

Case Study: Evaluating a “Pay-Only-When-It-Works” Lead Generation Offer

Context

A business owner approached me to evaluate a marketing proposal that was positioned as a low-risk, performance-based lead generation arrangement. The pitch was appealing on its face: no large upfront fee, compensation tied to booked leads, and framed as shared upside rather than fixed cost. The client’s question was straightforward: “If this generates more revenue, isn’t it worth doing?”

Initial Assessment

Although the arrangement was described as performance-based, the client was still responsible for all advertising spend, platform and software costs, and all demand risk. The external provider’s role was largely intermediate, involving light content and copy edits, placement across third-party distribution platforms, and attribution tied to booked leads rather than profit. The proposal compensated the provider with a material share of attributed revenue even though the client bore full cost and risk.

Analytical Approach

Rather than treating the proposal as a marketing decision, we treated it as an incentives and unit-economics problem. The analysis focused on industry benchmarks for ad costs and conversion rates, realistic booking and close-rate scenarios, attribution mechanics, and the distinction between revenue generation and value creation. Multiple scenarios were modeled using conservative assumptions.

Findings

Across realistic scenarios, the results were consistent. At steady state, the client would effectively be paying approximately \$17,000 per year in exchange for limited incremental services, while retaining all advertising and execution risk. Compensation scaled faster than value delivered, penalizing internal learning and eroding margins despite higher top-line revenue.

Second-Order Effects

Beyond the direct financial impact, the arrangement introduced misaligned incentives, dependency risk, capability leakage, and distorted decision-making. These effects would not be visible early but would compound over time as attribution masked declining unit economics.

Outcome

After reviewing the analysis, the client chose not to proceed. This decision preserved margin discipline, internal capability development, and strategic flexibility, avoiding an arrangement that would have been difficult to unwind once embedded.

Key Takeaways

Pay-only-when-it-works offers still carry real economic cost. Revenue growth does not equal value creation. Incentives matter more than pitch language, and intermediate layers should be scrutinized rather than assumed additive.

Why This Engagement Worked

This engagement required senior judgment more than complex modeling. The value came from framing incentives clearly, pressure-testing assumptions, and documenting a defensible decision before commitment.

— Gregory Trautman