Lenox Powell: Welcome to another insightful episode of The Acceleration Partners Outperform Podcast. On today's episode, we're discussing affiliate networks and software as a service technology solutions. Specifically, how both serve the affiliate industry, some differences between them and how companies use them for the technology needs of their affiliate program.

Discussing this topic with us today is Todd Crawford. Todd is the Vice President of Strategic Initiatives at Impact Radius, which is a company that provides a software as a service technology solution for the affiliate industry and other industry verticals. Not only does Todd have significant expertise about software as a service solution, but he was also one of the founders of Commission Junction, which is an affiliate network.

Speaking with Todd about this topic is Bob Glazer, Acceleration Partners founder and Managing Director. As a prominent leader in the affiliate space and having worked with the world's leading brands, he too has unique perspectives to offer about affiliate networks, SaaS platforms and their role in the future of the affiliate industry.

I, Lenox Powell, will be moderating this discussion. Welcome Todd and Bob.

Todd Crawford: Thanks for having me.

Bob Glazer: Thanks, Lennox.

Lenox Powell: Before we dive into the nitty-gritty of affiliate networks and SaaS platforms, can you both share a bit about how you got started in the affiliate marketing world?

Todd Crawford: Sure. You want to go first, Bob?

Bob Glazer: Todd? I was going to say your story is longer, so I'll let you go.

Todd Crawford: Well, okay. It was 1998 in the summer, and a guy named [Lex Cisney 00:01:37] had come up with this idea how to improve upon the existing business model of an affiliate network. Back then, the two biggest players were [Be Free 00:01:47] and Link Share. There were some things that he felt made it very difficult for the affiliate to work with advertisers, and so, literally, on the back of a napkin he drew out the concept of how it would be a better business model and the birth of Commission Junction came out. I became part of that team back then, and we launched in November. Really kind of focusing more on the affiliate's needs kind of with the concept that, if affiliates liked our network better, it would be a better choice for advertisers. I think, long term, that strategy played off very well.

Bob Glazer: All right. My entrance, I think, formally was in 2006, but informally in 2004. I started working with a company called Tiny Prints right when they got out of the gate, and they were giving us coupons to share with our customers who were new and expecting parents at a business I was working with. We did basically an affiliate revenue share based on the coupon and just saw performance of that go up month after month. Ended up sitting down with the company and sort of, as I came to learn what an affiliate program was and talked to them about, "Hey, there are lots of other people like our business and businesses that I've introduced you to that are doing this deal. You should think about having a program." The founder, Ed, and I got to know each other. I said, "That sounds great. I don't have any time. Why don't you do it?" That was sort of my entrance into the merchant side of it.

Having learned the affiliate side, and Tiny Prints, and Amazon, and sort of monetizing a newsletter that I had created, it was really eye-opening for me sort of in 2006 walking into the industry from the merchant side and with a smaller business, and it was very much ... I talk about sort of gen one. That was the end of gen one, probably the high point before it started to come apart a little bit, but it was definitely a little bit of a casino-style atmosphere, and people were ... One of the reason that networks were so strong at that point is that companies just didn't know what they were doing or how to run these programs, and they just turned to partners and said, "Here, you run this for us." That, obviously, had a lot of pros, but it had a lot of cons as well.

Lenox Powell: At what point did you two meet each other in your time in the industry?

Bob Glazer: I think we met in the early stages of Impact Radius probably ... it was probably about four or five years ago on the speaking circuits. I think, for myself, and then Todd's perspective on this is interesting, I had a hard time understanding ... and this was, again, kind what software service was. Was it another affiliate network? I remember both talking to Todd about Target, which went with Impact Radius, and then seeing Apple leave and go to Performance Horizon and thinking that these were new networks and not really understanding the difference. It took me a little while to understand the change in business model and, obviously, it's shown some of the biggest growth in the industry over the past few years, but like anything new, I think it starts small, and some people understand it and some people don't, but I think that's when we met.

Todd Crawford: Yeah, it was. You were moderating a panel of people that ran networks or SaaS companies, so I think I reached out to you directly because I'm like, "I want to understand your perspective," and then how you're thinking about things so I make sure that, when I'm on the panel, I was going to be able to, I guess, say the things I needed to say and work with you on that, so I think that's how we first got to know each other.

Lenox Powell: From your perspectives, what is an affiliate network?

Todd Crawford: Well, I think today an affiliate network is just an agency that happens to have proprietary tracking software. I think, originally, a network was the technology that coalesced advertisers and affiliates so that there was kind of this, quote, unquote, network effect, right, that ... and if you think back in the very early days of affiliate marketing, Amazon launched their associate program, and some other prominent brands that have come and gone had in-house affiliate programs, which was really a very difficult thing to scale, for the advertiser to build that technology, but also for affiliates to have to log in to all these different systems, so a network came along and said, "We'll make it easy. Log in once. Work with hundreds of advertisers. Get, eventually, aggregate reporting and aggregate payment." That really helped incubate the industry, but today it's kind of grown away from that and really just become more of an agency that owns their own technology, in my opinion.

Bob Glazer: Yeah. One of the analogies I used in the book, which I think explains it well is, to me, with the SaaS platforms are sort of the garden stores selling you the tools to do what you want to do. The networks are selling you the tools and offering to garden as well. I think the terms are used in different ways and I'm not sure people totally understand the distinctions but it's really technology and account management. And management is, we just would have account services or customer support for the customer versus having that technology as Todd said but then having an agency side where they're also going to run your program and act as an agency. I think there's been a shift based on what types of programs people wanna run. We just did an event with heads of a lot of affiliate programs and got some really interesting feedback around...the biggest opportunity in the company sometimes is not calling it an affiliate program, but it's calling it a partner program or changing the vernacular or understanding that the evolution of affiliate programs is really about bringing more partners into the performance components of the company. And then finding a way to manage and track those relationships.

Lenox Powell: So Bob, you mentioned it's in the book. And what he's referring to is, he has a book coming out. And what is it? May 15th? And it's titled “Performance Partnerships” and a big theme in that book is Gen One, Gen Two, going into Gen Three and what an important role affiliate networks played in those early days. Companies were so enthralled about affiliate networks. Who wouldn't want to go to a garden shop, be able to get everything they need, and for the people there to say, “Yeah and we can do all this gardening for you". That seems like a really good solution. Why is that not such a good approach?

Bob Glazer: I'll actually toss this over to Todd, but I think it's just about responding to the demands of the market. At the time, the time of Commission Junction came of age, the market was again...people were really into this concept of affiliate, had no idea how to do it and were begging for help running their programs. So, the market always supplies what demand wants. I think, I'll let Todd elaborate on this, more recently I think companies are stepping back and saying, "Hey we love this concept of performance. We'd like a little more brain control. We'd like some different pricing models. We really need some more flexibility". So, again, it's the market giving what demand is, but I think the market was asking for different things, at different times. Which then, requires different solutions.

Todd Crawford: Yeah, I think in the early days of marketing, people understood that that was one of the things they needed and they should be doing. They didn't really know what that meant and so the networks were [inaudible 00:09:37] and they were kind of one stop shop. They were incubating all these potential affiliate partnerships, that back then no one knew who the affiliates were and if I dust of the old commission junction business plan from 1998, part of raising money was predicting the size of the market for affiliate marketing and in that it talks about millions of affiliate sites driving billions of dollars in eCommerce revenue for hundreds of thousands of retailers and as the industry matured, I think advertisers realized, "well from the traditional affiliate pool, there's probably less than 50 affiliates that matter" and so if I'm a retailer, I know who those partners are.

So, I don't need a network to discover them or have them bestowed upon me right? Those are partnerships that would be looking for me, if I were a strong brand, as much as I'm looking for them. The largest affiliates, they know what brands they want to be partnered with. Their not wondering, "What's the newest affiliate program that I should join?". They understand, they want to work with strong brands, so as the industry matured, I think advertisers started to question the value of a network; if there's really only 25 or 50 partners that matter. Where are those thousands, hundreds of thousands, or even millions of affiliates that I was, quote, unquote, promised.

Lenox Powell: What are some of the differences from and affiliate network perspective? I know we use in terms internally, but they're not all cut from the same cloth, right?

Bob Glazer: No, I think there's technological differences in heir capability. There's geographical differences. There's category focuses of different networks. There's the ones that just offer, sort of, technology and ones that offer more full service technology management. So I think those are some differences I've seen that does run the gambit. I think what everyone has agreed upon, at this point, was, I think there was their perception that the more networks that you had earlier on, and people were running on three or four of them, the more publishers you could get and I just don't think that's proofing out to be true, so I think people who are working with networks are being very smart about how and where they choose them and having a reason. They have a vertical focus that they have access to. They have a geographical focus or otherwise.

Todd Crawford: From my perspective, what I've seen and what I hear, is a couple networks tend to have more specific type of affiliates in a niche. So more like bloggers or something like that. Whereas the more traditional, larger affiliate networks are just more generically large pools of affiliates. That's kind of their claim to fame, but I think another way to kind of peel back another layer of how a network typically operates, is their getting an override fee on either the commission paid to the affiliate or the revenue generated, the dollars generated, to the advertiser. The math works out in both directions, but their getting a piece of the transaction on top. So, what a network does, the reason their kind of seen as being more of an agency, is their trying to manage both sides of that relationship. The affiliate and the advertiser. To maximize the number of override fees that they earn. So they're trying to use the affiliates and the advertisers as a mechanism to generate money.

A simple example is that when we started CJ we had no services and we would talk to our advertisers that were nice sized brands, or even some of the agencies of the time, that were managing them and say, "Hey if you just did this, this and this, this program as a potential to be 50% to 100% bigger. It's just simple." And they would go, "Oh that's great! Thanks!", and then we'd sit and watch and nothing would happen and we'd talk to them again, "Oh we're busy or we don't really know how to do that, so we're not doing it". So, we were waiting for other companies, other parties to make our money for us and that's why we took it into our own hands. To drive that revenue for ourselves. I think that's a big difference, whereas at Impact Radius, we drive revenue by licensing our technology to more and more companies and hopefully they utilize it more and more and more, because they put more and more types of performance marketing type partnerships into the mix, outside of the traditional affiliates. Which will outgrow the license that they bought, and they will renew or upgrade to a bigger license. So, it's a completely....we're not....we don't have a hand in success of the affiliate program directly, but we do through building technology and features to meet their needs. That's some of the bigger differences I see as well.

Bob Glazer: Well there's two tends I think. There's a move towards SaaS overall and product driven SaaS companies and then partnering with agencies. Kind of what Todd was saying, that they were trying to get going, but couldn't get the agencies. [inaudible 00:14:49] so they had to step in. You see that a lot with Sales Force and fusion Soft and a lot of other hub sport platforms that companies license and then people become experts in learning how to grow on that. I think the other things we're seeing is that for these large brands who came a little later, a lot of the growth in early eCommerce was what I would say are pure plays. If you remember Pets.com or Ice.com are really not a lot of brain department, they were just performance in nature. As the larger brands get in to affiliate marketing, and they have brand departments, they want a lot more control. One of our...someone that was on a panel with Todd and I, [inaudible 00:15:37] orchestrating the global affiliate program for Adidas.

When you're a reseller, you need to sign this 200 page agreement about what you'll do and not do and agree to our terms and all this stuff, so affiliates agreement is like 10 pages, and we don't think that's bad, but it's a one strike policy. A brand like Adidas sees this as a kin to their partnership and licensing, and they want control, and they don't want three strikes, and they really want to be driving this program, and they're thinking of how to bring different kinds of people into it, as Todd said. So, what their looking for is a little different and I think the term affiliate has maybe held back those programs in some companies, from what they think they could be. Five years ago, you would never have thought about taking a business development partner that you had and putting them on your affiliate network. Part of that is just...there's nothing wrong with the affiliate network, just the business models. The performance fee would have made that really not economically smart to do. You'd be better off dealing with the spreadsheet and checks and other stuff you had to do as partners. I think these brands are now realizing that this is all the same thing and if they have an economic model that works, they would prefer to manage and measure all this stuff in one place.

Lenox Powell: So kind of in the early days with Commission Junctions, it was, “Heres this technology that makes managing and tracking and paying these affiliate partners so much easier and then you guys at CJ and other affiliate networks, started to see all these ways that these businesses could grow their program even more. Kind of like the garden shop. We can sell you all the stuff and if you use this fertilizer or this tool you could really have this beautiful garden and they were saying, “Yeah, we don't really have the resources or the time” and so yous guys said, “Okay. Fine. We will offer that service for you. That all makes sense, but somewhere along the road, that kind of, whole process...because that seems to be what the affiliate network model is today, is a lot of affiliate networks. They do that. Their...as that example Bod had used, their offering the gardening service as well, so somewhere along the path, that kind of started to derail. Todd I'm sure you both have seen this unfold over the years. At what point did you and your team go, “Okay, you know what, we can do this better. We can go back to what it was in the early days of CJ and just do the technology?” Which is what we are referring to now as SaaS platforms.

Todd Crawford: What happened at the networks was service became really what you were selling and the technology that you had didn't really win the business. It was, "We can service your company, we have better experience and a better track record and we work with similar clients like yours and we know your program is being under managed. We will drive significantly more revenue and well find more partners for you". So the technology got deemphisized, but what we saw as the industry grew, was the need for certain types of technology. Whether is was around data or controls, insights started to rise to the top again and the networks tried to answer that by throwing more bodies, more service [inaudible 00:19:05], "we will get that data for you. We'll do that in the background", so the product became not a self service product and it helped them, I would say, demonstrate the value for the fees, "Your paying me $100,000 dollars a month and I'm doing all this stuff and it's very hard and takes lots people and we deliver it every week and so we're doing a lot for you".

So we looked at that, it's just not scalable, both from just this manual processes or inability to be able to do certain things, to the pricing model itself. This override model has so may inherent issues with it, so what we basically...what I think really resonated with saying, "You should separate service and technology. You should invest in the best technology and then that gives you the freedom to use whatever service, in whatever way, you want. So and advertiser could in source it and hire a team. They could outsource it to the agency of their choice or they could co-manage with an agency and internal resources. I think that really started to resonate and so we really focused on just being the infrastructure and the technology, to enable strategies and needs and data that agencies and advertisers are asking for. So I think that's really where the industry is starting to say, "Okay. That finally makes sense to us or that makes more sense to us" and their really buying it.

Bob Glazer: There's three components to, I think what an affiliate networks has offered, which is the basic technology and trackings. There is the account services and strategies and then there is aggregation and as Todd said before, "If you can bring me a thousand people and I can work with them in an easier way then a thousand in time, then there's a lot of value in that. So there's certainly cases where that happens. Time Prints program in which we were very content focused and the network model really served us well. We had thousands and thousands of affiliates, fairly distributed. Obviously you're going to have some bigger ones at the top, but that really worked well. I think a lot of people woke up and looked around and as... I have this term, mega affiliates. As affiliates became bigger and went through MNA and even became public companies, they look in their programs and say, "this is great. Even if this is everything at, I'm not seeing a lot a aggregation. What I'm seeing is four or five or six publishers are about 90% of my program", and I think that can be fine. Nothing against them, but the notion of paying large performance fees for that, became less and less attractive. Particularly if those were ongoing relationships.

The performance fee model is very well intentioned, but it exists almost unchecked for, not unchecked, well maybe unchecked, unchanged for 20 years. That's really rare. In fact, if anything it's only gone down. I think there's an unfortunate price war where people just keep offering a lower price. That's not the issue. The issue is how to be more online across the board with these activities. How can we align value and accountability, rather than just keep lowering prices. I think, rather than look at the model and say, "This really needs some adjusting. What do I need from a technology stand point? What do I need from a aggregation stand point and what I need from account management?", it's just been a constant, "Oh well, we'll just lower the overall price". Which creates a price war, rather than a value or differentiation war, but really for 20 years, the basic model has not changed and I think finally we're going to see some big changes. There is a real place for performance in industry, but gotta make sure it's performance.

If you move a hundred million dollar program from one platform network task to the other one, there's no reason to be paying a performance fee on that hundred million dollars. There is no performance. There's fee that needs to be managed for the work that needs to be done, to track and account for and handle all the partners, but maybe it's just semantics around the name or whatever it is, but I've always struggled with...particularly when programs migrate and there's a performance fee, about paying that performance fee from dollar 0, rather than really having that be about growing the program or making it more profitable or incremental in some way.

Lenox Powell: And to be clear, you guys are talking about the exact same thing, just using different words. So, Bob, your calling it the performance fee model. Todd, you're referring to it as the override fee. Is that right?

Todd Crawford: Yeah right. It's basically getting a percentage of the business.

Lenox Powell: One of the things you also touched on, is how with the network model, it's so and so's affiliate program on the network, so the network tends to be the focus and I think there's this shift, from what you guys have spoken about in the past, and a lot of what Bob talks about in his book; is the brands, I think of Target as a great example, they have this huge, vibrant affiliate program, but it's not, correct me if I'm wrong Todd, I'm pretty sure their affiliate program is on your SaaS platform, but it's the Target Partnership Program, or something along those lines. It's not...

Bob Glazer: We're seeing a lot of people who are starting to use the words partner program when they launch it and then their calling their affiliates partners. You know, there's a lot of baggage that comes along with the word affiliate, so part of this is to get away from some of that internally. There's a lot of internal PR work to be done, I think for those running programs, and the other is to say, "Look! Yeah. Someone is labeled as an affiliate or not, this is just a partner and this is a partner we'd like to work with on a performance basis. So, that change in vocabulary is indicative of, I think the expansive definition of who comes in this affiliate, partner, performance, marketing programs that companies are looking to build.

Todd Crawford: When we created Impact Radius, some of the things that we thought about when we were in stealth mode is, how are we going to market ourselves. How are we going to speak about what we do and not be another [inaudible 00:25:32]. The first thing is, when we got into a room, the second week of January 2008, it was all white boards on every wall [inaudible 00:25:39] were not going to start on their affiliate network, right? And we all went, "Right!". So people still call us an affiliate network just because that's the word they use, but the thing that I thought was key for us, was we did not use the word affiliate on our website or in our technology.

We called it the affiliate to media partners, because we wanted a term that could be more broadly applied. Like, I always look at performance marketing as the big umbrella and affiliate is just a column underneath that from [inaudible 00:26:08] your typical affiliates as well as non traditional affiliates and influencers and other types of partnerships that it's just constantly evolving. As Bob eluded, it's almost handicapping you, to say you run an affiliate program and if you run a performance marketing channel and you have different types of partners. You may have some affiliates in there. You may business partners. You may have some influencers or whatever your running on a performance basis. We just felt that was a stronger message and we really...the industry did not need another affiliate network. All you're doing when you create another affiliate network, is just going after the same pie. You're just getting a smaller slice. What we wanted to figure out is, how can we grow the industry? How can we innovate within the industry to create growth. Growth for affiliates. Growth for advertisers. Growth for agencies. Growth for third part technology providers and that was our focus in building a platform. Architecting it as well as just designing kind of the way we were going to talk about it.

Bob Glazer: You know, there's nothing wrong with affiliate networks and there's great networks out there. I think what the genie out of the bottle, that's not going back in on, is that companies making decisions about their program and depending on their size and geography and what they want to do, they are going to look at what is good technology? What is good access to publishers and what is good strategic account management services or agency services? And I think those evolve an lump together and that how the pricing is done. The pricing changes and you may still have folks that offer these things, we're just seeing this in RFP's. We're seeing very specific RFP's about what we do versus, we've got complicated ones, including what we do and what other people did in the past, but we're moving towards more transparency in everything.

It's hard in this industry to not be transparent and I think that's the part that's not going to change. I think it's going to be very hard to say, "can we do all of these different things? Which again, something like technical uptime and strategic planning and client service oriented work, do not have the same KPI's, so how are we going to get accountability metrics for this? If I paid my bill last month for my all you can eat plan and my accounting didn't ever call me and I'm upset with that, what recourse do we have? Or likewise, talk to my accounting every day and their incredible, but our program went down four times last month. What's the recourse for that? I just think that single performance fee model without these SLA's or service level agreements, don't address each of these situations. Particularly, and this is where people get frustrated, or "I've been promised this feature for two years. What accountability or how can I get that into my contract?", and I'm sure, Todd you've had these cases, because I think this is where companies are starting to... they've been burned on this and their saying, "Great! You're going to have that feature? By when and what are the contractual consequences if I don't have it?"

Todd Crawford: Yeah and that a lot of times part of the reason we win business is solving some of the challenges the advertiser has around control, data availability, the way that they commission, that their not able to do that through a network and networks, especially most of the networks here were architected literally before the turn of the century, their not able to create these new feature requests at all or if they commit to it, in a timely manner, that's been a big challenge as well in the industry and as I said, the kind of deemphisized technology over services, so they're not trying to wing business with technology and their not able to...you know if you could just publish every company in the spaces 2016 deliverable that they did from a technology stand point. How many releases they did and what were in the releases. I think that would tell a pretty clear story of on what release companies are focused. So I think most companies, that's one of the reasons that they look to Impact Radius, because we are really only focused on doing the technology the best and we don't...we fought...we've had clients that would not want business because we won't provide service and we partner with agencies. That's where you get service or you in source it and it's tough to lose business that way, but we're not going to go down that path.

Bob Glazer: And from our side, when we're having conversations, people are really, really looking for strategy. They're not looking for...they can find people to accept applications and what we call, program operations, but their really desperate for some new ideas and strategies, out of the box thinking, recruiting, how they are going to grow their programs. You know, we sat around with a bunch of these large programs, as I mentioned, recently and one of the big discussions, "Yeah we've been over optimizing, but we kind of forgot about recruiting and how much time we need to put in to growing our program." So, we're just focused on what makes...what the goals are and how to translate those into strategies. Then we're able to be more objectionable, but also objective and say, "Alright, what I'm hearing from you is you want A B and C. I think, here are the providers that will meet this service.", and were able to hold people on it.

So if a provider promises that and doesn't deliver it, then provider B is there to meet them. So we're on the flip side. We are not trying to be a technology firm. We're trying to understand what the capabilities of all the players are, from a technology stand point, so we can figure out how to best match up the strategy of a client to the available technology and find the best partners for them. I've seen...on the flip side, I've talked about tech firms trying to lay on strategy, I can't tell you the number of services firms that I've almost seen go bankrupt trying to roll out some product, because they don't want to be a services firm. We're very happy with our identity of providing services. We really think we sort of transcend in the consulting space and sit down... what's fun for us is engaging with clients. Figuring what they need and then trying to find the right solutions. They can exist in the same place, but I think technology and services are fundamentally pretty different things that need to be managed in different ways.

Lenox Powell: This is really a topic that we could discuss for hours. Thank you both for sharing your insights and expertise about affiliate networks and SaaS platforms. It's probably fair to say that the technological aspect is one of the most misunderstood parts of the affiliate marketing industry.

To our listeners out there, we appreciate that this topic can be rather nuanced and downright complicated at times and we hope that this episode has helped clarify a few things.

We'll include more resources and link, both to Impact Radius and some of the things that they both mentioned on this call today. So, we'll be sure to include those in the show notes of this podcast.

Until next time, thank you for listening.