Affinity marketing — A step in the right direction?

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Abstract
After the problems of the past three years UK businesses have suffered. As a result budgets have remained tight and marketing managers are continuing to seek ways of obtaining value for money and return on investment for every marketing pound. Affinity or partnership marketing is increasingly being viewed as one such solution. This paper investigates the proportion of the marketing budget spent on affinity marketing and looks into whether this will rise substantially in the next two years. It also examines the culture of collaboration and the perceptions of partnership marketing.

Keywords: affinity marketing, partnership marketing, return on investment, marketing budget, affinity partner

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Introduction

Marketers are under pressure to seek alternative advertising channels that deliver better — or at least more measurable — return on investment over traditional media. For larger companies that have regular communications with their customers, this has led to a surge of interest in partnerships where companies share those existing channels to the customer in order to advertise each other's products and services.

In this discussion of affinity marketing, it worth starting with a review of the current state of the consumer market and that of the advertising industry, in order to understand the backdrop against which the growth of affinity marketing is happening.

Since the millennium, economic fluctuations triggered by foot and mouth disease, the horrific events of 11 September, the threat of terrorism and the war in Iraq have affected all major UK industries. Yet consumer spending is still buoyant and set to increase. This is a result of escalating levels of personal borrowing. In June 2004 alone consumers were lent a record £10bn.[1] It has never been easier for consumers to obtain credit from banks and other lenders through credit cards, personal loans and remortgaging. Waves of apprehension are beginning to ripple through UK industry about how long consumer borrowing can last without severe repercussions to the economy. In response marketing budgets are remaining tight — the last few *Bellwether Reports* have revealed a cautious outlook. The Q2 2003[2] report, for example, showed that marketing budgets have been revised down for the fourth consecutive quarter. The latest report (Q1 2004)[3] showed only a marginal increase despite the economic upturn — nevertheless the most optimistic outlook for marketers since the survey began in 2000. This maybe indicative of a change in the marketplace, yet in response marketing managers (despite breathing a sigh of relief) are not holding their breath. They are still

treading warily and are continuing to seek ways of obtaining value for money and return on investment from every marketing pound. Affinity or partnership marketing is increasingly being viewed as one such solution, as it allows a shift into new markets without the infrastructure or costs of adding value to the customer experience.

Partnership or affinity marketing means collaborative marketing activity between brands, comprising an exchange between two or more like-minded companies in order to acquire or retain customers. In such relationships, costs are reduced, new channels to the consumer are opened to either party and complementary brands can attract responses from the consumer that neither party could achieve stand-alone. It is therefore unsurprising that the proportion of the marketing budget assigned to affinity marketing has risen by four percentage points in the past two years.

Essential to brand partnering is working with companies that provide appropriate products and services. They must have an affinity with the core brand that makes the association acceptable to customers. But partnership marketing is not for everyone — if poorly executed it can be anything from ineffective to brand damaging. A weak match of the partners due to incompatibility, imbalance or control issues is a common risk associated with affinity marketing, as is negative perception of the partnership by consumers. That said, however, affinity partnerships as a marketing tactic have grown significantly in the past few years. Research carried out by MarketingUK in January 2002[4] predicted a growth from 14 per cent in 2002 to 23 per cent of the marketing budget being allocated to affinity marketing in 2004. Group 1 Software (with fieldwork by MarketingUK) has extended this research to investigate whether these growth predictions are on track, and whether the proportion of marketing budget spent on affinity marketing will rise substantially again in the next two years. Before discussing the implications of this growth, one should first examine the research findings in a little more detail.

Group 1 Software/MarketingUK surveyed a database of senior marketers representing the UK top 1,000 companies across a range of industries including utilities, banks, credit cards, direct insurers, retail multiples, telecoms, mail order, hotels and travel and tour operators.

The survey was conducted by telephone to determine the proportion of the marketing budget different industries currently assign to affinity or partnership marketing, as well as the same sectors' estimated allocation in two years' time. The response size of the survey was 31 per cent. The research was carried out in July 2003.

Results — Principal findings

Growth of affinity marketing

Currently, an average of 20 per cent of the marketing budget is devoted to affinity marketing, up from 16 per cent in 2002. This is in line with expectations a year ago, which predicted an average of 23 per cent by early 2004. According to Group 1 Software's new research this is set to rise to 27 per cent by mid-2005 (Figure 1).

If one combines these figures with the consistent trends revealed by the IPA's *Bellwether Report* — namely marginal to negative growth in brand

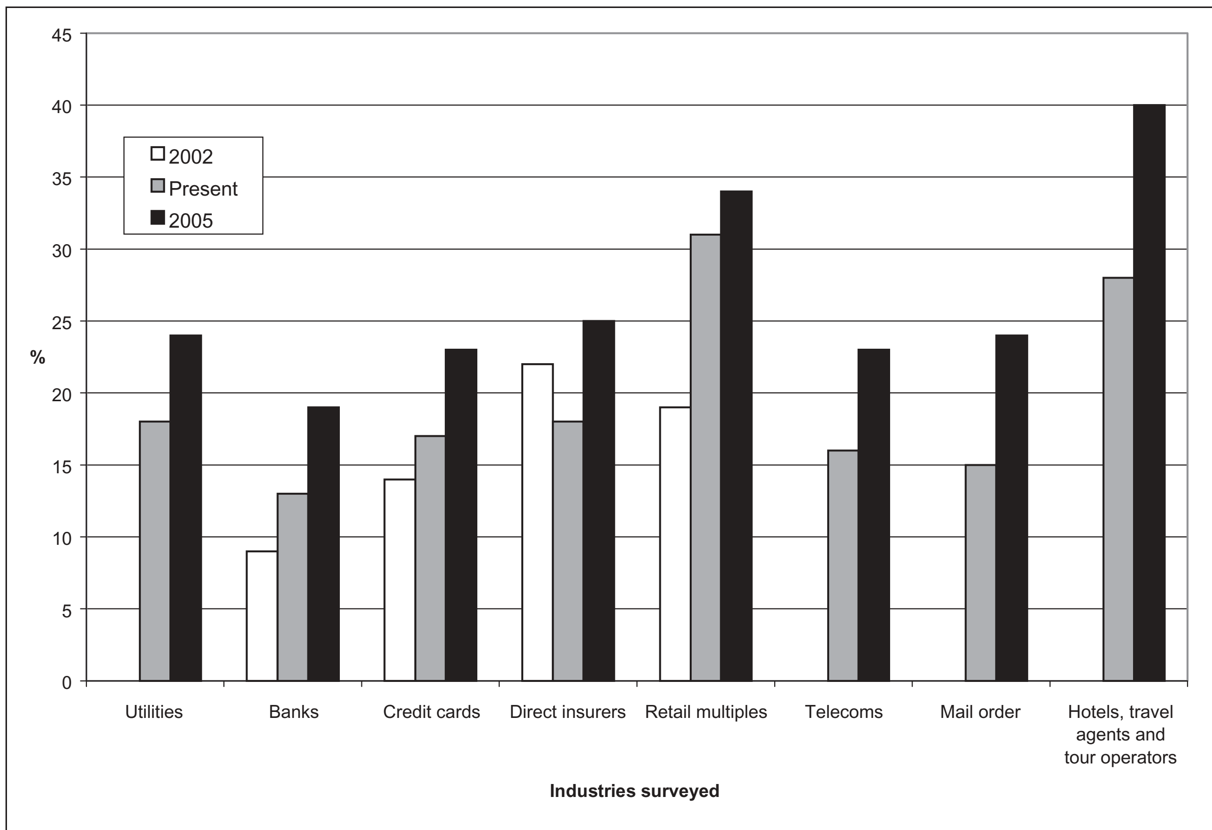

Figure 1: Proportion of marketing budget devoted to affinity marketing by industry

advertising plus steady growth in direct marketing — then one can safely conclude that affinity marketing is soaking up a substantial proportion of increased marketing effort as the economy picks up speed. In fact, the growth of affinity marketing is simply not fully represented in metrics such as Bellwether as they do not reflect the fact that costs are shared between at least two organisations.

Traditional marketing still carries weight

But despite this substantial growth, no one should labour under the misapprehension that such alternative advertising techniques will replace traditional advertising and direct marketing. Affinity marketing only works where there is a match between both partnering companies' customer profiles. Key match points have to be established. For instance, what is the size of the partnership opportunity? How many existing routes to market do the brand partners have? How do they communicate with their customers and prospects? How often? Once armed with the answers to these and other similar questions, bespoke campaigns can be created which reflect the particular partnership opportunities of the brands involved. The increasing sophistication of brand matching, using lifestyle, geodemographic and psychographic tools in order to profile existing customers, has led to increasing uplift from partnership marketing campaigns across all sectors. Yet one has to remember that there will be a finite number of potential suitable partners that each company can find.

Difficulties

There are other hurdles. Thorough pre-campaign research eliminates

what is a concern particular to the new media marketplace — that of geographically mis-targeting their partnership campaigns. Many pureplays do not know the geographical spread and concentrations of their target customers, because it is usually of little importance for advertising through no-geographic online media. This is potentially disastrous in an affinity campaign — if promotions are taking place through the offline partner's branch network, the new media company's customers and prospects must be located near the branches for the campaign to be a success.

Success stories

But when conducted properly, companies can benefit enormously from a partnership marketing campaign with a suitable partner, especially where a 'high-interest' brand partners with a 'frequent-contact' brand. 'Frequent-contact' partners might be a utility or a retail storecard issuer. To complement this reach, a 'high-interest' strategic partner must have a variable portfolio of offers to be used in frequent campaigns, and for different pockets of customers. A travel partner is one example — different benefits depending on the season.

Results — Detailed findings

The utility industry

The utility market currently allocates 18 per cent of the marketing budget to affinity marketing. This is set to rise to 24 per cent in 2005, an overall increase of six percentage points.

Since deregulation in 1997 the utilities market has changed radically. It has been opened up to fierce competition. Privatisation of the industry resulted in a plethora of new or regional companies seeking endorsement and national coverage. One-time monopolies no longer have a captive customer base and are having to work harder to retain the loyalty of their customer base and bring in new business. The more forward-thinking utility suppliers recognised that to succeed they needed to set themselves apart from their competitors. Multi-utility provision with significant discounts became common practice in an attempt to minimise churn. This proved marginally effective, although OFGEM reported in 2002[5] that five years after the introduction of competition into the domestic electricity market 100,000 electricity customers were still changing suppliers each week.

Utilities embrace affinity marketing

Affinity partnerships between utility suppliers and non-utility products such as insurance, home services and financial services became a popular retention strategy in the late 1990s. This has evolved, and currently the focus is on developing the share of the customer by selling the affiliate products under the trusted brand umbrella of the utility company. The sector is increasingly buying into the affinity mindset. This has never been so important as now, with the emergence of a competitive threat from non-traditional utility suppliers such as banks. Utility products are not cutting-edge products that consumers find interesting. The provision of gas, water and electricity is intrinsically dull, therefore supplementing the core product offering with non-utility products encourages brand tie-in and can boost customer value.

The utility industry is in the enviable position where its products are a

human necessity and its customer base is stretched across a wide range of target markets. The sector is therefore in an exceptionally strong position as an affiliate partner and a highly attractive prospect to non-utility companies looking to set up collaboration. Third-party offers are becoming increasingly necessary to ensure differentiation between suppliers. Consequently, the survey expected to see a larger proportion of the marketing budget being allocated to partnership marketing by 2005.

The banking industry

Banks shun affinity approach

Retail banking has a very low customer turnover, which has led to a detectable inertia when it comes to customer acquisition. This perhaps accounts for the fact that banks show the least interest in affinity marketing, currently apportioning only 13 per cent of the marketing budget to partnership tie-ups. Affinity spend is predicted to increase by six percentage points to 19 per cent by 2005, well below the all-industry average of 27 per cent. The findings are in line with 2002 expectations that the banking industry would allot 12 per cent of the budget by early 2004.

These are disappointing figures given the industry's desirability as an affinity partner. The sector has a high-volume customer base and regular contact with account holders. Previous research conducted by Group 1 Software[6] in 2003 revealed that the industry on average sends out 16 customer communications, including statements and customer service letters, per account holder per year. Affinity partners therefore have the opportunity to reach potential customers directly with personalised offers printed on monthly bank statements.

Consumers often perceive the banking sector as a necessary evil. In addition, the industry holds a draconian view of affinity marketing where almost all affiliate products must be branded to the bank, therefore unbeknown to the consumer many of the bank's most profitable products are resold by them. Since this is proving an effective method of customer development, however, surely named partnership brands that can genuinely draw consumer interest and attention are essential for retail banks to achieve brand desirability, competitive differentiation and increased levels of customer acquisition?

Desirable affinity partners

The credit card industry

Credit card issuers currently apportion 17 per cent of their marketing budget to partnership marketing. 2002 research predicted that by early 2004 this would have reached 23 per cent. This research, however, reveals a slight change in attitude, as the researchers believe that the credit card sector will not allocate 23 per cent of the budget to collaborative marketing until mid-2005. A reason for this slowdown is perhaps the sector's heavy investment into affinity credit cards during the 1990s, resulting in over-saturation of the market.

Credit card issuers are in a strong position to attract affinity partners due to their large databases and frequent customer contact. Affinity cards provide revenue, enhanced loyalty, a higher profile and a constant brand reminder. Credit cards have therefore provided one of the most popular

brand stretches. Virtually all companies with a sizeable customer brand have launched an affinity credit card, including utilities, universities, charities and football clubs. There are currently 1,200 different affinity cards on the market, which is approximately 75 per cent of all credit cards available to consumers.[7]

Customer acquisition of affinity credit cards has been exceptionally high. However, once the card makes it into a consumer's wallet in order for the affinity credit card to be profitable it must be used. Therefore the real value of collaborating with card issuers is the on-going customer communication potential. As revealed by Group 1 Software in 2003,[8] statements, bills and customer service letters/updates/announcements all provide an ideal means of regularly communicating with customers via marketing messages printed directly on to the affinity card's monthly statement.

Customer communication potential

The credit card industry makes an ideal partner, but the sector itself has a reputation for high churn, customer loyalty problems, fierce competition and crude targeted marketing strategies. Credit cards are increasingly a low- or no-earning introductory product to ensnare customers with a view to developing relationships and customer value through higher-value products such as loans. Therefore it seems that it is time for the credit card market to reassess its affinity strategies. Rather than providing a new card for new affinity partners, card issuers need to find a way to collaborate with attractive brands to widen the appeal of their existing, non-affiliated credit cards. Such tie-ups would be beneficial as issuers would be able to boost customer retention and acquisition through relevant and targeted offers appealing to the customer base.

Assessments needed

The direct insurance industry

Direct insurers are currently devoting 18 per cent of the marketing budget to partnership marketing. It is predicted that this will rise by seven percentage points to 25 per cent in 2005. Significantly, they are the only industry surveyed to have experienced a drop in the proportion of the budget allocated to affinity partnerships. According to 2002 research[9] direct insurers assigned 22 per cent of their marketing funds to partnership marketing 15 months ago, so there has been a drop of four percentage points. This is a shocking finding, as the insurance industry is renowned for its patchy view of the customer, commoditised products, fierce competition and limited customer interactions.

The insurance industry is facing an increasing threat from traditionally non-competitive markets. It is now possible for the consumer to purchase policies from the bank, travel agent and even supermarket. The sector also has communication problems. Consumers do not want regular contact with their direct insurance providers on the subject of insurance. Therefore insurers have limited scope for communication with the customer base. Consequently, it is important that the industry searches for legitimate methods to increase correspondence with their policyholders. Frequent correspondence serves to heighten brand perception and creates a sustainable competitive advantage. Contacting the client base with

Problems and solutions

targeted offers and discounts from affiliate partners is an ideal method of engaging the client base.

Direct insurers are perfectly positioned for affinity marketing as insurance is a key household purchase and in some cases a legal requirement — such as motor insurance. It is therefore ludicrous that an industry under threat has decreased its affinity spend — especially when all other industries are increasing the proportion of the budget allocated to collaborative marketing.

Retail multiples

Retail multiples currently allot the highest proportion (31 per cent) of their marketing budget to affinity marketing. But the industry drops to third place by 2005, with an estimated 34 per cent of the budget being spent on affinity partnerships.

Success and desirability

Retailers traditionally have had a high level of involvement with non-conflicting third-party partners — for example, tie-ups between clothes multiples and washing-powder brands. Retail multiples hold considerable consumer interest. The industry is therefore very desirable as affinity partners, especially to less-exciting sectors with frequency or churn problems.

ROI vs marketing strategy

The industry is in a strong position, as it is rich in customer data due to a high saturation of loyalty schemes. Despite this, however, at a mere three percentage point rise the industry has the lowest predicted increase of affinity spend over the next two years. This is a result of the high saturation of successful retail affinity partnerships already in place, and also the retail sector's aggressively commercial perception of partnerships. The retail industry predominately employs its affinity activity as a money-earner — not as a marketing strategy. Retail multiples are used to charging affinity partners exorbitant fees for in-store presence, not sharing assets. A shift in attitude is necessary for retail multiples to exploit fully the marketing benefits of affiliating themselves with complementary brands that have comparable market presence (mobile communications, automotive etc). The sector has long been a subscriber to loyalty marketing. Why not affinity marketing, when it has the power to attract customer groups not previously targeted and at low media cost?

The telecoms industry

The telecoms industry, both fixed-line and mobile services, spends 16 per cent of the marketing budget on affinity marketing. By 2005 it is thought that this figure will rise by seven percentage points to 23 per cent.

Opportunity

It is surprising that the current figure is so low, as the industry is becoming increasingly commoditised and deregulated. Moreover, stringent price controls have been secured by OFGEM. Affinity marketing is therefore one of the few remaining ways to distinguish between telecoms providers.

The telecoms market is also notorious for its high level of churn — for example 15+ per cent of customers are switching mobile contracts per annum. But it is not just the contract mobile suppliers but also the entire industry that need to cement relationships with their customer base —

both business and consumer. The strategic benefit of affinity marketing for the telecoms sector is to add value to the customer relationship, which is especially important for retention.

Mobile phone operators have managed to develop a fashion element to their products, but the landline sector still remains dull. Yet due to the industry's frequent customer contact and high-volume customer base, many brands view telecoms providers as desirable affinity partners. Moreover, as the general public's lust for immediate knowledge increases, the potential for more creative affinity tie-ups will increase — such as partnerships between real-time news services and mobile providers and deregulated directory enquiries and fixed-line providers.

The mail-order industry

The mail-order industry is one of the lowest investors in affinity marketing. It currently spends only 15 per cent of its marketing budget on affinity collaborations — the second lowest percentage of the industries surveyed. But the industry is expected to have a massive increase on spend by 2005 — nine percentage points to 24 per cent.

Initiatives such as Abacus to pinpoint multi-buyers have slowly begun to alter the industry's perception of affinity deals. The introduction of data sharing has triggered a psychological shift towards collaboration, accounting for the high increase in investment in affinity marketing over the next two years.

Affinity: The solution to a crowded marketplace

The mail-order industry has experienced a significant rise in new players entering the market. It is therefore crucial that mail frequency is addressed to ensure that the same companies are not targeting the same consumers repeatedly. A solution is affiliation with other non-competitive sectors, enabling access to new markets without the infrastructure and costs of adding value to the customer experience.

Massive potential

The sector has massive affinity partnership potential as the products appeal to the consumer, it is data rich and it is experienced at fulfilment. There is nothing more damaging to a brand than an affinity offer that is not delivered. Moreover, there is enormous scope for creative partnerships, such as the insertion of relevant affinity branded samples within the consumer's mail-order package — for example, sample teabags with teapot orders. As the mail-order sector becomes more confident with affinity marketing it is likely that one will see an increase in investment, with the proportion of the marketing budget devoted to partnership marketing steadily rising.

Hotels, travel agents and tour operators

The travel industry (including hotels, travel agents and tour operators) is one of the longest-established sectors at utilising affinity partnerships as a marketing tactic. Currently the industry apportions the second highest percentage of its marketing budget to affinity marketing (28 per cent) — just below retail multiples at 31 per cent. By 2005 it is thought that a massive 41 per cent of the budget will be allocated to partnership marketing — both the largest proportion and the highest increase (13 percentage points) of the industries surveyed.

Over the past few years the travel industry has been hard hit by the threat of terrorist action, and UK hoteliers, travel agents and tour operators have all experienced a distinct drop-off in bookings. The industry is becoming increasingly consolidated, with tour operators merging and controlling travel agents, airlines, hotels etc. Consequently, it is imperative that the industry interacts with its customers. Fortunately, the sector has one of the highest penetrations of loyalty schemes — hotels top a Total DM survey with 100 per cent saturation[10] — and consequently a detailed understanding of the customer base. The industry's data richness combined with its good consumer perception makes it one of the most desirable sectors for affinity associations.

Customer interaction is key

As a customer-facing leisure/entertainment industry, the customer experience is paramount to the travel sector. Therefore affinity partnerships that can enhance the overall holiday are an integral part of the industry's marketing strategy. For example, a travel agent's offering no longer runs to just the mode of transport and hotel, but to car rental, tours and travel insurance. Likewise hoteliers offer more than just bed and board. It is now common to find affinity inclusions of cut-price transport, theatre tickets and restaurant deals. Partnerships are not only viable to hoteliers, tour operators and travel agents as a marketing tool but also strategic to increasing profits. The travel sector has evolved its affinity relationships, often making commission arrangements on sales to third parties.

Evolution

Conclusion

Affinity tie-ups as a means of acquiring and retaining business appear to be increasingly important to overall marketing strategies, evidenced by the predicted increase in affinity spend over the next two years across all the sectors that were surveyed. The researchers believe that this is the result of the dual pressure on marketers to increase reach while containing — or even reducing — spend. Traditional brand advertising is failing to win a substantial share of increased marketing effort as the economy recovers and grows — with the lion's share being snapped up by direct marketing, promotions and affinity activity. It would appear from this research that the more competitively pressurised an industry is, the greater its active enthusiasm for affinity marketing. But despite the current high rate of growth for this alternative advertising technique, growth rates are expected to level out, as the range of potential affinity partners available to any one firm is limited by the level to which customer profiles can be closely matched. As a result, the researchers foresee that the proportion of the marketing budget set aside for partnerships will continue to increase past 2005, but partnerships are not going to replace traditional advertising methods.

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