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Four must-haves before you advertise your startup’s product

Is digital advertising dying? That’s a thorny argument that my peers and I have been having over the last year. I tend to take the death side of the argument. I’m not saying that Google and Facebook’s business models are now broken and both of them are going to crater. But if you’ve been paying attention, the world’s two largest ad networks have recently changed the game — quietly, but rather radically.

The rich — those giant companies with money to burn on scorched earth ad campaigns — are getting richer.

What does that mean for the rest of us?

Privacy and the end of customer as

product

Both Google and Facebook are now at least giving lip service to privacy, and making new overtures that they're letting their product (we the customer) know when we're being tracked and what information we're giving up.

As private citizens, this is good thing for us. As business operators trying to find new customers via advertising, well, we've been here before, and it hasn't worked out so great for us. Digital advertising networks have been feeding us targeted exposure as an advertising model for well over a decade. One can only suspect that they're not backing off that model altruistically.

When I argue that digital advertising is dying, what I mean is that it's dying for the small operator. Much like television advertising abandoned the small operator in the 2000s as network focus became less about local and more about national reach, the shift to (alleged) privacy will likely have the same effect, with advertising spend paying far less dividend at smaller quantities.

A startup would never think about advertising their product on television. Or radio, or newspapers, or magazines, or any of the old-model channels — unless the spend was large enough to cause a "viral" wave. These days, that's a multi-million dollar proposition.

Most of my peers will quickly come down on the side of advertising on Google or Facebook being a total waste of money as well.

So this sure seems like the potential last-nail-in-the-coffin for the current digital advertising model. Now that Google and Facebook will (purportedly) stop tracking their customers so invasively and harvesting that data to sell to advertisers, how does a startup find their market in the big, broad digital world?

Why advertise at all?

Advertising still works — in theory

The masses that make up the consumer public (you and me) are indeed willing to pay for goods and services for which we find value.

At a simple level, if you put the right words in front of me to make me believe I will find value in a book, I will buy that book. But the chances of me:

a) Walking into a book store and

b) Finding that book amongst the top 0.01% of all books that find their way to those shelves and

c) Remembering the value trigger from that ad I saw?

Pretty slim.

The result is that you've got about 10 seconds for me to go from viewing the ad and becoming aware of that book for the first time to making the purchase decision and getting that book into my cart. And it should probably be an eBook, because I need satisfaction now.

If that sounds like a herculean task for a $20 book, imagine that same proposition with a complex-to-explain $19.99 software subscription, or an eService, or (ha!) an NFT?

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And now imagine that if I don't click, chances are I'm never going to see your ad again. So in reality, your ad has 10 seconds to push me down further in the purchase funnel towards conversion. I have to become your customer before I even consider buying your product, and once you know who I am, the sales process is a balance of delicate persuasion and desperate desire for inexpensive conversion.

Welcome to advertising in the 2020s.

Value is the new viral

Let's look at what killed traditional advertising and get our cues from that analysis. It wasn't the shift to a screen that killed newspapers and magazines, it was a shift in how we found value in the consumption of information.

Real-time and personalisation won out over depth and centralisation. I'd rather have what I want to know presented to me immediately than have to wait for that information to be fact-checked and presented in a long-form format that I need to analyse in order to understand how it impacts me.

The unfortunate result? Headlines and hashtags on Twitter suffice over in-depth analysis and journalism.

If you look at advertising, the shift in ad effectiveness followed that evolution. It's not just we all don't watch the same shows or read the same newspapers anymore, although that's part of it, it's that we don't accept the premise of the ad banner or the 30-second commercial as a legitimate factor is our purchase decisions.

One of my best arguments for the death of advertising is how insurance companies are advertising in the new normal. The benefits of the product are never explained in the ads. It's all emus and Flo and geckos and a mashup of emotional triggers desperately trying to become a meme.

You can't compete with that. You have to fight viral with value.

So before you advertise, you're going to have to make your own market through experimentation with channels, positioning, and messaging. Then you'll have to define levels of engagement with your product that educate the customer on your offering and its value.

Here's what you need to know to be able to do that.

Requirement 1: Your margins have to be insane.

One of the top mistakes I see when startups start to advertise is that they wind up spending more to sell the product than they make on the sale.

MUST HAVE = You have to bake marketing and sales into your margins, and leave a lot of room.

> *There's a point at which I will definitely not advertise a new product via digital ads, and that's when the margin on the product is 30% or less.*

A more mature product that already has some kind of product-market fit and an established customer base can get by on slimmer margins, hoping to make that up with an increase in brand value and awareness. There's also the scorched earth theory I mentioned earlier, spending a shit-ton of money on advertising to create an initial customer base to sell to and through, maybe via referrals or word-of-mouth.

Outside of these two scenarios, I rarely see digital advertising working for new products with razor-thin margins.

But how do you know where to draw the line?

Requirement 2: Your CAC needs to be low, your LTV needs to be high

I have a friend who got sucked into drop shipping with Facebook ads. He was lured by stories of millions of dollars being made just by playing arbitrage with ad costs, conversion costs, and fulfilment costs.

In other words, if he could spend $1 on ads to generate $1.09 in revenue, and do that over and over again, it became a volume play. His results?

> *"I made $2 million my first year. I spent $1,999,000 getting there."*

MUST HAVE = You need to know your cost to acquire a customer (CAC) and your customer lifetime value (LTV).

The mistake I see startups make is playing arbitrage with low CAC, and then getting caught when LTV turns out to be a little lower or much lower than they originally estimated. New customers are costing them money in the end.

Always be conservative with your LTV, and remember that some customers can and will go negative (returns, demands, etc.), so you'll need to make that up with other, more valuable customers.

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Requirement 3: You need to be able to measure the results

Don’t rely solely on the stats from your digital advertising network to measure the performance of your advertising strategy.

MUST HAVE = You need to understand what you’re paying for, how much you’re paying for each impression, and how that converts into not just paid customers, but other spots in the funnel, so you can measure them as well.

One of the mistakes I see startups make here is measuring CAC based on how the ad network defines CAC. Like I mentioned before, the odds of your customer going from first ad discovery directly to credit card form are constantly under duress. There will be costs at various points in the funnel to turn that customer into a fully-paid, full-service customer, at which point their LTV begins.

Don’t get started with advertising until you fully understand your conversion funnel and the costs associated with each step. Once you have that understanding, you’ll be able to adjust your messaging and channel spend to lower your CAC and even increase your LTV.

Requirement 4: You need to perpetually adjust channels and messaging

It’s not that most startups run ad campaigns that don’t work, it’s that most startups don’t know if their ad campaigns are working or not. So most startups just throw shit at a wall and hope some sticks.

That doesn’t work with advertising in the 2020s.

MUST HAVE = You need compelling reasons for prospective customers to act on those ads.

You never truly know what triggers value in a customer’s purchase decision until you see the real-world results begin to play out. It’s like a jigsaw puzzle — as pieces start to fit, you’ll start to see the bigger picture. But you’ll only be able to put that picture together a piece at a time. This means trial and error, A/B testing, and swapping messaging and channels that don't work for ones that do.

This is the reason why you need that buffer in your margins, why knowing an accurate CAC and LTV are critical, and why having the proper measurement tools in place is essential. Your options are virtually unlimited, so when you find something that works, whether it's a turn of phrase or a demographic group to target, lock that piece of the puzzle in.

One of my peers who does a lot of work on the marketing and advertising side told me that if I could figure out an ad campaign for Tik Tok, I could retire. That lure is always going to be there, those massive crowds with disposable income just falling out of the app, even though it's never going to work for my product, my offering, my value proposition.

That encapsulates the kind of advertising strategy on which money gets wasted. And as digital advertising networks start to draw thicker and bolder lines between the haves and the have-nots, every value-defining technique you have in your arsenal gives you a better shot at making digital advertising work for your business.

This article was originally published on Medium by Joe Procopio

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