

Digital ad spend mix at each stage of a small business

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Question: "What do you think is a more effective marketing strategy for a small business: a prospecting approach or a retargeting approach? Consider how this relationship changes as a company grows."

The question is more properly: **what is the proper mix of prospecting, retargeting, and remarketing for each phase of a small business' existence?** We must consider remarketing because it is part of digital advertising strategy and budgeting.

The proper mix of ad spend between these three types depends on both the nature of the small business' offering and in which phase of its existence the business finds itself. For this exercise, I will conduct a thought experiment on an imaginary bakery starting with its creation. We will consider:

- How this bakery's priorities change as it moves through the stages of its existence.
- How those priorities should be addressed in its digital ad strategy.

First, let me introduce the dimensions that will be used in my thought experiment.

NATURE OF ITS OFFERING

The nature of what a small business sells will determine how important new customers are compared to returning customers. For a product or service that a person needs rarely in their life, such as wedding planning or buying a home, prospecting for new customers is vital while remarketing to previous customers would largely be wasted ad spend. Other offerings, such as dry cleaning and fresh-baked goods, can be purchased regularly by someone. For small businesses offering frequently purchased things, remarketing to retain existing customers can be more cost effective than finding new customers. As for retargeting, it may be worthwhile depending on what the current business stage requires.

The bakery that will be the subject of my thought experiment offers a product, fresh-baked goods, that customers could conceivably purchase frequently. Our bakery will therefore put great emphasis on retaining current customers through most of its existence.

THE STAGES OF ITS EXISTENCE

According to Neil C. Churchill and Virginia L. Lewis in their 1983 Harvard Business Review (HBR) article, "[The Five Stages of Small Business Growth](#)," a small business can go through five stages: EXISTENCE, SURVIVAL, SUCCESS, TAKE-OFF, and RESOURCE-MATURITY.¹ If a small business should reach the fourth stage, TAKE-OFF, the business would no longer be *small*. Therefore, for this exercise about small business, we will only consider the question of marketing strategy for the **first three of HBR's five stages**. Each stage will be explained during this thought experiment.

HOW TO DETERMINE MIX OF ITS DIGITAL AD SPEND

For each stage in my bakery's existence, I will consider what the percentage of digital ad spend should be for prospecting, retargeting, and remarketing. For guidance on how to determine the proper mix, I searched academic papers and business periodicals through the Hennepin County (Minnesota) library online system, the publications of John Wiley & Sons (through the subscription service of OReilly.com), and a search of the Web. I found no such guidance. I will therefore draw my own conclusions about relative ad spend between the three types and explain how I arrived at them. My approach for determining relative ad spend will be based on my own categories of marketing needs I have identified for each business stage identified in the Churchill and Lewis 1983 Harvard Business Review article. My categories of marketing needs are AWARENESS, NEW CUSTOMERS, RETENTION, and RE-ENGAGING.

THOUGHT EXPERIMENT: Digital ad spend for a bakery

STAGE 1. EXISTENCE

Biggest marketing-related concern: Finding customers and generating *increasing* amounts of revenue so the business can support itself before start-up capital runs out.²

Marketing objectives: AWARENESS and NEW CUSTOMERS

Proper mix of ad spend: Lack of awareness is our bakery's biggest obstacle in this stage, so AWARENESS is paramount. To spend any money on retargeting is to take money away from making more people aware. To spend money on remarketing would be a bad idea for the same reason and one other: at this stage, there would not be enough customer knowledge for effective remarketing. For example, which of our products are most popular? What characterizes our best customers? Until our bakery has this knowledge for many customers, *judicious* retargeting and remarketing would not be possible.

My digital ad spend mix for EXISTENCE stage:

PROSPECTING 100% ~ RETARGETING 0% ~ REMARKETING 0%

STAGE 2. SURVIVAL

Biggest marketing-related concern: Now that we no longer depend on our start-up capital, can we maintain sufficient cash flow to meet expenses and make a living wage for the owner?³

Marketing objectives: AWARENESS, NEW CUSTOMERS, and RETENTION

Proper mix of ad spend: Maintaining current cash flow is achieved most efficiently by retaining current customers. Therefore, we need to begin remarketing. At this point in the bakery's existence, it will have learned about its customers and so can present compelling messages and offers. Possible remarketing activities include:

- Loyalty programs.
- Email and postal mailing lists for coupons and new product announcements.
- In-store signage: "Order now for Thanksgiving pies, breads, and pastries."

However, retargeting (i.e., digital ads targeted at website visitors and recipients of earlier digital ads) should not be part of marketing at this point. This is because we do not have money to spend on testing to determine what days of the week, times of day, and platforms would provide good results. Email, social, postal mail, and in-store signage might deliver a message more cost effectively and without competing for attention with other ads.

However, we cannot give our entire budget to remarketing. We will likely have some customer attrition that will require new customers to maintain our cash flow. Also, the security of our cash flow and the long-term profitability of the business depends on growing revenue. Until we can expand our business with new offerings and locations, prospecting for new customers needs to be part of our ad spend. At this early point in our bakery's history, we probably have not reached everyone in our geographic market. Therefore, what remains of our ad spend after budgeting for remarketing should be spent entirely on prospecting. Retargeting is not prudent until we have achieved awareness in our geographic market with everyone we can reach.

My digital ad spend mix for SURVIVAL stage:

PROSPECTING 50% ~ RETARGETING 0% ~ REMARKETING 50%

STAGE 3. SUCCESS (growth)

Biggest marketing-related concern: Meet expenses while investing in expansion, i.e., increasing production capacity, opening new stores, creating new offerings.⁴

Marketing objectives: RETENTION, AWARENESS of what is new, RE-ENGAGING with prospective customers.

Proper mix of ad spend: Besides wanting to retain our current customers, we want to tell them what is new. As current customers, they are likely to respond positively to such news and spend more. For example, increasing production capacity means popular products will not run out as often. Telling customers that production of popular products is increasing to meet demand might make them visit more frequently since they are less likely to be disappointed. Remarketing (email, social, postal, and in-store signage) therefore needs most of our marketing budget for our growth investment to pay off quickly.

Prospecting still has a role to play in making our growth investment payoff:

- For a **new store location**, it is important that *new* customers be drawn to it. Otherwise, sales might come mostly from current customers cannibalized from the original store.
- For a **new offering**, such as pizza, we might finally gain business from those not enticed by earlier ads for earlier products.

To support **any other growth investment**, such as increased production capacity, retargeting now becomes a good investment due to the knowledge our bakery will have gained about its best customers. We can do judicious retargeting, testing for the best days, times of day, and platforms for our retargeting ads. To meet required minimum audience counts, we can employ a look-alike audience to augment our pixel-driven contact list.

My digital ad spend mix for SUCCESS (growth) stage:

PROSPECTING 20% ~ RETARGETING 10% ~ REMARKETING 70%

CONCLUSIONS

1. When a bakery first opens, AWARENESS is its biggest obstacle. Prospecting is therefore the only prudent ad spend.
2. When a bakery first begins to meet its expenses with its cash flow, RETENTION of existing customers takes on an importance equal to prospecting.
3. When a bakery can invest in something new to increase revenue, it would likely see the greatest response from current customers --- so REMARKETING is critical. Nevertheless, PROSPECTING can find people finally interested in us because of what is new. Judicious RETARGETING can be worthwhile since the business will have money to spend on testing for the ideal timing and platforms for its retargeting ads.

END NOTES

1. Neil C. Churchill and Virginia L. Lewis, "[The Five Stages of Small Business Growth](#)," Harvard Business Review (Brighton, MA: Harvard Business Publishing), May 1983.
2. Churchill and Lewis.
3. Churchill and Lewis.
4. Churchill and Lewis.