



SHOPPING WITH DISCOUNTS : CONCEPT OF AFFILIATES

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ABSTRACT

The concept of cashback and discount coupon sites, have grown considerable both in terms of users and business in India. Consumers have started buying practically everything online, starting from basic essentials such as any food item to buying a car or even a house. Most of the products or services being sold online through retailers are same in terms of product or service. For online retailers, it all about volume, i.e number of buyers. More traffic means higher purchases and more revenue. The online retailers have started using the concept of affiliate marketing and have leveraged the platform to come up with strategies which are unconventional in nature. In recent years, the Indian digital coupon market has expanded beyond a small consumer base of price-conscious shoppers to a more diverse, mainstream audience. The shift to buying online has accelerated this trend. As the people are becoming habitual of frequent usage of online shopping and coupons in a gradual way, a constant development in coupon industry can be witnessed. Consumers are using coupons for online as well as offline purchases. This study is a conceptual working paper that has been carried out in explaining the concept of affiliate marketing in India in terms of business model, usage and adoption level among the users and how discount and cashback sites influence the online purchasing behavior of consumers. The study captures the responses of 604 consumers and examines the adoptability and usage pattern for online coupons/deal among college students and working professionals in Delhi NCR. Also, the study identifies how these online discounts and coupons influences the purchase decision of consumers shopping online.

Keywords : Affiliate Marketing , E- Commerce, Consumer Behaviour, Online Shopping, Online Discounts

1. Introduction

Internet is no doubt the fastest spreading information media in today's world. It includes almost all areas of business (Benediktova & Nevosad, 2008) and creates a unique platform for people to connect. Drucker (2002) argues that it was not the easy access to information that helped the internet to become so popular, but rather the possibility to use it as a worldwide distribution channel for all kinds of products and services. It created an ecosystem, which brought everyone together.

Social media and online purchasing have become a trend among people. People have started purchasing online, practically everything. Starting from daily grocery to buying a home online, has become a reality. Economical smart phones, emergence of mobile apps and faster internet has been instrumental in enabling the consumer to have variety in terms of products and service. Consumer shopping online exhibit a particular patterns in terms of what they are buying and factors which influence their behaviour. One such factor are online discounts or deals. In order to attract consumers, marketers have started giving away discounts, deals or rewards on various products and services. Online retailers try every possible way to increase the footfall of customers and one such way is the Affiliate marketing.

Affiliate marketing is a type of strategic marketing which is changing the face of online marketing, specially for e-commerce players. It is an online marketing technique where third party products are marketed through website of affiliates and with each purchase, sale or click by visitors, revenue or leads are generated. The revenue is generated for the marketer (E.g. Amazon) and a portion of it goes to the Affiliate which directed the consumer on to the marketers website. Affiliate marketing consists of 3 basic elements :- Advertiser, Publisher and Consumer. Advertiser is any company which is selling its products or services through internet (such as Amazon, Snapdeal etc). Publisher is the one who promotes advertisers products or services through its website (Such as CouponDunia, Mydala etc) and Consumer is the end customer buying a product or service from the advertiser through the publisher.

2. Review of Literature

Affiliate programs have become an important part in today's online marketing industry and somehow reshaped how business is conducted over the internet (Prussakov,2007). Affiliate programs allow a firm or website to reach different target markets and increase its online presence. This, in addition is rewarded with increased revenue and higher brand awareness. It offers a high return on investment and low operating costs (Fiore & Collins, 2001). Hoffman and Novak (2000) claim that by employing affiliate marketing, merchants can let thousands of independent websites, also called content providers, to display ads for its products and only pay them when the ad would actually lead to a sale. According to Gallagher and Auger (2001), affiliate marketing is classified as a type of online advertising where merchants share percentage of sales revenue generated by each customer, who arrived to the company's website via a content provider. Duffy (2005) points out that affiliate take the whole risk connected with marketing merchant's products. The concept is simple. If affiliate's marketing efforts work, affiliate makes money.

Affiliate marketing programs are considered a win/win situation for the stakeholders (Malta, 2006). Merchants are rewarded with traffic and sales, and affiliate gain money from redirecting the traffic. Also, affiliate programs are considered very scalable, and they allow controlling the marketing costs. This is because the merchant only pays a commission or fee for a resulting action (Fiore & Collins, 2001). Benediktova & Nevosad (2008) argue that affiliate marketing is very useful for small websites, as they would have no chance of reaching so many users with other advertising means. According to Brown (2009), there exist two affiliate marketing options. First, to host an affiliate program, offering the option for interested partners to join the program and to sell your products on their websites. In this case, they would earn a commission for each sale they bring through the affiliate program. The other option is to join an affiliate network and advertise or sell other products on your website. This is another option to generate revenue, but certainly it is rather limited compared to offering the affiliate program (Brown, 2009). In a report by Forrester group (2012) "Affiliate Marketing - The Direct and Indirect Value That Affiliates Deliver to Advertisers", have identified the behavioural pattern of consumers towards discount coupons. As per the study, a segment of consumers always check for deals before making any purchase and a set of consumer start with their purchases on the affiliates website itself. It is pointed out that on an average an affiliate channel buyer spends more than the average online shopper and see promotional offers as brand- enhancing versus brand- detracting. Around 40 %

of the respondents agree that promotions or deals often help them to purchase when they are undecided and promotions and deals actually improves a brand's image and enhance brand loyalty. Currently the most active sectors for affiliate marketing are the adult, gambling, retail industries and file-sharing services. Most early studies employed demographic descriptors to characterize coupon users. (Narasimhan 1984; Meloy 1988; Bawa and Shoemaker 1987). Narasimhan (1984) and Meloy (1988) found that proneness to use coupons is high in middle-income households but lower in low- and high-income households. In contrast, Teel, Williams, and Bearden (1980) and Bawa and Shoemaker (1987) found a positive relationship between income and proneness. A number of academic studies argue that demographic variables do not fully describe coupon users and that other variables and models are needed (Mittal 1994; Meloy 1988). In particular, it is possible that in addition to their direct effect, demographics influence consumer behaviors that are strongly correlated with coupon use. In this spirit, Mittal (1994) suggested that demographics operate through a chain of attitudinal and behavioral mediators such as perception of financial wellness and comparison shopping.

Narasimhan theorizes that the consumers with lower opportunity cost for their time are most likely to use coupons. He finds empirical evidence that coupon users are more price-sensitive. Babakus et al. offer further empirical evidence supporting the price sensitivity argument. Another stream of literature on coupons examines the objective of using coupons as a targeting tool. Shaffer and Zhang state that coupons should be targeted to competitive firm's consumers to increase brand sales. With the advent of Internet tracking technologies, firms can now target each individual consumer and tailor its coupons according to individual consumers' preferences and willingness to pay. Instead of one same coupon, different coupons for different consumers can be issued for immediate online use. Rangachari et al. describe how a consumer's online behavior can be analyzed in order to determine her desire for a product. Adomavicius and Tuzhilin present a data mining model that can be used to develop personal profiles of consumers from their transactional histories. The firm can then decide on the coupon and the terms of the coupon according to the information gathered. Most of the work has been carried out by researchers on various affiliate programs in the developed economies whereas affiliate marketing is still at a nascent stage in the Indian market. Limited scholarly works has been carried out with respect to affiliate marketing, discount coupons and cashback websites in the Indian market.

3. Objectives

The purpose of this study is to deepen our understanding of affiliate marketing through the use of online coupons/deals, while shopping online. This study examines the adoptability and usage pattern for online coupons/deal among college students and working professionals in Delhi NCR. Also, the study identifies how these online discounts and coupons influences the purchase decision of consumers shopping online.

The specific objectives of the study are:

- (1) Studying the usage level among college students and working professionals towards online coupons/deals
- (2) Identification of category of products and services, which are purchased online with the help of coupons and deals
- (3) Identification of the most preferred brands for online coupons and deals
- (4) Studying the effect of the online coupons/deals on the purchase behaviour of consumers
- (5) Segmentation of respondents basis the usage of online coupons/deals

4. Methodology

4.1 Instrument design

Textual data for the present study was undertaken by means of phenomenological focused interviews (n=20) with subject matter experts from e-commerce and affiliate marketing companies. Around 15 interviews were conducted with SME's from the top 10 e-commerce players and 5 interviews were conducted with the founder/co-founder of affiliate marketing companies. The interviews were primarily conducted to understand the working and revenue model for affiliates in India. Second, a measuring instrument was developed and utilised in a survey of a convenience sample of 1210 customers. Given the purpose of this research, an initial pool of 12 items on motives for using coupons was generated based on focus group discussions. Personal interviews were then conducted with 15 post-graduate students and 25 adult shoppers with different age, income and occupational backgrounds. The respondents were selected through the authors' acquaintance. It was ensured that these respondents were regular shoppers, and used coupons frequently. The respondents were asked to talk about the reasons for online shopping using coupons. Each interview lasted for about 15 minutes. The responses indicated mainly six different reasons for shopping with the help of coupons. The six items selected to

measure coupons adoptability is shown in Tables I.

A structured questionnaire was distributed among working professionals and college students in Delhi NCR based upon focus group discussion and literature review. A total of 836 respondents participated in the survey out of which 604 (Response Rate: 55%) complete responses have been further used for data analysis.

Items	Factor loading	Percentage of variance	Alpha coefficient
Utilitarian			
I find the product/service at the lowest price	0.81	27.11	0.75
I get an instant discount on my purchase	0.83		
I get offers which helps me in saving more	0.71		
I get a cash back, which can be used in future	0.7		
Hedonism			
I get a sense of satisfaction when I make a purchase using a coupon/deal	0.82	17.09	0.74
Getting a product/service at a lower price make me feel self-satisfied	0.82		

Table 1: Items and Factor loadings

All the responses were measured on a seven-point Likert scale (1 = strongly disagree, 7 = strongly agree). Shoppers' demographic characteristics were also recorded. The questionnaires based on the scales were pretested, and refined to provide better clarity and understanding.

4.2 Data collection

The personal interview were conducted over a period of three months in Delhi NCR region. Basis the interviews, a conceptual model and revenue model was designed, which was later vetted by the SME's. Skype interviews were also conducted with SME's who were based out of Delhi NCR. Later a questionnaire was developed using an online survey tool and was sent to 1210 respondents , out of which 604 complete responses were further used for data analysis.

Respondents included 53 % Females and 47 % Males. All the college students were in the age group of 17-21 years. The working professionals were in the age group of 27 - 33 years and were at mid management level positions. The survey question was designed in consultation with the marketing team of one of the e-commerce companies. The idea behind conducting the survey was to get a market sense of consumers pertaining to the use of cashback and coupon sites.

Table 2: Overview of Respondents

Demographic Variables	Categories	No. Of Respondents (N)	Percentage
Gender	Male	284	47%
	Female	320	53%
Occupation	College Students	310	51%
	Working Professionals	294	49%
Age (In years)	17-21	310	51%
	27-33	294	49%

4.3 Data Analysis and Results

The focus interview that were carried with the subject matter experts were aimed to understand the concept of affiliate marketing and revenue model. Basis the interviews, the concept was put together and vetted by the industry experts.

Concept of Affiliate Marketing and Revenue Model in India

Affiliate marketing is a marketing system where a business rewards its affiliates for ads, lead generation or sales. It is a popular method of promoting web businesses in which an affiliate is rewarded for every visitor, subscriber and/or customer provided through his efforts. It is a modern variation of the practice of paying finder's-fees for the introduction of new clients to a business. Compensation may be made using various methods:

1. Pay for every 1000 views or CPM (Views):- When people see the advertisement on an affiliate partner website. Every 1000 view is considered one M and an affiliate can be paid certain amount for each M better known as Cost per M (CPM). This is relatively low as the businesses don't earn any money out of views. Businesses still pay per thousand views as they get visibility. Most of the offline ads are sold on the basis of views or readers.

2. Pay per Click or PPC (Visitors): Web allows better tracking of advertisements and Pay per click is a frequently used term for online advertisement and affiliate marketing. When people click on the ads on an affiliate partner website, we call it a click. Every click can cost money; we call it CPC (Cost per click). This is the common method of payment for online advertisement. Google's Adwords is mainly focused on CPC, where businesses bid for CPC (or PPC, pay per click).

3. Pay per conversion/action or CPA (Action): When people who visited the website because of an affiliate partner take an action (like enrolling for mortgage), we call it either a conversion or a lead and pay big commission for it. We call it CPA, cost per action. CPA can be further divided into:

- a. Lead: When people express their desire to buy a product, we can call them a lead.
- b. Sales: When the company takes a lead and sells the product to the lead, we call it a sale.

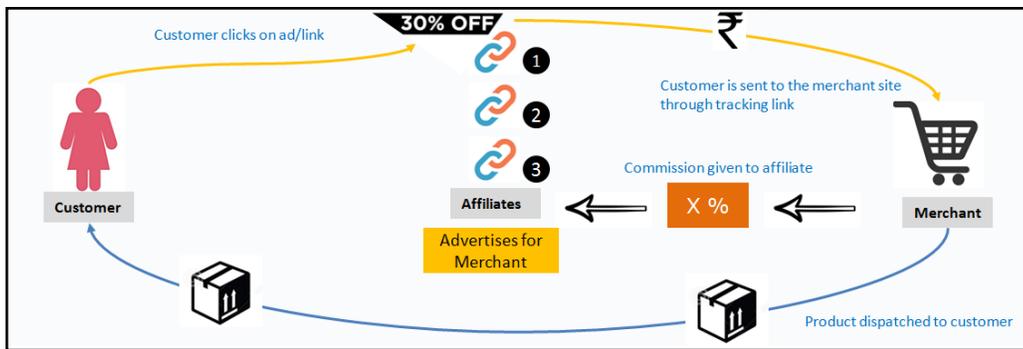


Figure 1: Concept of Affiliate Marketing

Unconventional Strategy: The case of LiketoKnow.it

The business model of Like to Know It is based on stewarding three key relationships: (1) allow fashion bloggers to show styles to consumers in an attractive and user friendly way, (2) partner with leading designer brands to negotiate pay-per-click rates for consumers viewing and purchasing content from the fashion blogger's link, and (3) connect consumers directly to the designer's website from fashion blogger posts. The basic premise of the service, is that consumers register on Like to Know It with their email address and Instagram account

information. When the consumer likes a photo from a blogger vetted by Like to Know It, they receive an email with information on where to purchase each item in the photo. Each time a link is converted to a sale on the retailer’s site, the blogger receive a commission fee.

4.4 Consumers adoption

It was identified that 71% of the college students use coupons/deals while making online purchases whereas only 35% of working professionals use coupons/deals for their online purchases. Females across the two groups are high spenders and active users of online coupons/deals. It can be seen from figure 2 that dining, travel, electronics and clothing were identified as the top four categories where coupons/deals are mostly used by respondents. College students use coupons/cashback primarily for dinning and clothing whereas working professionals primarily use coupons/cashback for dinning only.

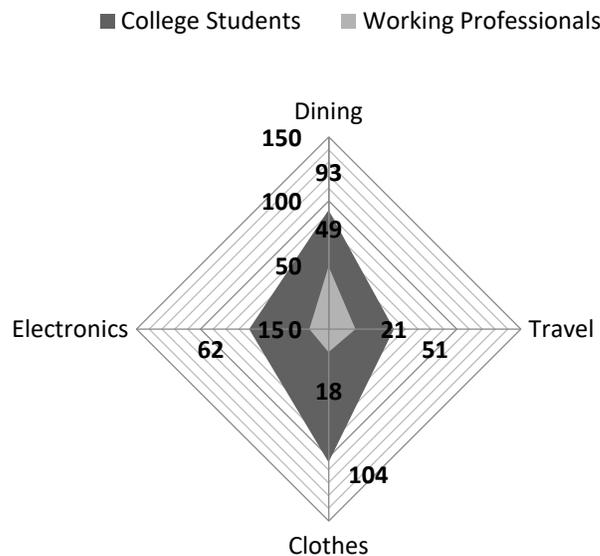


Figure 2: Use of coupons/cashback

Among the various affiliates, the most used affiliates identified were (1) Mydala (2) Groupon and (3) Cash Karo. In addition, it was also studied that online coupons/deals also influence the purchasing decision of respondents to a great extent. Around 57 % of respondents agreed that promotional offers that they find on coupon or deal sites, blog sites, loyalty or cash-back sites often close the deal for them if they are undecided on a purchase. It was seen that around 65% of respondents agreed that they are likely to tell a friend about a company that places promotional offers on a wide variety of websites. It was also studied that around 44% of respondents,

primarily from the college students would not purchase a product or a service if there is no discount or cashback available on that product. Respondents (58%) agreed that they can reconsider a brand if it offers a discount or cashback.

4.5 Customer Typology

To develop a typology of consumers based on usage of cashback sites and discount coupons, a two-step approach to cluster analysis was applied to classify the shoppers. First, a hierarchical cluster analysis using the Ward method was performed to determine the number of clusters, and identify the cluster centres. Two key attributes were identified by the industry experts namely (1) Frequency of Purchase (2) Frequency of coupon usage . Basis these attributes, three segments of consumers were identified.

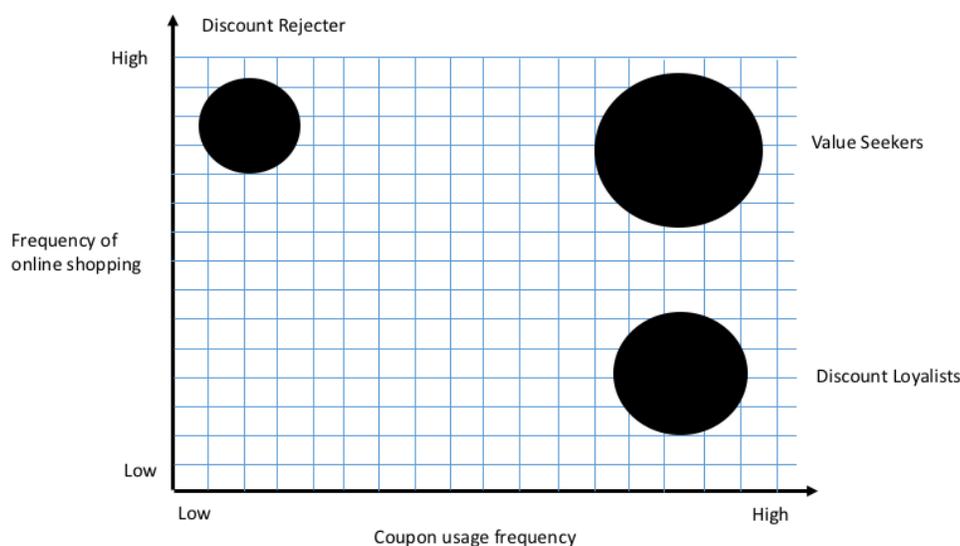


Figure 3 : Typology of discount shopper's

- (a) **Value Seekers:** This segment of consumers represent the consumers who use discount coupons/cashback on almost all of their purchases. This segment is least likely to make a purchase in case any discount/cashback is not being availed.
- (b) **Discount Loyalists:** This segment of consumers actively lookout for discount/cashback but limited to their brand only. They are brand loyalists as they would not switch their brands for any discount/cashbacks.

- (c) **Discount Rejecter:** These people are the most deal-averse group and they want convenience more than anything else.

5. Discussion and Implications

Cashback and discount coupons is a relevant marketing strategy in electronic commerce; cashback increases the engagement of the customers and attracts interest on the sites regardless of the category. Despite this relevance and the increasing numbers of customer engagement and the growing size of its business, little academic literature exists on this topic. The concept of affiliate marketing is at a nascent stage in India and has immense potential for growth. There exists various revenue model in affiliate marketing and marketers are leveraging on the concept of affiliate marketing in formulating unconventional business strategy. One classical example is LiketoKnow.it as studied in the study. The results also reveal that there Consumer awareness is relatively low for Affiliate Marketing among college students and working professionals. Consumers using coupons/deals for online shopping are heavy online spenders and search for offer or discounts before making purchases. Females outperform the males across college students as well as working professionals in terms of coupon usage for shopping online. Important to note is that majority of consumers are indifferent to affiliates i.e no brand loyalty for any affiliate exists for the consumer. Consumer looks for discounts, be it through any affiliate. The study also classifies consumers into three categories based on their usage level of discount coupons/deals - Value Seekers, Discount Loyalists and Discount Rejecters. Results have important implications for marketers especially in metro cities, to design their product offerings. The study provides important insights about the consumer preferences towards online coupons/deals in Delhi NCR. The study indicates that awareness about online coupons/deals is still at a nascent stage and mostly preferred by young consumers. The usage among the working professionals, who have a high disposable income is less due to multiple factors. Businesses can create more customised product or service offering for the working class in order create more business for organisations and value to end customers. The results also identifies some of the most preferred categories for which coupons/deals are used by consumers, therefore businesses can leverage on the same and design such offers for consumers in order to expand their business. The study can be of great help to organisations who are in the business of affiliate marketing or want to enter into the business as it identifies the usage pattern and need of two groups of diverse groups. The first group of respondents are the future consumers i.e college students who have

almost zero disposable income but higher usage capacity and on the other hand are the working professionals who have higher disposable income but lower usage capacity.

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