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James Schramko here, welcome back to SuperFastBusiness.com. Today's discussion is a multi-part panel. And by part, I mean people, so don't take it the wrong way, guys. We've actually got Damian Thompson and Clay Collins on the line, and we're going to be talking about affiliate marketing. Good day, guys.

Clay: Hey James, great to be here.

James: So Clay, you know we catch up a lot on the show. And Damian, I've been on your show, it's great to have you on this show. And we're going to have an interesting discussion around the affiliate marketing subject, especially having a look at who's it good for, who's it bad for, what's your personal viewpoint on it, how important is it for people to consider at various stages in their business. Because I've actually been experienced with affiliate marketing for my entire time online. It was, in fact, the most profitable and successful business model that I chose when I started, and certainly the foundation for my early success, of all the models that I tried. And it's something that I went through as a product owner, having my own product sold via affiliates, right through continuing to be a super affiliate for other people's products. So from my point of view, it's an integral part of my online experience. But I'd love to find out, what's been your experience with affiliate marketing. Damian?

Damian: Yeah, so, I'm definitely the noob of the bunch. I understand what it is, I've been around it for five-plus years, specifically the affiliate title, but in all honesty, I'm really affiliate for

only a few products, Clay's being one of them, and you know, some marketing automation tools I use. I never really got into the hosting affiliate or anything like that, five or six years ago when I first got online. But I do come from a software background, working for Semantic and McAfee, and they have what they would call a partner program, which is very similar, even in the big enterprise phase, when I was working in Sydney there. You know, in enterprise software licenses you sell this perpetual license. You sell annual subscriptions, and that subscription has partners that service that. So it's like software partners, which would be an affiliate program. So I'm familiar with positives of having a partner community, help promote your brand. But me personally I've only really focused on a few real hardcore brands that are integral to my business.

James: Right. So you've raised a good topic and I think we'll come back to that, the difference between an affiliate program and a reseller or partner program, because there's a really good distinction there. I'd love to find out your experience with affiliate marketing, Clay.

Clay: Yeah, so I have kind of two roles in this experience. I've done affiliate marketing, and there are also people that do affiliate marketing of our product, [LeadPages](#). And I've also watched a number of really interesting things happen and play out, kind of in this space. I've seen you shut down your affiliate program, while still being an incredibly successful affiliate yourself. And I benefitted from that: you're our, I believe, our top affiliate at LeadPages. And I've seen so many different interesting facets of this thing happen. I heard Dan Andrews once come in and I believe he was talking with you, James, and he was talking about how affiliate marketing is... or affiliates are far and away the most expensive traffic source. And he was talking about how in his opinion – and I wish he were here, but – you're absolutely screwing the customer when you're essentially tapping on an extra 50 percent to... especially with these \$2,000 information products... to cover the cost of some pretty light promotion. And so I think there's just a number of different viewpoints here. I kind of started out, with LeadPages and [LeadPlayer](#), we allowed anyone to be an affiliate. And then we only allowed customers to be affiliates. And now we only allow our pro customers to be affiliates. And there's a number of reasons why I did that. So I'm here to participate, but I also really would love to hear at some point during this discussion, James, a little bit about why you shut down your program and the history and the plot behind that.

James: Yeah. So we're going to discuss some of the benefits, and some of the problems. I think, very first up, we should talk about what is an affiliate program, just in case you're listening to this and you don't know what an affiliate program is. It's really just like a salesperson's commission for promoting a product. And it's mostly with companies you can join as an affiliate without having to pay a fee. It's like if you want to start selling a product, you have to follow the rules and the terms, and there are varying terms and conditions with each program. Some people are very, very tight on brand control, and they use a high-level affiliate program like Commission Junction to enforce rules, like you cannot bid on trademark names in pay-per-click search engines and that sort of stuff. And then there's other ones that are a little bit loose that pretty much accept almost anyone as an affiliate. And the reality is, certainly as an affiliate program owner in the past, only a small percentage of your affiliates are going to generate the bulk of your sales. Do you find that that's the case with your program, Clay?

Clay: I do. You know, I've heard about the 80-20 rule and I think with us, it's probably like, oh, I don't know, 97-3. So like 3 percent of the affiliates or less are producing 97 percent of the affiliate revenue. So that's absolutely been the case. I think a lot of people like the idea of belonging to an affiliate program. Like a lot of times when people purchase LeadPages, and I'm

fine with this, but they'll purchase LeadPages and joining our affiliate program appears to be an immediate income opportunity. Like whenever they want to tell a friend about it, or what have you, they want to make sure they earn some income on it. And I'm often approached by a lot of people who are not customers, who heard of LeadPages, that literally want to tell one person about it and can't bring themselves to literally say the word "Leadpages" to someone else unless they're going to get a cut of the action.

So I think it ranges from folks like yourself, James, who are like huge value adds... I've spoken at your events, you've had templates put inside of LeadPages, we've done podcasts together, and it's a very high-level integrated partnership that has not only entailed the straight up affiliate piece, but also just a lot of connections that you've made for us, and a lot of advice that you've given us as well. So it ranges from that to someone who literally, again, cannot bring themselves to say the name of our product to another human being, in person, on Twitter, in email or anywhere else, without an affiliate link. And I just wonder, what would happen if the consumer electronics base were monetized to the degree that Internet marketing was like literally if someone said, "What phone are you using?" You couldn't be like, "Oh, it's the iPhone." Like. "Oh, but here's the link." You know what I mean? So it's gotten to I think an absurd extent in a lot of cases and the vast majority of affiliates simply do not bring sales and a very high percentage of the ones that... You know, when it comes to the 97-3 where 3 percent of affiliates take up 97 percent of your time, those are also the least high maintenance affiliates. And the highest maintenance affiliates that I found in most cases tend to be the ones that literally do not make a single sale ever. And so I can understand why someone like yourself would shut down your affiliate program.

James: Yeah, well I'm going to cover some of the reasons why, and I think you'll find them quite interesting, but it's super douchey when someone wouldn't even mention the product unless they're getting a cut. A classic example of the opposite is my relationship with some of the software that I promote where I don't get a cut. Yes, I'm an affiliate for some products, but there's some other products that I use that I love so much that I want to tell everyone about it because my heart is really in my customers' best interest. And even if I don't make a commission, they might still become a part of my community, they might stick around and open up my emails, they might listen to a podcast like this and get good information without having to pay for it, and one day buy something. Maybe they'll go and click on my LeadPages link. Who knows?

But I think that's one of Dan's arguments, is that there's whole markets where the whole point, the whole reason people are pushing, and you might actually rename that as "pimping," is just for the cut, and there's no greater example of that in my mind than this direct sales-slash-MLM industry where the whole focus is on how much you're going to make, and it's like nothing to do with the product or the value or anything. And I think all of us on this particular podcast are coming from a place where we actually value good products and services that are helpful to humans. And that being the case, that's why the affiliate program can be optional in markets like this. That's why the iPhone is talked about even without people making commission. But there's still a reseller market channel for things like that, and it is interesting to see how much the market can be distorted when you start loading a marketing budget to it, which was Dan's other point, that it's highly inefficient when you have to pay out 30, 40, 50 percent of your revenue back to people who are professional pimps. And here's one of the things I found, that not everyone values your brand or your core values as much as you might.

And I was finding stuff that bothered me a little bit about my own brand, especially an example. Like right now we're talking on Skype on a username that one of my affiliates registered. He registered my own name for his Skype account, and he went and registered my own name as a .org. And then he started putting up websites. And it was really, literally passing off. It was actually being me, not being clear about the fact that he was an affiliate. It was him assuming my entity so that he could just scrape that 40 percent off the back of all the hard work that I do. And I found that that was a little bit on the nose. What do you think about that?

Damian: That's a bit creepy too, I think.

Clay: And I think this highlights the distinction between affiliates who add value and affiliates who are trying to leverage value that you've already created to get a cut of the sales.

James: And that, Clay, is one of the major reasons I shut my program, because when you look at my Pareto principle, there was just a handful of affiliates who were doing anything useful and getting most of the sales, but when I looked at where, guess what I found? They were squatting on my own name and ranking for my name. And I actually, this is where it became ridiculous, I had to hire two or three people, put them full-time on getting my own brand back for me, on the first page of Google for my name. So I'm thinking, hang on, this doesn't make sense. I'm actually paying a cut of my commission to this affiliate, and I'm paying my team to win back territory for my own name that they're taking, because they're just harnessing... You know, when I go and talk on a podcast and someone types "James Schramko" into Google, I can either have it go to me, or I can have it siphoned off to an affiliate who's going to pretend to be me.

Damian: Yup.

Clay: I think that's spot on. Someone was buying ads on our brand name and creating all kinds of different variations of our brands and trying to get that traffic, and siphoning off brand searches from the brand itself is not a creation of value. That's someone who's just trying to, again, just siphon dollars away from your business without actually adding any value to the marketplace. I'm completely comfortable with an affiliate who adds massive value to what you're doing, getting paid for that value that they're creating for the marketplace. Like stuff I've done with you, James, where like you've created courses, you've created tutorials, you've done objective reviews, you've done all kinds of things that have added a ton of value.

James: Yeah, we hold physical events where we educate people on how important this is. And then we have competitions, you know, like people trying to knock off my conversions template, which I donated. I actually woke up this morning and I got an email from you and in there was one of the split tests that I donated to you, and one of the incredibly simple things that I tested. And I want to share that with you, and I would do it, regardless of being an affiliate or not. But when I am getting some commission back, let me tell you exactly where that affiliate revenue goes. The money comes into my account, and I redirect that... It actually supports a full-time person in my team whose role is to go and create more value on our websites, to put more in-depth articles and tutorials and pictures and screenshots and to run tests so that we can get more data and case studies that we can have something useful to talk about on our next podcast.

Damian: I think there's two really important things that both of you said there, but why I like Clay's affiliate program is, so, I'm an affiliate for Clay and I'm an affiliate for Clay because I'm

using LeadPages anyway, like when I integrate LeadPages with Infusionsoft, or with OAP, with [OfficeAutopilot](#), it just makes sense, it's a great tool to work for that, so I do it anyway. But the fact that I can be compensated for it means that I can develop. Like we're about to start building some templates to upload, specifically for thank you pages, the sign-up page for these marketing automation funnels. Well that's money that I'd have to come out of my pocket for, but I'm going to use my LeadPages money to pay for that. So I think that's, to me, the qualification for whether I am an affiliate or a partner or, quote unquote, whatever you want to call it is, am I using the software internally and would I promote it anyway? And yes, so I don't think we're talking about Dan's \$2,000 info products where I'm only going to make 25 percent of it because I have to rely on these hundred-thousand person lists. I'm going to turn out real solutions that solve real problems. And I do think there's a number there, right? If Clay was giving 50 percent away for an affiliate, then you've obviously got to build that into your business plan. But at 30 percent or 10 percent or whatever that number happens to be, I think that's an acquisition cost.

James: Well I think, in simple terms, Clay's outsourced some of his marketing. And he's hoping that the incremental sales from that are more than if he just took control of the marketing himself, and given that Clay's got a hundred and eighty hours a month to work on his business, he can either hire a marketing person, or he can outsource it on a fee for performance basis to people like me. And I reinvest some of that budget back into resources like hiring a team member, running a website, doing podcasts. Like my time has a value on it.

So is it true that I would put a little more attention on it because the reward comes there? Yes. But I think at a core level most humans act in self-interest, so it's quite a clever thing to be doing. Now somewhere at this point I would think, now this sounds like the best thing ever, why wouldn't everyone do it? Well, I learned some other things too, especially when I was using one platform, which was very popular when I was starting out five or six years ago, it was called ClickBank. I noticed when I put my product on there that a lot of people were buying through themselves. So they were buying it through an affiliate link that was almost an exact match for their domain name or website. And I noticed a hell of a lot of them just put through a refund before the refund period expired, and they were effectively helping themselves to a free product.

So it was the lack of control that I had with the affiliate program that was annoying. I couldn't filter people when they wanted to cancel, I couldn't ask them why, it just happened automatically. I was paying a big fee for this affiliate management. And people were just helping themselves and there was nothing I could do about it. It was very frustrating. I touched on before the fact of brand control where people hijack you, but other little things, like people taking a screenshot off my site, squishing my head around, making me look like a fat alien or something... They don't care what I look like on the Internet, but I do. And they'll think nothing of taking something off any of my sites, squishing it around, jamming it onto the most horrifically ugly website ever, and passing off as me, and the real tipping point is when I start getting support tickets for people saying "I need my bonus," or you promised such and such would be with this product, and I'm like, we never promised that, and then I say, "Where did you see that?" and they show me a site with my name in it, and then like one little modifier, and there's all these basically outright BS on there, and I'm like, hang on. This is ridiculous.

Clay: Yeah. So I think that's an excellent case for taking down your affiliate program. I think another thing that we've seen where people have misrepresented are people...Like back when we used to let anyone join our affiliate program, people would create these fake reviews, like they'd have five different products that they'd want to review, and one of them would be ours, but we wouldn't be the one that necessarily gives the greatest affiliate commission rate, so

they'd want the one that pays out the most to win. But heaven forbid, like someone actually buy LeadPages who the review where they're promoting something else for the additional commission or for the reciprocation or for whatever, they wanted a cut of that as well. So we kind of wanted to make sure that only customers, that only people that actually used the product and had experience with it applied it.

And another reason why - and I know we're not playing devil's advocate, but I've definitely seen the dark side and I kind of want to speak to some of the benefits of doing this. So part of it, I would say, is outsourcing our marketing. I actually think we're pretty good at marketing and we're slowly growing our marketing team, but the real reason, and something that you just can't pay for, is the thought process of an absolute expert in their space. Engineering a situation where your offer is going to convert extremely well with their audience. So for example, I did a webinar with Amy Porterfield, who works with social media people, and she's like, in order for LeadPages to convert a social media crowd, you need these two features, and we need to say this in the webinar, and you need to explain it like this. And there was literally no dollar amount that I could have paid that would have gotten her, that would have been too little for that advice. Because I literally added one feature and two bits about positioning, and our offer all of a sudden started to take off among the social media crowd. But unless we incentivize it like that, I don't think I would have gotten her head applied to that specific situation in a very real way. And I'm so glad I did, and I've had this same experience with you, James, and with Pat Flynn as well where they're really just taking in a myriad number of facts and sources and synthesizing it with respect to our offer, our branding and our positioning, and giving us features messaging that we can then go off and scale.

Another piece is when someone like yourself or Pat Flynn or Amy Porterfield endorses us. That is not just about the sales that are made there. That is a signal to the market. And when you get enough of those big signals lined up, you get a lot more sales than are going to come through that affiliate link, which is why for certain levels of super affiliates, the affiliate commission is much higher, because I realize that a lot of people have bought LeadPages probably that heard of us because of you, James, that maybe have bought when I spoke at your event or whatever, but you weren't compensated for that. So we'd like to increase that. And I'm a huge fan of how we're doing it now that we've dialled in, but prior to that it was an absolute fail for all the reasons that you're describing.

James: Right. So the main points there are that it can be really, really good and what we haven't talked about is when is a good time to have an affiliate program versus not. And you were in start up phase, so it would be fair to argue that an affiliate program early on in a product cycle can really help you get market exposure. That's how those big product launches work. It's just making sure that every single person in the space knows about something quickly and of massive presence so I think a more established business, you can actually see a diminishing return. But I just want to close up on one point there. So if you're going to have affiliates, one of the clear points we've established is you really need to be clear about who you let become an affiliate. Clay is quite careful about who's an affiliate. I just put up an affiliate review yesterday, or my team member, by "I" I mean my team member. I just searched for the product name in review, and I swear to God five of the results on the first page are for the product name, review scam. And that is a negative brand message. And that is a cheap old affiliate trick. Those people obviously have access to the program and they're doing more brand value degradation than they are uplifting, in my opinion. So customers are great affiliates, rather than just the man off the street. It's really important that you screen your affiliates and set the frameworks for brand guidelines. And remember there's probably a liability too, if people are out there making

fake claims, and someone buys what they have said, It really could pull back to you these days. I think there's some legislation around that.

So anyway, the next thing is at what phase in your business is an affiliate program useful and a lot safer? A lot of people starting out, they'd really want anyone on board telling the world about their product. So if it's front end-heavy on advertising costs and you're getting other people to do all the marketing for you and you're only paying them when they make a sale, then in theory that works really well. But I want to alert you to something else that happened to me: that was the most devastating blow of my affiliate program. And that was I spent a month travelling Europe, and I had very limited access to the Internet, I had about half an hour a day on the Web, and when I got back, I found this raft of chargebacks in the post, and there was more than \$29,000 worth of chargebacks that had been put through by fraudulent affiliates. And the way this one works is they join the affiliate program, they purchase the product with the stolen credit card, and then they try and collect the commission before the customer whose card was stolen figures out that their card's been used to purchase a product. Of course when they get the statement, more often than not they'll say, I don't recognize this company, I didn't buy this product, and they charge it back. So now you've basically paid out the affiliate commission and you didn't get paid from the customer because it gets reversed and you get stung with a nice fee and a little black strike on your merchant facility, which could in some cases be detrimental. If it was all of your business, the bank would be within their rights to say, listen, we think you're too high a risk. Luckily in my case, I was able to pick up on this before I paid out more than a few thousand dollars in commission. But that was it. When that happened, I'm like... It's just the processing and the administration of going through \$20,000 worth of fraud basically chargebacks is not something I want to deal with in my business.

And let me tell you a fast forward to what's happened since then, since I closed my affiliate program. In my business, I have a set of conditions that make it seem like it was a really good idea. One, I'm back in control of my brand, and I own most of the phrases and terms for my name and my products on the first few pages. Two, I'm not paying out 20 or 30 percent of my revenue anymore. I've taken over that, I've reinvested that revenue into content marketing. I've literally hired a few extra people in my team to do transcriptions, to illustrate pictures, to put my videos up on my website, which as you know, [Own The Racecourse](#) is not only my main marketing program but it's extremely effective, as you're saying, Clay. I'm a pretty good affiliate when I get behind something. And I also have a lot less stress. I really don't have to worry about logging in and going through... I literally had to go through and check every single sale and see if it was a fraud or not. And then you have other complications like, is it going to attract goods and services tax? Do I have a VAT commitment? You know, what about different currencies? All this stuff.

So I'm actually much happier for not having it, and the most important factor that really needs to be considered is that in my business I have somewhere around 90 percent repeat rate of customers, because most of my products are recurring. I have an established customer base, and I believe there's a high, a real diminishing return on that affiliate. I think I was overcompensating. It really isn't a fair value exchange. If I were to pay someone a dollar to give me an email address and that customer turns into a \$5,000 customer, my bet is could I have spent \$2,000, which might be somewhere around my profit margin, to get that customer? And the answer is I would hope so. Otherwise I'm not doing a very good job. So the longer your business is around, the more established your brand is and if you want to look at examples, have a look at stuff like Apple, or 37signals is a good example, or Dropbox. Once they're

established, then there's probably no reason they need to give up 30 percent of their revenue to get more business, because people are going to find out about them anyway.

Damian: And I think that's when you now start doing that turn from an affiliate program to like a partner program.

James: Yes. So let's talk about reseller. Give us an overview, because that's what you do, right?

Damian: Yeah. So I'll use Clay again as an example here. I think that the interesting part here is that it forces you to do things in your business you didn't have to do before, and make decisions, and so without going too far down the rabbit hole, things like first referrer versus last referrer. So if Clay sends out a link to someone and they click... if I'm an affiliate and I send a link to someone and they click on it and they go to that LeadPages and it places the cookie and they don't come back for x number of times, I didn't actually go work with a real partner, like a LeadPages partner that knows what they're talking about, and actually helps them set everything up, and then go, who does Clay pay for that? Does Clay pay the affiliate that first set the traffic, or the one that last set the traffic? And that's a decision he has to make. And a lot of times that changes. You know, when you're a pure affiliate payer, a lot of times you pay the first person, because they were the first traffic source. Is the cookie still good? But in a partner program, it doesn't work. For another example, OfficeAutoPilot do first referrer, which is bad for their partner community, the people that are actually doing the work. Because you might have heard about it from someone else, and then gone and checked it out, and then your cookie's still sitting there, and then you go do all this consulting work with a partner who's going to help you implement it, and that first person gets paid.

Or things like features of the product itself. For LeadPages, for example, if Clay wants to build a vibrant, say, partner community versus an affiliate community, some things are going to have to happen on the software side. Like he's going to have to do some sort of single sign-on. So when I log in now, so I have to log in to my client's accounts in LeadPages, I'm talking about, I have to log in using their client log in. That's not great security, right? So you have to have new features in the product that says, OK, we need to have multiple users on accounts, if that's an important part of your building that community. There's a big difference there. So while as a partner I still get paid affiliate commission, if I'm also the affiliate source, there's a new way I interact with that software and actually add value, and I think that... Obviously I think this because I'm a partner, but I think that the value of a partner community is that now we're talking retention, right? So it's not just about selling the software, it's about if I can make a LeadPages customer happier because I'm helping them manage that account for them and doing new things for them, they're going to stay a LeadPages customer longer, for Clay.

Clay: Yeah. So I think this conversation is evolving into one, at least at this point, about what is appropriate for different phases and levels of your business. And I think what James said is correct that when you're first starting, an affiliate program is a good way to kick off your marketing. I think someone should start their affiliate program at the point in their business where their product is providing enough value that they aren't asked to do reciprocal partnerships anymore, and that their customer base can do the affiliate promotion. So when I first started online, a lot of people would say, "You know, if you promote for me, then I'll promote for you." And it was basically a traffic swap. And what that signalled to me was that my product wasn't good enough on its own, at that point, that people were willing to promote it simply

because they thought there was value there and that they wanted their audience to know about it.

James: And imagine how good it has to be if you have no affiliate program. Because this is exactly the point. The key to Own The Racecourse, and this is what I teach my [SilverCircle](#) students, is the seven-part training course was a paid product. It's good enough to give away. People would have paid for it. It actually generates around a thousand opt-ins a month to my website. And people happily promote it for free because it's good. And I think this is a really important thing and it's probably the key to Apple, is they're making stuff that people think is good. So if you combine that with affiliates, then you've got rocket fuel, right?

Clay: Yup.

James: You wanted me to use the word rocket fuel somewhere in this podcast, from memory.

Clay: Totally. Megablast tsunami explosion. So I think that when you're providing enough value, that you don't have to be reciprocal, that people are just going to promote you because they like it. So when you're at the place where you have enough value but you've just started, that's, I think, a good time to have an affiliate program. And we are noticing over time that over time the percentage of our sales are going up exponentially, but the percentage of those sales that are coming from affiliates is decreasing over time, as the percentage of overall sales, because our overall sales are increasing. So then at the next phase, you kind of go from having an affiliate program to maybe having an affiliate program and a partner program. And a partner program often is much more loose. Like we just hired a busdev person who used to do all the high-level national deals for Groupon. Like he did the deal with Uber, he did the deal with Delta Airlines, and he's thinking two years out when he thinks about partnerships. And they're a hundred percent custom, and often we do them with no actual dollar or any way to measure it. Like there's just some partnerships you need to do to establish yourself in the marketplace and because you're playing at that level.

James: Like taking venture capital, which we talked about on the last one.

Clay: Yeah, exactly.

James: Like that's a way high-level one. That's like hey, we'll give you a cut of our business, but you'll give us all these contacts and exposure and show us what to do.

Clay: Yup, exactly. I recently went to Dreamforce, which is the Salesforce event. There was 130,000 people there. And I was thinking about in the marketing automation space, Marketo gave a speech. Marketo is a multi-billion dollar company. Marketo gave a speech, and they were joined in that speech by a company called SEOMoz. I guess they're just called Moz now.

James: Yeah.

Clay: Now Marketo only has one SEO partnership. One big one that they endorse. And it literally does not matter whether Moz can track, whether the value that they're getting from that partnership, but if a company like Marketo's only going to have one SEO partnership, Moz needs to make sure that they are always that partnership, that when they invite someone to do a webinar on SEO to the Marketo community, it has to be Moz. And at a certain level, that kind of thing needs to happen. I mean it's almost similar to the rap world. If Eminem is going to be

releasing an album, there's only going to be a couple Eminem's featuring like Kendrick Lamar or Chris Brown or Rihanna. And you've better believe that when there's a spot for a female vocalist and it's like Eminem featuring you know, whoever, Rihanna wants to be in that spot, because there's like one spot for the female vocalist on an Eminem CD. And so at that point it doesn't matter whether or not these things are trackable. There are finite opportunities and you need to be paired up with the right people when it comes to show time.

So partnerships evolve over time, and I think too many people in the Internet marketing space only think of this very kind of small-minded, link-based partnership program when these things go much much deeper, the bigger you get.

James: That's it. And it actually works in reverse too. When I promote a product, and you know I don't promote many products, that's something I've always been pretty coy with, in fact in the beginning I only promoted one product, I literally tied myself to one brand, and Damian and I talked about that in his podcast, which we can link to. It was a little bit of a mistake from some points of view, but what it did do, it got me very strong with building relationships, partnerships and understanding my customer base. But when I partner with a select group of brands, like LeadPages, I'm also tying into all of the partnerships that you create when you start marketing your business and creating partnerships. I'm in that sphere because I've latched onto it pretty tight because I love the product. You know, we should also talk about what can you do to get affiliates, because you did something super smart when I bought your product, and you sent me a personal email. And in the short version, that's pretty much why I started promoting the product, because I was a consumer, I loved the product that I'd purchased, and I couldn't wait to tell people about why I changed, because they're going to ask me anyway. They always ask me, why are you doing this? Why do you use that? What do you recommend for blah blah blah? So if I can beat them to the punch and actually start communicating that, you sped that up, because you reached out to me. And that started a huge chain reaction.

Clay: It was incredible. It was like the best thing I ever did in our program is see that you bought and email you. Because as anyone who knows you knows, when you attach yourself to something, you implement it immediately. I believe you bought at like 8 p.m. my time. Basically I recognized James' name and I said "Hey, thanks for purchasing. I really appreciate that." So I reached out to him just sort of one on one, and like 15 minutes later he was like yeah, I hooked up this product to one of my sites and we deployed it to you know, I've got instructions set up for us to deploy this to 15-plus sites by tomorrow. Next thing you know, he has a review and an affiliate link up. And it wasn't just about you. We ended up doing multiple podcasts, you ended up talking about our product on a few different stages, having me at your event... Other affiliates have come to me because they heard about me through you, so you know, talk about value creation. Whatever the affiliate rate is between us, it's completely justified.

James: Oh, and you know what, it's so true what you said about going beyond that link-based relationship. I mean I've just, I've spoken about your product at Dori Friend's SEO event, I've spoken about it at Dominican Republic, to all those entrepreneurs, I've talked about it in Cabo, Mexico, to a whole audience, I spoke about it at Sta. Barbara. Basically, everywhere I go, if I'm on the platform somewhere with a slide deck, there's bound to be a LeadPages talk. It's not going to get tracked to my sale, and that's fine. But I actually want people to use this software because it is going to be good for them and they're going to think that I helped them, and I get a lot of good feedback and that creates more opportunities. So now I've been asked to speak at Underground 10 where you're speaking. And you can bet that I'll be talking about your software there, too.

Clay: OK, so this is the part where it's like a James Schramko lovefest. But I hope you're feeling some of that way, some of that the other direction. So these things can... hopefully a good partnership is...

James: Oh I do. I see your emails out to your entire customer base, and features on your blog, so I totally get it. But I really was just making a point about going beyond the link thing. I didn't want to talk myself up too much. It's my show, we can just take that as a given. But let's just go to the integration part. You know, I've talked about integration. I integrated from having affiliates to resellers. The reseller thing is another choice, and that is where I separated myself from being responsible for the brand presentation, for all the design squishing my head around, now I made my customer the hero and they have the relationship with the end user, but we are a supplier. This is with my services business. So in your industry, a very common way to do that is to have a white label supplier to, you know, you have people like Damian selling to an end user who doesn't really care what the software's called or what it does, they're just buying a solution from Damian, and he would bill them \$5,000 a month. So that's another whole channel that can be quite lucrative and useful. And that's the primary channel for our service businesses these days.

Clay: Yeah, so we've looked at white labelling before, and I think one thing that you really need to ask yourself before you white label – because it makes sense for a lot of people but it doesn't for others – but one thing you really need to ask yourself is are you charging as much as you should be? And if the answer is yes and it's purely a monetary transaction... no, I don't mean purely a monetary transaction, but if it's primarily about an exchange of money, then I think white labelling is fine. I would never white label, because we're charging too little for someone else to slap their brand on our intellectual property and claim to have created it.

You know, when someone finds out about LeadPages, we figure about every LeadPages customer at this point is attracting one or more other LeadPages customers. And so part of, you know, built into the cost of LeadPages is a discount because [LeadPages](#) customers tend to tell other LeadPages customers, which means we don't have to pay for a sales force, we don't have a sales force at all. We don't have to pay as much for advertising and we don't have to pay for a lot of things that we would have to pay for to market LeadPages if it were primarily a white label tool. So if our costs are going to stay the same, we, under no circumstances, would ever consider white labelling. But I imagine there are a different set of circumstances that led you to decide to do that.

James: Well, we don't want a sales team and we don't want to do retail marketing. We don't want telesales, and we don't want to deal with retail-level customers who are very unsophisticated and tend to drive you a bit mental. So we're more than happy for our agents to deal with those customers, and they can do the telesales, they can do the face-to-face meetings in the coffee shops and they can set up offices and stuff. We're happy just to be the engine room in the background, and I would equate it to, we're kind of like Michelin or Pirelli. We make the tires, the customers can put them on their cars and drive around and be safe.

Clay: That makes sense.

James: Yeah. People do sometimes buy direct, but we don't actively seek it. Most people just stick around, too, when they come. So some people find out about it retail-wise, but then there are people who do go out and add a margin on top. We're not also having to tell them how to run their business or tie them to a franchise or put them into contracts or any of that stuff. They

can basically come and buy wholesale from us. So we tend to deal with the same person fifty 50 times, instead of 50 new people. And some of the decisions around this are going to be service loads. So an industry like ours is quite a high service load, but with software as a service, with tutorials and a fairly easy WYSIWYG builder, maybe we don't have as much service strain as we would have, or customization.

Clay: That's really interesting. So in your previous business, when people were doing the affiliate program, it was all about leveraging your brand and the value you've created to get a cut of your business. And in this, it's actually the opposite. People, it sounds like, have no incentive whatsoever to leverage your brand. In fact, they have every incentive in the world to not even reveal who you are. So it's kind of the polar opposite.

James: Exactly. So you can forget about testimonials. We're not going to get testimonials from our best customers, because they don't want people to know that we're the supplier. But people in the industry know that we're a really solid supplier. So the people in the know, they know that we supply. The end customer is not going to care at all. They just want a result. Because by the time we get to our end customer, they're like an electrician, or a lawyer, or a car dealer. They don't know about page load speeds and all that sort of stuff. They're not interested in anything other than how many people are calling their telephone number or signing up for their web forms, because that's what their metric might be. So it is an interesting thing. That's why it's really worth talking about: no program versus an affiliate program versus a reseller program. But of course for my primary information products, which is [FastWebFormula](#) and SilverCircle, there's no affiliate program, there's no reselling of that. The brand is what it is, and I deal directly. And I like it that way. It's a very simple and clean business model.

Clay: Cool.

James: Alright, so we've covered a broad range of topics, and the last one was most interesting, because we were talking about who owns the customer. And I imagine in some online space that you're in, Clay, that owning the customer data would be a very valuable asset, if you look at people like Twitter and Facebook, so these things would be considerations for software as a service.

Clay: Yeah. I mean there's a huge proprietary data asset that we're generating, and if we white labelled, I'll be a little bit ambiguous about who owned that. We also would lose that customer relationship, which is absolutely critical with software as a service. We'd lose kind of the claim to our own IP, someone else could claim that they've created some technology that they absolutely haven't, and there's just a whole bunch of nightmares that have come up, or the potential nightmares. We've been pushed to white label our software on a number of occasions, and it's something that we absolutely won't do, and I think that there are very few cases where white labelling software is a good move. I think it's actually the opposite with reselling services. There are probably few cases where it's actually a good idea for the wholesale provider of services to have their brand name associated, because there's all these support implications, and people trying to go up the chain when it comes to filing a support ticket and tracking it back to you, when really that's something that the person who's reselling should handle. So it's kind of interesting.

James: That's it. It totally reduces support strain when you have one reseller with 50 open jobs. It's one person to talk to instead of 50. You know, I didn't even really give it too much thought before this, that's why we have this discussion. The difference between software and

services might determine whether you have an affiliate program or a reseller program or nothing at all.

Damian: And also for Clay, I don't think white label makes sense. But I think the next evolution, I'm sure, is something he's already working on, is like he'd go back to the partner program but even if he'd take the next step, which is like a certified partner program. You know, you look at the HubSpots, the Sales Forces, the Infusionsofts, there are softwares and service companies that do this kind of higher level marketing and sales touching with customers. Sure, anyone can have a referral link, but really we want people that live and breathe this stuff so they can take on the support costs for us. Like we want to drive. We don't want to deal with first-level support calls. So if we have these certified customers, they basically will become de facto first-level support, plus add a bunch of other value and retention and the rest of it.

Clay: Yeah, absolutely. I think there's huge things to be gained from partner programs. There's integration-level partnerships, there's service-based partnerships like you provide, and that actually is like, I don't want to reveal too much, but we are absolutely aligned in that, and at some point I don't know if we're going on too long here, but sort of as the partner, that would be the service partner that partners with companies like ours, I would love to hear your thoughts on what from your point of view, what makes a really good partner program from a company like mine or a company like James'.

Damian: So I think, you know, one thing I'll say before we reach that is that is it's really interesting when you start taking a partnership approach. And my LeadPages experience is pretty quick. Everyone was raving about it, and I even talked to Clay about it. I was a little bit like "eh, I'm not sure the value is..." I played with Unbounce three years ago. I played with landing page tool and I was very underwhelmed. And Clay sold me on the idea of this big database of names, the split testing across, the large numbers and the rest of it. It's funny, though. I said, "OK, Clay, I'll give it a chance." I bought the thing and started playing with it, and since then, it's two months ago, whenever, I actually have a bunch of clients that use the tool. I now use the tool for all my thank you pages to create tags inside Infusionsoft.

But it's really interesting, I have a customer that I think's really cool who basically is running a \$5,000-a-month paleosite essentially. The entire site is LeadPages. I never would have thought that was capable. Literally every page is a LeadPage, from funnel to sales page to everything. And it's really fascinating once you get that and now my mind now goes, how can I replicate that for my other customers? And to me that is an affiliate partner. So affiliate is like, hey I want to get a piece of some hot ***, hey, I want to recommend this to someone else, and hey I'm using it. And like we said, there's levels of value between different affiliates, but a partner is saying how can I change this, or how can I turn this into something that I can replicate over and over and over again and promote and do new services? So I think that the tool itself has been fascinating.

So I think to answer your question directly, the companies that do it well are ones that... like I said, I come from this software background, I worked with McAfee and Semantic and these big companies and essentially a lot of times, you're either what you call a channel, you're a channel company, focused on doing the market through channels, or you're a direct sales company. And that philosophy has a lot to do with I think, companies that do it better versus worse. Because one of the things about a partner community is you're going to have people that are zealots, they're going to really believe in what you do, they're going to tie a lot of the fortune of their own companies to your company. But because they're so ingrained with you, they also can be a little

bit difficult because they know a lot of the things. It's not just an inch-deep relationship. They really know the pros and the cons of the software and where you fall down and I think that the approach of the companies that do it well are the ones that really take that advice on board. You don't implement everything, obviously, it's like a feature request, you can't give everyone everything, but actually taking an active interest in your partner community and saying "What are we doing well, what are we doing poorly, what can we be doing better?" And actually taking action on the feedback you get. And like I said before, it's not a gripe, but it's what I believe, for LeadPages to become a true partner product, you'd have to look at things like, you know, sign on.

Clay: Sub-accounts.

Damian: Right, how do I do sub-accounts? And how do I... I don't want to have multiple... you know, it's one of the big differences between OfficeAutoPilot and Infusionsoft is Infusionsoft handles sub-accounts really well. So I log in with my one Infusionsoft account and I can manage my multiple Infusionsoft customers. Whereas in OAP I've got to create a unique email...

James: Like in Adwords' master Client Center.

Damian: Yeah, I have to create a unique email address for every single account in [OAP](#), because they only let me have one email account to one account.

James: So you've got a great point there, Damian, that you've got to take a serious approach to it. You have to manage your culture properly. I've seen some very interesting discussions in some of the reseller communities that are out there. And to one extent, that's something I did do quite well, is I created my own community where the bulk of my resellers hang out. And there's a huge education process on best practice, how to get results... Like if you can help them but not necessarily do everything for them – because if you're going to do that you might as well retail yourself, right? – then that's helpful. Then you can also provide training series to help induct people. So I find I have a lot of conversations with new resellers who want to know how it works, why should they do this, how does it actually work, what are their obligations? If you can step that out for your partner community, then that would really help them be more successful, which in turn lifts your success.

Damian: Yeah. Culture's a great word, too. And you just said what I was saying last time before that companies either do sales channels or do direct. Because what you want to minimize as much as possible is selling conflicts. So you know, if you have a direct sales culture, and you also do your market through a channel, a lot of times what happens is that the direct sales culture which is internal to your business, so a tighter culture fit to you, doesn't like the channel because they see that as hey, I'm giving away margin. I'm giving away revenue.

James: This was a classic in the Mercedes-Benz way of dealing with things. They have a factory store in each state, and then franchises or resellers. And there was a lot of conflict between them. But it was also a way for the factory to go straight to the frontline and to see what the challenges were, to be able to help translate them. And also it was a way for them to pioneer and roll out new technology with financial support. I'll give you a simple example: they're putting a coffee machine like one of those ones you see in an airport lounge, a big, automated kickass espresso coffee machine. And then they would say to every other dealer, OK, you need a coffee machine. We put one in, this is the result we got. And then they enforced it. So it's

sometimes OK to have a foot in the water, but it can definitely create some conflict. I've seen that firsthand, the pros and the cons of being in the same space.

Damian: And it can force your resellers to up their game, too, right?

James: Yes.

Damian: So now, if you can go direct to the vendor, what's my value at? Why should someone come to me?

James: Like any franchise store. I can't remember the stats, so I'll just make some up, which is my usual default position. But I always disclose that. But if you look at like a Juice store, or a Subway franchise, I think the franchisees almost always outperform the factory store, because they're more motivated, they're more committed, they have to survive and they will usually always outperform the factory store.

Damian: It's run by an owner, not by an employee.

James: Yes. Yes, absolutely. This is a great discussion. Alright, so just a little word on that, just one little warning or caveat. Whether you have an affiliate or a reseller program, there is sometimes the risk that your affiliate... Like I switched off my affiliate program, but also some affiliates end up copying or replicating your business model and going into business as a competitor. So it's always important to continually innovate, be so powerful that there's no other choice really then to just tuck in and enjoy the ride.

Damian: That's the important thing you said there at the end James, that one, that's a one-in-a-million person that's going to say, hey, most people that would copy from others and would just put their own Bluehost link on their page, right? So to take the next step of actually building your own company, that's a one-in-a-million person's going to do that, and I would say don't be so afraid someone's going to take your idea, it's the Internet education there, all ideas are out there. It's execution that really matters. If someone's willing to employ people, buy servers and go through the pain of learning how to run a hosting company... then that person is going to do something anyway. That's just an action taker, right? So they're few and far between, I wouldn't be so afraid of that person that I didn't promote.

James: No. I'm not saying be afraid. I'm just saying that there's a range of choices if you're on the other side of the fence. You can take your position, and the irony is, I'm in every single position in this discussion. I'm a super affiliate, I am a service provider and an info product marketer with no affiliates in some cases and then in some cases with a reseller program and I certainly did the affiliate thing up until recently and I'm actually enjoying not having affiliates for the minute. But the reseller thing's strong in some models.

Let's wrap this up, guys. So what we've really talked about is a whole host of issues around this idea of an affiliate. We haven't so much talked about being an affiliate, and there's reams of information on that, especially inside places like FastWebFormula where I talk about this. You can go and get the course, it's on the site. Own The Racecourse is free. And if you just follow that, and pick any product you think's good, even if it's LeadPages, which is fantastic, and do what I do, you're going to make sales, right? But aside from that, from the point of view of a product owner, we've really fleshed that out. From the point of view of whether you have software or service, or some of the pitfalls you might face, brand control, potential risk to

litigation, and basically whether you have an efficient or inefficient marketing channel, these issues hopefully have been something that you'll address and maybe even ask some questions below this post.

Clay: So James, before we end, someone's like: "Screw it, I've had enough!" If someone with an affiliate program listening to this, do you have any tips? I guess to sort of add a nice book into this. Do you have any tips on winding down your affiliate program? Like I just get this instant if we did that, and we won't do it. But if we did do that, people will be up in arms. They have invested in blog posts, in all kinds of different things to get that out there, to SEO promotions for LeadPages. And again, we'd never shut down our affiliate program. But if someone's thinking: "Hey, this just isn't something I could do," like, do you have any advice or for thoughts for them on how to courteously wind down a program?

James: Yeah, that's a really good question. One thing is be clear in your terms and conditions from the very beginning, that it could change at any time without notice, but you'll do your best to let them know. I always tend to start things with the end in mind. So I did have terms and conditions to that effect. Because I know that things change. Certainly as an affiliate, I've had to change affiliate links a hundred times when someone changes their program. I think I had to change affiliate links for your program, right?

Clay: I hope you did, yeah.

James: Well, that was only a few months ago, from memory.

Clay: Right.

James: Yeah, so like things change, right? That's just the law of living. Things change. Everything lives and then dies. So it's just a matter of timing. So frame them for change in the terms and conditions. I had a good look at my numbers. I started thinking about what would be the payout threshold, just to avoid those people who buy one product just to pay themselves. I started un-affiliating people who don't perform. I actually sent out some emails probably a year before I cancelled my program, saying, look, the affiliate program is for people who are really giving it a good shot. I'm not going to be paying out affiliate commissions to people who make one sale, or are really just making a living siphoning off my own brand, which I think is not really offering value. So I was quite clear about my desires for the program and what's fair and reasonable. These are two phrases that come up a lot in business. What's fair and reasonable.

Then I had a look at who's actually making the sales. And there was really just a handful of people who really got behind it. You know, sometimes people when I put out a launch would do something, but in between they didn't. So I found my most long-term loyal ones, and I made sure for the top few that I did things that were personal for them that showed them that I cared. One of them, I actually pay him every single month and he helps me out on another part of my business, so in his case it would have meant his livelihood. So I'm not taking something like that lightly, so I actually made sure that I cover him for roughly what he was earning before and keep him engaged with some other activities. So I thought that was a nice thing to do. And for another one I'm very supportive and send lots of business to. And I also logged in and I've reduced all of their subscriptions for anything they subscribe to me, I actually wound down the subscription rate to try and offset some of the change. And I also signalled that it was coming in advance, and then I gave the longest window that I could for people to make their own arrangements. And in some cases I even recommended other programs they might look to use to replace that.

Because really, I was quite happy for them to drop off my name and to leave the search results for my name. I was quite happy for them to be not incentivized to be trying to outrank me on my own sites.

So there's a couple of things that I did. And also with banners and stuff. At one stage I just turned off some of my products in the cart, and the banners just were dead on people's sites. And that was a mistake, so I at least redirected instead and left them live even if I switched off... you know, didn't take any more people, so that at least the sites weren't showing dead links and stuff, and they would redirect to something else. I gave plenty of notice, lots of warning, and ultimately we were talking about a smallish number of all the people I paid out who actually were really putting any effort behind it. And I tried to do what I could to offset that. But ultimately they would also recognize that your business changes over time.

Clay: Yeah, cool. Thanks for the tips. I mean I'm not winding down, I'm taking notes. I think one thing that you said about you know you can sort of inch up to this. You could do things like take your program and make it for customers only and then maybe only make it for your best customers. And then, if you wanted to raise the threshold for payouts from like maybe a couple of hundred bucks to like maybe a couple of thousand dollars.

James: Yeah. And by the way, you're going to see a ton of people doing this. It's already happening and it's going to happen a lot more. You will see people take back their business. And if you look at the Henry Ford documentary – I looked at one on the airplane, when I just came back on my trip – he was adamant not to have investors and not to have... he really didn't want to have a lot of people involved in his business so he ended up... Basically he left his business to pretend to start a new one, and then he bought it all back and bought out every single investor and took complete control of his business. So you know, there's some interesting scenarios that have already played out in history that show that companies tend to want to buy their stock back later on and own the racecourse. I'm very keen on the idea of ownership, and only partnering where it make sense. So I would probably have the most to lose if you wound down your affiliate program. And even I would understand if you did that, because you'd only do it if it made sense to you, and I would be big enough to realize that that is OK. And I would also imagine that you would probably suggest or reach out to me and do something else that might be mutually beneficial, because you'd have a plan.

And here's something that we're both doing, all of us, hopefully you too, Damian, is thinking a little bit past today and the short term. I'm thinking longer term. When you look at overarching trends like Google cutting out keyword data and stuff, it's really leaning towards very strong branding and design and emotional attachment to brands and stuff, and I think that you're going to want to be a big stakeholder in the look and the feel and the way that your business is communicated to the rest of the world. And you will find affiliates occasionally will piss you off, and occasionally they'll defraud you, and occasionally they'll squish your head in a funny way that might not make you happy. At some point you might tip over that balance and say, you know what? I think it's time we own our brand, and I think 37signals, I don't think they've got an affiliate program. They're pretty strong in that regard. They just own it.

Alright, you got anything, Damian?

Damian: That's it for me.

James: Alright, well thanks for getting us all together. I appreciate that. And Clay, always good to chat.

Clay: Indeed, it's a pleasure to be here. I think some of the best conversations we've ever had are with you, James. I've really enjoyed this. Damian, I really appreciate you initiating and gathering us all here. I think this has been... I wish I would have heard this discussion when I was starting out. I think this is almost like Affiliate Management 101. I think anyone listening to this, if you have an affiliate manager or looking to hire one or are the affiliate manager yourself, this would probably be some required listening, in my opinion. I'm certainly going to pass this on to our own affiliate manager.

Damian: Yeah, and Clay, have your busdev guy contact me and I'll give him all my points of what I think you've got to attend to be a better partner company.

Clay: Awesome, absolutely.

James: Oh, isn't that polite? OK, well thanks guys, we'll speak soon again, I'm also going to pay attention to comments here. You know, I was invited to talk about this, so I wasn't necessarily sitting on top of my affiliate marketing knowledge bank to tap it. I've been in so many parts of this game that it was really interesting to have this discussion. Hopefully it's really helpful to somebody and they'll be looking at the comments and see where we go from there.

Clay: Awesome.

Damian: Cool.

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