



# Ad It Up

AllAdvantage.com has 3 million users frantically recruiting friends willing to be force-fed ads in order to make money online. Just don't call it a pyramid scheme.

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Internet entrepreneurs are forever obsessing about strategies that will keep their customers coming back. AllAdvantage.com, a fast-growing startup with more than 3 million members after its first eight months, has come up with a new solution: Put them all on your payroll. Last November alone, the company sent checks to its members totaling more than \$8 million.

Rich LeFurgy, chairman of the Internet Advertising Bureau and a partner in a venture firm backing AllAdvantage, claims the company is starting a revolution in media-audience relations. "The television industry would happily pay audiences to watch commercials if it could monitor consumer reaction," LeFurgy argues. The Net, on the other hand, enables advertisers and viewers to have that direct dialogue, and AllAdvantage hopes to broker the value of consumer attention.

At first blush, AllAdvantage's business model resembles that of NetZero, GoToWorld.com, ePIPO, and a growing legion of other Net companies that reward users for watching ads on the Web. To sign

up for AllAdvantage, consumers fill out a short form that asks for name, postal address, email, and age. Then they download the PC-compatible software (a Mac beta version came out mid-December). Dubbed the Viewbar, the software occupies an inch-high block on the screen—users elect whether to place it above or below the browser—that streams banner-style ads whenever the PC is connected to the Net. AllAdvantage targets these ads to users based almost entirely on their surfing habits; while age and ZIP code are also key filters used for ad serving, the company does not solicit other personal data or depend on consumer surveys.

The Viewbar comes installed with a money light. Keep surfing and the green light stays on. Leave your computer idle for long and the light turns red, indicating that you're no longer earning money. The Viewbar can be clicked into oblivion at any point; just remember, unmetered browsing means you're leaving money on the table. Not that the cash flows interminably anyway. The company pays 50 cents for each hour a member is zipping around online, up to a maximum of 25 hours a month, or \$12.50.

## INTELLIGENCE REPORT

### ■ THE PEOPLE

Jim Jorgensen, co-founder and CEO; Johannes Pohle, co-founder and VP, product management; Carl Anderson, co-founder and VP, strategic development

### ■ THE VISION

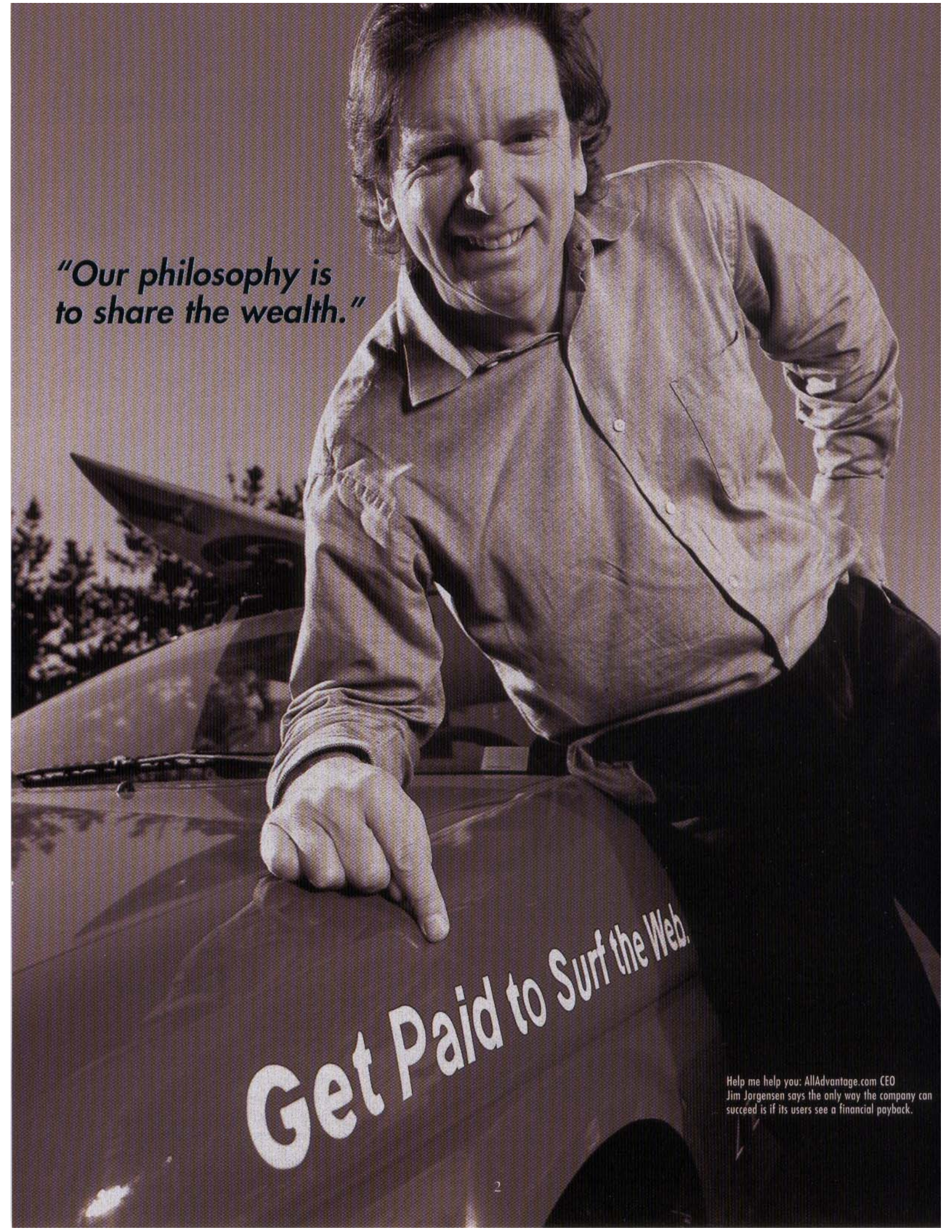
Users get paid to browse the Web and advertisers reach a highly targeted audience.

### ■ THE SIGNIFICANCE

Change the way Net surfers and advertisers interact. Viral marketing scheme where users are paid for their time has brought the company 3 million-plus users in just eight months of operation.







**"Our philosophy is  
to share the wealth."**

**Get Paid to Surf the Web.**

Help me help you: AllAdvantage.com CEO  
Jim Jorgensen says the only way the company can  
succeed is if its users see a financial payback.



**Competitors**  
 Most of the "get paid to surf the Net" companies have a pay scale similar to AllAdvantage's, though the rates vary, and some pay by percentage of ad revenue, rather than a flat rate. One anomaly is GoToWorld.com, which pays by percentage, and the rate actually goes up for extended referrals. The example on the GoToWorld.com site is that if you are getting 40 cents per hour for your own surfing, you are also getting 10 cents per hour for direct referrals, but you get 15 cents for second-generation referrals, and 20 cents for third-generation referrals.

But it's not technology alone that distinguishes AllAdvantage from its cash-for-eyeballs

**competitors.** AllAdvantage has surged ahead of the pack, thanks to a viral marketing scheme that transforms its core members into rabid recruiters. (See "New Rules: Turning Customers into a Sales Force," Nov. '98, p102.) AllAdvantage members earn money from ads watched by everyone they refer. While members are limited on the money they earn for their own browsing time, they ring up an additional 10 cents for each hour their friends surf. And if these direct referrals go on to sign up their own friends, the original Adam or Eve earns an additional nickel for each hour these "expanded referrals" browse.

Scoff at nickels and dimes if you will, but the highest earning AllAdvantage member for November 1999 pulled in nearly \$5,500 in one month, while another 44 members were sent checks for more than \$1,000. Not bad for chump change.

Jordan Nelson, 25, is one AllAdvantage member who is building

a marketing empire online. The savvy Web entrepreneur who hails from suburban Kansas City, Kan., joined

AllAdvantage in March 1999. Within four months, he was earning money off the browsing time of about 12,000 expanded referrals, and by December he had more than 17,500.

Nelson is the kind of well-connected person who cleans up on the marketing ploy. Nelson was already in possession of an extraordinarily large email list that he traces back to 1995 when he was producing an online newsletter to report on new ventures popping up on the Net, from weather to sports to Web design. Upon hearing about AllAdvantage's refer-a-friend offer, he spammed—or, as he delicately puts it, "sent out an exciting offer letter to"—his list. He also recruited seven friends with even larger email lists to do the same. The results have made Nelson a believer: "AllAdvantage always delivers on what it promises; for starters, my monthly check arrives on time."

## ALLADVANTAGE TIMELINE

**JANUARY 1999** Jim Jorgensen hooks up with two Stanford graduate students, Carl Anderson and Johannes Pohle, pitching them on the potential of a Web-based travel guide. Pohle argues that travel information is being given away too freely on the Net. He's convinced a lot more money can be made by "anonymizing" consumer information collected in databases and offering that intelligence back to search engines and online merchants. The team of three decides to tinker with Pohle's ideas.

**FEBRUARY** With yet another dip into the pool of Stanford intelligentsia, the founding team transforms from a triangle to a square. They recruit Oliver Brock, a young Stanford Ph.D. candidate with a background in robot development, to beef up their technological expertise. By late February the business plan is ready. AllAdvantage will be a classic infomediary brokering consumer profiles to vendors and advertisers. Thinking optimistically, the team projects a customer base of 30,000 members by July.

**MARCH** Though outside funding is not forthcoming and the technology still lies very much in the conceptual stage, the team decides to launch

AllAdvantage on March 30. They work out of Jorgensen's garden shed, using their own funds. Jorgensen's task is to find 20 friends who will sign up. The offer: Sign up with AllAdvantage now and in a few months time you'll be able to download our Viewbar and start earning money. By the evening of March 29, the sign-up list has grown to 80 members, the first indication that their viral marketing scheme might be successful.

On Day One the dam breaks: 14,000 people register and 1,700 email inquiries pour in. Jorgensen's wife and a friend volunteer try to keep up with the email, finally collapsing at midnight. When they arise the next morning, a new batch of 5,000 emails await. By the end of Day Two, the company surpasses its member registration projections for the entire first quarter of operations. The company immediately hires 10 workers to help in customer support, and takes over the bedrooms previously occupied by Jorgensen's two sons.

**APRIL** Members keep coming at a steady rate of 25,000 or so per day. The operation moves out of Jorgensen's house into a hotel, then two weeks later into a Hayward, Calif., warehouse owned by a

friend of Jorgensen's. Alloy Ventures provides first-round funding to the tune of \$2 million. Brock and his team of engineers scramble to build a Viewbar and a database system that will scale, and fast. By month's end, Jorgensen and team begin saying, "Hey, maybe we better hire a sales department." The first sales hire does not come on board until early May.

**JUNE** A beta version of the Viewbar for PC users is finally ready by month's end and is made available to a few thousand members for test driving.

**JULY** The Viewbar is released generally. On Day 100, the number of registrants reaches 2 million.

**AUGUST** Massive downloading of the PC-friendly Viewbar begins, and the company serves its first paid ads. Database administration becomes a constant nightmare, as members tax the system with frequent visits to check the status of their cash accounts. AllAdvantage sends out its first set of checks to all members whose accounts have accrued more than \$20.

**SEPTEMBER** The company raises its second round of financing, good

for \$31 million, from a diverse group of investors led by the Walden Media and Information Technology Fund, Times Mirror TMCT Ventures, Partech International, J & W Seligman's New Technology Funds and, once again, Alloy Ventures.

**NOVEMBER** The four-guys-in-a-garden shed operation now fills two Hayward warehouses with more than 250 employees. The Mac version of the Viewbar is readied in beta form to the delight of about 10 percent of the membership (many of whom have been chomping at the bit since April). The number of total registrants closes in on the 4 million mark, only 40 percent of whom live in the United States, Canada, or the United Kingdom; unfortunately, AllAdvantage currently only has the infrastructure in place to offer services in these three countries.

In September 1999 AllAdvantage served more than 1 billion ad impressions, which grew to 4 billion in November. Jorgensen wryly sums up AllAdvantage's first eight months: "We started a bandwagon, and every day we have to scramble to keep up with it before it leaves us behind."



### Right ad, right time

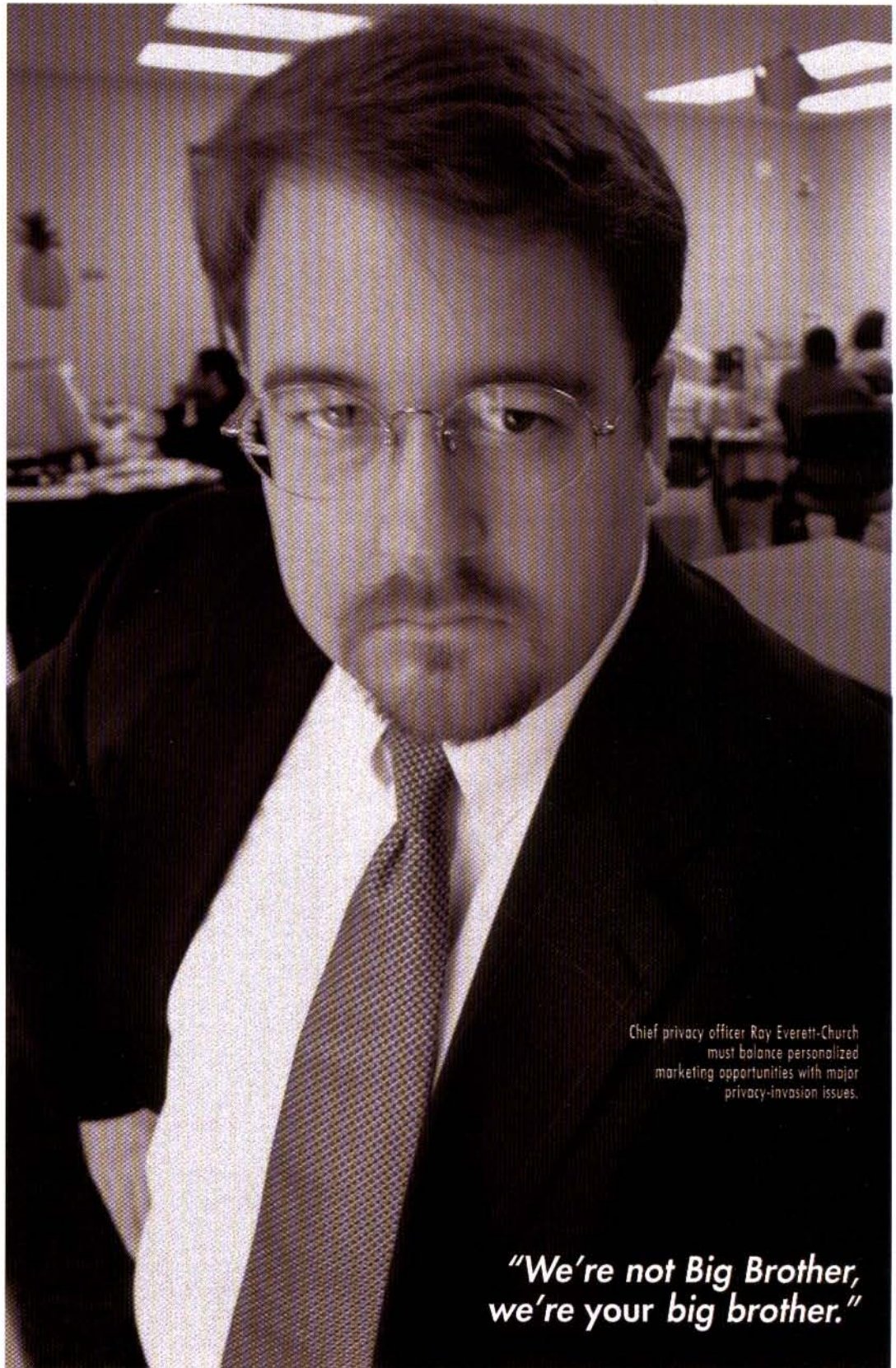
Jim Jorgensen is AllAdvantage's co-founder and CEO. This former accountant has been around the startup block a few times. In 1989, Jorgensen co-founded the Discovery Zone indoor-playground chain. Within five years the company, sitting on a market valuation of \$1.4 billion, was snapped up by Viacom. From there, he launched a 24/7 help-desk operation for home PC users, a company that failed miserably. More recently, Jorgensen helped start Challenger Sports, a sports training program for youth. He still serves on the board of the moderately successful venture.

None of these experiences, whether good, bad, or ugly, prepared Jorgensen for the wild ride AllAdvantage has become. A quick scan of the company's development over the last year suggests that its trajectory is lofty even by [Internet standards](#).

The quick growth that the refer-a-friend business model has enabled has some critics calling AllAdvantage a "pyramid scheme," a charge that Jorgensen and his team are weary of fending off. Indeed, to depict AllAdvantage as such obscures the company's core business proposition.

#### Internet standards

It remains to be seen whether AllAdvantage will continue to outpace Hotmail, the company commonly referred to as "the fastest-growing startup in history." Launched in 1996, Hotmail leveraged viral marketing to good effect. At four months, it had half a million members, reached 1 million in its sixth month, and at nine months boasted 3 million members. Between that time and when it was bought by Microsoft in 1998, it was growing at more than 1 million members per month, but soon settled down to a sedate 150,000 new members per month.



Chief privacy officer Ray Everett-Church must balance personalized marketing opportunities with major privacy-invasion issues.

**"We're not Big Brother, we're your big brother."**



AllAdvantage's actual goal is to deliver effective one-on-one marketing to privacy-conscious consumers. AllAdvantage monetizes customer interests, brokers that value to advertisers, takes a modest agent fee, then places funds in member accounts. Jorgensen likens his company to running an online bank: "The bulk of our revenue goes back to our principals, who are our members."

The data AllAdvantage collects on its members while monitoring their surfing habits is far superior to profiles that rely on individuals filling out forms. "Our idea is to have people give us the personal information they want to share, so that we can manage it on their behalf," says Jorgensen. "The payoff: We deliver very directed ads that hit a consumer when they are most interested in receiving it."

Sammy Rhein, business development director at JobsOnline, says that is why advertising with AllAdvantage is so attractive. Rhein sees value not only in terms of ad-placement relevance, but also timing—the users need the information when they are visiting a site, not in response to a survey filled out three months ago. In other words, AllAdvantage capitalizes on the Net's potential for impulse responses. All the better if that ad appears when the user is looking at a competitor's site, says Rhein: "That's the most valuable commodity an advertiser can get: access to its competitor's real estate."

AllAdvantage asks new members for minimal personal data when registering: name, email, location, and age (minors must send in the approval of a guardian to participate). Because members are paid by check for their surfing activity, the company can confirm that the demographic data gathered is accurate. AllAdvantage therefore can offer retailers the option to run ads that tap only those users they want to reach.

John Anderson, who owns five car dealerships in Silicon Valley, uses AllAdvantage to more intelligently target prospective buyers. Ads for Hondas and Chevy Suburbans are sent to Web surfers from upscale ZIP codes such as Palo Alto, Calif., while pickup truck ads are directed to users living in more rural regions such as Morgan Hill, Calif. The ads can also feature the dealership that lies in closest proximity to the recipient. Anderson, whose dealerships collectively sell more than 1,200 vehicles per month—20 percent of which are sold via the Web—says his online sales have risen nearly 30 percent in the three months since he began advertising with AllAdvantage. "I haven't changed my newspaper or radio advertising; the only new thing I added was AllAdvantage, and I'm seeing dramatic results," says Anderson.

Traditional media build target audiences by creating distinct content and then solicit advertisers that want to reach that market. Alex Gourevitch, AllAdvantage's PR director, says the company practices "flip demographics." "Advertisers often ask us to define the demographics we have. We turn the question around: 'What demographics do you need?'" explains Gourevitch.

## NoAdvantage.com

AllAdvantage is one of a new wave of infomediaries that present online consumers with a Faustian bargain: Give us your personal information and we'll get you a better deal (see "Make Me an Offer, Please." Nov. '98, p128). As refreshing as it is to see a company pledge to keep personal data locked up in a security vault, it is not clear that anywhere close to the majority of consumers are willing to gain customization at the cost of their private identities.

Fred Davis hopes to usher in that day when consumers can make transactions online without sacrificing their privacy. The Lumeria CEO will soon launch a technology that enables what he calls "identity commerce." Lumeria will give members full control over their personal profile, and enable them to shop in a way that is opaque to merchants and advertisers. "Why should we let a company like AllAdvantage know more about our personal lives than some of our closest friends do?" asks Davis.

Not that all advertisers are convinced that the kind of data AllAdvantage collects is as useful as the company claims. One-on-one marketing always sounds good in theory, but it's not easy to pull off. "Data is dumb," says a skeptical Susan Pinkwater, founder and CEO of @tmosphere Interactive, the interactive marketing arm of the ad agency behemoth BBDO. "I could see using AllAdvantage's customer base like I would a focus group, but I wouldn't put too much faith in what they tout as targeted customers based only on individual surfing habits."

Another hurdle AllAdvantage faces in the ad community: Most marketers assume that desirable, high-income Net users are unlikely to be attracted by money-making schemes. Anyone who expends the energy to download a Viewbar and be assaulted by advertisers for only \$12.50 a month may not be the most attractive demographic. Should AllAdvantage members be slammed as the online equivalent of coupon cutters?

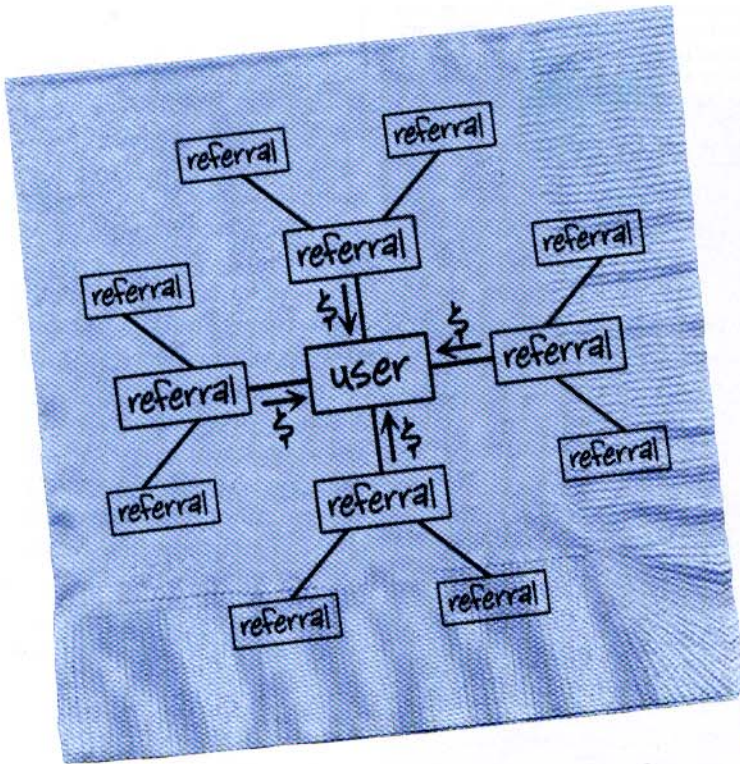
"Many marketers shy away from such companies for that reason," confirms Michael Tchong, editor of the online marketing newsletter *Iconocast*. Tchong points out, on the other hand, that according to NCH NuWorld Marketing, 81 percent of U.S. consumers use coupons: "Is that necessarily bad market niche to claim?"

AllAdvantage counters with numbers that show more of its paid members live in affluent Beverly Hills (90210) than in any other town in the nation. Manhattan's Upper East Side also ranks among the top 10 member ZIP codes. And, of course, it's hard to scoff at any media network that can claim 4 million dedicated viewers—the company says that 82 percent of the members who have downloaded a Viewbar activated it during the month of November 1999. Then again, that lofty claim must be tempered by the reality that 60 percent of those 4 million live in areas of the globe where AllAdvantage's service is not yet available.

There's little doubt that consumers are feeling the balance of power shift in their favor. Will history prove AllAdvantage a pioneer of that movement or a harbinger of its coming? Much depends on its ability to meet the expectations of an exploding member base and still generate enough earnings to make the stockholders happy.

AllAdvantage's business model presumes that advertisers will add money to the system as fast as users are getting paid out of it. So far, the monthly checks to members are being delivered on time, advertisers are trickling in, and investors are willing to take the risk. But if ad rates don't meet expectations, this tenuous balance will collapse like a house of cards. Or like a pyramid scheme. —DB





**Privacy concerns**

The bustling crowd of Net ventures proposing to build a database of profiles and market those profiles to advertisers has heightened the privacy concerns of more than a few online consumers.

AllAdvantage believes it can turn this anxiety to its own benefit. The company promises its members full confidentiality on all personal data it collects. Though AllAdvantage builds a rich profile based on browser activity and demographic data, it keeps advertisers blind to the actual identity of the users they are targeting.

As a sign of the importance it places on privacy, AllAdvantage hired a privacy advocate, Ray Everett-Church, and made up the title chief privacy officer. An attorney and privacy consultant to a number of ecommerce companies and ISPs—most notably America Online—Everett-Church has testified on several occasions before congressional committees that weigh Net privacy regulations.

Everett-Church believes it is critical for AllAdvantage to sustain an atmosphere of explicit notice and consent. In practical terms, that means providing consumers with full disclosure of how their personal data will be used, and very explicit consent conditions—either they use the Viewbar or they don't.

A lively discussion on one ZDNet bulletin board suggests that not all members are convinced of the company's sincerity. A man identifying himself as Irwin Fletcher, a sales representative from Boston, writes, "It reminded me of Big Brother watching every move I made." Asked how he handles these criticisms, Everett-Church coolly counters with: "We're not Big Brother, we're *your* big brother. We're like the guy who will beat up the schoolyard bully when you get in trouble."

While Jorgensen wants AllAdvantage members to consider their accounts akin to an online bank—with the same fluid currency of deposit and withdrawal—Everett-Church likewise aims to project the kind of safety and security that one expects from a financial institution. Once online consumers trust that AllAdvantage will closely guard their personal data—and even protect them from those bully advertisers—they will be happy to let the company serve as a broker for their personal identities. Or so goes the argument. In reality, building that kind of brand identity takes time, a luxury most Internet startups cannot afford. "Trust," Everett-Church says in philosophical mode, "is the hardest thing to earn and the easiest to lose."

**Consumers of the world, unite!**

When Barbara Walters interviewed Monica Lewinsky on prime-time television early in 1999, the ABC network leveraged high viewer interest into extravagant advertising rates. The viewers themselves, of course, did not participate in that earnings bonanza.

AllAdvantage member David Steinberger argues we have been duped into believing that the media can work in no other way. But the Internet now gives us a way to see how those rules can change. "That's why I like AllAdvantage so much; it's bringing together a union of consumers who demand a share of the value they create."

As Jorgensen looks ahead, he sees AllAdvantage passing along even more benefits. Once the company begins enabling direct transactions from the Viewbar, for instance, it will cut members in on those ecommerce revenues. While most startups are looking for customers, Jorgensen says he's looking for good business partners: "We aren't trying to make money off our members; our philosophy is to share the wealth."

The AllAdvantage spirit is infectious (OK, viral). Hang around the company long enough and you, too, can't help but wonder why you have been giving away your attention to retailers for so long, and so freely. The relationship between Net surfers and the advertisers who are eager to reach them may never be the same. ■

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