

Affinity Marketing - Pain or Panacea?

“So where is my million quid?” This was my welcome from the UK MD of a large Japanese motor manufacturer. It was my first week in my new role of Head of Affinity Marketing for a credit card bank and the MD was my first contact with the client-side. The pattern was set for many such meetings over the next few months as it quickly became apparent that my appointment gave opportunity for a whole industry of MDs unhappy with the level of their commission fees to vent their fury.

So why the unhappiness? Was it simply the natural outcome of an overly aggressive sales pitch suggesting the magical figure of £1m in commission fees would be easily attainable? Or was it just a wilful failure to accept the hard commercial reality that a fee of this magnitude can be earned only through intense marketing activity.

Whatever the reason, it is estimated there are over 5,000 affinity schemes operating in the UK financial services sector alone spanning the entire gamut of products from payment cards to savings accounts, loans, insurance and even mortgages. Other white label schemes operate widely in the energy, water and telecommunications industries and new players are emerging in the digital world from among sports portals in particular. It seems that many brands from business sectors as diverse as sports, charities, education, professional, commercial and financial can and do derive a measure of financial and brand benefit from their affinity relationships.

So what do those successful exponents of the black arts of affinity marketing know that my old adversary from Nippon did not? First, they understand the motivation of the organisation supplying the white label platform. Often, these businesses are much larger entities than the companies, if not the brands they host. They are the leviathans in the relationship and are eager to apply their established back-office services to affinity partner brands because they believe customers can be acquired more cheaply using partners' distribution channels; sales values and balances will increase through the ability to cross-sell additional products; and retention or renewal ratios will rise and losses through bad debt write-offs fall, all as a consequence of the loyalty customers show to the affinity partners' brand.

Aside from the sometimes inflated expectation of commission income, what key benefits accrue to the affinity brand owner from this unequal relationship?

- Brand Exposure - affinity allows companies to project their brand image well beyond their standard in-house derived product portfolio and at lower cost.
- Brand Extension - affinity can extend brand reach into non-core areas without incurring the financial and operating risk from back-office services.

However, these benefits do not come without potential down-sides:-

- Approval Rate - white label suppliers are interested in acquiring high quality business at the lowest possible cost. Approval rates on products such as credit cards can therefore be low with a commensurate risk to brand image.
- Reputational Risk - if the product fails to live up to customers' expectations in terms of value or service levels, the affinity brand will suffer.

While affinity marketing programmes continue to promise the potential of significant profits, albeit only to those enlightened organisations that take the trouble to research and understand the key parameters of the business, there will always be a queue of organisations ready to risk the reputation of their brands and enter the market. And as Ishmail once remarked, it's not sensible to stand between Ahab and the whale.