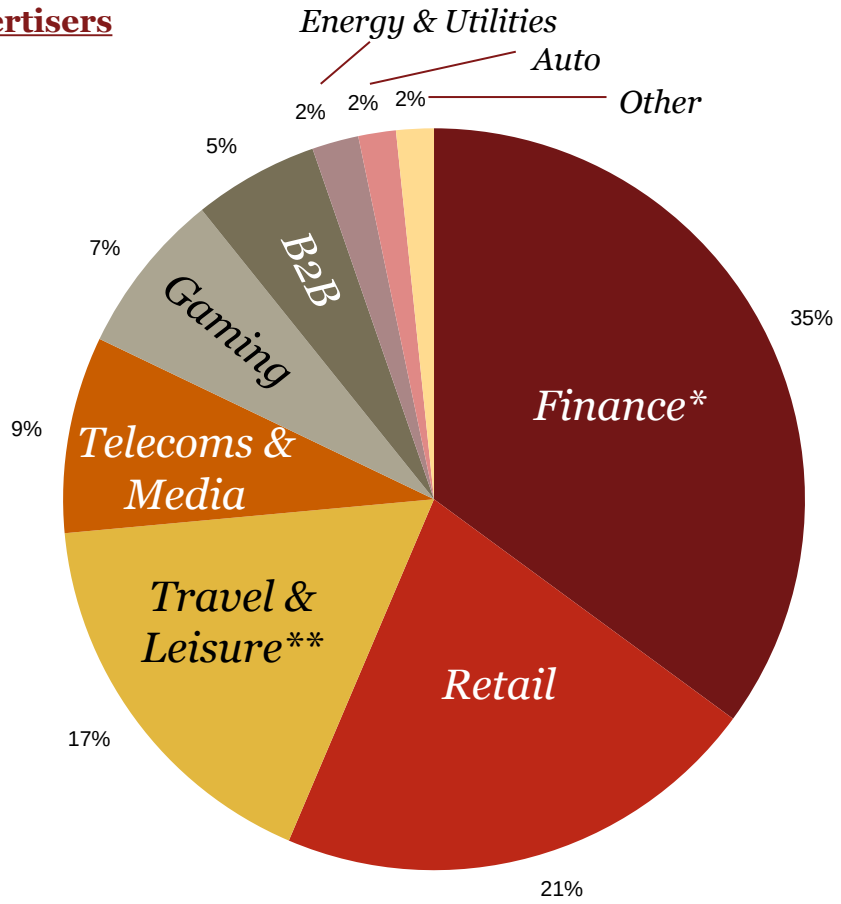
Source: PwC survey results, PwC estimates

Finance, Retail, Travel & Leisure and Telecoms & Media key sectors

Online Performance Marketing expenditure by advertisers

2013

c.£1.0bn



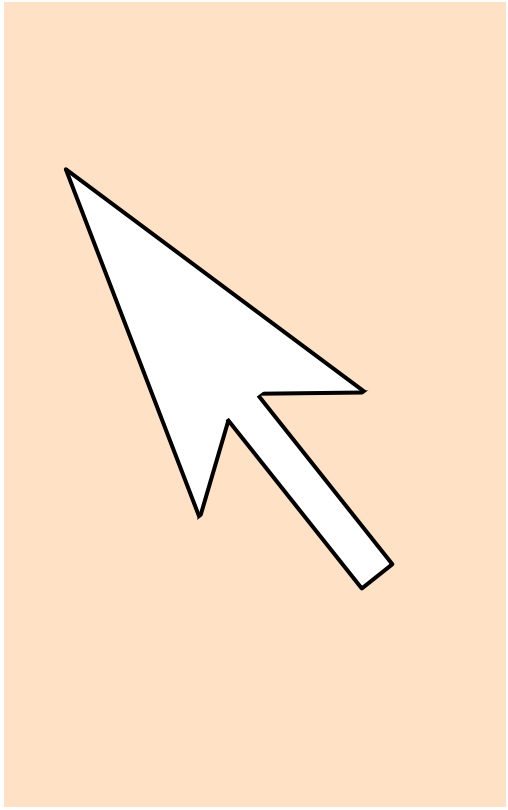
Source: PwC survey results, PwC estimates

*c.90% of Finance revenue relates to price comparison sites
**c.60% of Travel relates to major travel aggregators

"Click-throughs" generated by Online Performance Marketing

In addition to generating c.200m transactions, OPM provides advertisers with significant brand awareness

ILLUSTRATIVE ONLY



We estimate the Online Performance Market generated:

c.4bn *clicks in 2013*...*

*...**c.10m** clicks each day...*

*...**c.120** clicks every second*

Note: *Our estimate of the volume of 'click-throughs' generated by the Online Performance Market is based on click volume data from the survey and modelled data. We estimate c.50% of click volume is included in the survey data which accounts for c.34% of total advertiser spend. We estimate the remaining c.66% of advertiser spend modelled accounts for a further 50% of click volume based on the assumption that price comparison sites and travel aggregators and publishers will have a higher click to sale conversion rate than those publishers included in our survey
Source: PwC survey results, PwC estimates

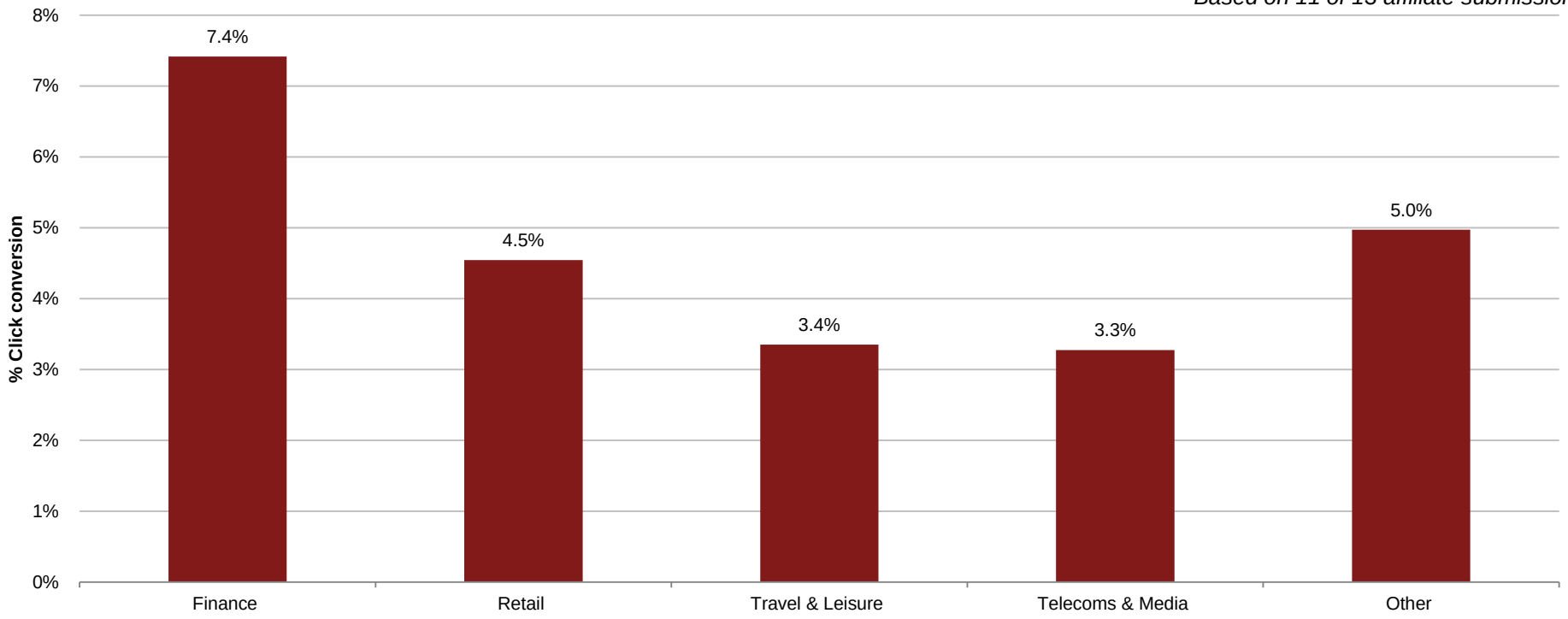
c.4% of all affiliate generated "click-throughs" convert into transactions – this varies by sector, with finance the leading sector in terms of conversion rates

Online Performance Marketing – Affiliate Marketing

PwC survey data only*

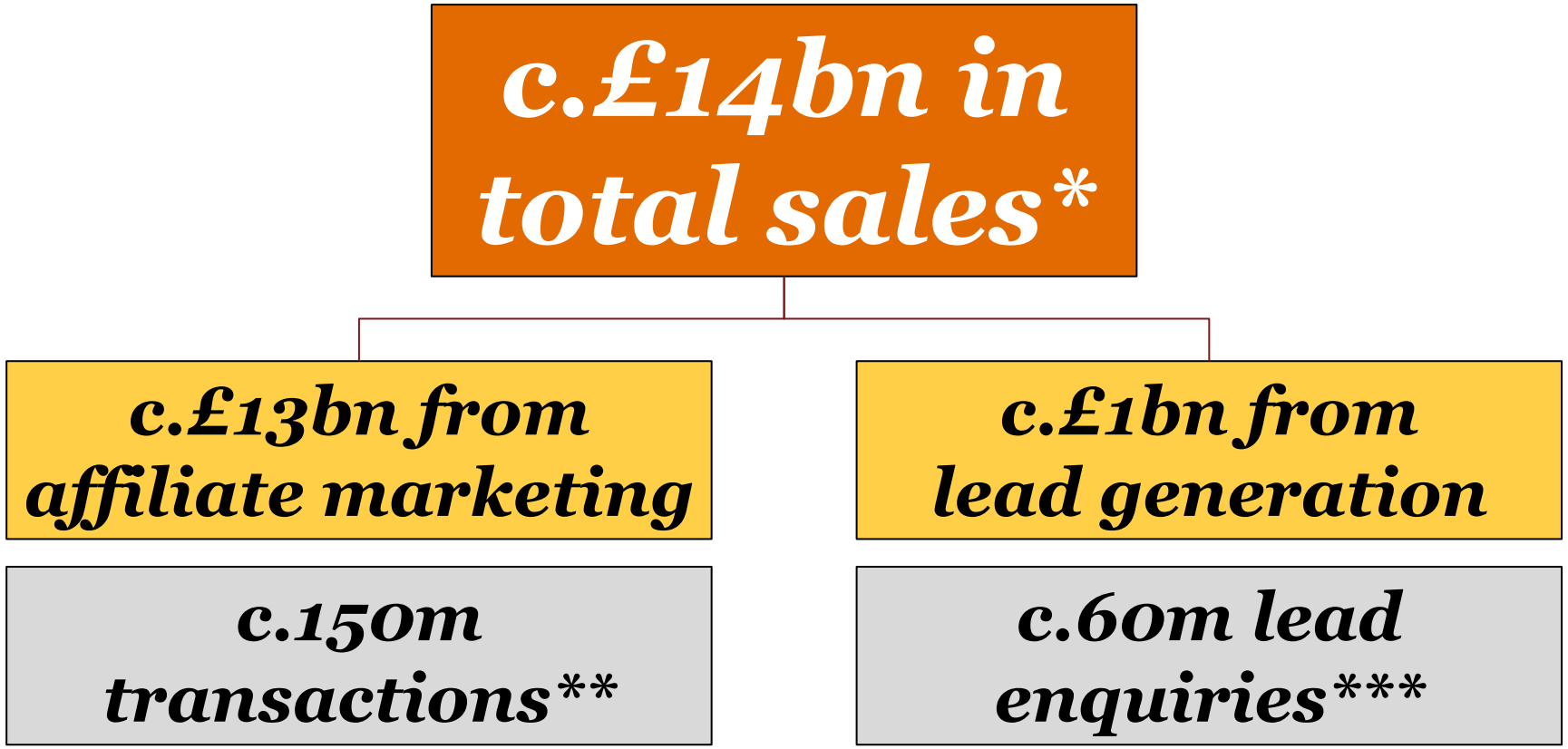
Based on 11 of 13 affiliate submissions

Online Performance Marketing Industry by click conversion (1H 2013) - Affiliate Marketing



Note: *Survey results only, excludes modelled price comparison sites, travel aggregators and other modelled participants
Source: PwC survey results

Expected to generate c.£14bn of advertiser sales in 2013, driven by c.150m transactions, and c.60m additional lead enquiries



Note: *of the total market size estimate, PwC survey results account for c.£6.0bn, and additional PwC estimates account for c.£8.0bn
Note: **of the total transactions, PwC survey results account for c.85m transactions, and additional PwC estimates account for c.65m transactions
Note: ***of the total lead enquiries, PwC survey results account for c.13m lead enquires, and additional PwC estimates account for c.47m lead enquiries. The mix of 2013 survey respondents differs from 2012, resulting in a higher average CPL which is applied to our 'modelled' lead gen sales to estimate total lead volumes. As a result, total lead gen volumes are less than those stated in the 2012 report. Aside from refining our methodology since our initial study last year, another reason for this change in lead volumes might be that a higher quality of lead is being purchased

Source: PwC survey results, PwC estimates

Comparison to the wider market & economy

c.8-10% of UK digital marketing spend[1]

c.10% of UK retail ecommerce[2]

This is based on Retail only sales in Online Performance Marketing

c.0.8% of UK GDP[3]

Sources/ Notes:

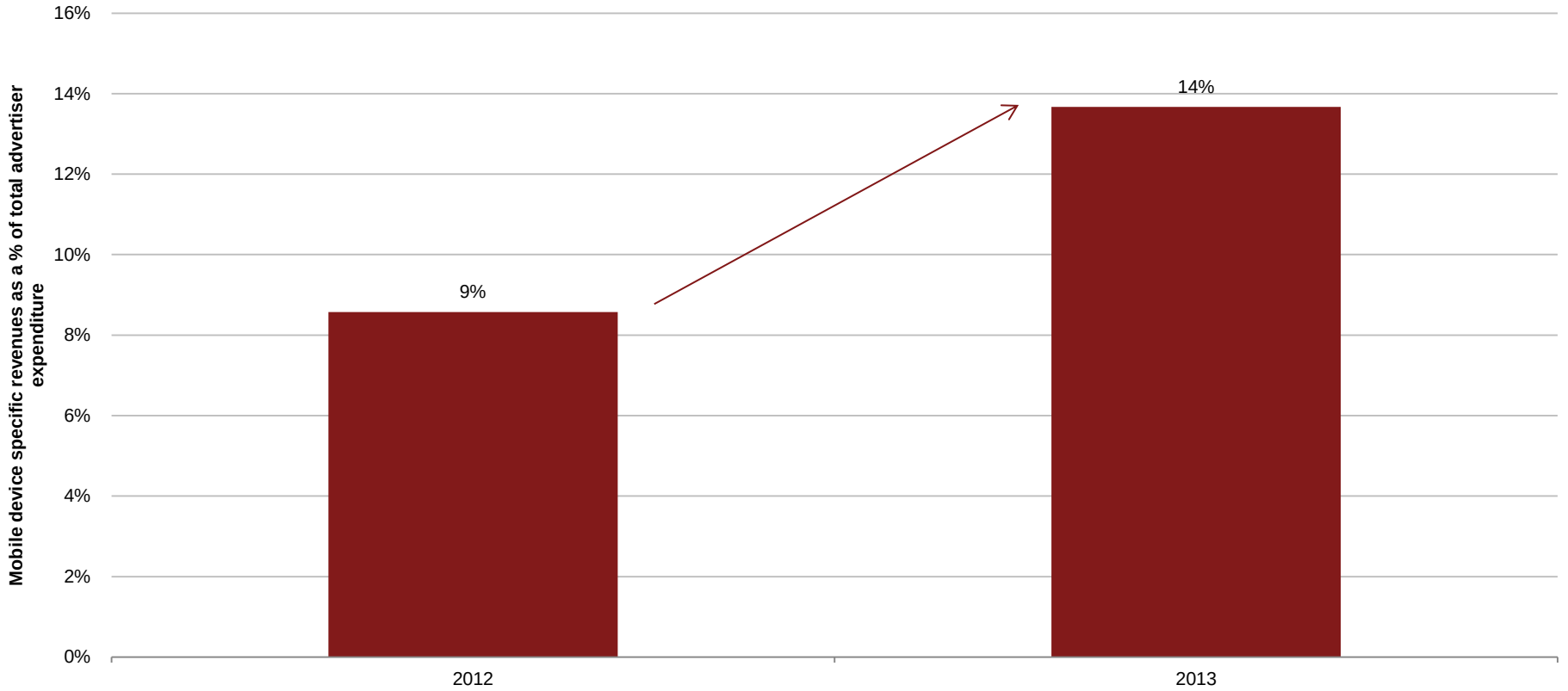
1. This figure is illustrative only. Calculated based on a combination of digital adspend (captured in the IAB/PwC Digital Adspend Study) and other digital marketing spend (not captured in the IAB/PwC Digital Adspend Study). We have excluded technology and management/ set-up fees from our Online Performance Marketing market size
2. Based on retail only sales in Online Performance Marketing compared to the UK retail ecommerce market value (Verdict Retail, 2013)
3. Assumed GDP of c.£1.5tn (IMF, Oct 2013) compared to UK Online Performance Marketing generated sales of c.£11-12bn

Spend on mobile and tablet continues to gain share

Online Performance Marketing – Mobile device (smartphone and tablet) advertiser expenditure

PwC survey data only

Based on 6 submissions for 2013



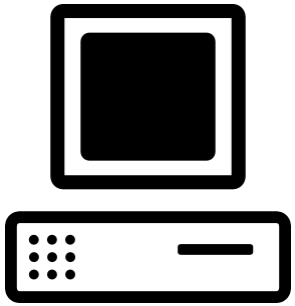
Note: The survey data potentially over-represents the importance of mobile and tablet to this market, as only participants able to split out mobile and tablet revenues are included in this analysis. It is likely that participants unable to split out mobile/tablet revenues are more likely to have a lower percentage of revenue through these devices than peers

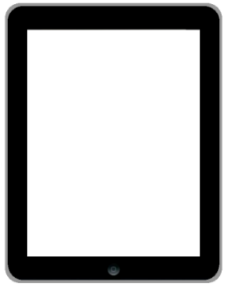
Source: PwC survey results

Case Study:
Mobile and tablet are key drivers of sales for Affiliate Window

affiliatewindow
part of the zanox group

A mobile optimised experience drives both conversions and order value. It is not uncommon for average orders to be 25% higher via a mobile optimised site.





Desktop

- In 2013, desktop sales accounted for c.80% of Affiliate Window sales
- In November, desktop sales dipped below 75% for the first time
- At weekends desktop sales dip to less than 65%

Mobile

- Mobile in 2013 has continued to witness triple digit growth
- Handset conversions remain low, at half the network average
- Clicks via the iPhone hit 15% in Q4 2013

Tablet

- Tablet is dominated by the iPad with 13% of the network's total sales coming via this device
- Both conversions and average order values exceed all other devices and platforms

The Growth of Mobile Devices within Online Performance Marketing

- At the start of 2011 handset and tablet sales accounted for less than 1% of the total network sales
- By the end of 2013 this figure nudged 30%, indicating remarkable growth
- Affiliate Window tracks in excess of 95% of mobile sales but some advertisers continue to run m-commerce sites without affiliate tracking in place
- Low value and impulse purchases are strong sale drivers with fashion seeing strong growth in 2013
- Affiliate Window estimates it will record 16,500 mobile sales per day in 2014.
- The challenge for affiliate marketers is to offer new mobile affiliate models to advertisers

Source: Affiliate Windows

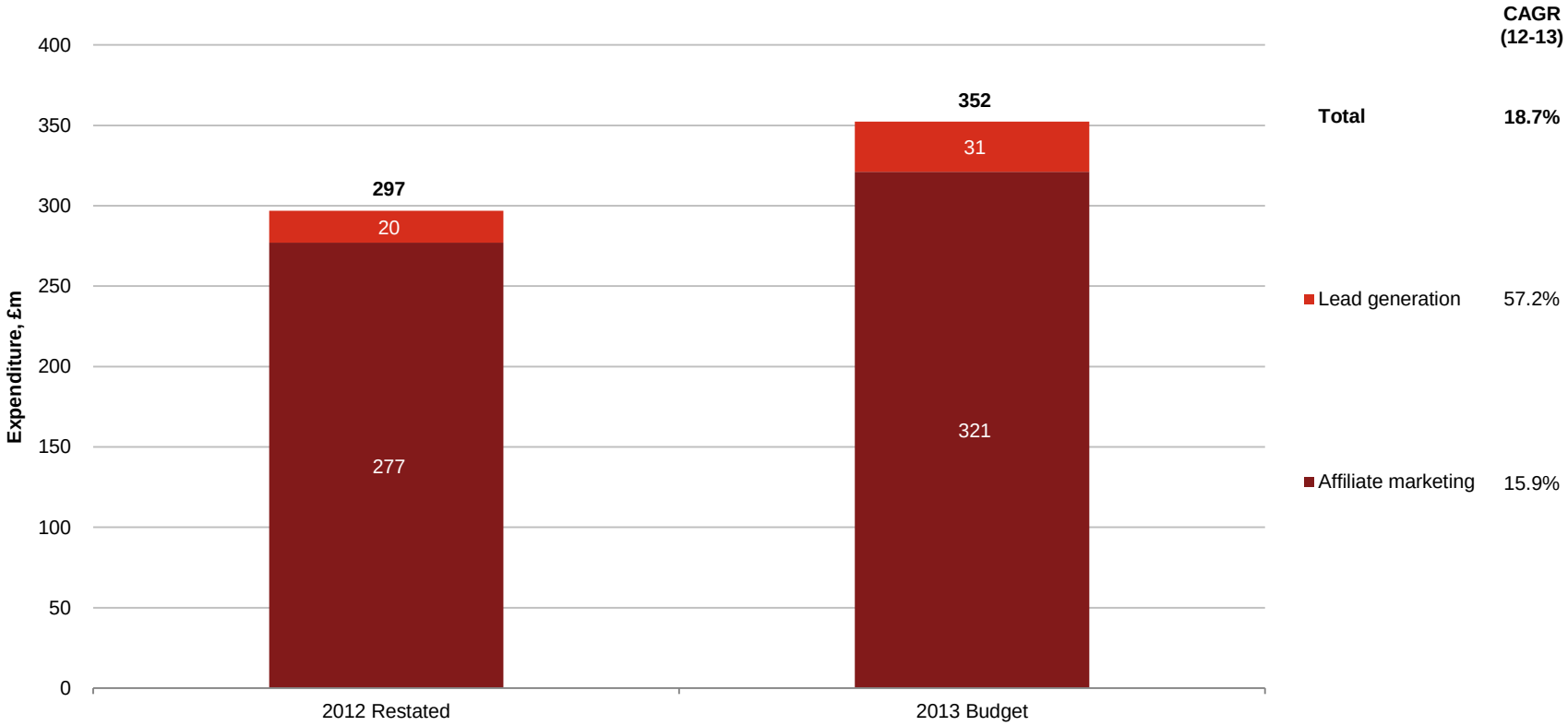
Section 4.1
Detailed survey results

Note: based on data submitted by survey participants; does not include estimates for non-participants

Strong growth is expected by survey participants across both Affiliate and Lead Gen…

PwC survey data only

Online Performance Marketing advertiser expenditure by predominant business model, 2012 (Re-stated) vs. 2013 (Budget)*



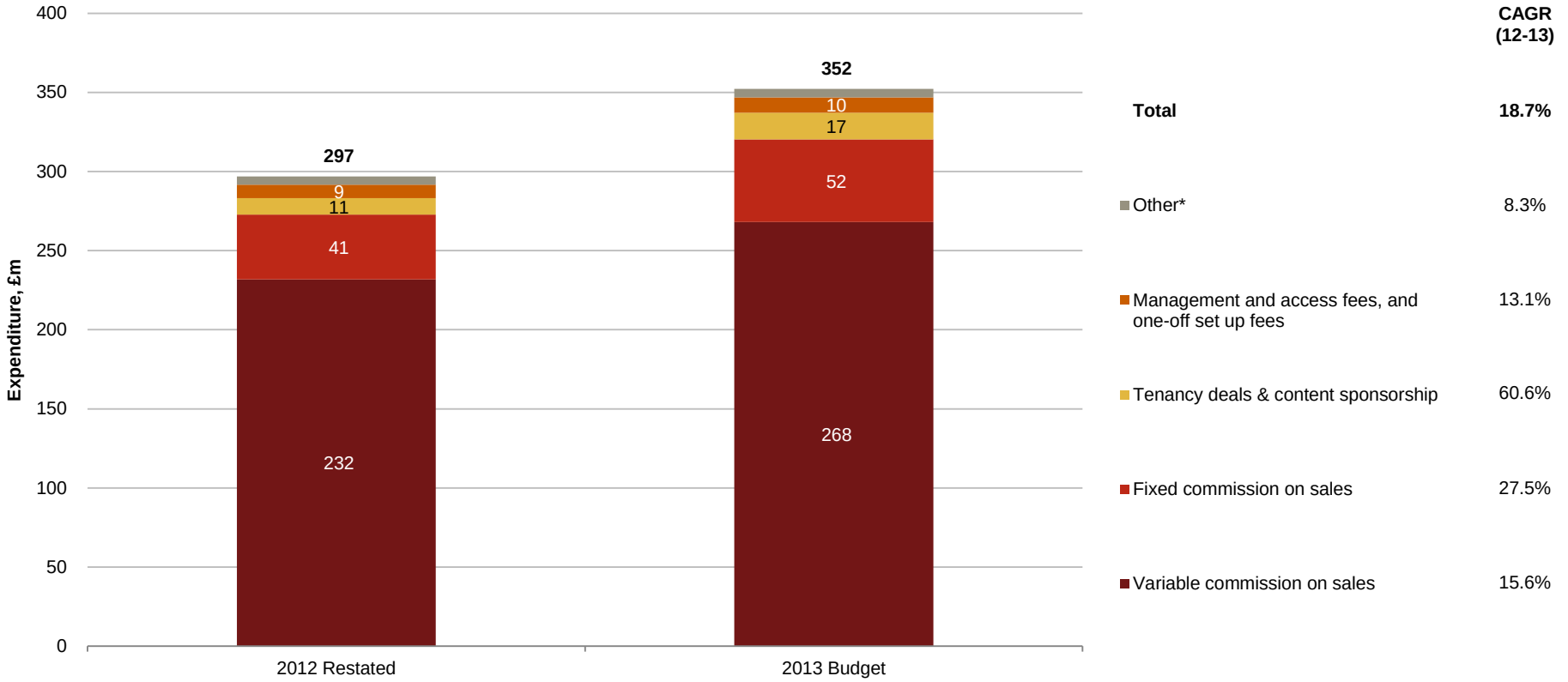
*Note: The following graphs relate to the PwC survey results only, and hence can only be used indicatively as growth rates and trends in the overall market. In this, and all following PwC survey graphs, 1H 2013 refers to actual figures and 2H 2013 is based on budgets/ outturn forecasts provided by participants during October/November. The split between Affiliate Marketing and Lead Generation is based on the split provided in company submission data, and not necessarily allocated based on payment model splits between CPA and CPL

Source: PwC survey results

...driven by growth in commission fees and tenancy deals

PwC survey data only

Online Performance Marketing advertiser expenditure by transaction type, 2012 (Re-stated) vs. 2013 (Budget)



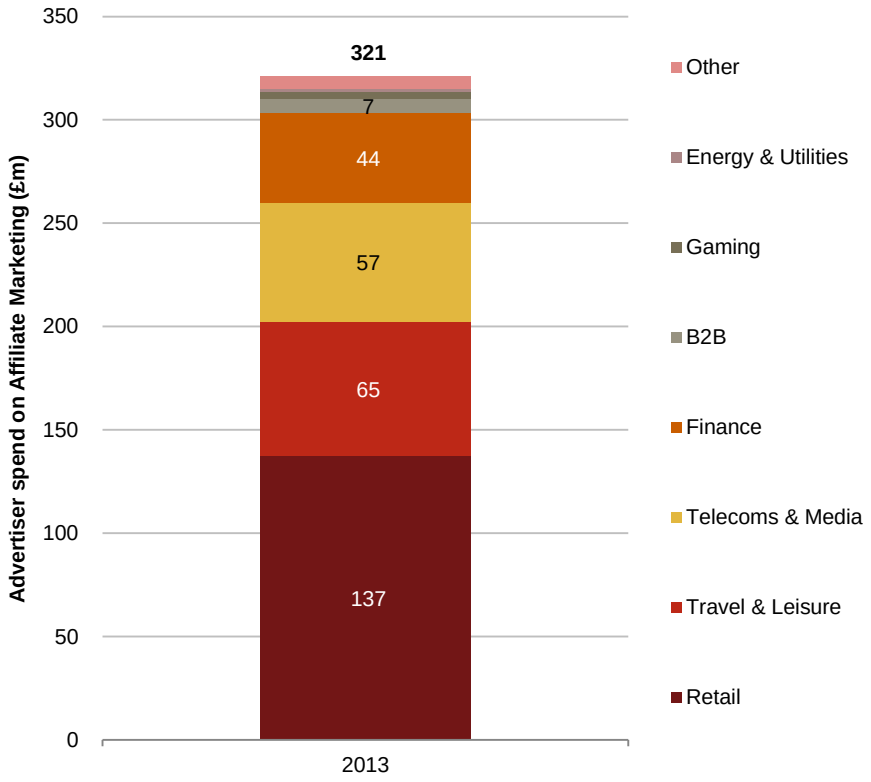
*Other refers to categories where fewer than 5 participants provided revenues in 2013. These categories include: hybrid commission payments (mixture of affiliate and lead generation activity), display banners leading to capture forms, email list rentals, email & SMS broadcast, lead validation & verification, other unclassified revenue.

Source: PwC survey results

Concentration of spend varies significantly between affiliate marketing and lead generation

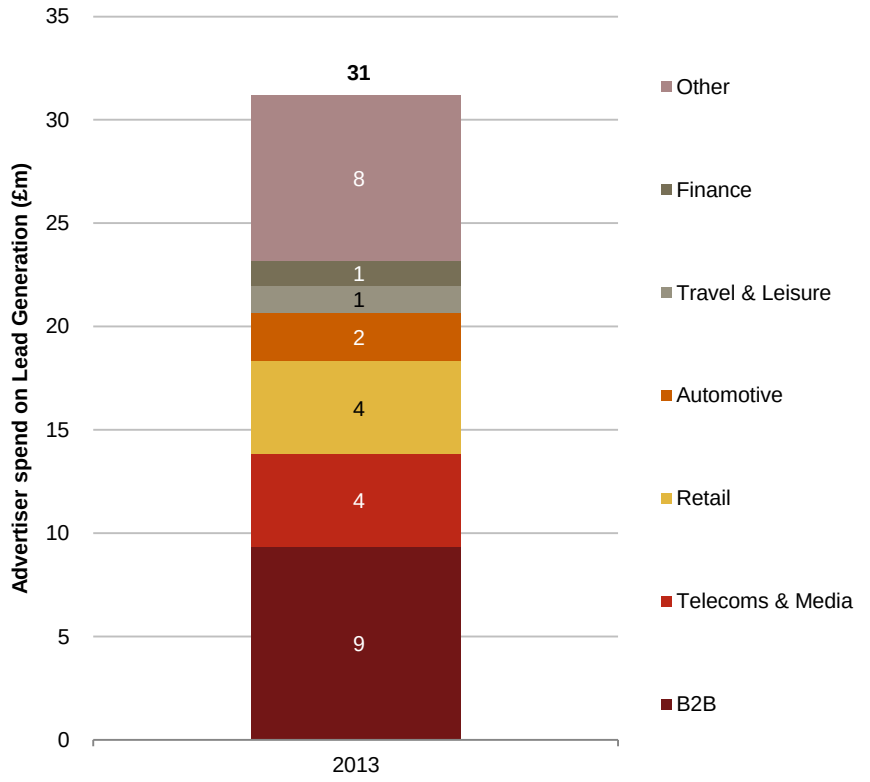
PwC survey data only

Advertiser spend on Affiliate Marketing, 2013



Note: this split relates to survey participants only and hence is largely driven by payments tracked by the major affiliate networks. As such, this analysis does not provide detailed coverage of price comparison sites, travel aggregators and publishers, in-house affiliate programmes and other in-house tracking solutions

Advertiser spend on Lead Generation, 2013



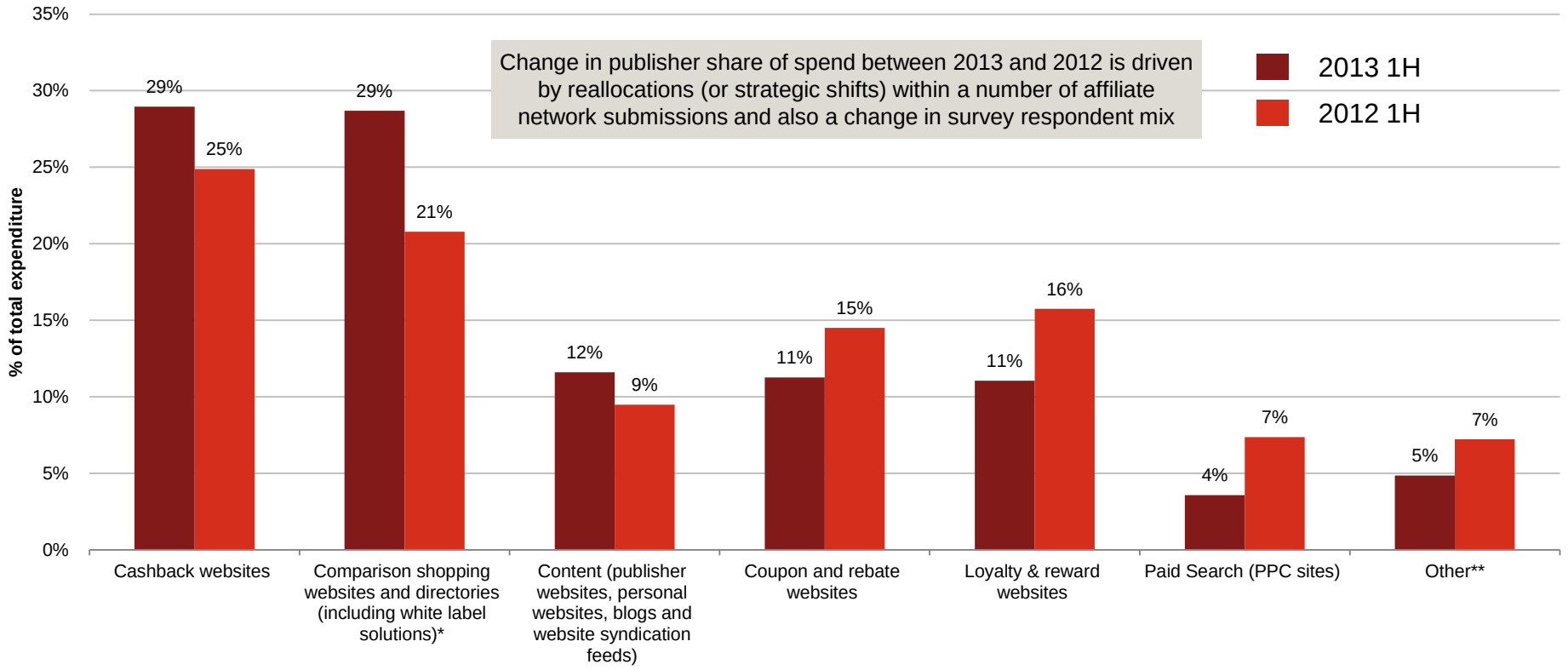
Note: this split relates to survey participants only, and hence does not provide detailed coverage of price comparison sites, in-house programmes, and B2B lead gen in particular. Due to fewer submissions in lead generation, there are fewer categories where more than 5 participants provided revenues, and so this has not been split out in the above analysis

Source: PwC survey results

Spend is distributed across a wide range of publisher websites (1)

PwC survey data only

Online Performance Marketing expenditure by publisher activity (1H 2013) - Affiliate Marketing



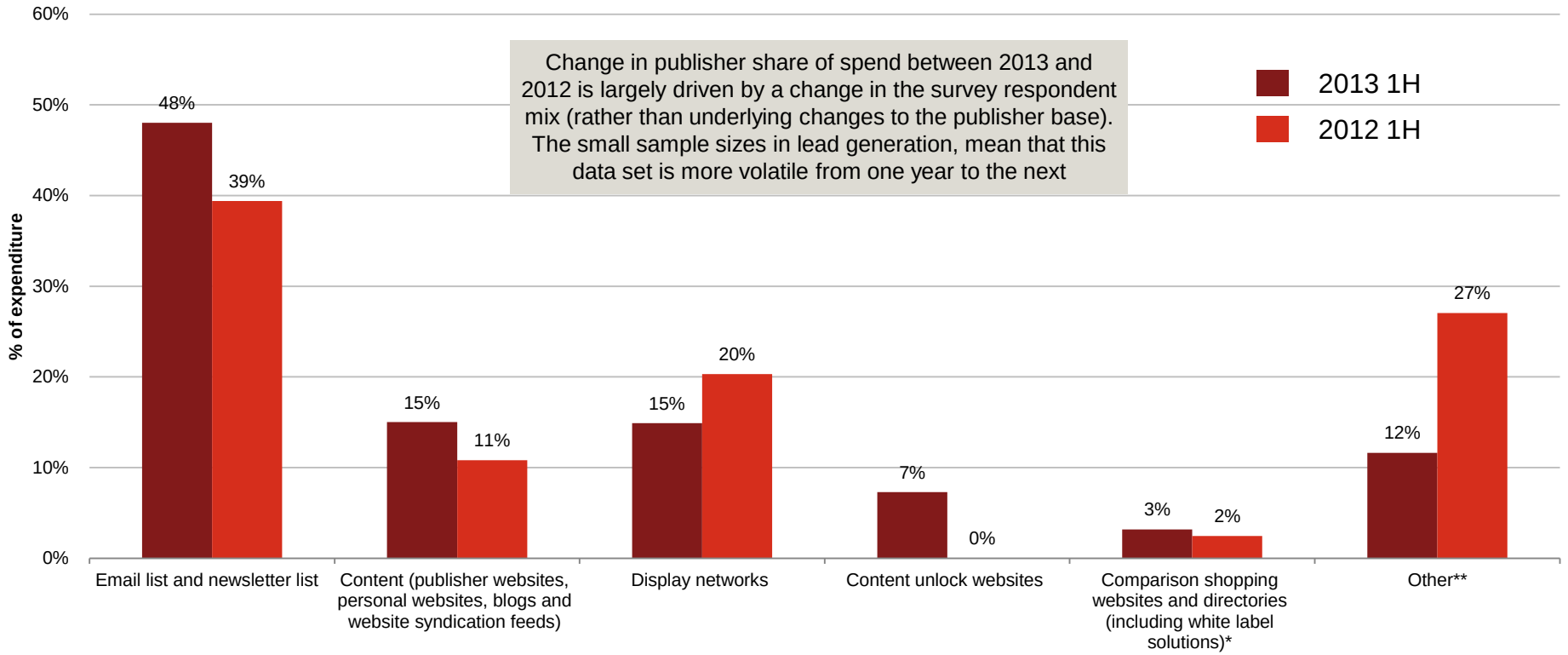
Note: *revenue from price comparison websites is likely to be much higher in terms of the overall market. However, this graph only captures data from the PwC survey which is largely focused on the major affiliate networks and lead generation companies in the sector
**Other includes display networks, content unlock websites, email list and newsletter lists, registration path or co-registration sites, social media, surveys and other unclassified

Source: PwC survey results

Spend is distributed across a wide range of publisher websites (2)

PwC survey data only

Online Performance Marketing expenditure by publisher activity (1H 2013) - Lead Generation



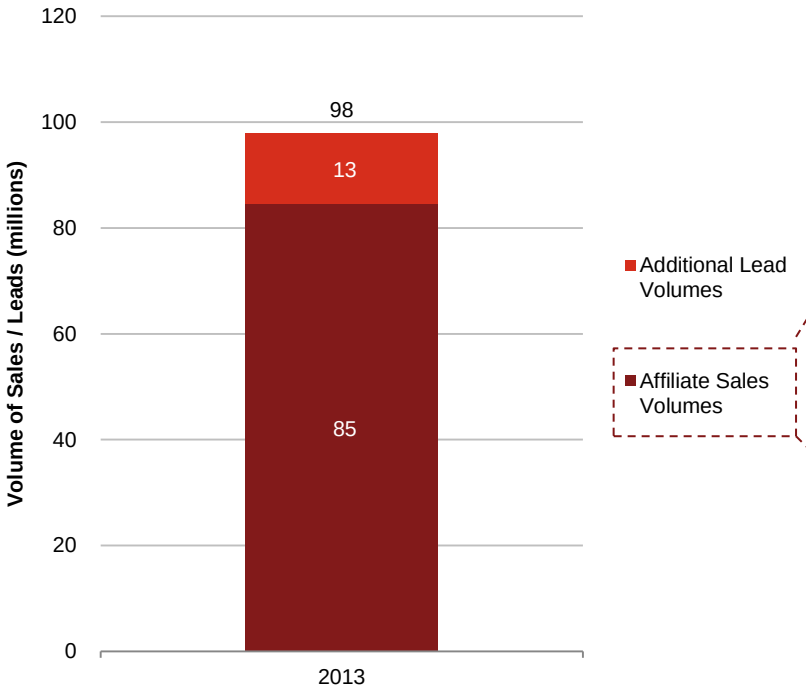
Note: *revenue from price comparison websites is likely to be much higher in terms of the overall market. However, this graph only captures data from the PwC survey which is largely focused on the major affiliate networks and lead generation companies in the sector
**Other includes loyalty & reward sites, cashback sites, coupon and rebate websites, registration path or co-registration sites, paid search sites, social media, surveys and other unclassified

Source: PwC survey results

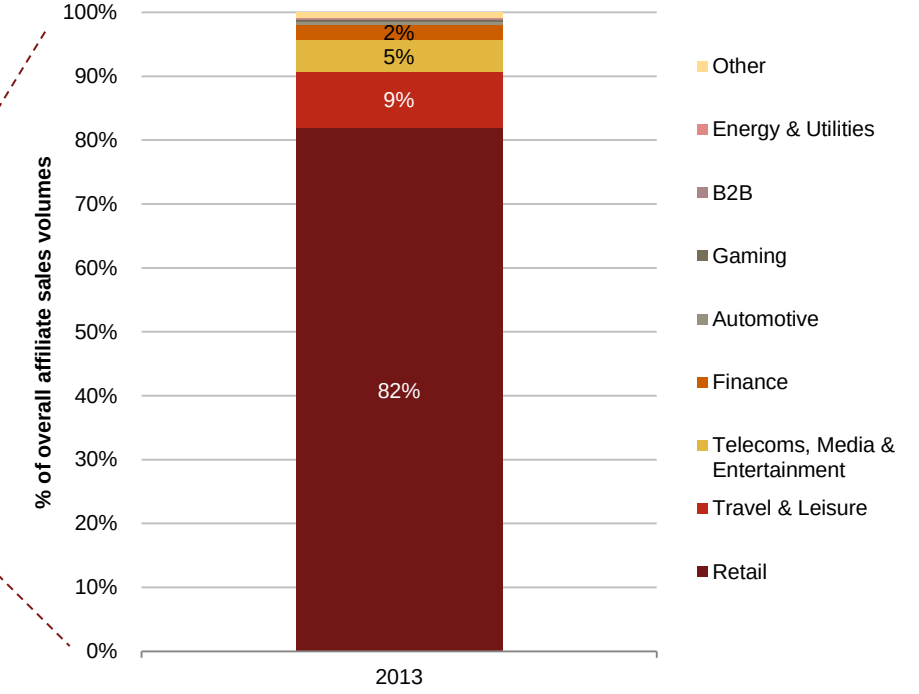
Our survey participants generated c.85m transactions and an additional c.13m leads

PwC survey data only

Online Performance Marketing affiliate sales volumes and additional lead volumes, 2013



Affiliate sales volumes by industry vertical, 2013



Note: not all survey participants were able to provide lead volumes, and so we have made a simple linear extraction based on other participants submissions and assuming a high level industry average cost per lead. In addition, less than 20% of lead volumes were split by sector, and as such the lead volumes are excluded from the industry analysis presented above right. A number of larger lead gen 2012 OPM participants did not submit to this year's survey resulting in lower lead volumes

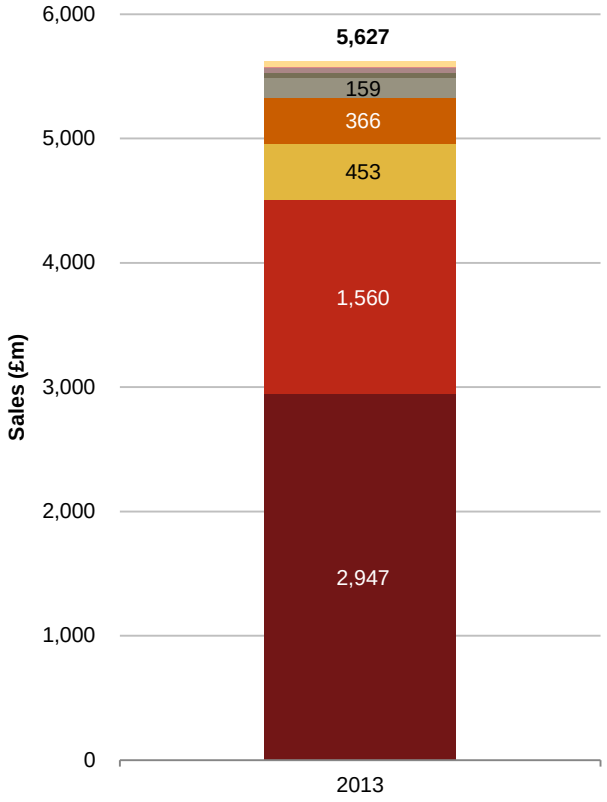
Note: this split relates to survey participants only and hence is largely driven by sales volumes tracked by the major affiliate networks. As such, this analysis does not provide detailed coverage of price comparison sites, in-house affiliate programmes and other in-house tracking solutions

Source: PwC survey results

Key sub-sectors within Affiliate Marketing

PwC survey data only

Advertiser sales from Affiliate Marketing, 2013



Other
Energy & Utilities
Gaming
B2B
Automotive
Finance
Telecoms, Media & Entertainment
Travel & Leisure
Retail

Largest sub-sectors

(This analysis is based on transaction value, not advertiser spend)

	2013	2012
Finance	#1 Insurance #2 Credit Cards	#1 Insurance #2 Credit Cards
Telecoms, Media & Entertainment	#1 Mobile Providers' Products & Services #2 Tickets (e.g. events) #3 Digital TV & Video-on-Demand #4 Technology	#1 Mobile Providers' Products & Services #2 Subscriptions (e.g. publishing, film) #3 ISPs #4 Technology
Travel & Leisure	#1 Leisure activities & other travel #2 Hotels & Accommodation	#1 Hotels & Accommodation #2 Flights & Airlines
Retail	#1 Clothing & Accessories #2 Music, DVD & Entertainment #3 Electrical, White Goods & Computing #4 Home & Garden, DIY	#1 Clothing & Accessories #2 Electrical, White Goods & Computing #3 Home & Garden, DIY #4 Music, DVD & Entertainment

Note: this split relates to survey participants only and hence is largely driven by sales values tracked by the major affiliate networks. As such, this analysis does not provide detailed coverage of price comparison sites, travel aggregators, in-house affiliate programmes and other in-house tracking solutions. In addition, less than 20% of lead volumes were split by sector, and as such the lead volumes are excluded from the industry analysis presented above

Source: PwC survey results

Section 4.2
Industry sectors

High level sector comparison

ILLUSTRATIVE ONLY

	Retail	Finance	Travel	Telco & Media	Auto	Energy	Gaming	B2B Tech
Most prominent model	Affiliate	Affiliate & Lead Gen	Affiliate	Affiliate & Lead Gen	Lead Gen	Affiliate & Lead Gen	Affiliate	Lead Gen
Typical % of online mktg. budget	5-25%	2-10%	5-15%	20-30%	5-10%	n/a	10-25%	n/a
Typical publisher types	Cashback; Vouchers; Loyalty; Content	Aggregators; Cashback	Content; Aggregators	Cashback; Aggregators; Vouchers	Content; Publisher Network	Aggregators; Content	Content; Voucher	Content; Publisher Network
Typical commission structures*	Variable; 2-8%	Fixed; 8-12%/ £10-100	Fixed & Variable; 1-15%	Fixed & Variable; 4-10%/ £10-70	Fixed; £40-60	Fixed; £15-75	Variable; 25%+ *(often a recurring lifetime value)*	Fixed; £40-£100
Other comments	Large publisher base; in-house platforms (eBay & Amazon)	Large volume through price comparison sites	White-label solutions more prevalent	Well established business model in the sector	Concentrated publisher base; relatively new focus for sector	Relatively small publisher base	Majority run through in-house platform	Relatively fragmented publisher base across B2B

*Note: variable commission relates to a publisher being paid a % of the basket value; fixed commission relates to a publisher being paid a fixed fee for each transaction; typical commissions are illustrative and have been sourced from publicly available sources

Case Study: Thomas Cook has introduced new publisher types to grow its Online Performance Marketing channel

Online Performance Marketing in the Travel sector

- Thomas Cook recently re-launched its affiliate programme to optimise performance marketing activity and implement new revenue streams
- The business focused on building relationships with existing publishers and introducing new publisher types including:
  - Email retargeting
  - Third party email campaigns
  - Non-traditional affiliates such as travel aggregators on a CPC basis (e.g. Tripadvisor and Trivago)
- In 2013, the affiliate marketing contribution to business revenue increased by 50% year on year
- Revenue through the affiliate marketing channel grew 37% year on year
- The number of affiliates on the program increased by 39%

Source: Affilinet

Case Study: Motoring.co.uk is a leading auto consumer portal, providing over 100,000 qualified leads to car manufacturers every year

> 100,000 qualified leads per annum

600,000 monthly unique visitors to the website, with 1.6m registered users

Revenue growth of 100% in the past 3 years

The Value of Online Performance Marketing

- Motoring.co.uk is a data-centric motoring portal, providing a mix of display, e-CRM and performance marketing focused on the new and nearly new car market
- >£1m revenues per annum from performance marketing
- Powers new car lead channels on TopGear, Honest John and Parkers
- 1.6m registered users, growing at a rate of 50,000 new users per month, with further growth plans to reach 3m by the end of 2014
- Trusted by a wide range of global brands including BMW, MINI, Ford, Lexus, Jaguar, Land Rover and Honda to deliver quality and volume in new car leads

Source: Terry Hogan, Managing Director of Motoring.co.uk

Industry Outlook

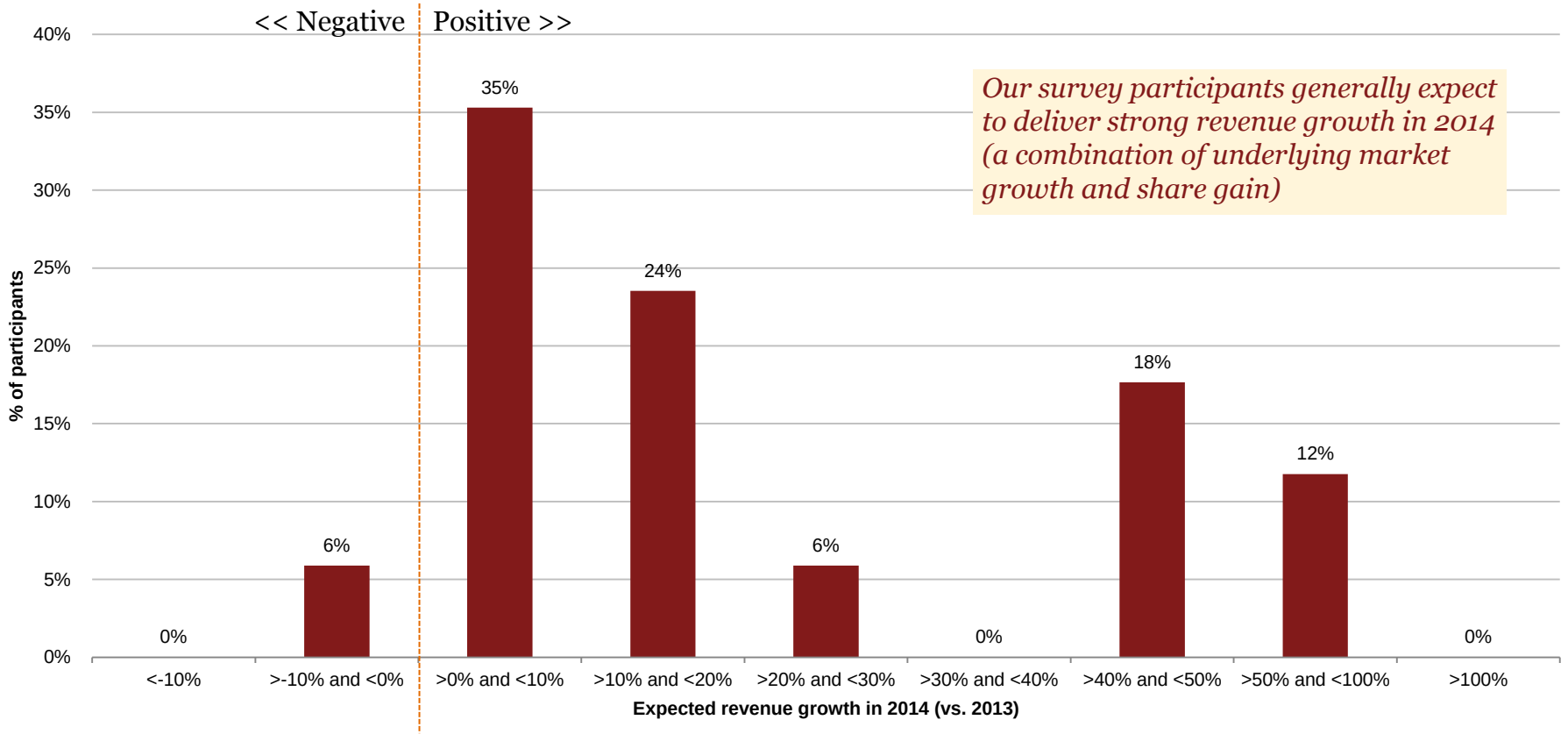
5

c.60% of survey participants expect 10%+ growth in 2014

PwC survey data only

Based on 17 of 23 companies (combined affiliate and lead gen revenues)

Online Performance Marketing expected revenue growth in 2014 (vs. 2013) - Affiliate and Lead Gen



Note: the survey data will most likely over-represent growth in the wider market. Survey participants were asked to provide their revenue forecasts for 2014, which will factor in underlying market growth, plus market share gain

Source: PwC survey results

The OPM industry continues to evolve

Increased use of mobile devices for ecommerce	• Our survey suggests that **up to c.20% of leading players Online Performance Marketing advertiser spend is on mobile and tablet devices** • However, a number of participants are still unable to track mobile device specific revenues. There are also a number of sectors in the Online Performance Market which, due to their nature, generate high volumes of mobile traffic but limited numbers of actual mobile transactions (because of the complicated nature of the transaction or relatively high transaction value)
Increasing links with the 'offline' performance market	• The **boundary between the 'online' and 'offline' worlds is becoming increasingly blurred** through innovations such as card linked offers (which enable consumers to link retailer offers directly to their personal credit/bank card) and location targeting
Development of new payment models	• The industry is increasingly **moving beyond the use of basic CPA/CPL payment models to maximise the value gained from both large publishers and also the 'long tail' of smaller publishers** (e.g. on a CPC or tenancy basis)
Growing use of technology platforms and solutions	• A number of **new tracking and analytics platforms** are present in the market which enable advertisers or agencies to manage part (or all) of their affiliates in house • Similarly, personalised retargeting and shopping basket recovery technology platforms increasingly enable advertisers to **retarget consumers** who did not initially make/complete a transaction, to improve conversion rates
Greater internationalisation of the OPM market	• While this report is focused on the UK Online Performance Market, we note that **(i) UK advertisers are seeking to drive sales through the use of non-UK affiliates and (ii) UK affiliates are seeking opportunities to partner with non-UK advertisers** to generate incremental revenues

Note: *Based on survey results only and a limited sample size – this estimate is likely to understate the share of mobile devices as a number of survey participants were unable to provide mobile advertiser spend
Source: PwC survey results, PwC estimates

OPM continues to be a valuable channel for advertisers, publishers and consumers

Advertisers

Advertisers – continue to value Online Performance Marketing as a source of high quality customers to generate sales

We estimate that advertiser expenditure on the OPM channel is likely to have grown by c.15% in 2013

Publishers

Publishers – continue to be attracted to the opportunity to generate additional revenue streams

"*We have thousands of publishers approaching us each year to join our network*" Affiliate Network

Consumers

Consumers value the opportunities to gain more detailed product information from content sites and discounts from cashback/voucher code sites

Over 50% of consumers are attracted to brands which offer discounts on these types of sites

The structure of the market continues to evolve

Rise of the Affiliate Brand	• Following the example of a number of major price comparison sites, other large publishers are increasingly becoming **brands in their own right**, advertising on formats such as TV and Outdoor to drive consumer engagement
Focus on generating greater value from the 'Long Tail'	• While large affiliates such as travel aggregators and price comparison sites have a significant share of the market, many Online Performance Marketers recognise that the **'long tail' of affiliates can still generate significant value** • Driving greater value from the 'long tail' could be achieved through the use of different payment systems (other than CPA) which enable smaller publishers to capture more value from the consumer engagement they generate (i.e. earlier in the customer journey). This, in turn, will enable investment in "content" to generate more sales for advertisers from these affiliates
Increased international opportunities	• Advertisers are **increasingly seeking to generate additional sales from outside of their national boundaries**. Online Performance Marketing is an attractive channel for advertisers to achieve this through the use of non-domestic publishers to attract new customers

Case Study:
Quidco is now one of the UK's largest affiliate brands

The Rise of Quidco

- Launched in 2005, and is now the UK's biggest cashback site with 3.7m users
- Generating £1.3bn worth of sales for retail partners
- Now operates in Berlin, Germany
- Online, in store and on mobile

The Value of Quidco

- One of the UK's biggest affiliate publishers
- Processes one in every £100 of online UK spend for over 3,700 retail partners
- Revenue generated from Premium member retention fees and marketing campaigns run with retail partners, charging service fees and tenancy spots
- Advertising platform with new loyalty programmes offering the widest breadth of choice

Source: Quidco

Case Study:
Reiss has grown sales through overseas affiliate marketing

Reiss' UK Affiliate Program Generates Sales from 48 Countries

- In H2 2013, Reiss' UK affiliate program generated traffic from 183 markets
- Over 8% of sales through the UK program now originate from overseas customers
- 34% of this non-UK traffic is through mobile/tablet devices

Source: Rakuten Linkshare

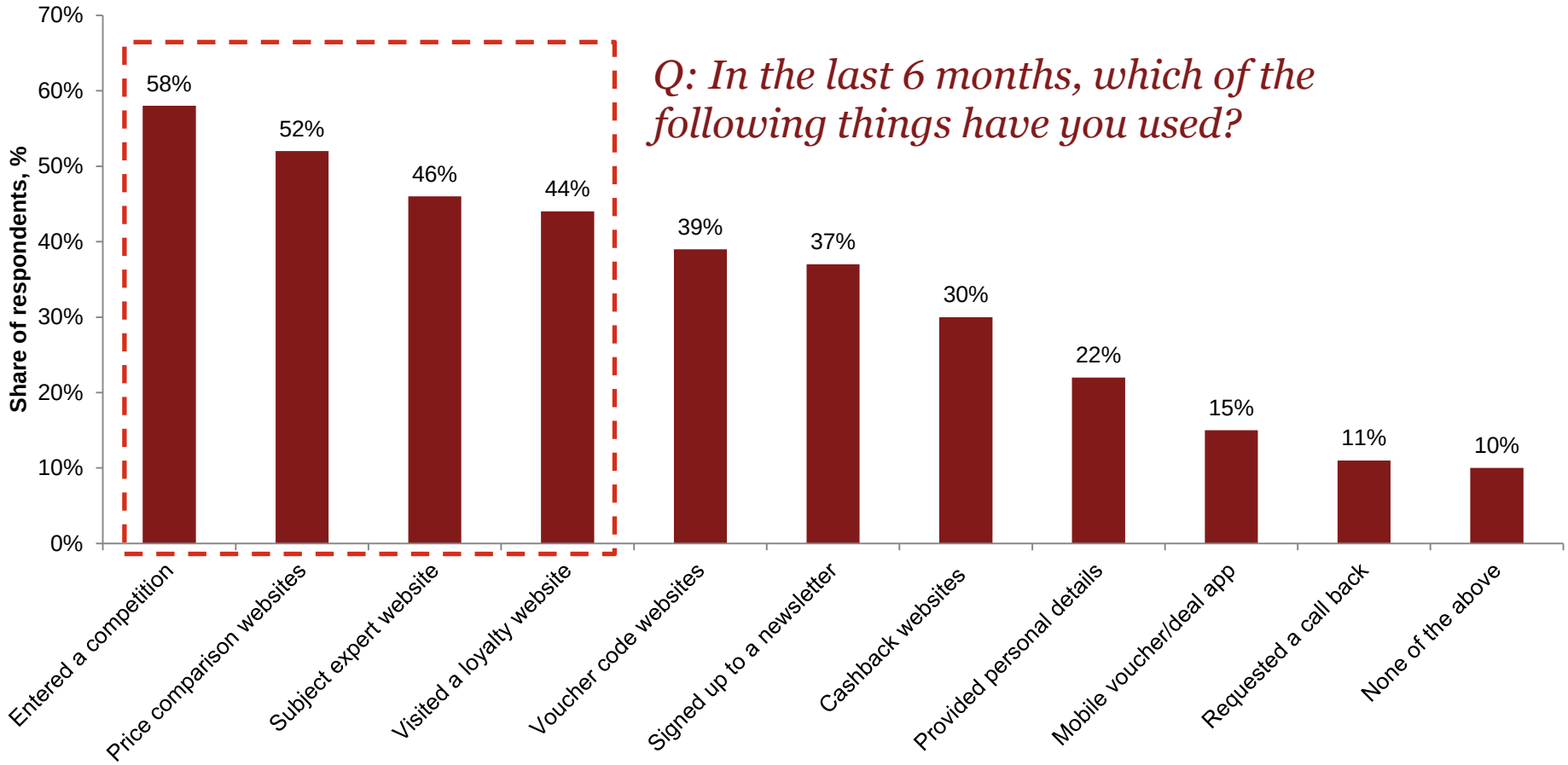
The market continues to innovate

Technology innovation	• A number of Online Performance Marketing participants continue to develop **innovative technologies** to increase the value of the channel to advertisers and consumers. Examples include: – **Card linked offers** (CLOs) enable retailers to link offers to personal credit cards/bank cards (once a customer has signed up to the CLO program). These offers enable greater **customer targeting** and increasingly **blur the line between online and offline performance marketing** – **Retargeting platforms and shopping basket recovery technologies** allow advertisers to re-engage with customers who did not initially complete a transaction, to improve conversion rates
Growth of tracking and analytics platforms	• Alongside these new technologies, the **use of tracking and analytics platforms continues to grow** as advertisers/agencies use the platforms to manage part (or all) of their affiliates in house

The "consumer angle"

6

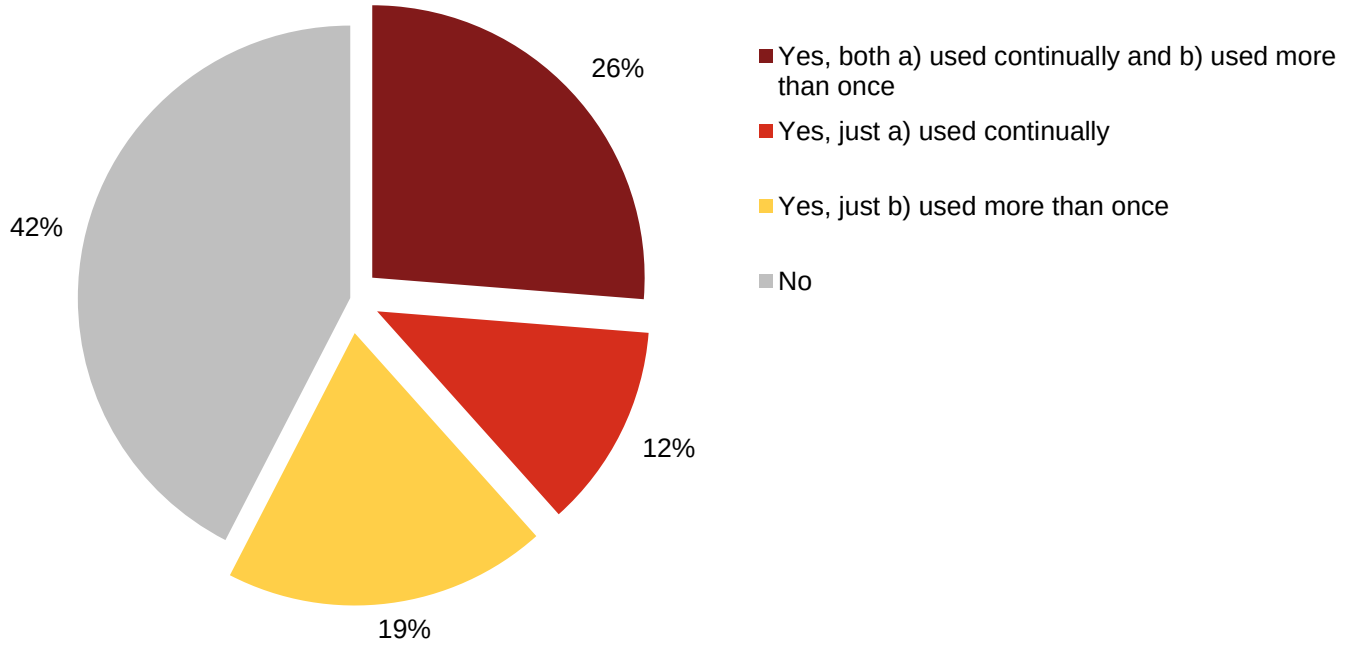
In the last 6 months, over 40% of survey respondents have used a price comparison, subject expert or loyalty website or entered a competition



Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

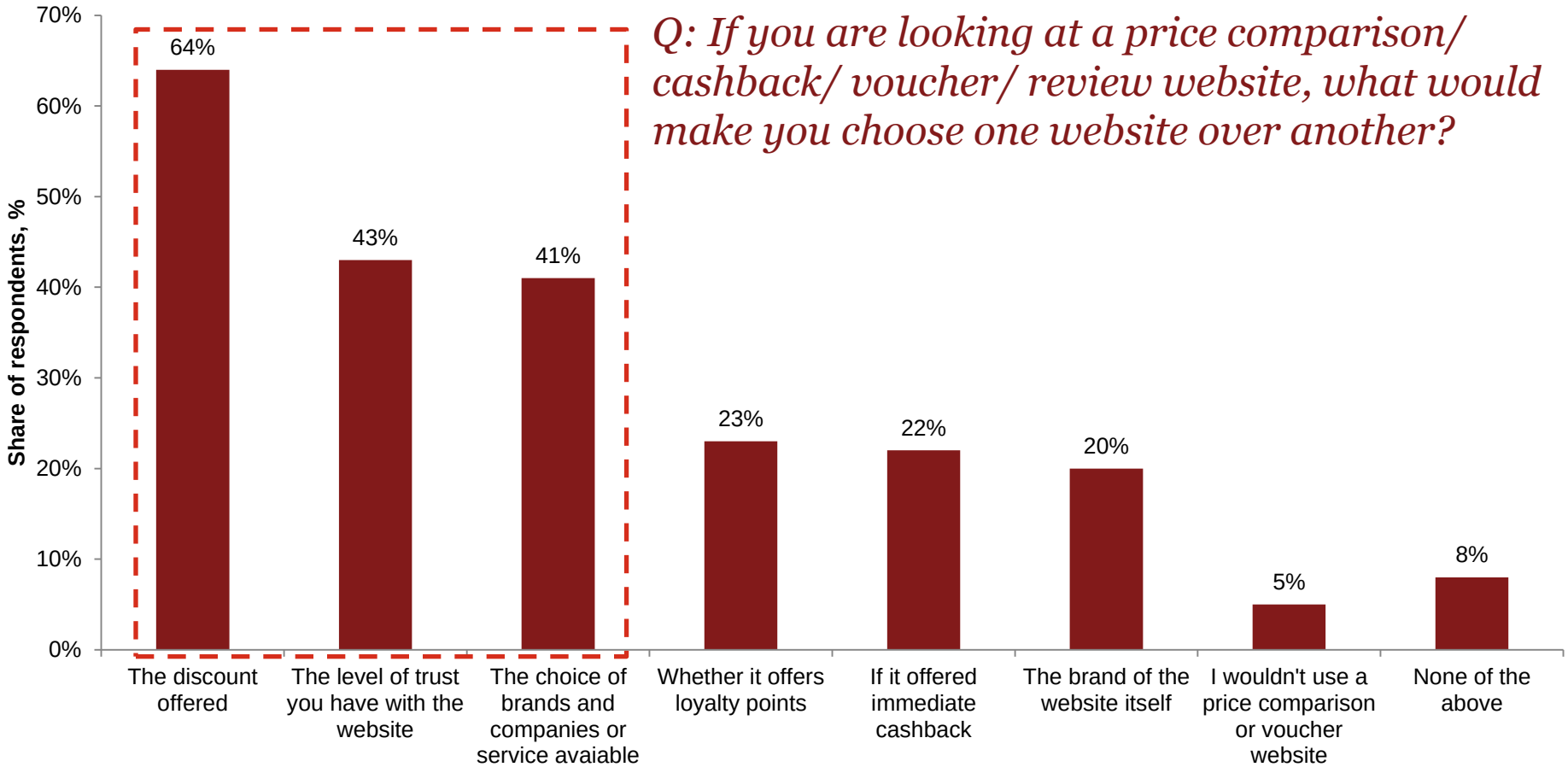
Over 50% of respondents have become repeat customers of a new company or service as the result of using a price comparison/ cashback/ voucher/ review website

Q: Have you ever discovered a company or service online through a price comparison/cashback/voucher/review website that you have either: a) used continuously (like a utility or broadband supplier), or b) more than once (like a travel company)?



Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

Discounts, level of trust and the choice of brands are key factors consumer consider when choosing a price comparison, cashback, voucher or review website

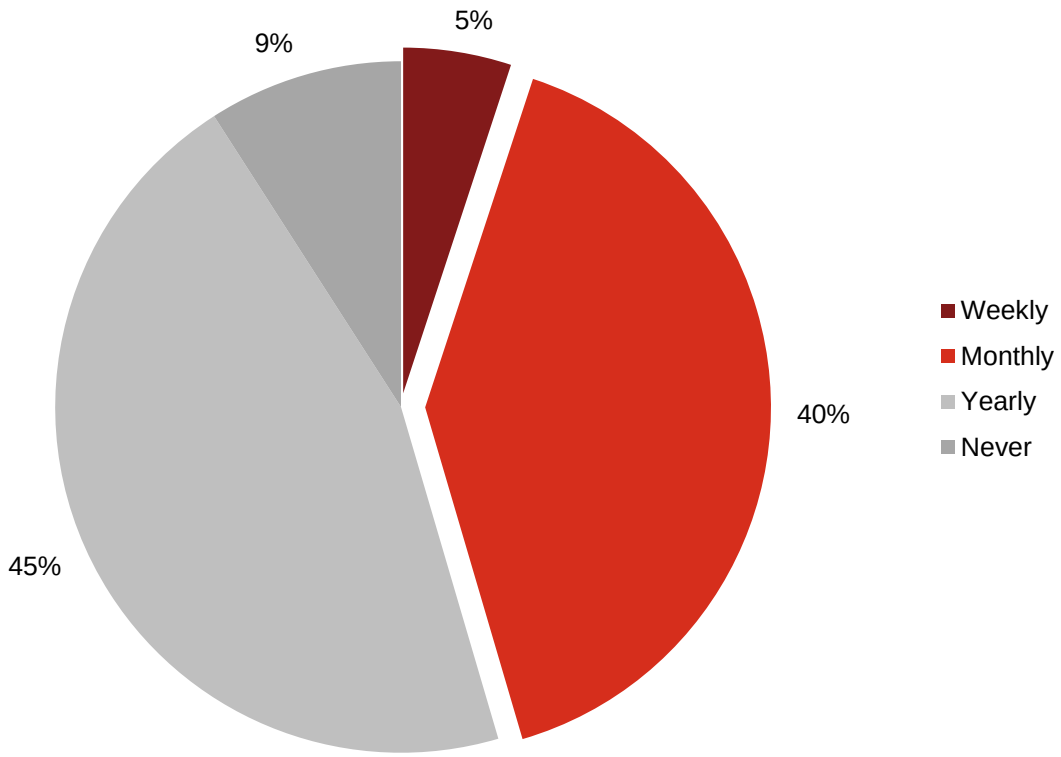


Q: If you are looking at a price comparison/ cashback/ voucher/ review website, what would make you choose one website over another?

Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

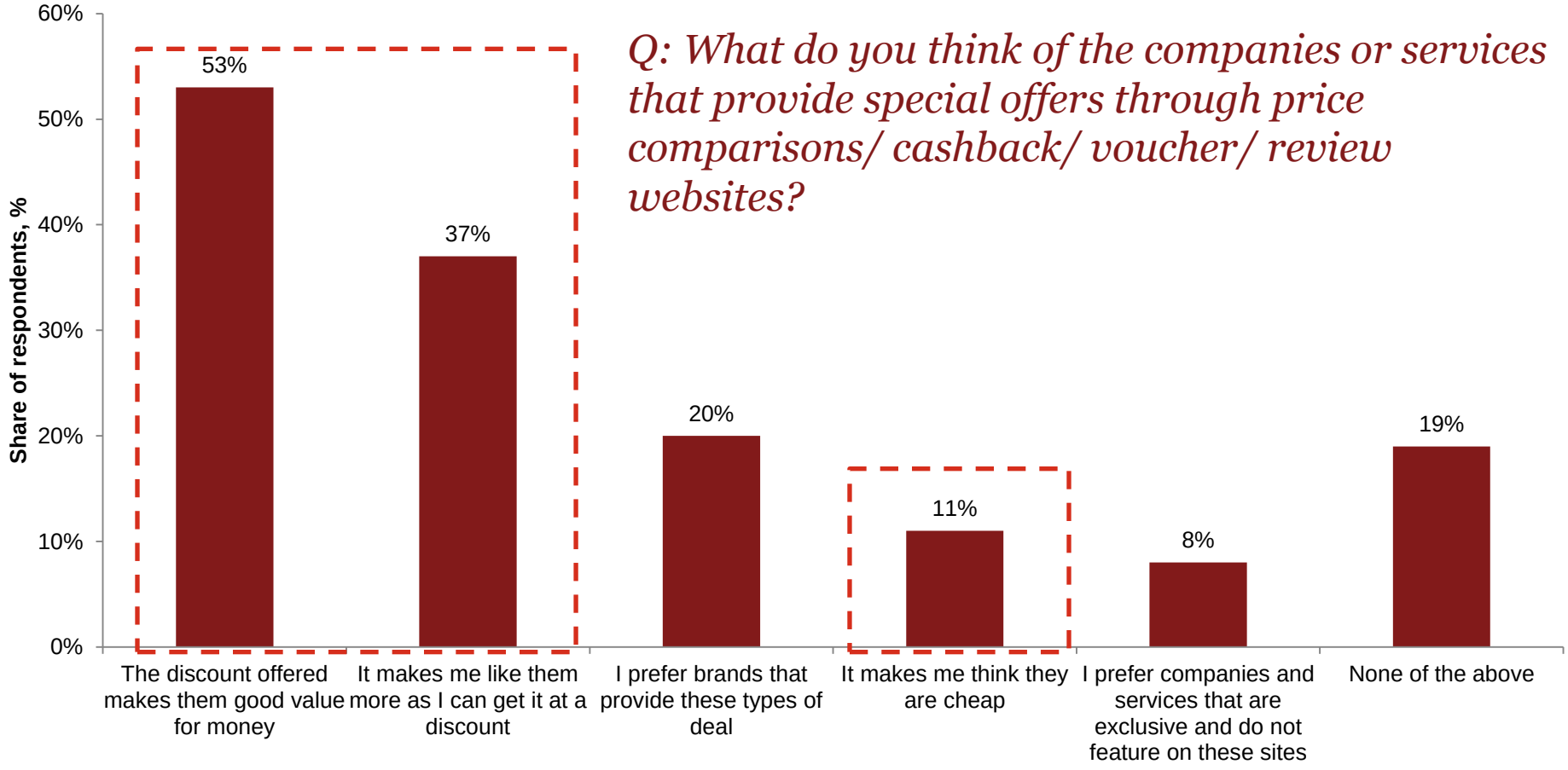
Over 45% of respondents redeem points or cash-in vouchers at least every month

Q: How often do you redeem points or cash-in vouchers earned through a loyalty scheme?



Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

Over 50% of consumers prefer companies which provide special offers as they are seen to be better value for money. Only 1 in 10 consumers see discounts as negatively impacting brand perception

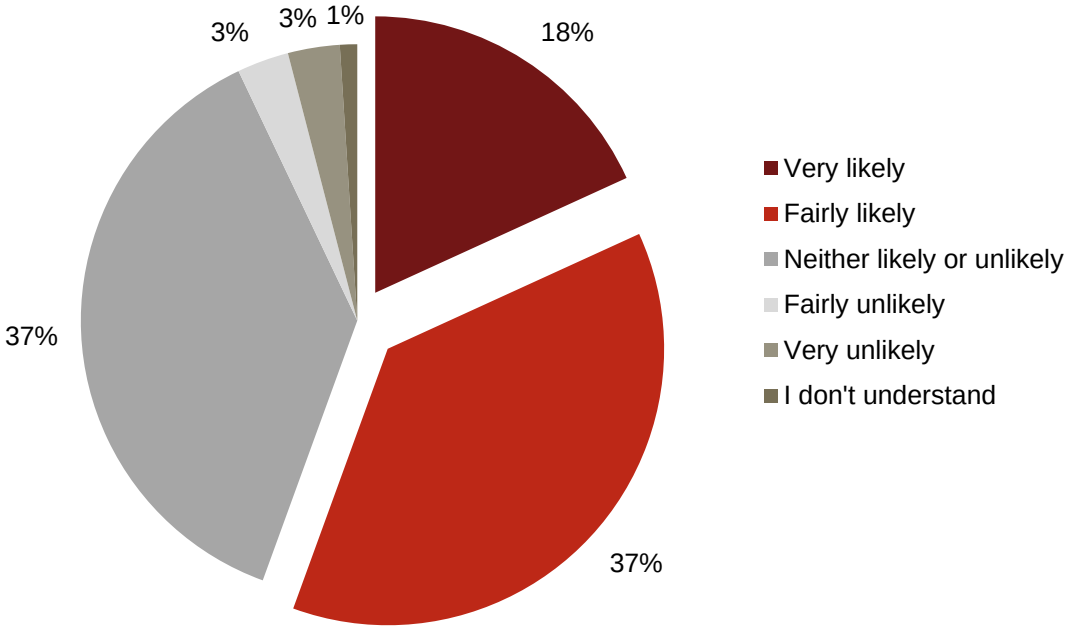


Q: What do you think of the companies or services that provide special offers through price comparisons/ cashback/ voucher/ review websites?

Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

Trust and familiarity are important factors in generating consumer engagement and ‘click-throughs’

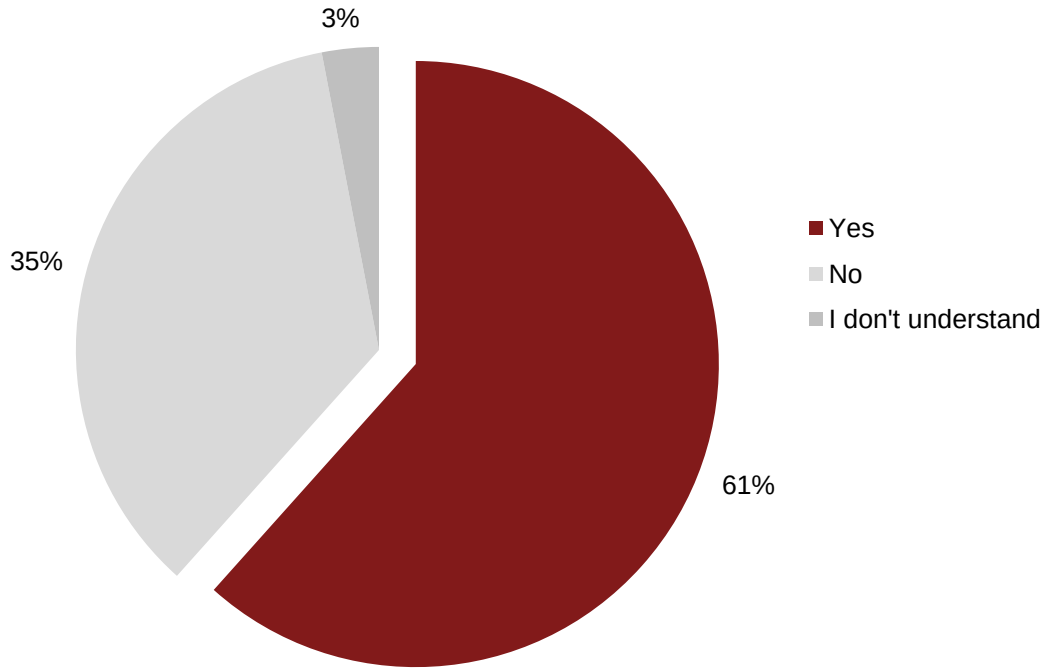
Q: Are you more likely to click on a link to find out more about a product or service from a website you know and trust rather than from a website you came across as part of your research?



Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

Over 60% of consumers are aware of how publishers are rewarded through Online Performance Marketing

Q: On some sites, when you click on a link and go on to buy something, the company you bought it from will pay the owner of the first website a small fee. Are you aware this happens?



Source: IAB online consumer omnibus survey (n= 1000, 16-90 year olds)

Appendix

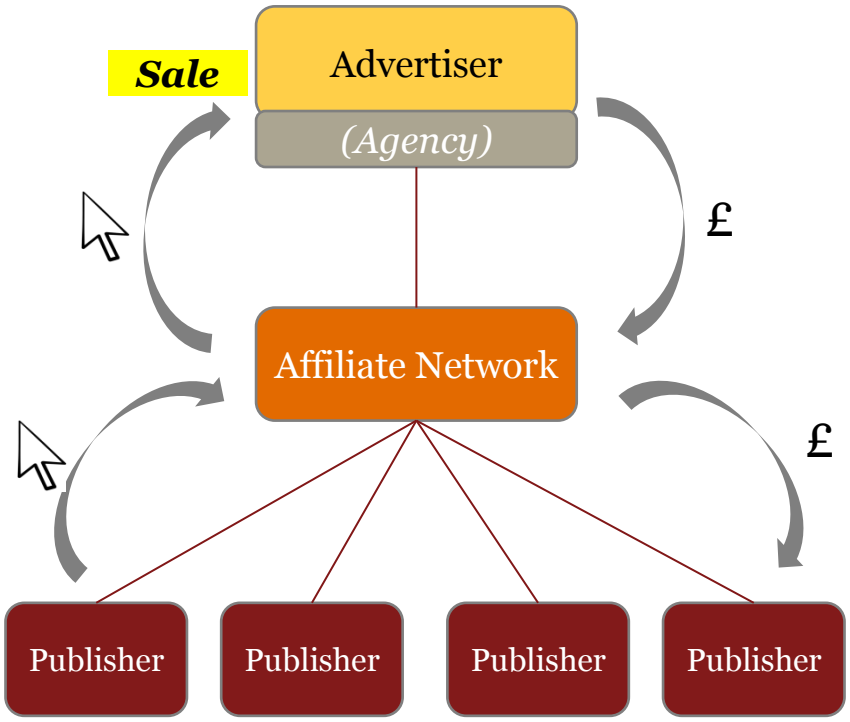
7

Traditional affiliate network model

ILLUSTRATIVE ONLY

Traditional affiliate network model

- The user clicks on an advertisement or product on the publisher website
- The user is then re-directed to the advertiser website to complete the transaction
- A cookie is placed on the users web browser by the affiliate network to record sale origination
- Affiliate networks are most commonly deployed when the advertiser establishes relationships with a large number of publishers, and accurate sales records need to be maintained



This could be 10s, 100s or 1000s of publishers

- Following completion of the sale, the advertiser will then pay an agreed commission to the publisher (typically a fixed fee or a % of basket value)
- The affiliate network will also receive a fee for facilitating the process
- An agency may also receive a fee if managing the advertiser's media campaign

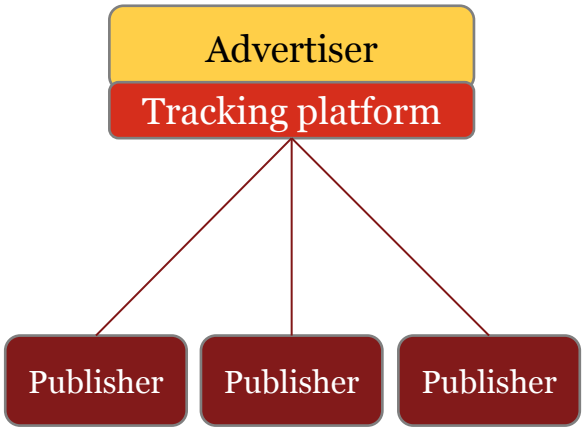
Transaction or application process typically completed online (e.g. via a 'checkout')

Note: terminology varies across the Online Performance Marketing industry. 'Advertiser' is used interchangeably with 'Merchant' and 'Retailer'. Similarly, 'Publisher' is used interchangeably with 'Affiliate' and 'Content Owner'. In general, we have used the terms 'Advertiser' and 'Publisher' in this report

Other affiliate business models

ILLUSTRATIVE ONLY

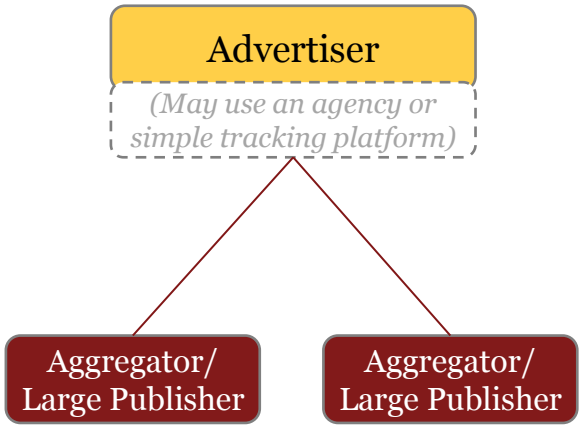
In-house tracking platform



This could be 10s, 100s or 1000s of publishers

- An advertiser may use an in-house tracking platform to manage its high value/ high volume affiliates
- This bespoke technology is often developed in-house, or can be a customised large-scale third party platform

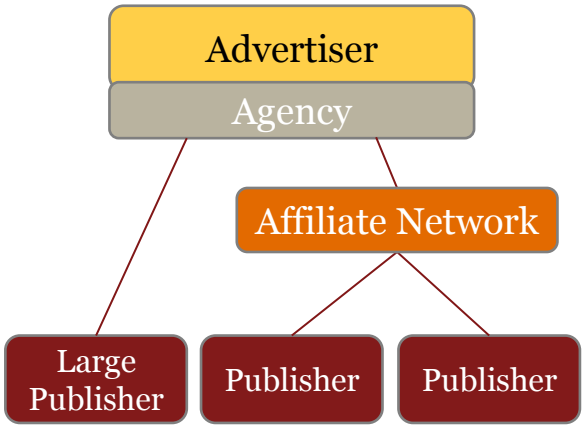
Direct-to-publisher



Generally fewer than 10 large publishers

- In a market where publisher concentration is high, these relationships are often managed directly (i.e. no intermediary)
- A media agency and/or simple white label or 'off-the-shelf' tracking solution may be used

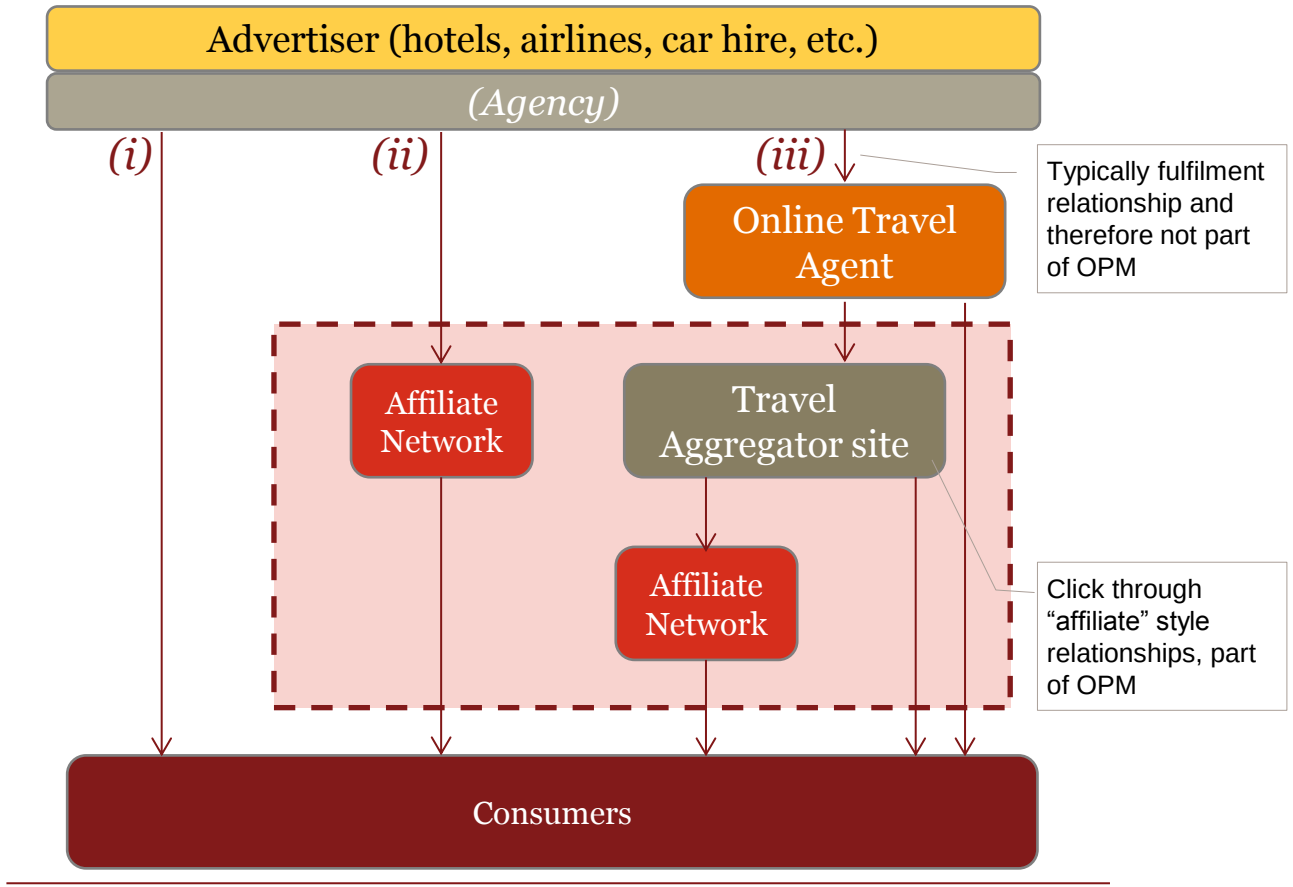
Combination model



Large publisher(s) plus a long tail

- Increasingly common is for an advertiser/ agency to manage a few of its large publishers directly, and then outsource the long tail of publishers through an affiliate network

The travel market is particularly complex in terms of Online Performance Marketing



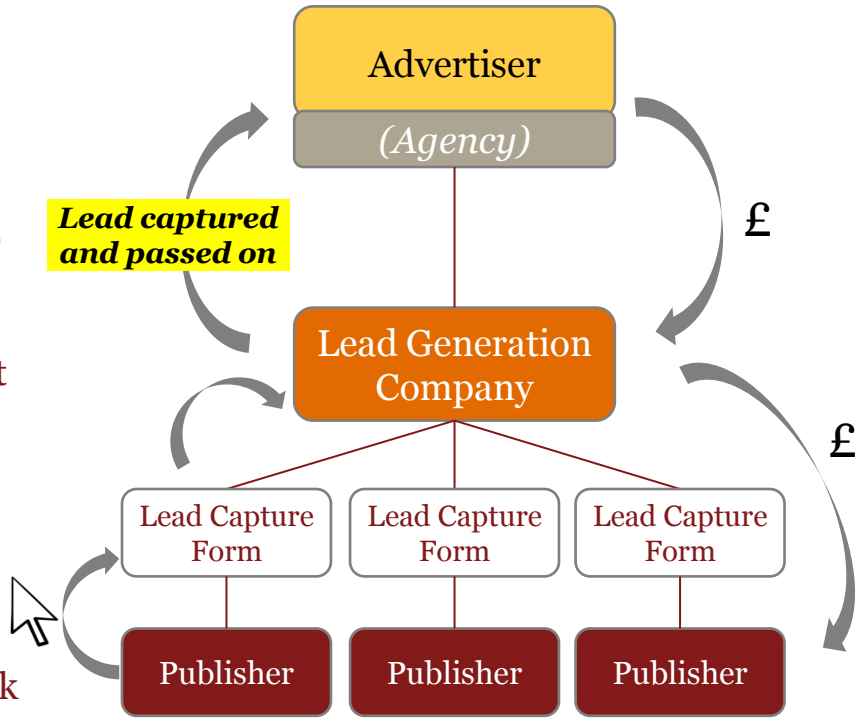
- *Travel advertisers typically offer their products (i) direct to customers, (ii) through affiliate networks and/or (iii) advertise through major online travel agents (OTAs)*
- *OTAs typically operate on a fulfilment basis (transactions are made on the OTAs site) and therefore we do not consider the revenues paid by advertisers to OTAs to be part of the OPM landscape*
- *However, OTAs do invest in affiliate marketing (including smaller affiliates on a CPA basis and larger travel aggregators/publishers on a CPC basis)*
- *Travel aggregators may also use affiliate marketing themselves to improve sales performance for advertisers*

Traditional lead generation model

ILLUSTRATIVE ONLY

Traditional lead generation model

- The user clicks on or views an advertisement or product on the publisher website. They are invited to complete an enquiry form or provide contact details (e.g. to sign up for a newsletter, to request a test drive, to see a quote)
- Lead Gen companies are most commonly involved when the user is purchasing a complex product where professional advice is required (e.g. life insurance, a new kitchen). Lead Gen companies are engaged when advertisers seek new leads in addition to those gathered through its own website or CRM database



Typically between 20-150 publishers

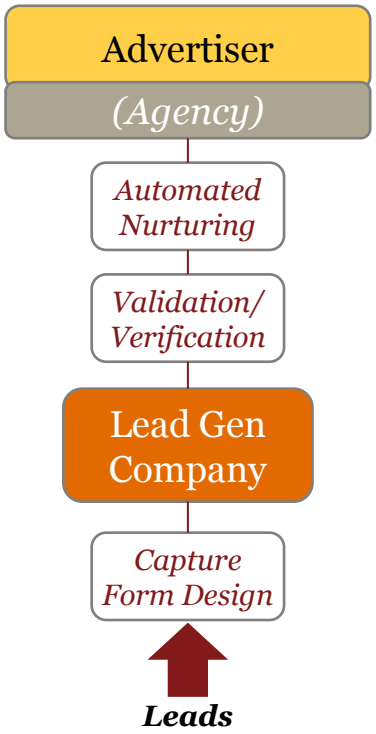
- Following delivery of the lead, the advertiser will then pay an agreed commission to the publisher (typically a fixed fee)
- The lead generation specialist will also receive a fee for facilitating the process
- An agency may also receive a fee if managing the advertiser's media campaign

Transaction or application process typically completed offline (e.g. via a call centre or broker)

Additional lead generation business models

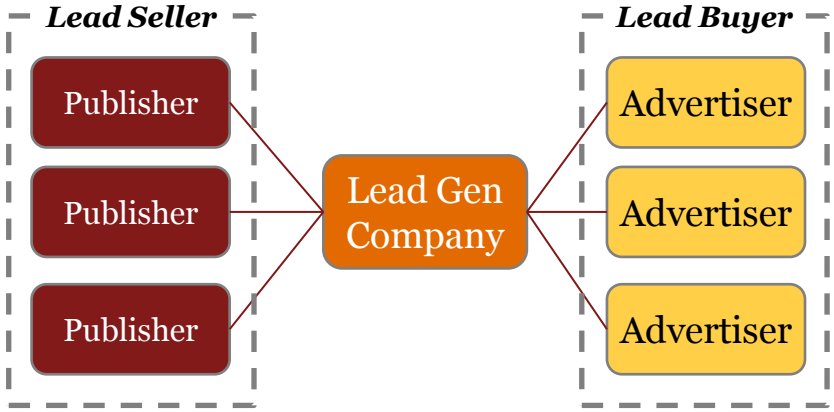
ILLUSTRATIVE ONLY

Additional value-add services



- Some companies provide lead validation services (e.g. checking for genuine postal code addresses and automated/ manual searches of email addresses)
- Lead Gen companies can also initiate customer contact (e.g. a welcome email or offer) to begin the lead nurturing process with an initial qualifying phone call
- Additional support services include lead analytics, and capture form design

Exchange models



- In an 'Auction Exchange' model, there is real time interaction and bidding between lead sellers and lead buyers
- In an 'Algorithm Exchange' model, the business leads are matched to relevant suppliers based on order size, location, type, etc.

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