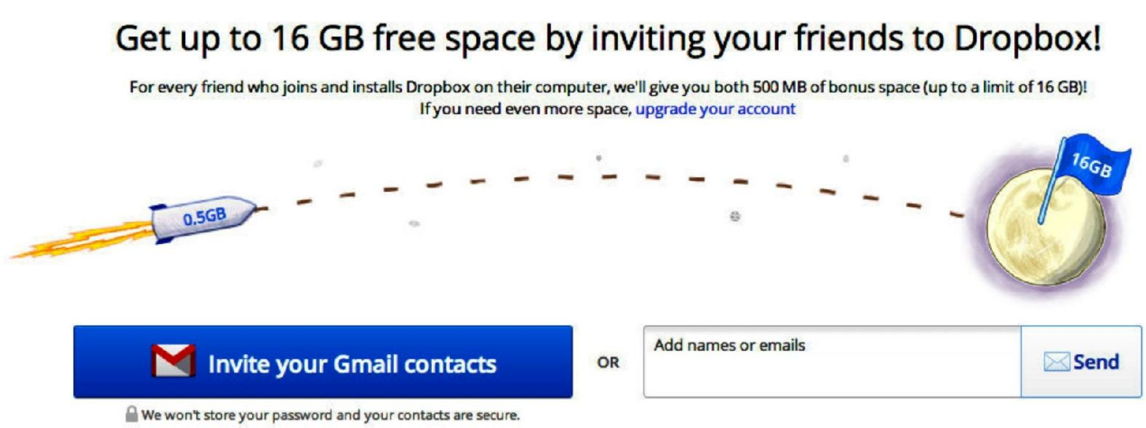
Referrals: Ask For Them

Do you know why businesses have so few referrals compared to what they could have? They never ask for them. Your customers, like any audience, can only know what to do if you tell them.

Now, I've tried *a lot* of referral strategies. Most failed. And I struggled until I had this epiphany: Asking for referrals only works when you treat it like an offer. *The referrals come when you show the value the customer gets when they refer their friends.* Let me give you two quick case studies to show the power of asking for referrals:

Case Study #1: Dropbox gave free storage to customers *and* free storage to the friends they referred. The referral program went viral and they 39 x'd their business in fifteen months.



Case Study #2: Paypal gave $10 in credit to customers *and* $10 to the friends they referred. Within two years, the program helped them reach a million users, and six years later, they hit 100 million users. They still use it today.

So how do we harness the same viral growth in our own small businesses? We do what they did. We ask for it.

Seven Ways To *Ask* For Referrals

There are three components to a referral program: how you give the incentive, what you incentivize with, and how you ask. Rather than give you a hundred variations that may or may not work, here are the seven combos that worked best for me:

1) One-Sided Referral Benefit: I'd rather pay customers than a platform any day of the week. Pay your average cost to acquire a customer (CAC) to the referrer or the friend. Make them aware of the incentive.

   Ex: Imagine it costs $200 to get a new customer. Ask the current customer to make an actual three-way introduction to a friend–via call, SMS, or email. Not just a name and number. Also, ask them to do it right when they buy… don't wait. Then, write them a check for $200 when their friend signs up OR give their friend $200 off.

   Ex: This works great for spouses because they both basically get the benefit. Always ask for the spouse & give a household discount.

2) Two-Sided Referral Benefits: This is what Dropbox and PayPal used. We pay our CAC to both parties. Half goes to the referrer (in credit or cash) and half goes to the friend (in credit). This way, they *both* benefit.

   Ex: We sell $500 programs. Our cost to get a customer is $200. For every friend someone refers, we give them $100 cash, and give their friend $100 off signing up. Good for up to 3 friends. This worked really well for my local businesses.

Pro Tip: Run Your Paid Ads For Free

In our service businesses we routinely get an additional 25-30% of sign ups as referrals. *If we asked for a referral right when they signed up*. So if we signed up 100 clients for a promotion, we would usually get another 25-30 clients from referrals. And since we always operate above 3:1 LTGP:CAC, the cash from referrals often covered the cost of the ads (and some). Bingo bango.

3) <u>Ask For A Referral Right When They Buy:</u> On the sales contract or checkout page, ask for some names and phone numbers of *people they'd like to do this with*. Show them how *they* will get better results when they do it with a friend.

Ex: I had a new salesman come into one of my portfolio companies and shatter all the sales records for an upcoming event. We didn't know what was going on. So I hopped on the phone with him - *how are you selling more tickets than everyone else*? He shrugged and said, "I'm doing the same thing as everyone else. I just make sure I ask them who else they'd want to have come with them. Then ask them to introduce me." <u>Half</u> his sales were referrals. So simple, and yet <u>no one does it</u>.

Scripting example: *People who do our program with someone else tend to get 3x the results. Who else could you do this program with?*

Pro Tip: Not "If" But "Who"

Once someone is a customer, be more direct with your ask. Don't ask *IF* they know someone, ask *WHO* they know.

4) Add Referrals As A Negotiation Chip: On top of that, you can ask for referrals as a way to negotiate a lower price. In other words, if someone wants to pay $400 and your price is $500, you can give them the discount *in exchange for* an introduction to three friends. You can ethically charge a different price for the same thing because you changed the terms of the sale.

Ex: "I can't do anything less than $500 down, but if you make a 3-way text introduction to a few of your friends right now, I'd be happy to cut that initiation fee."

And to address the question you didn't ask - if a full-priced customer finds out you gave someone else a discount (which I've had happen), here's all you say: *"Yea - Stacy got $100 off because she referred three friends. I'm happy to give you $100 if you refer me three friends. Who do you have in mind?"* They either back off or they give you three friends. Win win.

5) Referral Events: Where people get points, credits, dollars or even just bragging rights for bringing friends within an explicit time period. Referral events typically last from one to four weeks. Whenever you run one of these events, sell everyone on the benefits of working with others. Use some stats (internal or external) to show high success rates and the selfish benefit to bringing friends. I use names like:

"Bring-a-friend" Promotion

"Spouse Challenge" Promotion

"Accountability Buddy" Promotion

"Coach Challenge" Promotion where you create teams with your employees and customers. This works well in coaching style businesses.

6) Ongoing Referral Programs: Instead of running a limited duration referral promotion, you talk about the benefits of doing things with others all the time.

Think: in your free content, outreach, paid ads, etc. After a buddy did this, he saw a 33% boost in *total* sign ups. For context, he had 1,000,000 customers buy tickets to his virtual event and 250,000 of them were referred…this stuff works.

7) Unlockable Referral Bonuses: Create bonuses for people who 1) refer and 2) leave a testimonial. A few examples: Unlock VIP bonuses, courses, tokens, status, training, merchandise, service levels, premium support, additional hours of service, etc.

Unlockable referral bonuses work well if you don't like paying out cash. The bonuses can also be for *both* parties if you like (since they cost you less than cash). Visit the lead magnet section for some extra inspiration. As always, the more insane you make the offer, the more people will refer. If you want them to refer, make it so good they'd be stupid not to.

You're Only Limited By Your Creativity

Here's what it looks like to combine a few of the strategies above into a killer referral promotion.

Give everyone a gift card for one-third the cost of their program. Tell them they can give it to a friend of theirs if they sign up with them. Give the gift card an expiration date within seven to fourteen days from the date you give it to them→it'll force them to use it. This gives the referrer status when they give it to their friend. Rather than saying "hey join my program for $2000 off" they say, "I got this gift card for $2000. Do you want it? I don't want to waste it." It's seen as a much bigger deal for them and you.

You can still use the three-way introduction with this tactic. Then text a picture of the gift card. Bonus points if you write the friend's name on it before texting the picture. It makes it feel personalized and gives you a legitimate reason for asking for their friend's name (wink).

PS - You can also sell the gift cards at ninety percent off as purchasable gifts (only for friends of customers). The referrer looks like they spent a lot of money, and you get paid to get new customers. I can hardly think of a better way to make money. Again, the only limit is your creativity.

Pro Tip: Match The Thing You Give With The Thing You Sell.

If you don't want to give away money, try to match the referral incentive to the core product you sell. For example, if you have a t-shirt manufacturing company, giving away free t-shirts makes a lot of sense. Because your incentive will attract people who actually want t-shirts. And they're more likely to become paying customers. (Hint: that's why the gift card works so well).

On the other hand, if you give away an amazing limited edition t-shirt for your IT services business, it may or may not attract people who want IT services. So, try to match the thing you give with the thing you sell.

Conclusion

Referrals aren't an advertising method you can "do." It's not one trick or hack (although we learned some of those). *It's a way of doing business*. And it starts with *you*.

After all, referring is always a risk for the customer. They risk *their* goodwill with their friend *in the hopes* of getting more by showing them something cool (your stuff). So customers *only* refer when they think it's very likely their friend will have a good experience. In other words, when the benefits to them personally outweigh the risk of hurting the relationship with their friend. So we add benefits for them and their friends with incentives and we lower the risk by building goodwill (showing we deliver on our promises). And we do that by using the six ways to give your customers more value. Now don't get me wrong, building goodwill does a fantastic job of getting referrals on its own. But if we're smart, which we are, we capitalize on that goodwill, so we can get even more referrals, by using the seven ways to ask for them. Whew!

So give more than you get and you'll never go hungry again. *This is how we treat our customers*. Do this, and you can monetize *goodwill* forever. To keep this in perspective, I always remind myself: *I am compensated tomorrow for the value I provide today.*

Action Items

Figure out your referral percentages and churn percentages to set a baseline. Implement the six "giving value" steps to build goodwill. Then capitalize on that goodwill, using one or more of the seven ways to ask for referrals.

Next Up…

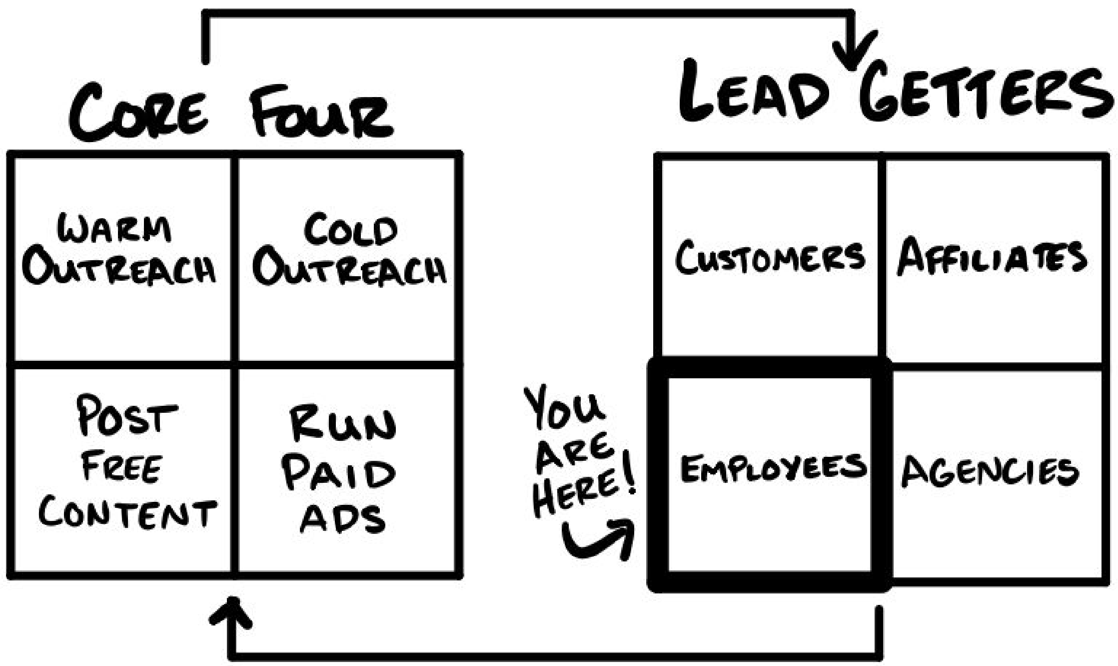
So now we have to figure out how to scale a team. It looks like we'll have to call out potential teammates, show them the value of joining the team, then ask them to join. Wait… that sounds familiar. But seriously, if you really want a $100M leads machine, buckle up. The most valuable chapter in the book is coming up next - *employees*. For real, this isn't a boring chapter, and you're gonna need them if you wanna make the *big money*.

FREE GIFT: BONUS - Customer Referral Frenzy

If you want to know more about ways to use the highest leverage, most profitable way of getting customers, I made a training just for you. You can get it here for free: **Acquisition.com/training/leads**. And as always, you can also scan the QR code below if you hate typing.

#2 Employees

“If you want to go fast, go alone. If you want to go far, go together” - African Proverb



June 2021.

The new sales director piped up, “I know we came in under our goal again, but I don’t think we need to change anything, we’ll hit it this quarter.”

Eyes darted around the room and looked in every direction but mine. The silence was long enough for the executive assistant to mark the topic covered and move on. No wonder we missed our cold outreach goal for the second quarter in a row… nobody challenged the failure. *What, so now we think the third time's a charm?*

“Wait.” I said. Now *everyone* looked in my direction. “I’d like to know why we didn’t hit this two quarters in a row. I know we can sell–so if we want to make more sales with cold outreach, then we *do* more cold outreach. What's the issue?"

"We lose a rep every four weeks." the sales director said. *Aha.*

"Ok…Why is our churn so high?".

"I was wondering the same thing, but HR says we're actually below industry average churn for this position." He continued, "But, by the time we hire and onboard one, another churns out."

I saw the HR director nodding in agreement. *Getting warmer.*

"OK, so the issue is hiring." I said. "So, what's the hiring situation look like?"

"We hire one out of every four candidates HR pushes to us."

"So if they churn out as fast as we hire them, and you only hire one out of every four, that means you only get like one candidate a week?"

"Yeah, about that" *Almost there.*

"Gotcha" Now I looked at the HR Director, "What's the screening situation look like?"

"We get one qualified candidate per ten screening interviews, give or take." She said.

"So it takes *forty* interviews to get a single, low-skill, frontline worker?"

"I guess so." *Bingo.*

“Alright, we need to change things up.” I said. “We're bottlenecked at the one-on-one screening. Start interviewing in groups and look for crazies there. Push everyone else with a good work ethic and basic social skills over to sales. We can teach the rest. Agreed?” The team nodded.

Within six weeks, hiring outpaced churn. Our cold outreach sales increased in lockstep. By the end of the quarter, cold outreach sales had doubled, and made up more than half our total sales.

The issue wasn’t our cold outreach method, skills, or offer at all. We just didn’t have enough people *doing* cold outreach.

***

If you use the methods in this book, you will see more engaged leads flow into your business. More engaged leads means more customers. But as you grow, so does your workload. In due time, it will take more work than any single person can handle. And you can solve the problem of too much work for one person *by having more people work.* In short, to advertise more, you’ll need more workers. And this chapter will show you how employees work, why they make you wealthy, how to get them, and the method I use to turn them into lead-getters.

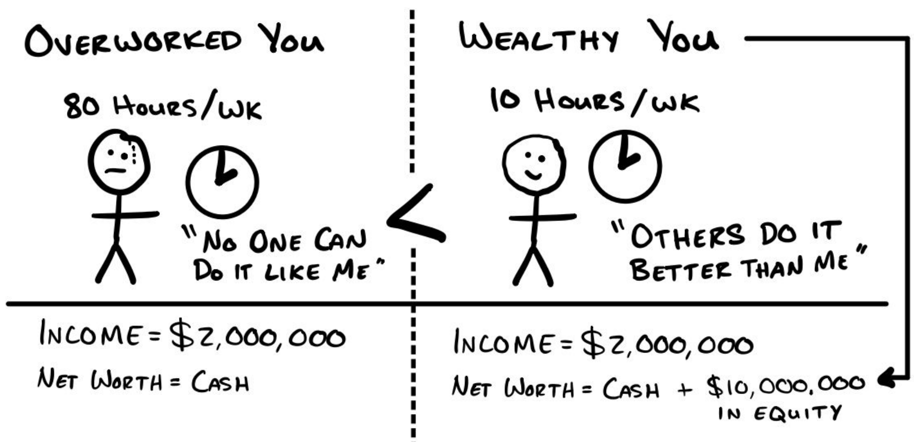
How Employees Work

Lead-getting employees are people working in your business that you train to get you leads. They get you leads the exact same way you got your own leads in the beginning. They can run ads, they can make and post content, and they can do outreach. They can do any advertising *you train them to do*. So more lead-getting employees means more engaged leads for your business. It also means less work *you* have to do to get the leads. More leads and less work? Sign me up! But wait… Not so fast…

Don't get me wrong–-*employees take work*. They just take less time and work than doing everything on your own. In my experience, if you trade forty hours of doing for four hours of managing, you work thirty-six hours less. Brilliant. And the best part is, you can make that trade over and over. You can swap 200 hours of work per week for twenty hours of management. Then, you trade the twenty hours of managing for a manager, who costs you four hours per week to lead. What remains is four hours of work for 200 hours of lead-getting. Boom.

Bottom Line: Employees make a fully functioning enterprise that grows *without you*.

Why Employees Make You Wealthy



For your business to run without you, other people need to run it.

Scenario #1: Imagine you have a business that makes $5,000,000 per year in revenue and $2,000,000 in profit. And, to make that profit, you have to work around the clock. In this situation, you basically have a high paying job. But let's say you're OK with working all hours and knowing your business would burn down if you took a vacation. Vacations are for losers anyways (kidding *cough* sort of…). We still have another important thing to look at…

Sure, you make a bit of money, but your business *isn't worth much*. If the business only makes money with you in it, then it's a *bad investment for* anyone *else.* That may not sound like a big deal right now, but let's consider an alternative.

Scenario #2: Your business makes the same $5,000,000 in revenue and $2,000,000 in profit. But there's one big difference: The business runs *without you.* This does two very cool things. One, it turns what used to be a risky job into a valuable asset. And two, it makes you *much* wealthier. Here's how:

First, you get your time back, so you can use that time to invest in your business, buy other businesses, or take your stinkin' vacations. Second, you become much wealthier because your business is now *worth something to someone else*. You turned a *liability* that relied on you into an *asset* you can rely on.

If you have an asset that makes millions of dollars *without you* then that means somebody else could use it to make millions of dollars *without them*. In other words, your business is now a *good investment.* Then investors looking for assets, like Acquisition.com for instance, would buy some or all of it from you. And your $2,000,000 in profit per year, especially if it's climbing, could easily be worth $10,000,000+, *right now*. So your business went from having almost *zero* value to having $10,000,000 of value. So, learning how to get other people to do it for you makes a $10,000,000 difference to your net worth. I'd say it's worth learning how to do it.

Reminder: *You get rich from what you make. You become wealthy from what you own*. And it took me years to realize this because not that long ago…

Everything I Thought I Knew About Employees Was Wrong

Have you ever heard…

If you want it done right, you gotta do it yourself.

No one can do it like I do it.

Nobody can replace me.

I have. I said all that stuff. I lived all that stuff. For years, every time I hired somebody, I would compare what they could to what I could do. In my head, I felt like it was "me against them." To somehow prove I was the more 'able' one. With my own team! And this belief, this way of "leading" people, never made me more money.

For business– "nobody can do it but me" and "if you want something done right you gotta do it yourself" aren't facts… they're false. Somebody did similar stuff before you were around. And somebody will continue doing some version of it after you're gone. In one way or another–everyone is replaceable. It might be by multiple people, technology, or later in time, but *everyone* can be replaced. My suggestion: replace yourself as soon as you can. Then, you can make yourself useful somewhere else. Many other people figured this out. And so can you.

In the early days, whenever I started a business, I could do stuff better than the people I hired. My entire workforce always ended up looking like a ragtag group of misfits who could *kind of* do *one* of the many things I could do. This got me up and running at first, but I fell into the trap of believing I was better than everyone else. I would go back and forth between gloating because I was better than them and complaining because they weren't as good as me. And for whatever reason, it never occurred to me *I was the one* who hired and trained them. Who was I kidding? The reality was twofold: First, I didn't have the skills to train or lead a team properly. Second, I was too poor, and then (when I had a little money) too cheap to hire anyone better. In other words, it was ***my*** fault they sucked. Oops.

The more I tried to outcompete my employees, the more distracted I became, and the worse my business got. Sure, at the time, *maybe* I could do *anything* better than *any* of my employees. But… I couldn't do *everything* better than *all* my employees. And when I finally realized this, I started adopting better beliefs about talent:

‘If you want it done right, get someone to spend all their time doing it.’

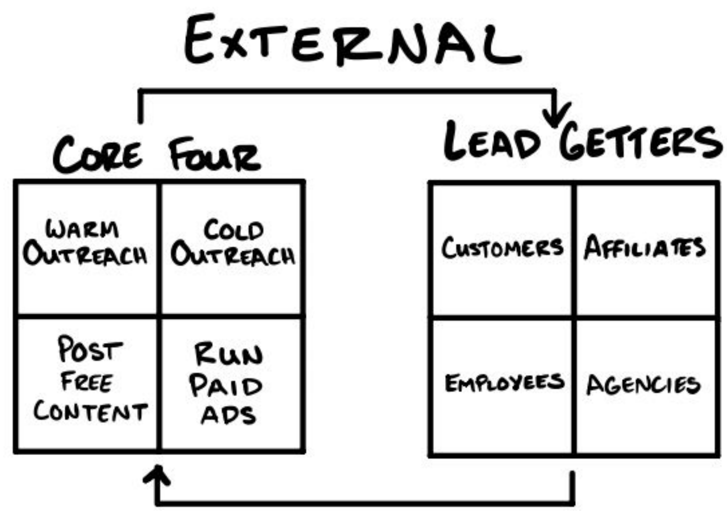
‘If I can do it, someone else can do it better.’

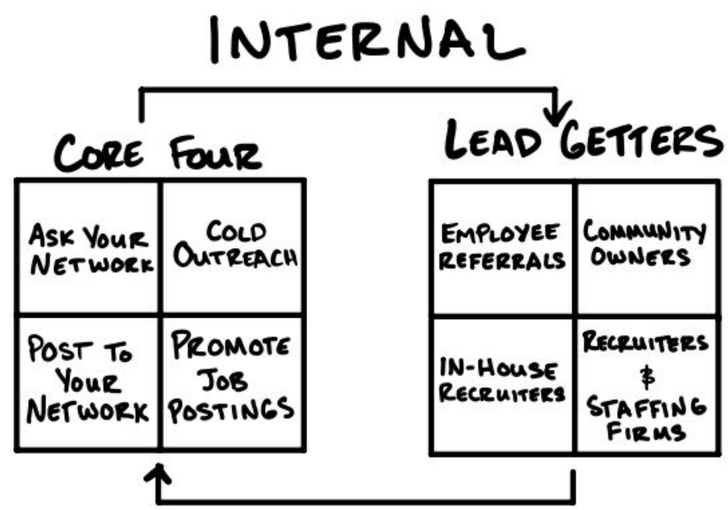
‘Everyone is replaceable, especially me.’

These new beliefs about talent not only made a much healthier culture in my businesses but also came with very profitable side effects. Trusting my employees to succeed made *my* time and attention *far* more valuable. If somebody else can do it, why would I? If somebody else could train them, why would I? If I could learn other stuff to grow the business while my team held the fort down, it makes *way* more sense to do that. So let’s do that.

How To Get Employee Leads: The Internal Core Four

Remember the core four? Well, they work for getting employees too. Imagine that. By changing the frame from “letting potential customers know about your stuff” to “letting potential employees know about your stuff” it *immediately* turns into something you already know how to do. But some people also have the opposite problem–they already know how to get employees just fine but still struggle to get customers. *Employees are just other people you let know about your stuff.* So you do the same thing!





Line up the actions to get employees with the actions to get customers. It's the same stuff!

<u>Customers → Employees</u>

Warm Outreach→Asking Your Network

Cold Outreach→ Recruiting

Post Content→Posting Job Openings

Paid Ads→Promoting Job Postings

Customer Referrals→Employee Referrals

Affiliates→ Associations, Guilds, Listservs etc.

Agencies→ Staffing firms etc.

Employees→Employees (unchanged)

The ways you get employee leads and their lead getters have equivalents to the ways you get customer leads and *their* lead getters. So when you need to get new talent, you just advertise to get it. And when you need more, you do more. And like creating a reliable process to get customers, you can also create a reliable process of getting employees. And you'll need ***both*** to scale.

How To Get Employees To Get You Leads

Now you hire someone who costs you money every month. Great. Let's make sure you make it back, *and some* ASAP.

Note–some people looking for work will already know how to get leads. Those people are awesome. You can also count on them to cost more. And if you're starting out, you may not be able to afford them. So, your next best option is to train them. Thankfully, you have an entire book of lead-getting at your fingertips. So the next step is training your employees on how you do those lead-getting activities. I think about and actually approach training with this 3Ds mental model: *document, demonstrate, duplicate.* Here's how it works.

Step One - Document. *You make a checklist*. You already know how to do the thing. Now you just need to write down the steps exactly as you do it. You can also have other trusted observers watch you and document what you do. Bonus points if you record yourself doing the thing multiple ways and in multiple shifts. This way, you can watch yourself *as an observer* rather than breaking your flow by pausing to take notes while you go. Once you've got everything put into the checklist, bust it out on your next work block and *only* follow those steps. Can you do an A+ job *only* following *your* directions *exactly*? If you can, you have the first draft of your checklist for the job.

Step Two - Demonstrate: *You do it in front of them*. Just like your parents taught you how to tie your shoes. You sit down and walk them through the checklist step by step. This may take a while depending on how many steps it takes to complete the thing. If they stop you, or slow you down to understand something, adjust your checklist for that. Now you have the second draft ready for them to try.

Step Three - Duplicate: *They do it in front of you*. Now it's their turn. They follow the same checklist you followed. Except this time, they're the one doing, and you're the one observing. We just want them to *duplicate* what we did. So if the checklist is right, the outcome will be the same. And if the checklist is off–you'll find out fast! Fix your checklist until it's right. Then, have them follow it until they get it right. And once they nail it, you now have a bonafide lead-getter on your payroll. Congratulations!

> **Pro Tip: Give Short Windows For People To Prove Themselves.**
>
> Most entry level advertising jobs aren't complex. It takes grit more than skill. If you trained someone properly and they're still below expectations three weeks in, cut them.

After you train your first few employees this way, you'll have worked out the kinks for that job and it's pretty smooth sailing from there. At least the training part anyways. Think about it this way, if you vanished tomorrow, could a stranger get the results you get if they only followed your checklist? That's the level of clarity to shoot for.

Some helpful notes on training:

- A helpful way to look at this training style is: *If they get it wrong or get confused then we got it wrong or made it confusing.* If we have to explain what a step means then the step is too complicated. Or, more likely, we tried to put multiple steps into one.

- If they only appear to "get it" after a longish explanation or multiple demonstrations then, again, we've got some work to do. Business owners that ignore this run into chronic training problems. And, word to the wise, you can probably force an inferior checklist to work, but this turns into a *nightmare* when somebody else takes over your training for you.

- There is a difference between competence and performance. In other words, they can know exactly what to do and *not be that good at it yet*. If that's the case, then your instructions are fine and *they just need practice.* Using an analogy from the fitness world–think "slow then smooth then fast." You don't need to change anything, they just need more reps.

- *Focus on your employee's ability to follow directions more than whether they get the right result.* This is super important because if you train your employees to follow directions then… they will follow directions. And, if they follow directions and get the wrong result… *then you know it's the directions*. That's good. You have a lot more control over that.

- Everytime they do a step successfully–*let them know they did it right*. And if they respond to praise, praise them! And if they goof, that's OK too. That's what training is for. Don't take over for them when they mess up–simply pause, take a step back, and let them try it again. Fast feedback cycles to get people to learn *faster*.

- If they follow your directions *exactly* and get the wrong result–still praise them for following the directions. Praise them, then make the corrections to your checklist on the spot.

- Avoid punishment or penalties of any type for doing stuff wrong during training. As a rule of thumb–reward the good stuff you want them to do more of and they'll do more of it. Learning a new skill is punishing enough, we don't need to add to it.

- It’s hard to fix multiple things *when you've never done something before*. Give feedback one step at a time. Give one piece of feedback at a time. Practice until they get it right. Then, move to the next step.

- Whenever there is a major dip from normal performance, retrain the team. They stopped doing an important step in the process (often because they didn’t know it was important). Once you figure out the step, reward people for following it going forward.

How to Calculate Returns From Lead-Getting Employees

Excluding the cost of running paid ads, the cost of advertising (outreach, content, etc.) with employees is almost entirely based on the amount of money you pay them to do it. We simplify this by just comparing how much money we spend on payroll to how much money the engaged leads they get bring in:

- Total Payroll / Total Engaged Leads = Cost per engaged lead.
    - Ex: $100,000 / 1000 leads = $100 per engaged lead
- If one out of ten of the engaged leads become customers then our CAC is $1000
    - ($100 per engaged lead) x (10 engaged leads per customer) = $1000 CAC
- If each customer has an LTGP of $4000 then you have an LTGP : CAC of 4:1
    - ($4000 LTGP) / ($1000 CAC) = 4:1

For example: at the time of this writing, I get about 30,000 engaged leads per month at Acquistion.com. I run no paid ads, and do no outreach. But the team responsible for creating the content that generates that interest is about $100,000 per month. This means, it costs me roughly $3.33 per engaged lead ($100,000 / 30,000 leads) in payroll to generate them. We make much more than $3.33 per lead, so we're profitable. You can apply the same math to whatever advertising method you use.

How To Know Which Employees to Focus On To Maximize Returns

Like we learned in Run Paid Ads Part II–if your cost to get a customer is within 3x industry average then you're doing *good enough*. From there, you focus on bumping up your LTGP.

If your CAC is more than 3x industry average then you have a sales problem or an advertising problem. We diagnose this with a single question:

Do my engaged leads have the problem I solve and the money to spend?

- If no, then they're not qualified–that's an advertising problem.
- If yes, then they're qualified and:
    - They're buying but you don't have enough of them–advertising problem.
    - They're qualified but not buying–sales problem.

Don't fire your sales guy if you've got advertising problems. And equally, don't fire your advertising employees if you've got a sales problem. That little question can help you identify which employees to focus on.

But fundamentally, you just need to figure out all *your* costs of getting a customer put together. And as long as they're at least one-third of the profit you make over the lifetime, you're in good shape.

Conclusion

The goal of this chapter was to *shift your perspective*. It's your job to advertise and sell the vision of your company. You advertise it publicly *and* privately to employees *and* customers alike. That's the job. And once you get good at it, you become unstoppable.

I say this because I believe anyone can be taught to do "ground level" jobs for any business– advertising or otherwise. So who you pick is not as important as how you train the ones you do.

Like I've said throughout the book and will say again here–it doesn't take a genius to advertise. I'd even say it hurts. We've got plenty more iron-wills than brainiacs anyways. Remember, this isn't about brains, it's about guts. And although some people might be born geniuses, *nobody* is born with an iron will (after all, we all come out crybabies). All this to say having guts is a skill. And that means *anyone* can have the guts *if they learn how.* So if you have an iron-will, and as an entrepreneur you probably do, it won't take long for you to figure out that you got it from your life experiences. You can pass those experiences on as lessons to anyone who cares enough to listen. Then, they can stand on your shoulders and have a better chance at succeeding in life.

And - you can't really know anything anyway until you train them well and give them a fighting chance to succeed out in the field. Plus, for low level jobs, you'll never have a shortage of labor. Get picky when you have to make massive investments in hyper-specific-multiple-six-figure-C-suite employees. Aka - 'fancy employees.'

I find at this current stage, it's actually a better use of time, to hire and train anyone *willing*. Then, when you find winners, and with this method you will: treat them well, don't burn them out, and give them what they deserve.

In the land of overflowing leads, you'll need allies. Employees are among the most powerful of these allies. We talked about: how they make you wealthy, how they work, how getting them works, how to get them, how to get them getting you leads, how to keep them getting you leads, and how to know you're doing a good job. And once you've built a system for getting people who get you leads (doing the core four on your behalf), you just need to do more.

Author Note: A Word On Fancy Employees

I explicitly left out recruiting director level and up employees because you can easily qualify for Acquisition.com without them. And once you do become a portfolio company, we do it for you.

The Next Lead Getter…

The next stop on our advertising journey leads us to agencies. Yes, you can pay people to shortcut your path. I have paid zillions of dollars to agencies and I believe I've finally *cracked* the code on how to create a win for all parties. For us, so we're not dependent on them forever. For them, so they can make more profit and provide more value to their customers. They've been key to many breakthroughs I've had, so you won't want to skip this next one…

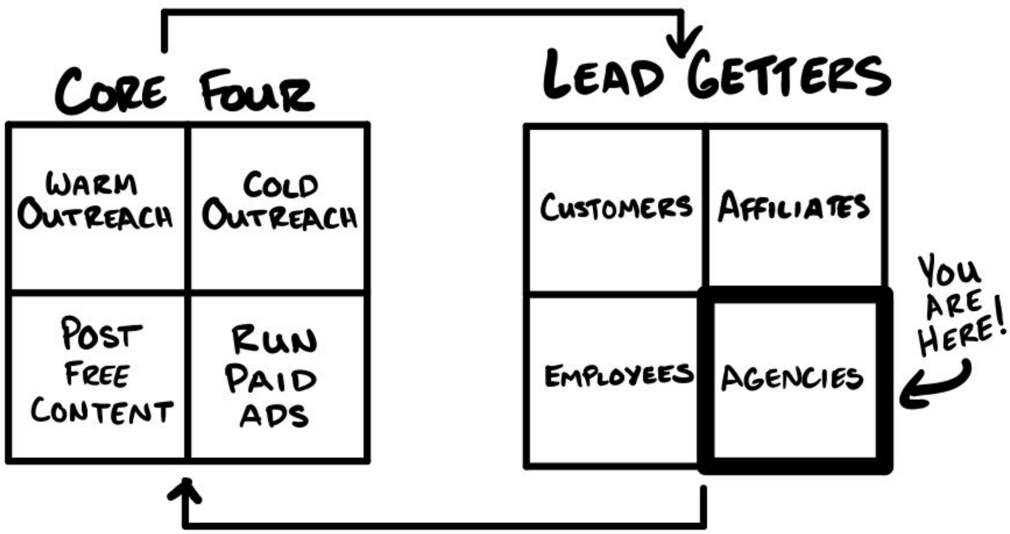
FREE GIFT: BONUS TUTORIAL - Build or Buy - The Talent Roadmap

The longer I do business, the more I ask “who” over what and how. This training may be one of the most tactical and important, because no matter what you want to build, you’re gonna need help. Since it’s so important, I made a training outlining this content in more depth with some downloads etc. You can watch it free at **Acquisition.com/training/leads**. As always, you can also scan the QR code below if you hate typing.

SCAN ME

#3 Agencies

"Everything is for sale"



Summer 2016.

I wasn't a tech guy. I was a fitness guy who had learned a few marketing and sales tricks building my gyms. But now I had five, and was launching my sixth. It was time to level up. Facebook had just released some new features: retargeting, interest groups, pixels, etc. And I didn't understand any of it. I bought a few courses but ended up more confused than when I started.

I asked a few friends if they knew anyone who could help. I got two referrals. Both were agencies. I was scared. I had never used one before. I had only ever heard horror stories about advertising agencies. Mostly that they cost a ton and never work. But then I realized that even if they did work, I'd ***need*** them forever. They'd have my business by the balls! It turns out my expectations weren't far off. They offered to run my ads alright, for an arm and a leg. Money I couldn't justify spending with my low margins. But, then again, my advertising costs were killing me. And at this rate, in a few months, I wouldn't be able to keep my doors open. Stressful.

I refused the first agency because I couldn't afford it at the time. The second call started going the same way. I began to panic. *How am I gonna fix this?* In what felt like a last ditch effort to stay in business, I asked the second agency owner for what I *really* wanted…

"Can you just show me in a few hours how you would run ads on my account?"

"No." He fired back. "My time's not for sale."

Worried but still hopeful…"What sort of arrangement could we come to?"

He thought for a moment. Then his eyebrow shot up and a smirk appeared. "Fine. $750 an hour." *Gulp*. His intimidation tactic worked. But at least I knew his time was for sale... so I wanted to find out more.

"And for $750 per hour *you* will sit down with *me* and show *me* how *you* would run *my* ads?"

"Yes."

"And, I'd be the one doing everything? Like, you'll walk me through what to do and look over my shoulder as I do it, then you'll explain why you do it that way?"

"Yea"

"And you're confident you can make my ads more profitable? …and show me the more advanced stuff too, right?"

"Yea. I mean. If you wanna pay me $750 an hour, we can do whatever you want. It's your money" He said, half laughing. It sounded more like *It's your funeral.*

I paused. “Alright. I’ll do it. We’ll meet one hour a week. You give me homework and I’ll study between calls. Fair enough?”

“Works for me. But you gotta pay for the first four hours up front”

So that’s what I did. I placed a three thousand dollar bet on this guy’s word that he knew what he was doing. *Yikes*. But, every week thereafter, I showed up. And like a good student, I came with notes and questions ready. I also recorded and rewatched every call because I didn’t want to miss anything.

The first two calls, he took the wheel and I watched. Calls three and four, he put me in the driver’s seat. By calls five and six, it clicked. I got how he made decisions and what data he tracked. At seven and eight, I realized I didn’t need his help anymore. I had learned how to run paid ads, at least on Facebook, like a pro. And, if I had to make a guess, it was because I learned it…from a pro.

In this chapter, we explore a not-so-obvious-but-much-better-way to use agencies to get more leads. Let’s get crankin’.

How Agencies Want You To Think They Work

Advertising agencies are lead-getting service businesses. You pay them to run paid ads, do outreach, or package and distribute content.

For example, let’s say you want to post free video content. But, you know nothing about making video content or how to distribute it. You’d need to learn how to pick video topics, record videos, edit videos, make thumbnail images, and write headlines. Or, you’d need to hire the people who do. Enter the agency. They say they’ve hired and trained people to do that stuff already. So they promise faster, better, and more cost-efficient results than you could get on your own. And as soon as I had enough money, it felt compelling enough.

After my first experience with an agency, that I mentioned earlier and went quite well, I decided to use more. But my experience with the next ten plus agencies was *different* because I used them ‘the right way.’ Each went something like this:

Step 1: They got me excited about all the new leads they would bring.

Step 2: I’d go through an onboarding process that felt valuable (and sometimes was).

Step 3: They assigned their “best” senior rep to my account.

Step 4: I saw some results.

Step 5: They moved my senior rep to the newest customer...

Step 6: A junior rep starts managing my account. My results suffered.

Step 7: I complained.

Step 8: The senior rep would come back once in a while to make me feel better.

Step 9: Results still suffered. And I’d eventually cancel.

Step 10: I’d search for another agency and repeat the cycle of insanity.

Step 11: *For the zillionth time*–Start wondering why I wasn’t getting results like the first time.

To be clear, like the introduction to this chapter shows, agencies *can* play a valuable role in business growth. But not the way *they* want you to. I don't want anyone else falling into the same trap. In fact, I hope all the money I wasted goes towards paying down your ignorance tax too. So keep reading.

It's frankly ridiculous that it took me so many years to figure out that I actually used an agency the *right* way…the *first* time! But now, after playing their game so many times, I feel I cracked the "how to use an agency" code. And it doesn't come from playing their game *at all*. It comes from playing a different one. And this chapter breaks it all down in three steps:

1. Hiring an agency versus doing it yourself

2. How I use agencies now. And how you can, too.

3. How to pick the right agency

Hiring An Agency Versus Doing It Yourself

First, let's get this out of the way. Good agencies cost money. So if you have no money, then agencies are out of the question. You've gotta learn through trial and error. And that's no big deal. *We all start that way*. But if you do have some money, I suggest using agencies for two things: learning new methods and learning new platforms.

If I want to learn new ways to do content, outreach, or paid ads, then I hire agencies offering new ways to do them. They've already made the big mistakes. So instead of wasting time figuring it out myself, I skip straight to the 'make money' part. I like the 'make money' part.

I also use agencies when I want to start advertising on a platform I don't understand. I make money faster because they do the early setup and maintenance for me and because I get them to teach me how to do it.

Hiring an agency is all about investing in important skills you can't really learn anywhere else. That is, unless you go through *all* the trial and error to learn it yourself. And if you did, you lose the time, and attention you could have used to learn the other important stuff that scales your business. And scaling your business is the whole point.

Action Step: As soon as you have enough money for a good agency, start poking around. If you follow the rest of the steps in this chapter, you'll make it all back… and then some.

How I Use Agencies Now. And How You Can Too.

I've become a little more sophisticated than the story I told at the beginning. Here's how I use agencies now. Rather than believe the lie that "I'll never have to learn this stuff because they can do it," I start every agency relationship with a purpose and a deadline to fulfill it. I open by saying:

"I want to do what you do in my business, but I don't know how. I'd like to work with you for 6 months so I can learn how you do it. Plus, I'll pay extra for you to break down why you make the decisions you do and the steps you take to make them. Then, after I get a good idea of how it all works, I'll start training my team on it. And once they can do it well enough, I'd like to change to a lower cost consulting arrangement. This way, you can still help us if we run into problems. Are you opposed to this?"

In my experience, most agencies are *not* opposed to this. And if it doesn't work for them, that's perfectly fine. Just move on to the next agency. But, before you start kicking everyone to the curb, be willing to negotiate. At some price, it's worth it for both of you. Viva capitalism!

This is how I use agencies now. Like when I wanted to learn YouTube, I actually hired *two* agencies. The first, I hired to keep me committed to making videos while they did some legwork on the platform itself. The second I hired (at 4x the price) to really teach us the in-depth ideas behind making the best content possible. And once our videos beat their videos, we dropped down to consulting only.

I've used this method again and again. I hire one "good enough" agency to learn the ropes of a new platform. Then, I hire a more elite agency to learn how to maximize it–*and I cannot recommend this strategy enough.*

If you are upfront about your intentions and the agency agrees, you get the best of both worlds. You get better short-term results because they (probably) know more than you. And, you get better long-term results because you learn how to do it yourself or your team learns to do it for you. *You also spend the maximum amount of time with their best reps*.

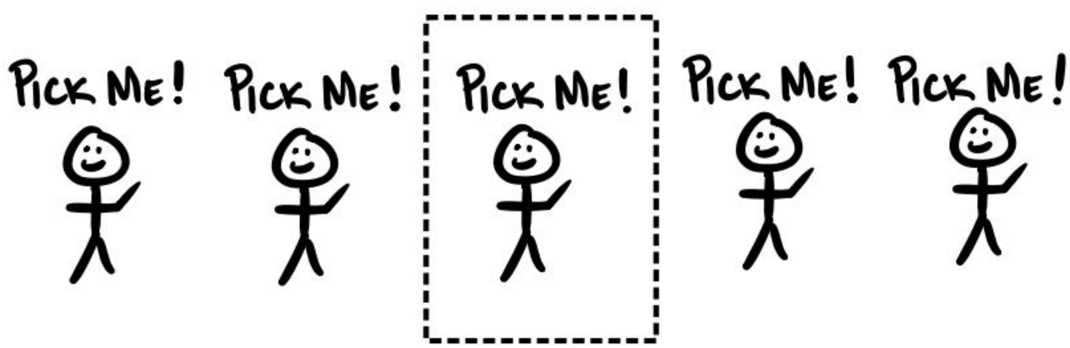
Remember, you only get a *fraction* of the agency's attention, so results get worse whenever they get new clients. Meanwhile, your team gets better and better because they stay focused on you full-time. So compare your team's results to the agency's until you beat them. Then, cancel the relationship and put the money into scaling everything you just learned.

Action Step: When you find an agency to work with (next step) set terms with them and deadlines for yourself. Use the template above as your guide. And feel OK with negotiating a bit to make it work.

Author Note: Yes, There's a Place For Agencies

To be clear, I still own equity in an agency software, ALAN. So I'm not against agencies. I just share how I've had success with them. Are there massive companies that use huge ad agencies? Sure. But they're not who I'm writing for. For most people, spending $10,000, $50,000, or $100,000 on an agency is a significant cost. So, this is how I've gotten the best return from working with them. Also - some people never want to learn - and for those people - agencies are great. I personally always want to learn, which is why I use agencies this way.

How to Pick The Right Agency



After working with tons of bad agencies, and a handful of good ones, I created a list of what all the good ones had in common. Now it isn't the last word on what makes a good agency, but it is useful stuff that's worked for me.

Here's what I look for:

1) Somebody I know got good results working with them. If you only know about an agency from their paid ads or cold outreach… they probably aren't as good as the ones who rely solely on word of mouth (and the best ones do).

2) Prominent companies got good results working with them. I may not know the companies personally, but if I recognize them, it's a good sign.

3) A waiting list. When demand for a service exceeds the supply, they are probably pretty good.

4) A clear sales process that makes a point to set <u>realistic</u> expectations. No funny business.

5) No short term hacks. They keep the talk on long term strategy. They also give clear timelines for setup, scaling, and results.

6) They tell me exactly what they need from me, when they need it, and how they use it.

7) <u>*They*</u> suggest a regular schedule of meetings and offer several ways to update me on their progress.

8) They give updates in simple terms and have clear ways to track so I know how costs compare with results.

9) They make a good offer:

    a. <u>Dream outcome</u>: is what they promise what I want?

    b. <u>Perceived likelihood of achievement</u>: how many other people like me have they gotten there?

    c. <u>Time delay</u>: how long will it take?

d. <u>Effort and sacrifice</u>: what do they require me to do when working with them? What will I have to give up? Can I stick with those for a long time?

10) They are expensive. All good agencies are expensive… but not all expensive agencies are good. So talk with as many as it takes. And use this list as a guide to find the good ones.

…if an agency checks those boxes, they're worth considering.

> **Pro Tip: Talk To More Agencies To Be A Better Customer**
>
> Being an informed customer *helps everyone*. So, before you buy, get informed. Talk to five or ten agencies to learn how they work. At first - you'll learn a bunch of new stuff. But over time, the difference between the better ones and the worse ones becomes obvious. *Now*, you can make an informed decision.
>
> If the agency doesn't meet my needs, but I like the people, I'll ask them to refer me to another agency. A good agency offering a one specialty will send you to other good agencies who offer the one you want. Those are some of my favorite referrals.

Action step: Even if an agency agrees to your terms, talk with a few more before you make a decision. Compare them using the checklist above, and then pick the best one for you.

Conclusion

Even though this isn't the "traditional" agency model, *both* businesses benefit. They get a customer they otherwise wouldn't have. And we get a money-making skill for life. In the story at the beginning of the chapter - it cost me eight hours and $6000 to learn a skill that's *made me millions*. Does that seem worth it to you? It better.

And to make this agency method work at scale, you have to count on a good amount of time where you pay the agency and your team *to do the same stuff*. You've gotta give yourself some breathing room to get results from the agency, learn what they do, *and* train your team on it... all at once. Yes, it costs a lot of money. And yes, it's totally worth it when you get it right.

And get it right you can. After agencies put a low level employee on my account for the millionth time, it finally clicked. This can't be *that* hard. At first, it took about a year to get my team better than an agency. As I got better, it went down to ten months, then eight. And now, I've got it down. I can get my team as good or better than the agency in less than six months or less. And every time I want to learn a new method or platform, I repeat the process.

The better you get, the cheaper it becomes, and the more money you make. Funny, that sounds a lot like advertising.

Next Steps:

1) Decide if using an agency makes sense for you right now.

2) Talk to a lot of agencies to get a feel for the market. Don't be cheap.

3) Use the agreement framework I outlined.

4) Set a clear deadline to force you (and your team) to learn the skills.

5) Use both teams until yours beats theirs regularly.

6) Switch to discounted consulting until you feel like you're teaching them instead of them teaching you…then cut 'em loose.

Now that we know how to profit from the high risk world of agencies, we explore the lead-getter that's made me the most money. We recruit an army of businesses who can get us even more leads - *affiliates*.

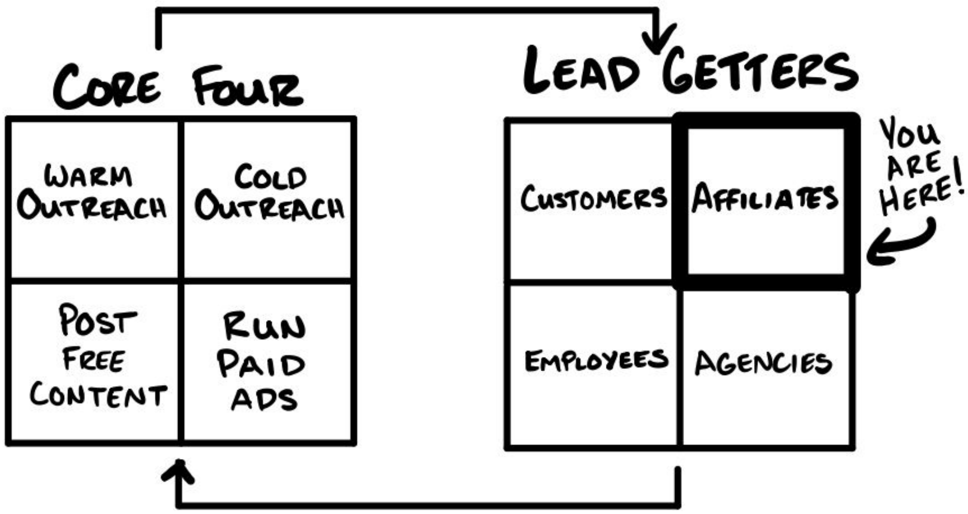
FREE GIFT: What To Look For in An Agency Checklist

If you want to know the best way to use agencies, rather than being used by them, I made a free training for you. You can watch it free at: **Acquisition.com/training/leads**. It has swipe files and some other goodies. As always, you can also scan the QR code below if you hate typing.

SCAN ME

#4 Affiliates and Partners

"Nothing makes friends like money"



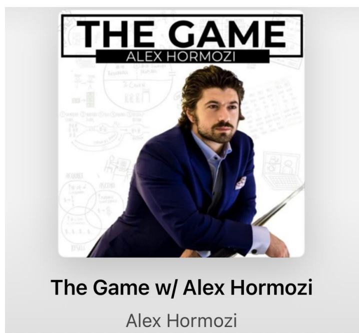
December 1st, 2018

I had no idea how the Prestige Labs launch would go. I had no idea if our clients would like it. I had no idea if the technology we built would work. I had no idea if payouts would happen on time. I had no idea if our warehouse would mess up orders.

But I did know over a year of preparation went into this launch. We put everything we had into creating a top-tier product. We spent over $1,000,000 custom-building affiliate software and training. And - we bought $3,000,000 in inventory for sales that may never happen. It took *every* business skill I had to make Prestige Labs real. And, in just a few hours, we would roll it out to our gym owner affiliates. I felt like a kid on Christmas Eve. And if it didn't work, *it wouldn't be for lack of effort.*

Author Note: The Game Podcast Episode 98 "I Remember"

If you want to go back in time, you can hear 'young me' talk about my thoughts/concerns the night before the launch. You can be right there with me. It's episode 98 on my podcast The Game with Alex Hormozi titled "I Remember." This is before I knew the success it would become. To find it, just go wherever you listen to podcasts and search "Alex Hormozi" and it'll come up.



Launch day…

I finished the two-hour presentation soaked in sweat. *It's done*.

I 'sold' the opportunity to sell my supplement line at their gyms. I would *train* the new affiliates to promote Prestige Labs at their gyms. So, for this to work, they would have to go through the training *and* use it. But, if they did, everyone would profit. I had no idea if it would work.

Three weeks later…

We made $150,000 in *total* sales. Meanwhile, $3,000,000 worth of product sat in an air-conditioned warehouse… *It didn't work*.

At this rate, including operating costs and affiliate payouts, it would take five years to *break even*. Even if we could stick it out, our premium product would expire well before then. We were all but screwed. I felt miserable. It was terrible. *Who am I to think we would sell all that stuff? I just wasted MILLIONS. How could I be so stupid?*

But…on the fourth week…something wild happened…

BOOM! $100,000 on Monday.

BOOM! $110,000 on Tuesday

BOOM! $92,000 on Wednesday.

We did over $450,000 in sales the fourth week *alone*. The trend continued. $429,000…$383,000…$411,000…$452,000. We averaged more than 300 orders per day across 400+ active affiliates. Orders just kept coming in. Check out the snapshot of our internal report below. It shows, from left to right, revenue by *week*. I couldn't believe the results. Sometimes, I still can't.

Gross Revenue	$429,112	$383,717	$411,848	$404,838	$452,204
Net Revenue	$407,164	$358,073	$391,197	$384,119	$429,982
Refunds	$21,948	$25,644	$20,651	$20,719	$22,222
Count of Orders	2266	2052	2084	2124	2367
Average Order Size	$189	$187	$198	$191	$191
Active Affiliates	428	409	416	437	444

The best part is, *I didn't advertise or sell any of the products at all.* No paid ads. No sales team. Nothing. The affiliates did everything–and the affiliate machine I built still prints money to this day. So if that sounds like something you're interested in, hang tight, because I'm gonna show you exactly how I built it.

How Affiliates Work

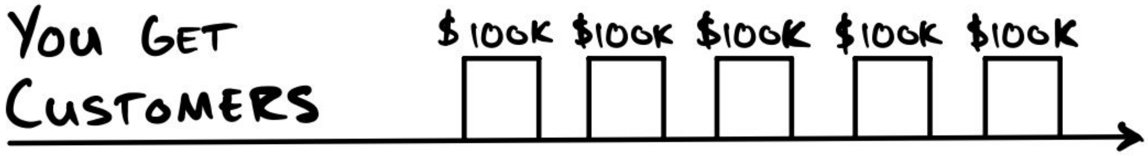
An **affiliate** is a lead-getter. They are an independent business that tells their audience to buy *your* stuff. Affiliates seem like referrals on the outside, but are much different under the hood. First, they have their own businesses and do their own advertising. Second, they agree to offer *your* stuff to *their* engaged leads in exchange for money, free stuff, or both.

Now, you get affiliates by advertising and then making them offers *just like you would customers*. But, affiliates demand a unique type of offer. Instead of offering your product, you offer a fast, simple, and easy way to make commissions promoting it. And that can mean literally millions of engaged leads to your business. So this makes affiliates one of the highest-leverage lead-getters out there.

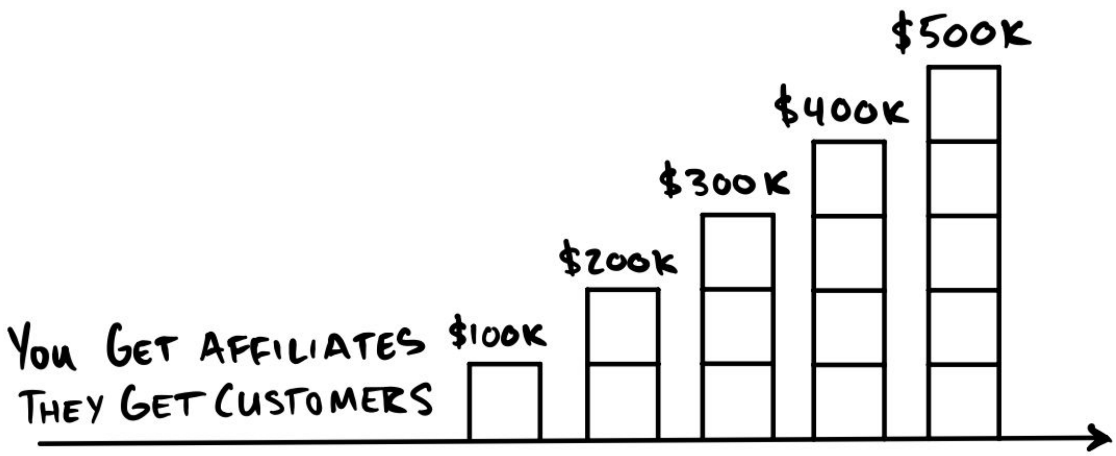
Why You Want An Affiliate Army

Each affiliate you get adds another *stream* of leads and customers. So recruiting, activating, then integrating with an army of affiliates causes crazy scaling, fast. That's good. We want that.

Compare these two scenarios:



Scenario #1: You sell ten *customers* per month worth $10,000 each. Your business caps at $100,000 per month. In twelve months you've made 1.2 million. Assuming no other advertising, your business *plateaus*. Low-Leverage.



Scenario #2: For the same effort, you sell ten *affiliates* per month. Each month, those affiliates bring you *one* of those $10,000 customers. Now, every single month you add an *extra* $100,000 in revenue. In twelve months you've made *7.8 million*. And it grows *every month thereafter.* Same work, more money. High-Leverage.

Let's use ALAN, my software company I grew with affiliates, to show how this works in the real world:

ALAN grew with three levels of affiliates:

1) Agency super-affiliates who brought agency leads

2) Agencies who brought local business leads

3) Local businesses who brought end consumer leads

One super-affiliate added ten agencies per month. The ten agencies brought in a combined fifty or so local businesses per month. Those local businesses brought in a combined 2500 leads per month. ALAN worked those leads for about $5 a pop. A cool $12,500 *per month*.

But it didn't stop there. Each super-affiliate brought in *more* agencies who brought in *more* local businesses who brought *more* leads every month after that. So every super-affiliate we signed on brought in $12,500 the first month, $25,000 the second, $37,500 the third, and so on. With only a few agency super-affiliates, we scaled to $1,700,000 per month within six months of launching. *That's* why you want an affiliate army. So let's build one.

How To Build An Affiliate Army in Six Steps

Affiliates are among the most advanced ways to get engaged leads. First, you have to convince them to advertise someone else's stuff. Second, you have to convince them to advertise *your* stuff. Third, you have to *keep them advertising* to make them a long-term lead source. It seems like a lot. And it is. But, I have good news…

I've built two companies with affiliates: ALAN and Prestige Labs. Together, they have done more than $75,000,000 in revenue from over 5000+ affiliates. And the affiliate strategies I share worked for me. So they can work for you. I'll break down each step.

<u>Step 1</u>: Find Your Ideal Affiliates

<u>Step 2</u>: Make Them an Offer

Step 3: Qualify Them

Step 4: Figure Out What To Pay Them

Step 5: Get Them Advertising

Step 6: Keep Them Advertising

That's it. Let's dive in.

Step 1: Find Your Ideal Affiliate

The ideal affiliate has a business with a warm audience full of people like your customers. Start making a list of those businesses. If none come to mind, answer these questions about your best customers:

What do they buy? → Who provides that stuff?

Where do they go? → What businesses are in those surrounding areas?

What do they like to do? → Who provides those services?

If direct to consumer–the employers of your consumers could make great affiliates:

What types of businesses do they work for? What kinds of jobs do they have?

In a nutshell… *Who's got my leads!?*

For example, when I started ALAN, agency owners were my ideal affiliate. So I made a list of 200 products and services *for agencies* and the businesses that delivered them. After a little bit of work I realized they fit pretty neatly into categories: **softwares, products, equipment, services, groups they belong to, and events they attended**. Every time I create a new affiliate "hit list" I start with these categories. Note: If you find a business that falls into multiple categories, there's a high chance they've got lots of good leads for you and that they'd make a great affiliate.

Now that I knew the businesses that had my leads I knew exactly where to put my advertising efforts. It wasn't fancy, so don't overthink it.

Action Step: Make a sheet with each of these questions and categories. Search online to fill it in. If you struggle, call up your customers and ask them! End result: Create a lead list of your highest potential affiliates.

Step 2: Make Them An Offer

We make the affiliate-offer and advertise it the same way we would any other offer. We call out our audience, show our value elements, and then call them to action. But affiliates will only sign up with us if we give them a strong reason. Thankfully, it's pretty simple. Since affiliates are businesses, or start a business by signing up, *you offer them a new way to make money.* We'll start with the callout.

Call out:

Call outs for potential affiliates often include:

- The affiliate business owners themselves - *ATTENTION SPA OWNERS*
- The affiliate's customers - *Do you work with busy professionals who spend all day in meetings?*

- Results the affiliate businesses promise - *To the heroes who heal the stress of others…*

- Products and services the affiliates deliver - *If you sell lotions or scented oils this is for you…*

- To our own customers - *Do you know anyone who owns a spa?*

Now that we can grab a potential affiliate's attention - let's make it worth their while…

Elements Of Value

There's an unlimited number of ways to show value, but all money making offers follow a similar structure. That's good news, we don't need to reinvent the wheel. Most affiliate money making offers show value like this:

Make more money from your current customers and get more leads than your current offer (<u>dream outcome</u>)…with a high chance of working since your customers already want the product (<u>perceived likelihood of achievement</u>)...without needing to build, deliver, or provide customer support for the product yourself (<u>effort and sacrifice</u>)...so you can start selling it tomorrow (<u>time delay</u>).

Action Step: Explore the different value elements and fill in the blanks. I won't go deeper on this since we've covered it already. You simply need to make *affiliates* the customer you're advertising to.

Now that we've got the potential affiliate interested in our offer, let's qualify them.

Step 3: Qualify Them

Potential affiliates become actual affiliates when they understand and agree to your terms. And - just like customers - we want to get them their first win as fast as possible. So we setup our terms to force them to win as fast as possible.

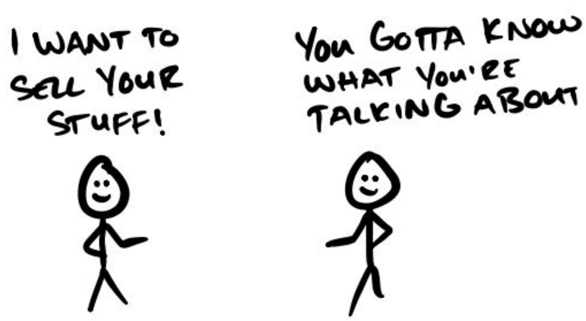
I do that by getting them to invest. I prefer they invest their time, their money, *and* in the product itself. Any can work. But, nine times out of ten, *if they pay, they'll pay attention*. Here are the two ways I get my affiliates invested and winning: make them a customer, and make them an expert. Let's dive into each.

Way #1: Make Them A Customer: Make them buy and preferably use the product to keep affiliate status. This is the lowest barrier investment that's worked for me. I've found the more money an affiliate invests in your product, the more money they make. This should make sense. If they don't believe in your stuff enough to buy it, they probably shouldn't sell it. You can tell them I said so.

Pro Tip: Bulk Purchases

If you need to make more money per affiliate, you can require them to buy in bulk. This was huge for Prestige Labs affiliate success. Once they bought a big package up front they started following through and winning. The bigger investment ultimately made them (and us) more money. If you have physical products, then try bulk purchases. If your company has a line of products, like Prestige Labs does, then toy around with big bundles.

Here's how you phrase the offer: *"So you want anything extra or just go with the minimum order?"* By presenting a minimum purchase, they will at least buy that. And more often than you think–they'll buy *more than* the minimum. Badaboom.



Way #2: Make Them An Expert: I make them pay for the onboarding and training that certifies them as a product expert. If you have them buy a product to become an affiliate, you can have them use that as credit towards a certification. As in, the certification *comes with* the products they bought. Now, aside from actually making the affiliate useful, certifying them does two things. First, it covers some of the costs of advertising. Second, it means I can afford proper onboarding and training of every. single. affiliate.

How much do I charge? I recommend 10-20% of what the average active affiliate makes in the first twelve months. So if your average affiliate makes $40,000 per year selling your stuff, then charge $4000-$8000 to onboard and train them. Too low, and you won't get them invested. Too high and you won't get enough affiliates. I found 10-20% maximizes the number of people who become *active* affiliates. If you're just getting started and have physical products then use the bulk purchasing strategy from the pro tip. Otherwise, you can use the strategy from the warm reachout chapter and raise the minimum investment every 5 sign ups until you hit the sweet spot.

Action Step: Make your affiliates customers, experts, or both (my favorite way). If you don't get enough people to start, lower the commitment. If you don't get enough people to follow through, raise it.

Step 4: Figure Out What To Pay Them

The first biggest problem to solve with affiliates is getting them bought in. But the second biggest problem is how to *keep them bought in.* And no matter how you slice it, keeping your affiliates bought in depends on how you reward them for advertising your stuff. I prefer to reward people that do things I like with money and free stuff, especially if they make me money first. So let's talk about that.

When I figure out ways to pay affiliates I look at two basic things:

1. What they get paid for

2. How much they get paid

1. *<u>What</u>* They Get Paid For

Before I do any affiliate payout money math I ask myself a simple question. What *exactly* do I want the affiliate to do? Once I figure that out, *that* is what I pay them for. Then, more often than not, how much they get paid and how often they get paid nearly solve themselves. I pay affiliates for two basic things: new customers, and repeat customers. Over time, if you track your metrics better, you can pay them for steps *before* someone becomes a customer. Like for the lead magnets downloaded, appointments set, or anything else you know reliably turns into sales for you.

2. *<u>How Much</u>* They Get Paid

I suggest paying affiliates based on your maximum allowable cost to acquire a customer (CAC).

<u>Example: choosing your maximum allowable CAC</u>. Let's say we sell a single-use product for $200 and it costs $40 to fulfill. This gives us $160 to pay the affiliate *and* run the business. If we want an LTGP:CAC ratio of 3:1 then three parts goes to the business–$120. And one part*, $40,* goes to the affiliate. This means we will pay up to $40 for an affiliate to get a new customer.

But here's where things get interesting. I used to give away the farm (the whole CAC). I suppose I still do, but I've gotten pickier about who I give it to. Not all affiliates are created equal. So, I suggest having a <u>three-tier</u> payout structure. Using the example above, with a $40 maximum allowable CAC, a three-tier payout structure might look something like this:

- Tier 1: 25% CAC = $10 Payout - Anyone who <u>agrees</u> to my initial terms qualifies.

    - Example: They sign up and buy products or a certification.
- Tier 2: 50% CAC = $20 Payout - Once they activate.
    - Example: *actually finishing the certification they bought*, doing a specific number of posts and outreach, doing a launch, etc.
    - This gives them a nice reward (twice the pay) for activating.
- Tier 3: 100% CAC = $40 Payout - Once they sustain a level of performance.
    - Example: They maintain five customers per month on subscription.

This tiered method also has a hidden and very profitable side effect. The average payout is *much less* than your maximum allowable CAC. This means if we leave the maximum payouts for top affiliates, then we get to keep the "leftover" profit. We can use the leftover money to run huge contests, advertise to get more affiliates, incentivize rising stars, etc. Or, I suppose, we can just plain pocket it.

For example, if 20% of sales come from tier 1, 20% from tier 2, and 60% from tier 3, your blended payout is $30 instead of your maximum allowable CAC of $40. This means your LTGP : CAC ratio just improved from 3:1 to 4:1. And often, cutting marketing costs by 33% can translate into 10% to 20% more net profit at the end of the year. A massive jump.