Richard Ivey School of Business
The University of Western Ontario

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# REVENUEWIRE.COM: GROWING IN A COMPETITIVE AFFILIATE INDUSTRY



Bobbi Leach looked at the RevenueWire orders report for the first quarter of 2010. While the company was growing and the staff was eager and enthusiastic, the sales did not generate the same excitement as the office environment. After three years of rapid growth in a relatively young industry, the affiliate and payment-processing company found itself operating in a very different environment. Sales growth in the company's affiliate network service had leveled off, and orders for Q1 2010 looked just like those for Q1 2009.

That leveling of growth was not confined to RevenueWire. New competitors, low entry barriers, and a plateau in the affiliate market meant few opportunities for growth across the industry. Forrester Research had predicted that 50 per cent of 2009 spending in affiliate marketing would go to networks and network fees, but that spending would decline to 43 per cent by 2010.[1] Despite that forecast, the company's owners had set aggressive revenue targets: from net revenue of $8.5 million in 2009 to $10 million in 2010, $15 million in 2011, and $22 million in 2012.

Leach had identified two approaches RevenueWire might take to increase revenue:

- More of the same: Continue to concentrate on the "pay per sale" model of the affiliate network provider. Growth in this area would mean signing on more affiliates and representing a broader range of products from more merchants.
- Platform as a service: Market its proprietary SafeCart as a standalone product and end new investment in the affiliate network business.

Each approach meant a different level of investment, effort and return. How, Leach wondered, would the company get where its owners wanted to go?

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[1] *Katie Deatsch, "Affiliate marketing will remain strong but will evolve, study says," October 2, 2009, www.internetretailer.com/2009/10/02/affiliate-marketing-will-remain-strong-but-will-evolve-study-s, accessed July 2010.*

## EVOLUTION OF REVENUEWIRE.COM

RevenueWire was a privately held company with headquarters in Victoria, British Columbia, and offices in the United States and the United Kingdom. It originated in 2003 as a division of ParetoLogic — a software development firm known for its Internet security and PC utility products. ParetoLogic had previously used affiliates to promote its products, but had not found an affiliate network that completely met its needs. Existing networks didn't seem to understand the company's business model of driving traffic by pay-per-click, optimizing the purchase path and increasing conversions. As a result, ParetoLogic decided to create its own network and, in 2007, RevenueWire was incorporated as a separate entity. Leach joined the company in 2008 as director of business development, before moving up to the position of general manager in 2009.

RevenueWire targeted the consumer software sector, particularly merchants that sold software in the $20-55 range. By December of 2009, the company boasted $7 million[2] in sales, with 10,000 registered affiliates (about 1,000 of whom actively generated transactions) and some 70 products available to the network. Leach estimated that the company controlled two to five per cent of its target market.

Leach came to RevenueWire with 20 years of experience in sales and marketing. Along with Bachelor of Commerce and Master of Business Administration degrees, Leach brought skill in strategic analysis and planning. Immediately prior to joining the company, her work had focused on the software sector and she had worked with companies whose products included such diverse offerings as online student recruitment, municipal management and genetic analysis. As director of business development, she was responsible for growing RevenueWire's network by helping affiliates increase sales and make more money. She was also charged with building merchant business; that meant signing on new merchants and convincing merchants to use RevenueWire as an end-to-end solution from finding affiliates to delivering an effective shopping cart and payment experience. These two duties gave her a crucial understanding of the company's key partners and processes, and the experience served her well when she became general manager.

## THE AFFILIATE MARKETING REVENUE MODEL

Affiliate marketing used agents to generate customers for a merchant. Although the exact origin was hard to pinpoint, the general opinion was that Amazon.com started the first affiliate program in 1996 with its "Amazon Associates Program." Individuals or companies that registered with Amazon as associates could earn commissions as high as 15 per cent by referring buyers from the associate site to Amazon. If the referral resulted in a sale, the referring associate received a commission from Amazon.com. Amazon did not publish the number of associates in its program, although a 2005 article in *Wired* magazine said that Amazon.com claimed to have more than 900,000 participants.[3]

There were two factors to success as an affiliate: volume of referrals and conversion of those referrals into buyers. The more referrals an affiliate produced and the higher the quality (i.e. the stronger the intention of the referred customer to actually buy), the more money the affiliate earned. Part of this volume and conversion depended on the number and quality of the products promoted by the affiliate. Some merchants (such as Amazon) provided enough products that an affiliate could earn a satisfying income just by being

*[2] All dollar amounts are in U.S. dollars, unless otherwise noted.*
*[3] Ryan Singel, "Shady Web of Affiliate Marketing," October 2, 2005, www.wired.com/politics/security/news/2005/02/66556, accessed July 15, 2008.*

associated with that single merchant. However, most merchants offered a more limited range of products, and affiliate marketers promoted the products of many merchants.[4]

Smaller merchants with fewer products relied on affiliate networks to connect to interested agents and manage the relationships with them. This was the arena in which RevenueWire competed. Acting as a network manager, RevenueWire's business model was to connect merchants of digital products, such as security and utility software, with affiliates looking for profitable products to promote. RevenueWire supported its network by vetting both merchants and affiliates, tracking referrals and commissions, providing a fully integrated shopping cart/payment option, and providing a reliable platform on which to operate.

Merchants that relied on networks rather than their own affiliate programs had to offer much higher commissions than did large merchants. Profit margins also influenced the level of commissions a merchant would offer. For example, software was characterized by high development costs, but low marginal costs, so merchants could offer very high commissions to drive volume. Digital products might carry commission rates as high as 75 to 90 per cent. Physical products, on the other hand, generally had smaller margins and lower commissions; commissions of less than 50 per cent on physical goods were not uncommon, and many merchants paid less than 30 per cent. Some merchants (e.g. insurance, online games) paid a flat fee, rather than commissions, to affiliates. Flat fees were typically paid where the merchant gained access to a customer who would make repeat purchases, such as annual renewals, and thus the fee could be based on the customer's lifetime value.

Affiliate marketing was based on a pay-per-performance model. Merchants only paid commission on actual sales — no sale meant no selling expense. High-quality affiliates were, in essence, a sales force with no fixed costs. Moreover, merchants could increase revenues and offset commission costs by up-selling during the checkout process. The merchant could also gain permission to further market to the customer when customers opted to receive emails and notifications of new products from the merchant and its partners. Many payment processors disclosed customer information to both the merchant and affiliate; RevenueWire only disclosed customer information to the merchant. This gave the merchant "ownership" of the customer and their future purchases. It also prevented customers from being bombarded with marketing by both merchant and affiliate.

An affiliate could drive traffic to a merchant's product in many ways. Emails, product reviews, blogs, shopping comparison sites, and search engine optimization were common tactics. The objective was to get a potential customer first to visit the affiliate page, then to click on the link to get more product information (see Exhibit 1). Clicking on such a link took the customer to the affiliate's product page, known as its landing page. On the landing page, the prospective customer would see more information about the product and links to try or buy it. If the prospect clicked on such a link, RevenueWire could use cookies and other digital devices to track subsequent actions. Prospects who clicked on a landing page offer were taken to the RevenueWire server to complete the transaction and trigger a tracking cookie.

The cookie let RevenueWire track the prospect's further activity related to the product and determine whether the affiliate should be paid a commission for producing the sale. The industry had transformed in recent years as tracking technology became more sophisticated. If a potential customer clicked on an affiliate's link one day but did not purchase until some time later,[5] the affiliate could still receive the commission.

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[4] *The typical RevenueWire affiliate belonged, on average, to four affiliate networks and promoted, on average, 10 different products.*
[5] *By 2010, tracking technology such as cookies would persist for as long as 60 to 90 days.*