

Lenox Powell: Welcome to Acceleration Partners' very first episode of our Outperform podcast. My name is Lenox Powell, and I have the privilege of being a part of AP's internal marketing team. On our Outperform podcast, we'll discuss a variety of topics ranging from performance partnerships, affiliate, and digital marketing to company culture, entrepreneurship, leadership, and the like.

Lenox Powell: To kick off our podcast, we thought it would be helpful for our listeners to hear from AP's founder and managing director, Bob Glazer, about where he sees the performance industry headed in 2017 and beyond. Without further ado, welcome, Bob.

Bob Glazer: Thanks, Lenox.

Lenox Powell: Before we get into what the next few years hold for the performance industry, let's take a step back. You've been in the affiliate marketing, performance marketing space for quite some time. What are a few things that have been happening in the past few years that are driving the changes we're seeing in the industry?

Bob Glazer: There's been a lot of changes. However, I think some of the larger factors that are driving change across the industry are the globalization of brands and of E-commerce programs leading to more global affiliate programs. The focus on attribution and multi-channel attribution and looking at the affiliate program in the context of all the other marketing channels.

Bob Glazer: Also, mobile, I think mobile's really starting to change the affiliate world. Then finally is really transparency and we're seeing more brands really want control over these partnerships and having more in-house or direct programs. That has been probably one of the largest segments of growth for the industry over the last few years.

Lenox Powell: How do you define ... What's an affiliate network?

Bob Glazer: Yeah. Affiliate network means a lot of different things. Well, anyone with an email list and some technology that they want to send out offers can call themselves a network. I think there's a lot of these sort of CPA networks, so there's lots of those. We'll stay away from that.

Bob Glazer: I think when we talk about networks, we talk about the more traditional retail networks. So, that would be like your ShareASales or Rocket Time Marketing or Commission Junction that do more CPA or cost-per-revenue-based programs and operate with a fair amount of transparency and in more

consumer retail environments where it's not just leads. That's our definition of network. Network helps solve the one to many, help lots of publishers out there looking for lots of advertisers to partner with. Instead of all these one-to-one relationships, it really helps bridge that ecosystem.

Lenox Powell: How does that tie into kind of what's been going on to change how brands, how companies can interact with these new kind of partnerships?

Bob Glazer: Yeah. A big change that over the last five, ten years, a term I use mega affiliates, the industry consolidated a lot on the publisher side, and you had some of these mega affiliates. I think people went to different networks and worked with different partners because they were hoping to get unique and proprietary relationships, particularly in the U.S.

Bob Glazer: As they looked across the programs, they found the same five to 10 partners were really in all the programs, and they were paying a lot for those relationships on a performance basis. I think those were some of the relationships that started to run into a problem with cross-channel attribution, and people were starting to look at them. They just weren't getting as much internal credit as they were getting before.

Bob Glazer: I think the combination of saying, "Hey, these relationships aren't scoring as high as we want and they're expensive for us to keep paying on this basis," has driven some new models. People really wanting to look at what is good affiliate tracking and payment technology, what is good publisher development services, and what are good strategic account management services? I think that's led to different answers in different cases.

Bob Glazer: In some cases people might say, "Yeah, my partner's really good at all those things and I'm happy with that," or they say, "My partner is really good at the tracking and payment side, but I haven't seen anything on the publisher development side," or "My account team is transferred over three, four times in the last few years, and they're having a hard time under these kind of all-you-can-eat agreements, getting accountability for the specific function."

Bob Glazer: There's definitely some new entrants in the marketplace after a wave of consolidation and I think that's pretty consistent in an industry. People consolidate. They get a little stale, and new entrants sort of come in and surprise people. I think that same dynamic has happened in the affiliate space.

Lenox Powell: How would you define a mega affiliate?

Bob Glazer: A mega affiliate's, a publisher who can be 25 percent of your program. Probably represents, five or 10 of them represent 80 to 90 percent of the revenue in a program. They're public. They're a large company doing hundreds of millions of dollars a year, and their affiliates represent such a wide range of the spectrum. I look at mega affiliates as companies that are public, could go public, part of a larger company. They're big. They could jump into a program and be doing multi-million dollars a year revenue, pretty quickly.

Lenox Powell: If that's kind of how it was in the past five to 10 years, mainly driven by affiliate networks and mega affiliates and these complicated performance-fee models, what's an alternative to that? Where do you see it changing in this year and beyond?

Bob Glazer: I've talked to a lot of people on this particularly to do research for my book, and I think one of the turning point moments was when a few years ago when Google Affiliate network shut down. I think for a long time people were really afraid about changing affiliate networks. Even if they were not happy or marginally happy, it just seemed like a lot of work. It happened, but not that often. If you had five or 10,000 partners, it just seemed like a lot of work.

Bob Glazer: What happened when Google shut down was kind of unprecedented, where they really wanted to be out of the business. They said, "Look, leave us as quickly as you can and get off our network." It sent people running around and looking at new options for the first time and looking at new partners.

Bob Glazer: Then they had to make the shift. I think like anything in life with change, it's never as hard as you think it's going to be. When they started making the shift and a couple went and tried something new and moved towards software as a service provider, it sort of paved the way for some of those key case studies, where no one wants to be first. But I think some people went first and then others have followed. There's no doubt that the software as a service sort of movement has really accelerated ...

Bob Glazer: You had HasOffers and TUNE, which has raised quite a bit of money, has been around for a while. Then really the emergence of Impact Radius in the U.S. over the last couple years. Then more recently Performance Horizon, who's recently had a stronghold in Europe and is now making their way over here. They're offering large brands a different system and more of a direct program that they control, new pricing models, global payments. It works in every country, not every country, but most of the countries you want to be in. Again, it takes some of these relationships that have been really non-proprietary and

high volume and manage them at a lower cost and think about then what other types of partners could be managed under the affiliate infrastructure or business model.

Bob Glazer: I call it the affiliate infrastructure, which is this really smart way to pay people on a CPA basis, have a network or a platform that tracks. It gives everyone real time data. It handles the contracting, which I think a lot of people forget about, which is what slows down most business development deals. Then it also handles all the payments and tax formats and all that stuff in real time. There are lots of relationships out there in business development deals and direct deals that could use this infrastructure that have not taken advantage of it today, and that's where we're seeing a lot of the growth and opportunity.

Bob Glazer: Company sourcing relationship directly, maybe not wanting to pay the sort of historical performance fee; but needing that tracking and payment and network type solution. And also needing the account management, which is rather than set these relationships and just let them go; I think good account management is about being in touch and coaching people up and giving them ideas and getting performance out of your current partners. So, really moving them from a kind of unmanaged set-it-and-forget-it model to a managed model using a more scalable type of platform.

Lenox Powell: It's interesting. But it also sounds like that this whole new structure with a SAS platform and this entire different structure and how everything's being paid could upset the traditional affiliate marketing appletart.

Bob Glazer: Yeah. The affiliate marketing, the industry, according to industry reports, has been growing at, I think 15, 16% a year over the last few years. It's very hard to define what is affiliate revenue I think in this new world order. I think the capacity of the industry to have these sort of things managed is two to three times. I talk about it's a little like the unbanked revenue. People talk about the unbanked is all the money under mattresses that's not in banks that banks could claim as deposits. I think there's a lot of revenue out there that looks and feels like affiliate marketing. It just sits in spreadsheets and invoices and really old systems that is ripe to be brought into the industry, and it would really blow open the numbers for the industry because it would start morphing business development in other forms of marketing into affiliate marketing.

Bob Glazer: At the end of the day, affiliate marketing is a framework on how to pay your partners. It's almost not a channel because it can be so many different things. Yeah, I think we're going to see tremendous growth. But with that, it will look different than it's

been. I think there are vendors and people who are adapting to that new world order really quickly. Like any industry, there are some who will just dig in and stick to their current model way past the point where it's not working anymore. I think that's what you're really going to see over the next couple of years. I think you're going to see some new entrants. You're going to see some consolidation and I think you're going to see some failures and folks kind of go under who are unwilling to adapt because that's just not where the growth in the industry will be.

Lenox Powell: I think there's a lot of confusion about what affiliate marketing is. And I think the old school model has been it's one channel just like search engine optimization is a channel, social media marketing is a channel. I think what you're saying, from your perspective, is that it's not a channel. It's a model. It's an infrastructure where anything you're really doing in your business, if it's working with a partner, if it's any kind of marketing can be run through this model. Anything you want to track, anything that you need to attribute can be run through the model of affiliate marketing.

Bob Glazer: Exactly. It's a performance based framework or model. Another one of the things that's really driving it is just the enormous amount of fraud in display and programmatic. I would say two things. People love coming up with new names for stuff that's been around. Banner ads have been around for a while, but the industry sort of rebranded itself around programmatic. It was a different way to buy them. We're finding out that maybe half of this stuff is fraud, and it's the second biggest source of income for the Russian mob and to billions and billions of dollars a year impressions of people that are buying that no one's even seeing the ads. Then you've had this massive run up in influencer marketing with everyone all excited about influencer marketing and native marketing, which have all the same tenets as affiliate had.

Bob Glazer: However, they just paid out in different ways, and they paid upstream, and they paid you to write, and they paid, again, for impression. At the end of the day, people, E-commerce, consumer companies are looking to sell stuff. They go through the data, and they go, "That's great. We got all excited about that, and now where's the performance?" The other thing you're seeing is just a huge movement to performance. I mean, we've seen a lot of media companies coming into the affiliate space now. Their display inventory is ... The rates have fallen in half overnight and people just aren't willing to pay for it. It is forcing them to work with those same advertisers in a different way.

Bob Glazer: There's virtually unlimited budgets for performance that if you delivered me the outcome ... If 11% is a good cost of sale for me

and I would pay that every day and all day, I set up a system where I'm willing to pay that every day and all day. There really is no budget. If you can supply that to me, then I'm happy to work with you. Really, also can't underestimate how much some of this fraud stuff is really changing the game because the buyers are saying, "Look, we're just not going to pay for these top of funnel impression or viewability metrics anymore. We need to see clicks. We need to see sign ups. We need to see sales. We want to pay for action."

Lenox Powell: Who knew marketing could be so scandalous with the mob involvement?

Bob Glazer: Yeah. It's huge money. I think there's been estimates that this could be like \$20 billion a year. It could be half of it.

Lenox Powell: That's crazy.

Bob Glazer: Yeah. A lot of that would be avoided if ... It's very hard to fake sales. You can misattribute sales, but it's a lot harder to fake sales. On an impression basis, it's been a lot easier to do that. It just seems like an arms race where there's some bad incentives, and the crooks are a little bit smarter than the people who are out there trying to catch them.

Lenox Powell: That's some really good history about affiliate marketing. You're seeing it for this year and beyond, be more focused on SAS platforms, companies being more much aware of and demanding performance, demanding transparency, wanting different kinds of partnerships, not just what they consider a typical affiliate partner of a coupon or a loyalty or even a blogger. They're thinking way beyond that.

Lenox Powell: You also mentioned mobile. Kind of what's been going on with mobile and where do you see it going in the new year?

Bob Glazer: Yeah. Obviously, mobile has been growing tremendously over the last few years. It's not kept up in the affiliate space for a few reasons. The technology and the integration is just a lot harder. And in the web world, pixels are pretty easy to install. For mobile tracking, you need to get integrated into the SDK, which just requires an update of the app itself. It's a lot more complicated.

Bob Glazer: The early winners in mobile commerce have actually been the folks like Amazon or eBay or Zulily or the places where you're kind of shopping all the time, and you have your payment stored, and you just login, and you can buy stuff. It's been better for sort of the recurring revenue shopping than it has been for shopping discovery because it's just not convenient to add

payment information on your phone and fill out your name. It's been a harder conversion.

Bob Glazer: That's really on the cusp of changing. With technologies that let you go directly from a publisher site into the cart and sort of inject the order to Apple Pay, Google Wallet, and all the stored payment stuff.

Bob Glazer: You're about to hit the point where you can ask a chatbot for an idea for a shirt, it will bring you back three. You click on it, use your thumbprint, and then the shirt is being shipped to you.

Bob Glazer: With that sort of workflow; affiliate and mobile becomes really interesting. Affiliates can really drive a lot of the publisher innovation. I think that these new ways of buying the sort of chatbots, moving away from the portal, which is on the mobile. I don't want a hundred things. I think People are trying to ... We use every new ...

Bob Glazer: I read an article once where someone talked about how the first movies were filmed theatrical productions. The first online stores were people trying to recreate malls virtually. We tend to use new technologies incorrectly and how we've known how to use them in the past.

Bob Glazer: Again, you don't want tons of options on your cell phone. You want that quick, instant gratification and this is where chatbots and artificial intelligence and publishers have a real opportunity to innovate and make it actually really quick and really easy to order and easier than your desktop.

Lenox Powell: Share a little bit about Button. We have talked internally about Button and what the role they're playing in affiliate marketing and app to app sharing. But what are your thoughts on where that's going to go?

Bob Glazer: Yeah. Button's solving a really hard problem, which is getting apps to work with each other from a commerce standpoint and talk to each other. They've been able to do that by getting that SDK solved and getting into a lot of the most popular apps.

Bob Glazer: A lot of the mobile ... Again, a lot of the fraud is coming mobile. So, pop-unders, display ads ... If you think about how many times you click on a mobile ad because your fat thumb missed the X. There's been a lot of this interruption advertising on mobile, which adherently isn't valuable, but has been sold on an impression basis.

Bob Glazer: I think Button is this great example of a company that's solved the hard technology problem. You're in one app and they're contextually showing you very relevant things in another app that deep link and open you into that app. That's all done on a performance basis and a performance model.

Bob Glazer: Advertisers love that it's on performance. And I think from the user experience, it's a really positive user experience, where I'm looking for a restaurant and you're going to tell me how far away an Uber is that can take me there and how much it is and make it so that I just click on that and it's all set to go. That is very different from some of the mobile advertising I think we've all seen over the last few years, which has just fundamentally annoyed us rather than helped us.

Bob Glazer: For those who are paying attention reading at home, Gen Y and the Millennials, they do not like interruption advertising. They're some of the biggest users of ad blocking. I think a lot of this sort of these low value tactics just aren't going to work anymore.

Lenox Powell: So, attribution is a big one. Nobody can-

Bob Glazer: Yeah.

Lenox Powell: Everyone's confused what it is, how do I figure it out? What are your thoughts on that as far as growth and where it's going?

Bob Glazer: Yeah I mean we've tipped to where the majority of the companies now are using multi-touch attribution and not last-in. The retail world, in particular, had sort of adopted a last-in model, which really encouraged everyone, their publisher's partners to be last-in for years. Those models are rapidly changing and again, it's not about whether that partner was in the transaction, it's about were they in the transaction in a valuable way and how valuable were they?

Bob Glazer: I think five years ago it was common for you to just pull your numbers from the affiliate network and say, "Hey, I had \$10 million in affiliate revenue last year." Companies running an attribution model now would take that number, they'd dupe that on their own systems for all the other channels that are claiming credit and they come back to you. And they'd say, "We're counting about \$4 million that as affiliate revenue," and attributing it to that channel.

Bob Glazer: That's a big difference and that's where a lot of the problems lie. A lot of the incentives and the payouts, the fees and stuff in the industry are all based on this pre-attribution of affiliate revenue. While companies are saying "Look, we can't pretend all these

channels don't exist. We've got to look at the stuff together and figure out how to allocate it."

Bob Glazer: A lot of times a team is coming in saying, "Hey, we did \$10 million." And then the internal system is telling them they only get \$4 million in credit. Obviously then, that really changes their expense ratios and who they're paying and how they're paying their publishers. They need to make adjustments.

Lenox Powell: What's changed from that kind of going forward that companies can alter that?

Bob Glazer: What's changed is really working ... a phrase that we use a lot now is not if you work with a publisher but how. Where you're sitting down with a publisher and saying, "look these are the types of behaviors that are valuable and not valuable. I don't get credit for this type of traffic and so it's not good for you and it's not good for me."

Bob Glazer: So, really again, working with publishers to say, "Whatever you did last Tuesday, that worked. What was that?" "Oh, well we blasted a newsletter to our people who had bought before from you." You say, "Great. How can we do more of that?" You're going to see more incentive tied to very specific behaviors that score well in these attribution models.

Bob Glazer: This all takes a higher level of effort, more time, and more resources. And frankly, a higher level of score by an affiliate manager that has been required in the past. I think it's really going to change the team dynamics. It's why you see more people working with specialist agencies who have a lot of experience. I'm seeing a lot of the affiliate managers taking over large in-house programs.

Bob Glazer: Our former affiliates, who were big affiliates and maybe got crowded out in the mega affiliate wave, but they understand the game. They understand the [arbatrass 00:23:22]. They understand the [inaudible 00:23:23]. They're a lot smarter about the industry coming in and understanding what has done. They're building big teams.

Bob Glazer: For some reason, there was a perception a few years ago, probably through missed attribution that one person could manage a \$100 million channel. I mean, that's not true. Either it needs more people or it's really not a \$100 million channel. You would never have a \$100 million in paid search that's managed by one person.

Bob Glazer: We have a client who's got a five person affiliate team and trying to take it to 10 next year for the global affiliate program. Again, realizing that it's a real opportunity but it needs a different level of resources.

Lenox Powell: So, for our listeners out there as you can tell, Bob is a wealth of information and resources and thoughts and ideas. We will promise to bring more of those to you on this podcast and on many future episodes. Bob, these are really important insights for marketers to know especially as we start off a new year.

Lenox Powell: I definitely want to talk more about what we're calling performance partnerships and I know you've got a book coming out by that same name. There's so much going on about how e-commerce companies can really benefit from working with these type of performance partners and vice versa.

Lenox Powell: I think that's a topic that definitely deserves its own episode as due so many others like global and all these, even attribution. So, to our listeners out there, stay tuned for that because it will be coming your way.

Lenox Powell: In the meantime to learn more about Acceleration Partners, check out our website and blog at [accelerationpartners.com](http://accelerationpartners.com). To hear inspiring insights from Bob, check out his site [fridayfwd.com](http://fridayfwd.com). That's [www.fridayF-W-D.com](http://www.fridayF-W-D.com).

Lenox Powell: Thanks for joining us on today's episode and check out episode two on our podcast as well. Thanks for joining us.