

HOW SHOULD A STARTUP COMPANY DO MARKETING?

KAYWANN BAHRAMI

OSCAR A. HEGELUND

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Efficient ads, Creative ads and Startup Success:

Ad-campaigns: Efficient ads vs Creative ads

Abstract:

Brands are constantly being discovered, shared and experienced in new innovative ways thanks to digital platforms. As a result, organisations of all proportions are aiming to improve their social media marketing and presence. The realms of competition and possibilities have changed drastically with the rise of digitalization and today's companies exist in an extremely high-competitive environment, where marketers compete for the opportunity to catch our already limited attention to leave impressions on us. Whether we are surfing on the net, sitting on the metro, reading a magazine, looking at tv, listening to the radio, and even when driving down the highway - one is not safe from the big fast food logos on the road that tries to lure us in for a meal. This happens at such a high frequency and volume that we do not notice most of it. The advertisements that are attacking us from different directions are an integral part of our daily lives because it is an essential practice for companies to drive sales. There is a consensus among many researchers and marketers that a strong brand-equity is necessary for long term success, as it enhances future revenues, while simultaneously reducing risk and sales cost. One way for marketers to create strong brand-equity is by engaging in creative-marketing efforts and strategies.

In this paper our main interest is to measure the effects of creative advertising campaigns and efficient advertising campaigns to find out which of these strategies performs the best and investigate their effects in the short and long term. Modig et al (2014), stated that creative ads will be effective in the “long perspective”, however this term can be very vague. Consequently we are interested in investigating whether startups can gain positive effects of creative ads within one month in an attempt to concretize the term “long perspective”.

Therefore, in this paper, we have aimed to investigate if engaging in creative ad campaigns is an effective route for a startup with budget constraints to take. Since Oscar Hegelund, one of the authors of this thesis, has a startup - we used his company to conduct field experiments on social media. Firstly, we ran efficient ads for a month, following that, we ran creative ads for a month and lastly, we ran efficient ads again for a month. Afterwards we repeated the same cycle to verify our findings and increase the validity of our findings.

We measured and defined the effectiveness of these two different types of ad strategies through hard metrics such as revenue, add to carts and cost per add to cart. To theorize our hypotheses and results of our analysis, we used research and studies primarily conducted by; Modig et al (2014), Binet and Field (2007) and Smith et al (2009). Our findings showed that creative ads underperformed when measured in hard metrics such as revenue, add to carts and cost per add to cart. However one particularly interesting finding was that it seems as they have a multiplier effect on effective ads when run in preparation for them.

Keywords

Startups, brand equity, creative ads, creative advertising, efficient ads, efficient advertising, social media, advertisement, facebook marketing, instagram marketing, startup, startup growth, startup budget constraint, Add to cart, ATC, CPATC, Cost per add to cart, exposure, revenue, long term advertisement, short term advertisement

Authors:

Kaywann Bahrami (23808)

Oscar A. Hegelund (23976)

Tutor:

Peter Hagström, Associate Professor, Department of Marketing and Strategy

Examiner:

Henrik Glimstedt, Associate Fellow, Department of Marketing and Strategy

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1. INTRODUCTION

According to reports by Get2growth there are more than 100 million startups being launched worldwide annually. This corresponds to three startups each second. CB-insights released a study 2019 on the top 20 reasons why startups fail. Around 50% of US based companies fail within their first five years. The study showed that this was because of more than just one reason. It showed that the second most common reason (29% of all the companies) for startup failure was due to running out of cash. Cash and time are both finite resources that need to be spent wisely. On the eighth place of the” top 20 reasons for why startups fail” list, we found “poor marketing”. To know your target audience and how to get their attention and to convert them are arguably the most important skills for a business owner. Despite the importance of these skills, 14% of all startups accounted for their failure due to lack of marketing skills (CB INSIGHTS (2019). Research Briefs: The Top 20 Reasons Startups Fail.).

There is no secret that a lot of startups are working on a budget, consequently there is not much space for misplaced investments. The ability to know where and how to invest the cash available to generate the most return on investment thus becomes crucial.

Marketers and companies need to become more cautious in their decision making and not rely on broadly generalized theories, instead they need to make close analyzes of where their investments generate the most response. Since John Wanamaker (1832-1922) famously said: *“Half the money I spend on advertising is wasted; the trouble is, I don't know which half.”* and ever since, marketers have tried to eliminate unnecessary waste in the form of expenses that are not directly linked to sales (Modig et al 2014). One way to achieve this is by reducing expenses with the aim of creating the same impact “for a smaller buck”. Another way marketers have tried to achieve this is by increasing efforts (creating more “creative” advertisements) with goals of generating bigger impact but “for the same buck” (Modig et al 2014). Modig et al (2014) described that creative ads can increase consumer perceptions of sender

expense and sender effort and that this is supposed to have positive effects on brand equity which will generate higher revenue in the long term. This finding was particularly interesting as it showed that what advertisers would consider a “waste of money” or a “waste of effort” were actually increasing companies' brand-equity which is creating positive effects on revenue in the longer perspective. It is important to understand that starting a company is a learning experience. It is extremely rare that the owner of a startup holds all the secrets to communicating effectively with the intended target group right away. This is rather an interactive learning experience that needs to be closely monitored and analyzed in order for progress and growth to take place. We wish to facilitate this learning process and hopefully create the possibility for startups to save time and hassle. Therefore, we hope to answer mainly three things with this paper;

1. Studies and research shows that the best way to drive sales and penetrate the market in the short run is to create efficient ads focusing on hard objectives (Binet & Field 2009; Modig et al 2014). Therefore our first question becomes; *Are efficient ads more effective than creative ads in the short term when it comes to driving sales?*

2. Studies and research shows that creative ad-campaigns are more effective long run because they have positive effects on brand-equity and that will generate higher revenue in the long term (Modig et al 2014). Therefore the second question becomes; *Can we concretize the term “long run”? And in doing so, can we further our understanding of whether it is strategically smart for startups with a budget to engage in creative-ad-campaigns?*

3. *Do creative ad campaigns have a multiplier effect on efficient ad campaigns when being run in preparation for them? In other words, could it be that creative ads are not particularly effective in driving sales and revenue on their own, but boosts efficient ads?*

1.1 Who are we

We are two students at Stockholm School of Economics who are currently doing our specializations in Marketing and Management. Other than that, we both have projects that we currently are trying to grow and turn into realisation. Oscar Hegelund has recently started his own clothing company called “Grand Le Mar”. Grand Le Mar will be our subject of experiment for this report. Grand Le Mar is an online based clothing brand focusing on high-end Italian menswear at a lower price point than the industry standard. The concept is to offer clothes made exclusively from the finest Italian and English materials and crafted with a special attention to details usually only found at the tailor-made level of clothing. By primarily focusing on ecommerce, Grand Le Mar has customers all over Europe and the US.

1.2 Ethical note

We wish to highlight the fact that this paper was assembled using Grand Le Mar as an experimental tool. We released two different styles of advertising, creative and efficient, throughout 6 months, in a meticulously chosen sequence. The design we used is what we thought was the best way to investigate whether creative ads have any multiplier effect on efficient ads when being run in preparation for them. The sequence was an efficient ad followed by a creative ad and then we ended the sequence with an efficient ad once again. We then repeated the sequence to reduce the risk of coincidence. We also directed the experiment towards two different groups, namely our main target group and a control target group. This was made to make sure that the findings had a higher level of generalization and were not specific to one target group. All empirical data and conclusions were therefore derived from the field experiments we conducted with Grand Le Mar. We are not oblivious to the risk of potential biases since Grand Le Mar is a startup run by one of the two authors (Oscar Hegelund) of this paper - but we have done our best to stay as objective as possible, since it is in both Grand Le Mar as a company and in our (Bahrami & Hegelund) interest to get a truthful conclusion.

1.3 Background

According to the Kauffman Foundation, startups currently account for most new net employment in the United States (Kane 2010), thus becoming an important part of the economy. On the other hand, Matt Mansfield gathered some staggering statistics about startup failure, of all startups started in 2014, 20% did not make it to the second year, 30% percent did not make it to the third year, 38% did not make it to the fourth year and 44% did not make it to the fifth year (Mansfield, 2019). This data shows that the beginning phases of being a startup is critical and rather deadly. To mitigate two of the most common reasons for startup failure (not having sufficient cash and not having good enough marketing strategies) we need to explore what kind of marketing strategies are worthy for a startup with a budget constraint to engage in.

Studies show that advertisers who focus on creative advertisements manage to create a stronger brand equity which generates positive effects such as reducing risks and sales costs. Shortly said, a stronger brand equity will result in positive effects on brand revenue in the long run (Modig et al 2014). This happens because consumers believe that only a company with confidence in their products and brands will create ads that are high in effort and expense. Consequently, this generates interests for the brand and the products the company advertises. Modig et al (2014) explain that this happens because consumers are ad literate and can make conclusions about whether an advertisement is high in sender effort and sender expense or not.

Luo and Donthu's (2006) research found that 'too efficient' (made by cutting expenses beyond a certain level) advertising reduces firm value. Modig et al (2014) extended on this research and found that 'too efficient' advertisement signals little confidence in the brand and product, which have negative effects on brand equity (consumers' brand attitude, brand interest and their inclinations to spread positive word-of-mouth about the brand) and that this affects revenue negatively in the long run.

The authors (Modig et al 2014) also highlights the fact that efficient advertisements are more effective than creative advertisements in the short run in their ability to drive sales, therefore, both styles of advertisements can be classed as ineffective and effective depending on the time horizon we choose to measure them.

Nonetheless, the aim is to get a better understanding of how startups with a budget should direct and design their marketing efforts through social media - in an effective way to mitigate two of the most common reasons for startup failure (not having sufficient cash and not constructing good enough marketing strategies). Firstly, we present studies and findings concerning creative and efficient marketing. This will be followed by a field experiment where we are looking to concretize some of these findings and studies and then look to extend them further.

1.3.1 Startup Marketing practices

Digital marketing is quickly becoming the most important route to take for attracting new customers and sustaining old ones, basically everyone is using it (Beth Comstock & Linda Boff, 2011) and some could argue that everyone needs to be using it. With the rise of digital media the realms of competition has changed drastically, as it has given birth to a series of revolutionizing opportunities. Analytic tools, AI, instant communication and droves of valuable data about the consumers are just a few examples of new possibilities available for a company to utilize when trying to build their businesses. At this day and age, social media, which has changed the way people connect, explore and communicate, is many companies' prime tool to reach their customers. A survey conducted by Constant Contact in 2011 reported that, “small businesses are using social media marketing more than ever before; of those surveyed, 81% report using social media marketing”. Social media marketing is not only a very effective route to take to reach the desired target group, but also a cheap one, consequently there is no surprise that so many small business owners decide to engage in social media marketing strategies. Research done by Binet and Field (2009) showed that multi-channel campaigns tend to be more effective than campaigns that only use a single marketing channel as a means of communication. The same research also

showed that there are diminishing returns and that the optimal effect is normally achieved with three to four media channels (Binet and Field 2009). Nevertheless, many startups with budget constraints might not have the means to engage in multimedia channel advertising, hence, why many startups might choose to primarily focus their marketing efforts through social media platforms. The benefits are clear - creating an online presence and reaching consumers at a low cost. Building brand awareness can be of great challenge for many companies, especially with a limited budget. However, creating an online presence on a social media platform costs nothing other than time and resources, consequently it becomes an excellent way for companies to begin with zero cost.

1.3.2 Current state of marketing research

Marketers can choose different ways and strategies when creating their ad campaigns. Traditionally, marketers' recipe for successful advertisement has been to create efficient advertisements. This was achieved by trying to eliminate unnecessary effort and expenses in their marketing campaigns that cannot be directly linked to sales. This could be done by either reducing expenses while trying to generate the same impact for “a smaller buck”, or by increasing effort with the goal of generating a bigger impact for “the same buck” (Modig et al, 2014).

In the study (Modig et al, 2014), they reported that the conventional efficient way marketers tried to conduct their marketing efforts signaled low levels of sender effort and expense, and that “creative” ads signaled excessive sender effort and expense. The investigations showed interesting and somewhat unconventional results. The findings implied that creative ads with higher sender effort or sender expense that can not be directly linked or have an impact on sales are not necessarily a waste, and that they will have a positive impact on brand-equity, and as a result, have positive effects on revenue in the long term. Findings also showed that too “efficient advertising” can be ineffective in the long run because it can have a negative effect on brand equity in the longer run and thus harm future revenues (even though they are more efficient in

the short term when measured in business terms). Their (Modig et al 2014) conclusion thus became that, “both types of advertising could be considered an (in)effective investment depending on the time perspective and the targeted effects”.

1.4 Problem Area

It is no secret that many startups with budget constraints need a high cash turnover and quick returns on their investments. Startup owners might be unsure whether it is worth spending parts of their restricted budgets on the creation of creative ads that will show positive results in the long run, when they need quick results. Because of the uncertainty over when the “longer perspective” arrives, small budget startups tend to focus their marketing strategies on creating efficient ads which are more effective in the short term. Creative ads will, according to Modig et al (2014), generate positive effects on brand-equity which will increase revenue in the future. Nonetheless, the term brand equity is still a very vague and diffuse term that might be hard to concretize for many company owners. Combine that with the uncertainty of when the statement “long term” actually arrives - and the result is that a lot of startups think that it is not worth engaging in creative ad efforts.

1.5 Purpose and research question

It is a given that startups need to focus on driving sales, consequently many startups focus on making efficient ads, as it appears to be a cheap and efficient way to get quick returns on their investments (Modig et al 2014). However, there are reports (Modig et al 2014) stating that creative advertising is more effective than efficient advertising in the long term when it comes to increasing revenue. The main goal of this thesis is therefore to investigate whether it is strategically smart for startups to engage in creative advertisement and to test whether efficient ads really show superior results on revenue over creative ads in the short term. In our field study and for research purposes we will therefore define the long term as anything longer than one month and the short term as anything shorter than one month.

Our main questions of examination are therefore:

Are efficient ads superior to creative ads in the short term when it comes to driving sales?

Do creative ads show any indirect or direct significant impact on sales in the short run or/and the long run when being run in preparation for efficient ads?

Can we concretize the term “long run” with our field experiment? And if so, can we further our understanding of whether it is strategically smart for startups with a budget constraint to engage in creative-ad-campaigns?

1.6 Delimitations

In this report we have actively decided to not include traditional marketing channels in our testing. The reason for this is because we have chosen to clear some of the uncertainties for startups with budget restraint. Startups with a lot of seed funding can perhaps afford to use traditional marketing channels in combination with digital marketing channels without worrying about running out of cash. In other words, startups with big budgets are not in the same exposed situation as low budget startups that need fast returns on each invested dollar. In this report we therefore assume that startups with budget constraints will use digital/social media marketing as their primary source of communication.

Another delimitation is that our findings will be derived from only one field experiment in one industry (apparel industry), therefore our findings can not be counted as general theory across all industries in the market. However, we aspire for the reader to perceive the findings interesting enough for future testing and research in relevant industries.

1.7 Expected Contribution

The goal of this thesis is to conduct a transparent and neutral understanding about the effects that creative ads have on efficient ads when being run in preparation for them.

In conjunction we aim to clarify some of the unclarities that lay around whether it makes strategic sense, for startups with budget constraints, to engage in creative ad strategies in addition to their efficient ads. It is our ambition to create interest and generate future research that can extend and further advance our findings on a larger scale.

2.THEORETICAL FRAMEWORK

The subsequent part introduces appropriate theory for the research and the hypothesis that promotes the theory. At part 2.1 we will present three relevant studies for our work; Firstly Modig et al (2014) that covers some interesting and relevant insights and findings regarding “Signal-marketing”, secondly “Model the determinants and effects of creativity in advertising”, Smith et al (2007), and lastly we present “Empirical generalizations about ad-campaign success” conducted by Binet & Field (2009). At section 2.2 we describe how the findings and theories are relevant for measuring the difference between creative ads and efficient ads. Thereafter we formulate our hypotheses based on presented studies and findings.

2.1 “Signal Marketing” (Modig et al 2014)

Researchers (Modig et al 2014) investigated how consumer-perceived sender expense and effort could affect brand equity.

The paper divides advertisements into two camps, one is “creative ads” and the other is “efficient ads”. Creative ads were shown to signal higher sender expense and effort than efficient ads. Furthermore, the findings suggest that this perception of above-average sender expense and sender effort that creative ads generate will show a positive impact on brand equity, which in

turn is going to produce higher levels of revenue in the long run. With other words, the ability to signal high sender expense and effort can strengthen brand equity which could enhance the long term profitability of a brand - and this can be done through creative advertising campaigns. The same studies conducted showed that even though efficient advertisements had significant positive impact on sales in the short term, they had negative effects on brand equity and this is supposed to adversely affect the brand and potential sales in the long term.

And to summarize Modig et al (2014) findings:

“The results of this study show that, even though creativity award winning advertising does not necessarily contribute to short term sales, it can still be classified as effective in the long term. In contrast, effectiveness award winning advertising need not be effective in the long term...Our findings suggest that both types of advertising could be considered an (in)effective investment depending on the time perspective and the targeted effects’.” - Modig et al (2014)

These findings form most of the fundamental basis for our whole report and is what we have built most of our assumptions on.

2.1.1 “Model the determinants and effects of creativity in Advertisements” (Smith et al 2007)

Researchers and practitioners within the field of marketing agree that creativity is one of the essential elements for ad success in today's cluttered marketplace (e.g., Belch and Belch 2004, Wells et al. 1995 and., Goldenberg et al. 1999, Smith and Yang 2004, Till and Baack 2005).

Smith et al (2007) extended the research on “creative ads” as marketers previously primarily focused on the divergent factor of “creative ads”. However Smith et al (2007) added another dimension in his studies for creative ads that he called “relevance”. Thus, the two dimensions for creative ads in their studies was being “divergent” (novel, stand apart eg.), and being “relevante”

(refers to the extent ad elements are meaningful, useful or valuable). Furthermore, they conducted a study to investigate mainly following two things:

- What do consumers look at when judging ad creativity?
- What are the determinants of ad creativity?

Results showed that divergence was the leading indicator of creativity, however its interaction with relevance plays a significant role. The divergence variable of creativity was shown to have five factors; *originality* (ads that contain elements that are rare or surprising), *synthesis* (ads that combine, connect or blend objects or ideas that usually are unrelated), *elaboration* (ads that have unpredicted details, or manages to extend basic ideas so they become more intricate, complicated or sophisticated), *artistic value* (ads that have artistic impression or shapes and colors) and *flexibility* (ads that holds different ideas or manages to switch from different perspectives), with the first three factors being the most important in creating ad divergence.

Ads that aimed to obtain ad-to-consumer relevance and brand-to-consumer relevance were shown to be significant predictors of ad-creativity because these ads managed to create relevance.

These findings have become the theoretical basis for the design of our creative ads, and one of the key parts in the construction of our field experiment.

2.1.2 “Empirical generalizations about Advertising Campaign success” (Binet & Field 2009)

The investigators (Binet & Field, 2009) conducted a project with the aim of finding out which advertising strategies and methods are most closely correlated with business success. An analysis of 880 IPA Effectiveness Awards cases indicated that successful and effective ad campaigns have a certain set of features that are supposed to increase ad effectiveness in terms of business

metrics (revenue). They summarized these findings into eight different characteristics. Here follows four of them that we found to be of particular interest for our study:

Ads that “have a high SOV (share of voice) relative to market share” and ads that manage to “create talk value”. It is our and Modig et al (2014) belief, that these are attributes normally associated with creative ads, since they (Modig et al 2014) found in their studies that creative ads should create positive word of mouth spread. Furthermore, two other characteristics they (Binet & Field, 2009) found was that campaigns that focus on “hard” objectives and campaigns that focus on penetration rather than creating loyalty are particularly effective when measured in business terms. Examples of metrics that follow the idea of hard objectives are revenue, add to carts, ad clicks, exposure.

Since these reports by Binet and Field (2009) make an essential building block for our paper, we wish to highlight an important “EDITORS NOTE” that they wanted to be explicitly clear about:

“Binet and Field landmark analysis suggests that the most effective campaigns have certain features that distinguish them from their comparatively less effective counterparts. These findings provide potential "recipes for success," although we advocate exercising prudent care in ascribing causality. Some factors may not directly cause better performance, but simply be associated with the other true causal factors. For example, more capable marketers may tend to set less "soft" objectives because setting hard objectives may not in itself be a dominant cause of success.” - Binet and Field (2009)

2.2 Theories and findings in our research context.

Before reading any further, it is important to note that we have defined the short term as being a period under one month and the long term as being a period over one month.

Modig et al (2014) states that creative ads can be superior in the long run as they strengthen brand equity, which will generate positive effects on revenue, however, in the short run efficient ads show superior results when measuring effects on revenue. Binet and field (2009) makes a similar statement. Their findings suggest that the most effective ads when measured in business terms are efficient ads. Based on these findings we reach our first hypothesis:

H1: Efficient ads outperform creative ads in terms of short term sales.

We hypothesize that efficient ads are more effective than creative ads in driving sales in the short term. However, in theory and in practice, the increase in sales could be because of other causes than the efficient ads, such as: spillover effects from earlier marketing efforts or consumers finding our products through alternative ways (eg. word of mouth, or just randomly scrolling through the net). To conclude that efficient ads are the true driver of sales and that the increase in sales are not being driven by other causes, we state that: efficient ads must outperform creative ads in terms of ATC (add to carts) and CPATC (cost per add to cart) in the short term. This is because we only see sales in whole and can not see which ad drove which specific sale.

Therefore, if we look at the metrics (ATC and CPATC) of the ads we can see if they are in alignment with the actual sales. Consequently, if revenue is high when we are doing efficient ads, but the metrics (ATC and CPATC) are low, we can conclude that consumers are putting products in the cart because of other reasons than the efficient ads, and vice versa. Our hypothesis thus becomes:

H1 (a): Efficient ads outperform creative ads in terms of ATC and CPATC in the short term.

Binet and Field (2009) found indications that ads are particularly effective when they have a high SOV relative to their market share and when they manage to create “talk value”. Modig et al (2014) described that creative ads have long term benefits and that they have positive effects on consumers' inclination to spread positive word of mouth about the brand and product.

Smith et al (2007) meant that creative ads need to be divergent and relevant.

So our definition of “creative ads” becomes; “ads that are divergent, relevant, signals sender effort, signals sender expense, creates talk value and manages to generate higher SOV relative to market share”. In short, creative ads should therefore be able to create talk-value and thus increase the share-of-voice relative to market share, which according to Binet and Field (2009) are particularly effective when it comes to driving sales.

An important side note is that we wish to extend on this research as we believe that this will only happen after the startup has managed to run a successful efficient ad that drives sales and thus managed to establish somewhat of a brand and product awareness. If not, the efforts of creative advertising will go to waste as the target group won't know what the brand is trying to sell. We also believe that the effects of the creative ads won't be effective in terms of sales during the period the campaign is run. However we believe that the talk value and increase in share of voice relative to market share that the “creative ad” will generate are going to have a “multiplier effect” when being run in preparation for an efficient-ad. Our H2 thus becomes:

H2: Creative ads will work as a multiplier for sales in the long term.

The explanation and assumptions that we used to arrive to our H1(a) is applicable for our H2(a) aswell, therefore our hypothesis becomes:

H2 (a): Creative ads will work as a multiplier for sales in terms of ATC and CPATC in the long term.

2.3 Is it efficient for startups to engage in creative advertisement

Modig et al (2014) stated that their findings suggest that advertisers may face a dilemma in choosing between “creative and “efficient” advertising. Creating creative ads that signals sender effort and expense can be costly for a startup with a budget constraint, and can seem like a less

attractive option relative to efficient ads. Efficient ads are known to be superior when measuring sales in the short term, they also seem to be less costly (Binet and Field 2009). These findings might make it seem like startups with budget constraint should not engage in creative advertising, mainly because of 2 reasons:

1. They do not know how far into the future they can reap the benefits of their creative ads.
2. It is more costly to create ads that signal excessive sender effort and sender expense.

Despite the two statements numbered above, we believe that startups with budget constraints should engage in creative advertising to the extent the budget allows, however only under two conditions:

1. Our H2 holds true.
2. The startup needs to have made a fair amount of sales and have managed to build some degree of brand and product awareness prior to their creative-ad efforts.

3. METHODOLOGY

3.1 Scientific Approach

To conduct a proper testing of our hypotheses and ensure a high level of validity, we decided to do a real life experiment. Through a deductive approach and a way of ensuring accurate results we set up a social media campaign system based on A-B testing. A-B testing is a method of comparing two versions of a single variable, typically by testing a subject's response to variant A to variant B. By using the newly launched startup brand Grand Le Mar as the subject of the campaigns, we could ensure that the validity of the results were not to be tainted by previous marketing efforts, since the ecommerce company's website had only been live to the public for one month before the start of the experiment.

Before we deep further into the methodology we want to highlight the fact that we have chosen to refrain from using statistical testing in this thesis. There are so many different statistical tests one can choose from, also, there are advanced programs available today that can run these statistical tests very quickly. Still, these programs can not help us choose the suitable statistical test for our situation. We can compare the choosing of the fitting statistical test as to driving a car. Almost everyone can become great drivers with no knowledge of the mechanics of the car. Consequently, we chose not to do a statistical test for the sake of doing it, thus wanting to avoid the risk of getting stuck on technical details that we as authors or the reader of this paper might not understand perfectly.

3.2 Study design

The target group of the experiment was in this case a constant variable, since the purpose of the A-B testing experiment was that of the variations of the campaigns and not variations in targeting. Therefore, to ensure accurate results, the target group must remain constant.

Otherwise, the differences in the campaign results could be credited to different group targeting.

In this case, the target group was a lookalike audience based on previous organic visitors to the website during the short period of time the website www.grandlemar.com had been live to the public. These people had shown an interest in the brand and therefore were seen as the leading target group known at the moment and, therefore, the most suitable to base the lookalike audience on. A lookalike audience is a targeting tool where an algorithm reaches potential customers online based on shared or similar interests of existing customers (Facebook For Business). The lookalike audience was narrowed down based on reasonable and necessary limitations. We decided to exclude all people outside of the EU and the US, simply because of the fact that the subject company Grand Le Mar does not distribute outside of these geographics. If this limitation was not made, a large portion of the budget dedicated to the experiment would have just been money down the drain for the company.

However, the lookalike audience was not the only targeted group. We also had a control target group that we separately ran the same experiment on. The motivation for this was to ensure that the findings were not specific to our target group. This decision was made to increase the external validity of the findings. The control target group consisted of men between 18-60 years old, located in the EU and the US that had shown an interest in the menswear company Suitsupply. It could be that they follow the brand on Instagram or Facebook or have engaged with Suitsupply's ads on Facebook or Instagram. Suitsupply was believed to be the rival company with the most similar customers as the subject company Grand Le Mar, simply because of the fact that the two companies have similarities in their concepts, products as well as price point. We conducted the experiment in such a way that the results from the different ads were only to be analyzed within each target group and not between them. For example: ad 1 was analysed in comparison to ad 2 for the target group and respectively the control target group, however, ad 1 was not analysed between target group 1 and 2 - since the experiment is the different ads, not the different target groups.

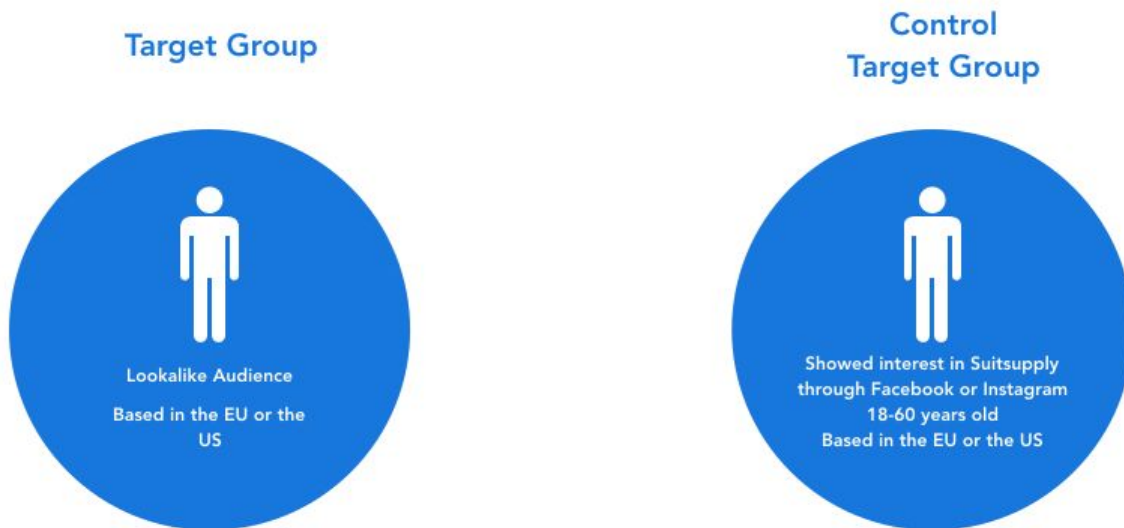


Image 1: Target group and control target group for the experiment

The channels used remained constant throughout the experiment. The channels were limited to Facebook and Instagram. However, the algorithm could freely optimize where to allocate the

most amount of resources between these two channels as well as the placements within each channel. There are many different placements within Facebook and Instagram such as the news feed, story and marketplace. The decision to let the algorithm freely operate was made since multiple sources have shown that interfering with the placements does not optimize the ads but rather the contrary (Social Media Examiner, 2019). The algorithm is believed to be more efficient in allocating resources than we humans are in terms of getting the most bang for the buck. Although the point of the experiment is to test our hypotheses, the goal is also to create as successful campaigns as possible. Furthermore, freezing the placements of the ads to be constant (such as making ads only to appear in the feed) would not increase the validity of our findings since people use Facebook and Instagram in different ways and the loss of limiting this to only one placement would favour certain people to see the ad in a way that is not beneficial to the experiment.

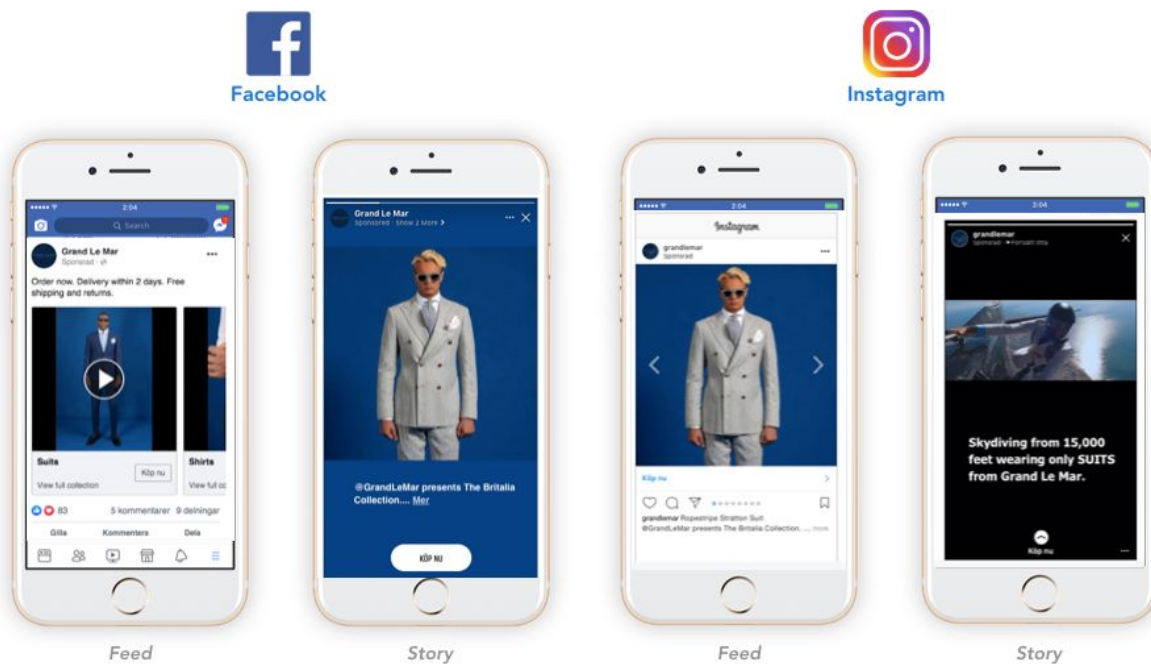


Image 2: Examples of placements for the ads on Instagram and Facebook

3.3 Metrics

The Facebook metrics used to analyse the results of the campaigns were primarily ATC (add to carts), CPATC (cost per add to cart), exposure and ad spend. All of these metrics can be found in the Facebook Business Manager. As Instagram is owned by Facebook, all of the campaign results were reported in the Facebook Business Manager. The metric used from the website, through our shopify platform was revenue per month. The reason that these metrics were chosen in terms of interpreting the findings is because of the nature of the experiment. Other metrics could have been used, but the metrics used in this experiment are easy to interpret, measure and they accurately report the findings. Ad spend and exposure will be our control metrics, to make sure that the findings are reliable. The goal is that each ad will have roughly the same exposure (exposure is simply the amount of people that has seen the ad) as well as the same ad spent (the money dedicated to the ad). These metrics are not fixed and will always vary slightly. This is simply because Facebook and Instagram are marketplaces where companies compete for ad exposure on the platforms (Facebook For Business). That means that even though the budget for the ad is 1300 SEK/day, in reality that number will vary slightly. One day it might be 1288 SEK and another day it might be 1313 SEK. Furthermore, the exposure an ad gets depends on the competition between other ads from other companies at that time. The goal is however to keep these two metrics as constant between the ads as possible.

Revenue per month is the primary metric used to interpret the results. In the end, revenue means sales and that is what a startup needs. It is also the metric that our hypotheses are primarily based on. However, ATC and CPATC will also be analysed to make sure that the results are not misleading in any way. So for example, if revenue is very high in one period although the total number of add to carts in that same period are very low, this would indicate that there is something else causing that spike in revenue that is not because of the ad. It could be reasons such as spillover effect from other ad periods (people simply needed time to evaluate before making a purchase, but it had nothing to do with the ad running during that specific period) or because of sales from other channels not in our control (free surfers just scrolling around for

things to buy, word-of-mouth spread, etc.). ATC and CPATC will help us verify that the revenue during a period was primarily because of the ad during that same period. The table below shows the definition of each metric.

Metric	Definition
Revenue per month	Sales/month
Exposure	Number of people that has seen an ad
Ad spend	Budget dedicated to an ad/month
Add to carts	Number of people from an ad that put an item(s) in their basket
Cost per add to cart	$\text{Ad spend} / \text{add to carts} = \text{cost per add to cart}$

3.4 Procedure

The experiment was divided into six periods. Each period lasted for a month and the budget for each month was set to be the same. The budget for the ads to the target group was 40 000 SEK/month or 1330 SEK/day. The budget for the ads to the control group was 9000 SEK/month or 300 SEK/day. The reason for this is that the purpose of the experiment towards the control group is to verify the results of the main experiment - therefore results should be consistent even if budget is minimized. Each period was dedicated to only one of two ad forms, namely: efficient ads and creative ads. Efficient ads were ads with a very clear product focus. The ad-format was what Facebook calls a carousel. This is a simple catalog where products are displayed. These ads have a much lower perceived sender effort and expense.

Efficient Ads

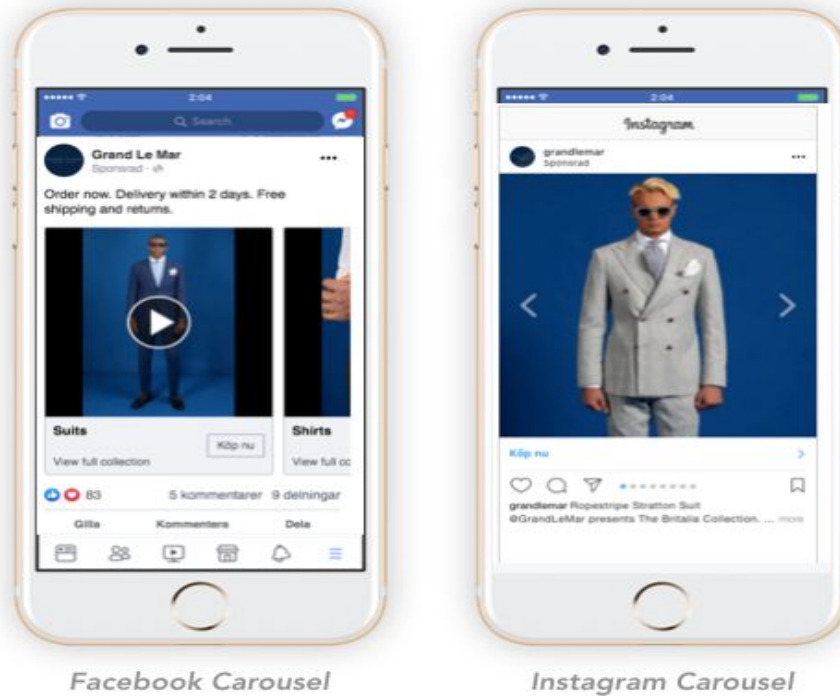


Image 4: carousel ads as efficient ads

The creative ads, simply stated by their nature and name, were more creative. The production team behind Grand Le Mar had produced two different creative ads - The Unleashed Syndrome and The Suit Dive. Neither of the ads had a clear product focus. According to (Smith, 2007), ads can be creative in different ways and tap into different emotions (as explained in the theoretical framework). The Unleashed Syndrome was a campaign video where a banker in a typical New York investment company office building is the last person at the office, grinding away. He suddenly stops writing, leans back and removes his reading glasses. He throws his paper up in the sky and starts dancing to a remixed house version of Edith Piaf's song "La Foule". The author (Smith, 2007) would describe this ad as creative in terms of *elaboration*. The second campaign created was creative in terms of testing the limit. It was a skydiving video where a man jumps out of an airplane from 15 000 feet wearing a Grand Le Mar suit. The creative ads were ads with a standard video format. The author (Smith, 2007) would describe this ad as creative in

Creative Ads

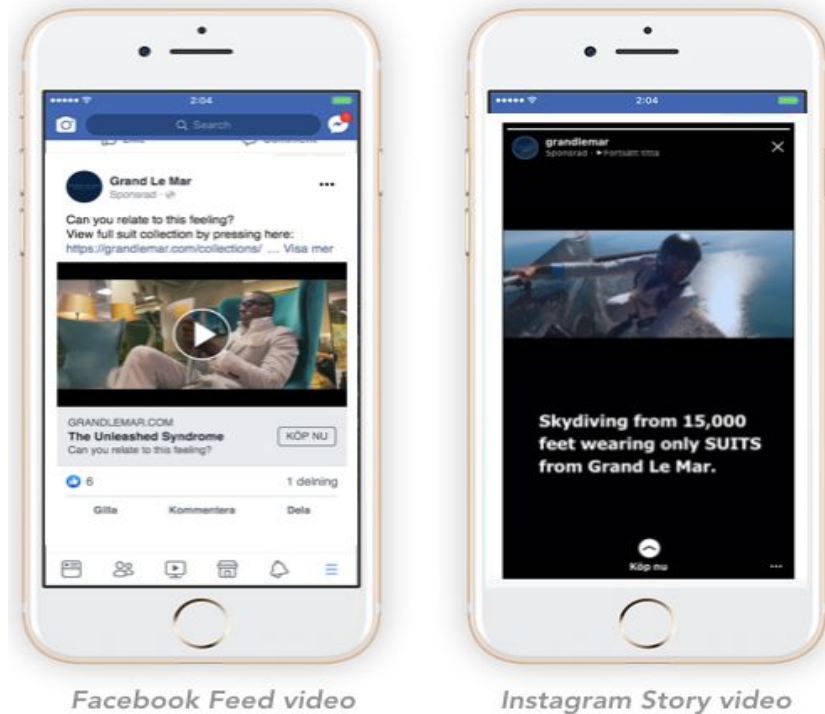


Image 5: video ads as creative ads

the sense of *originality*.

The first period and at the start of the experiment only an efficient ad ran. After period 1 the ads were turned off and replaced with period 2 with the creative ad of “The Unleashed Syndrome”. Period 2 ads were turned off and replaced with period 3 that contained the same ads as period 1.

The same experiment was conducted again, but with new efficient ads during period 4 and 6 (new carousels, with products displayed in new randomized orders) as well as another creative ad (The Suit Dive) during period 5. The reason for conducting the same experiment twice was to ensure that the results from experiment one were not coincidental and could be replicated.

The 6 periods experiment was conducted separately to both of our groups - the target group and

the control target group.

The methodology described gave us the following design setup:

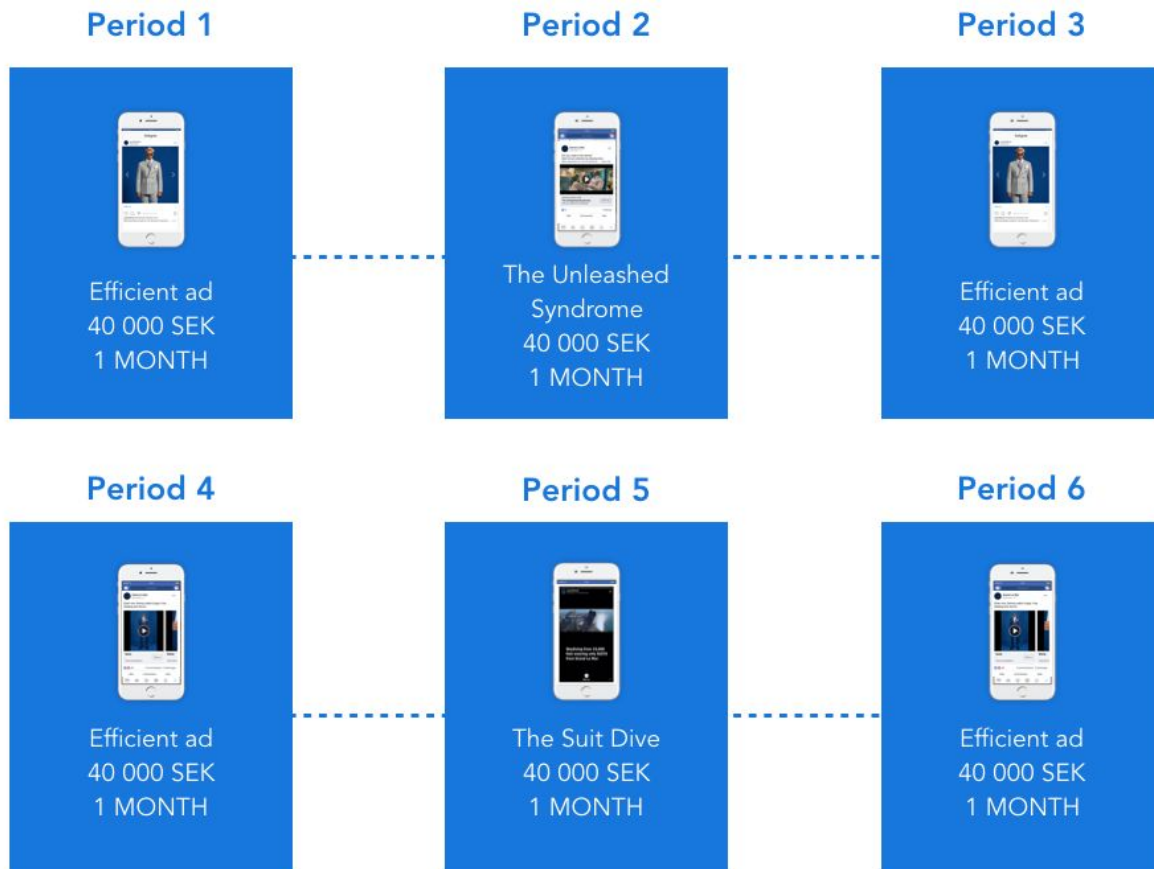


Image 6: Design setup for the experiment

3.5 Reliability and validity

Although the design setup of the experiment was designed in such a manner as to eliminate as many uncertainties as possible, flaws still exist from a validity perspective. If the ads in period 3 and 6 perform better than the ads in period 1,2,4 and 5, does that necessarily mean that the creative ads were the multiplying factor contributing to that? One could argue that there are many other possible explanations behind the results. One such example could simply be that

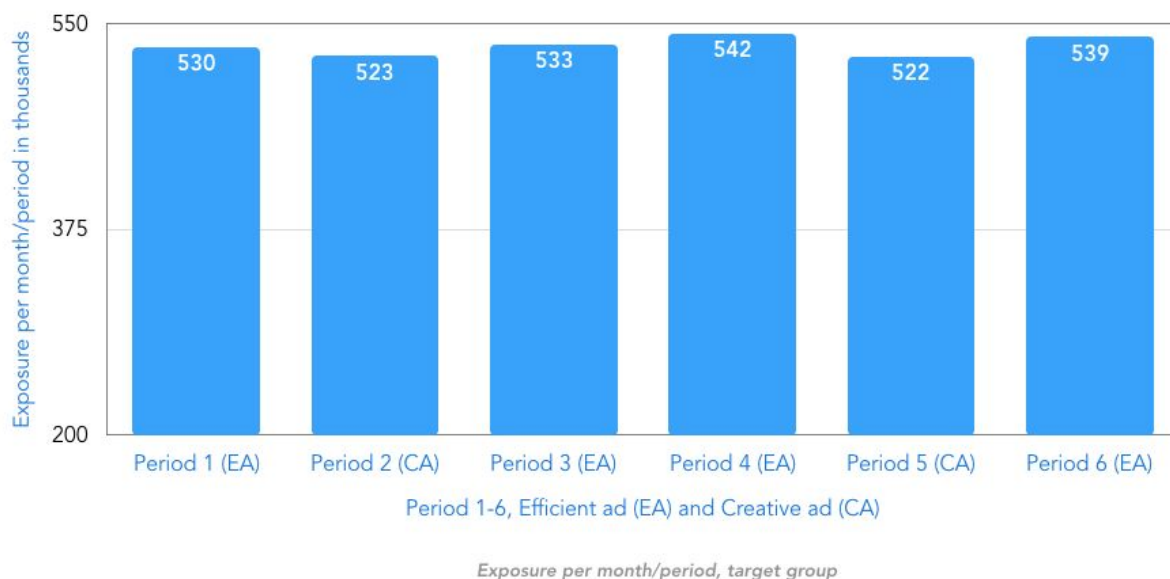
targeted customers that saw the ads in period 1,2,4 and 5 needed that extra time to make up their decision before actually deciding to make a purchase - and that point of purchase might have been during period 3 and 6. In such cases, the creative ads in period 2 and 5 were not the deciding factor, but simply time was. Furthermore, by not eliminating orders placed through other channels such as word-of-mouth spread and organic google searches we can not with certainty always equate the differences in the metrics between the periods to only this experiment. However, since the subject company is not established in the market, one could argue that the effects of sales from other channels are small enough not to significantly affect the validity and reliability of the experiment.

4. RESULTS AND ANALYSIS

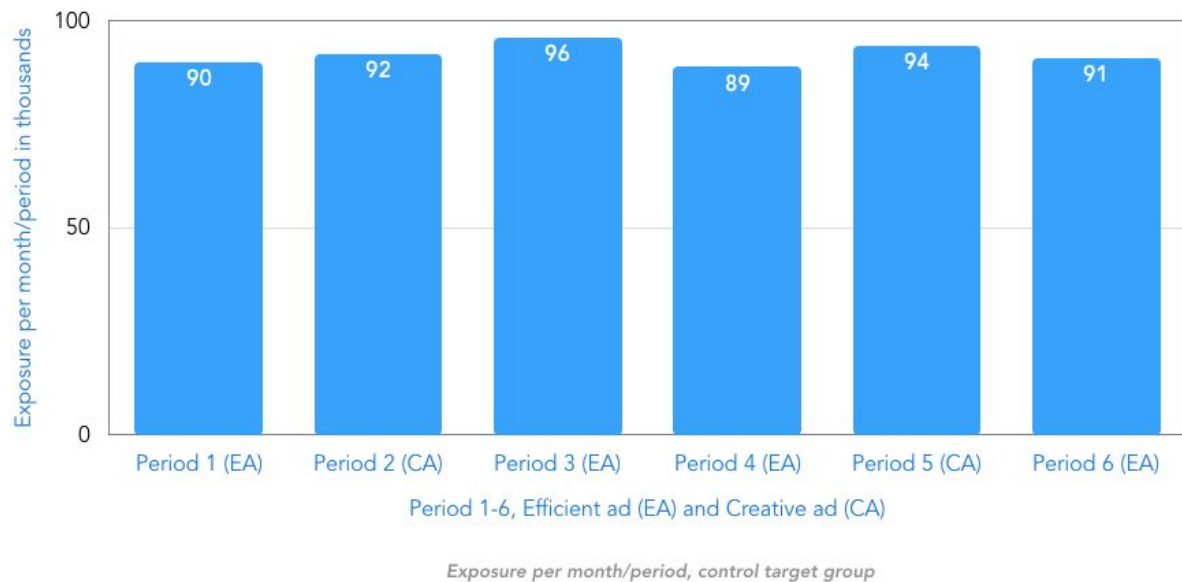
In this chapter we will present the results from the experiment based on the hypotheses from the theoretical framework.

Getting the control metrics to be similar between the ads:

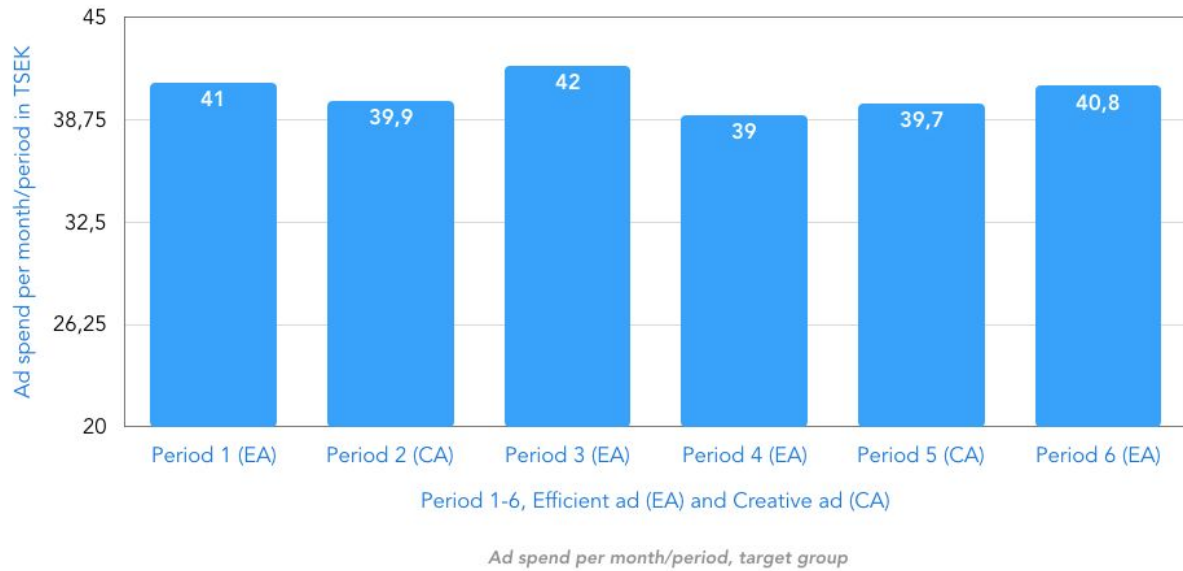
The first step in the experiment was to make sure that the control metrics of ad spend and exposure was as identical as possible in between the ads/periods.



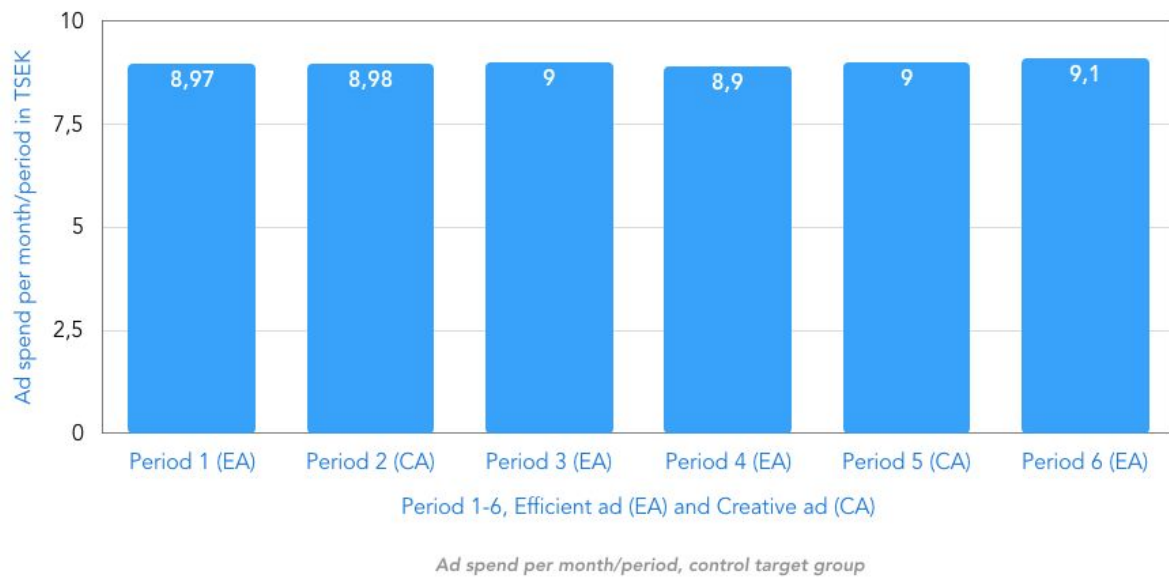
As can be seen in the chart above, the exposure was similar for the target group but varied slightly over each period. This is an unavoidable minor flaw in the validity. However, the differences in exposure between the periods does not differentiate so much as to significantly reduce the validity of the experiment. The same can be seen in the exposure for the control target group.



In terms of ad spend for the experiment towards the target group, we can see that an overall consistency between the periods was achieved, although as previously noted in the methodology, a slight variation in ad spend is unavoidable. The goal ad spend was that of 40 000 SEK/month.

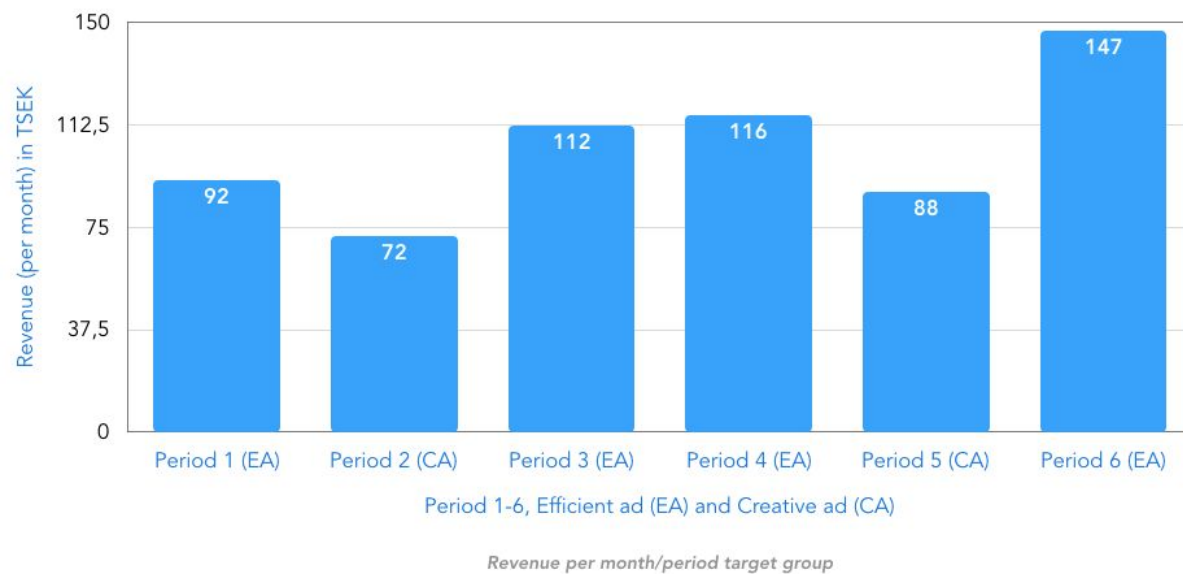


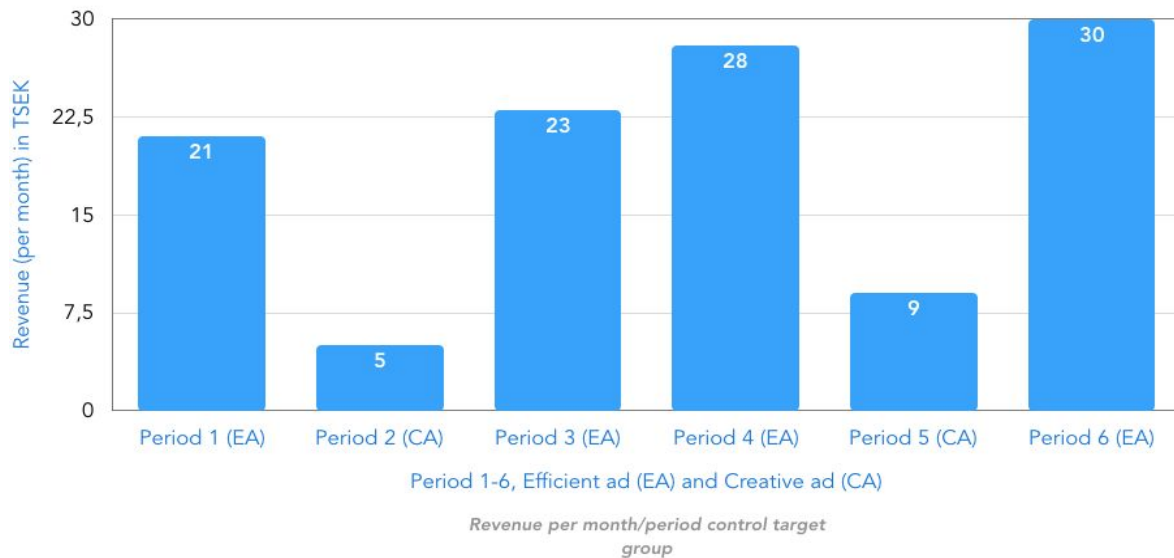
The same can be seen in the ad spend for the control target group in the chart below. The goal ad spend was that of 9000 SEK/month.



4.1 Results in terms of short term sales (H1)

The purpose of the first hypothesis was to objectively find out if the theory behind creative advertisement is true. Previous authors have claimed that the gains of creative advertising is only realized in a long term perspective. This seems to be consistent with the data generated through our experiment. As can be seen from the chart, the revenue per month is the lowest in period 2 and 5, which are the periods of creative ads. We can conclude that the short term difference in revenue is significant between efficient ads and creative ads. Revenue/month in period 2 compared to period 1 was down 21,7 percent. The difference is even larger between period 5 and 4, where revenue/month was down 24,1 percent. We can also conclude the same pattern for the control target group - even though the budget is smaller. To sum up, we conclude that the first hypothesis is empirically supported by the field experiment.





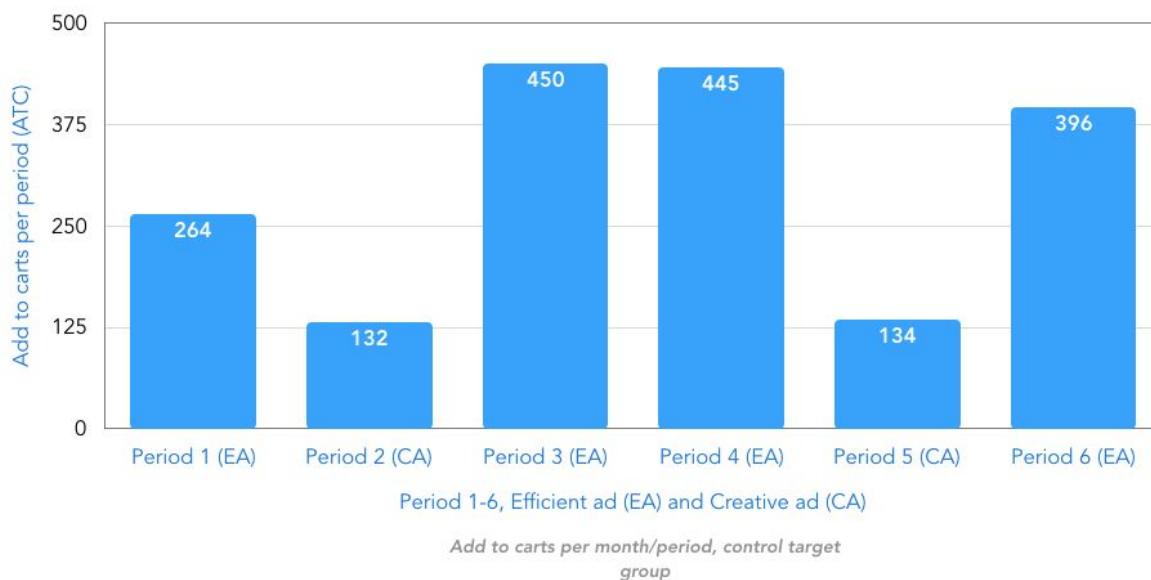
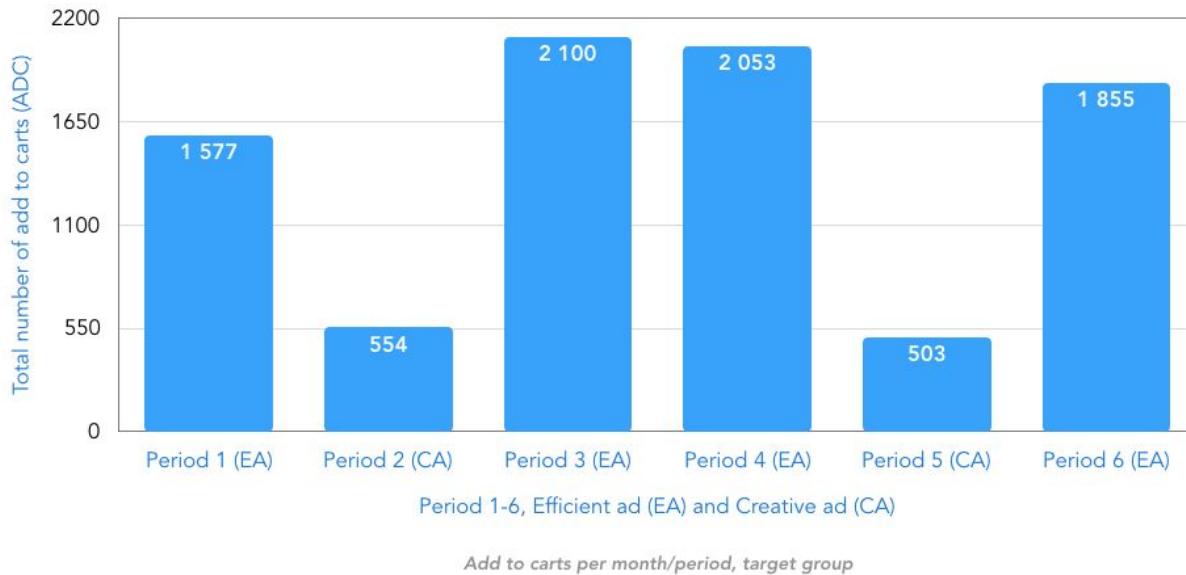
Hypothesis 1	
Efficient ads outperform creative ads in terms of short-term sales	Supported

4.2 Results in terms of ATC and CPATC in the short term (H1a)

The purpose of this hypothesis is to verify that the differences in revenue between the periods is due to the different ad strategies. If ATC and CPATC are not consistent with the revenue, that could mean that the ad strategy used for the period is not the only factor for the differences in revenue.

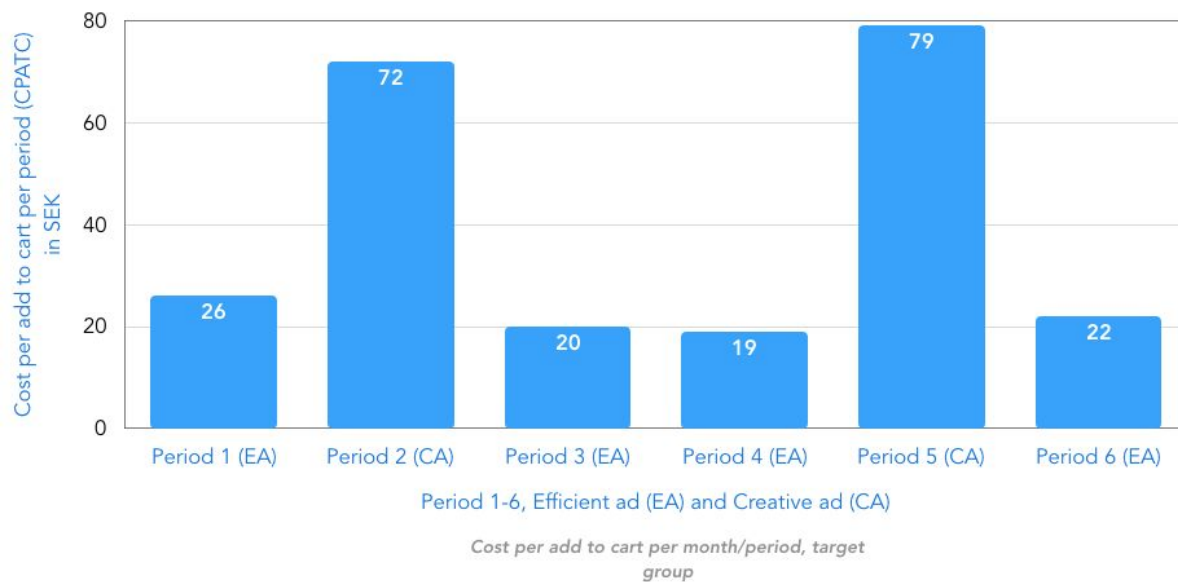
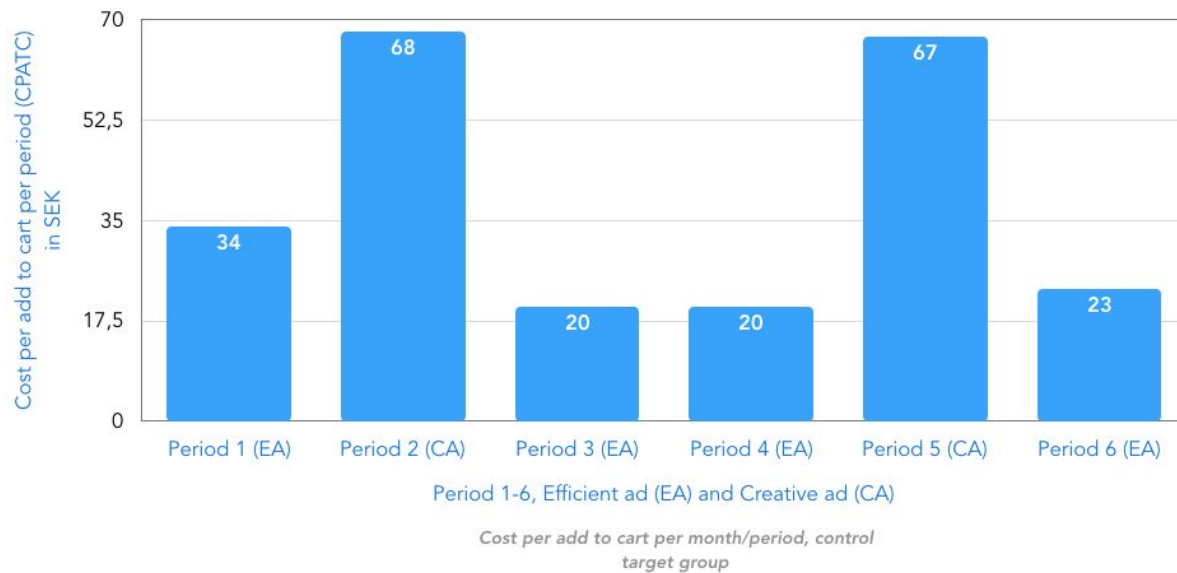
The experiment showed that the total number of add to carts for the target group was the lowest for the periods with creative ads (period 2 and 5). The cost per add to cart was also significantly lower for the efficient ads than the creative ads. The difference in ATC between period 1 and period 2 was down 65 percent which is a huge difference. The difference in ATC between period

4 and period 5 was down even more with 75 percent. That means that the creative ads really underperform compared to the efficient ads. This is consistent with the findings on revenue for the experiment. The same pattern was also found for the control target group.



We can also note a consistency between the findings on ATC and CPATC. Period 2 CPATC is 50 percent more expensive than period 1. Period 5 CPATC is 340 percent more expensive than

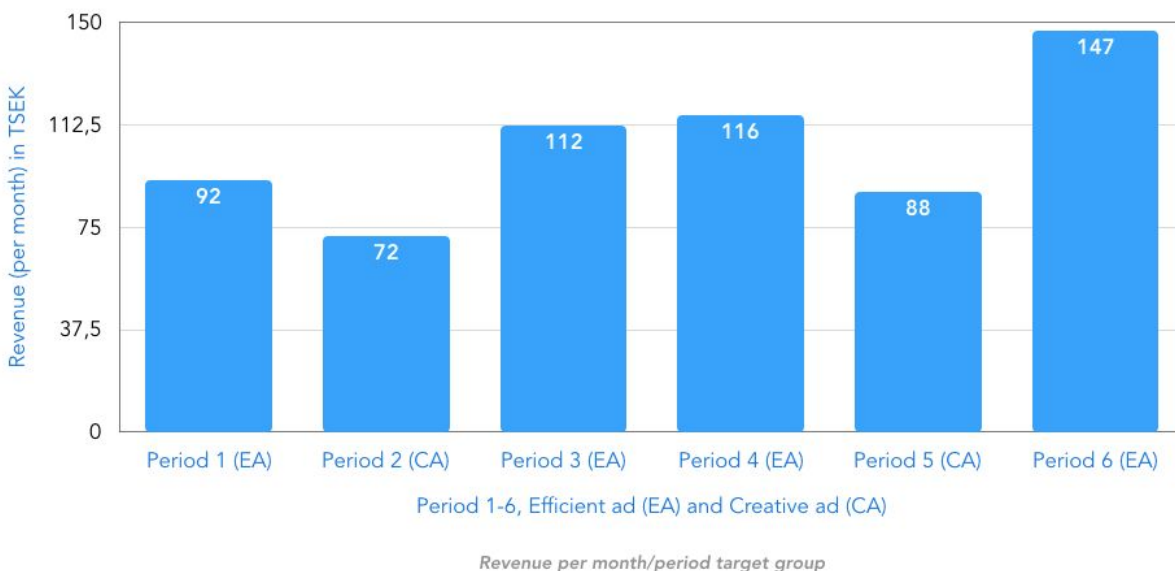
period 4. This would mean that the difference in CPATC between creative ads and efficient ads is more drastic than ATC. We conclude that the findings of the experiment is consistent with the hypothesis.

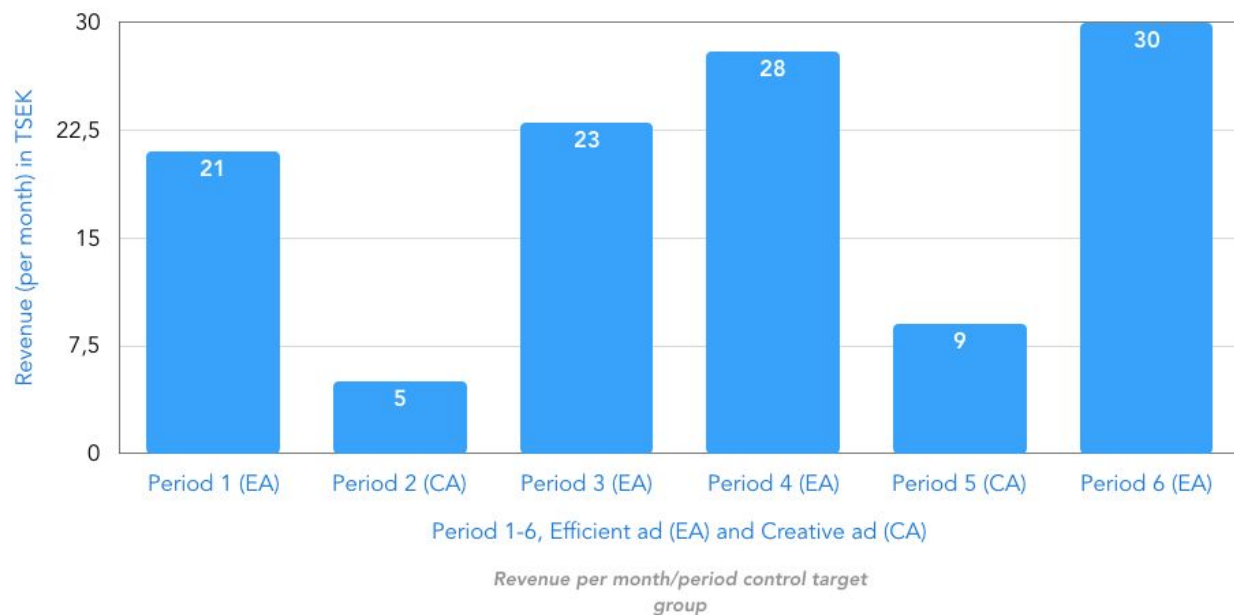


Hypothesis 1a	
Efficient ads outperform creative ads in terms of ATC and CPATC in the short-term	Supported

4.3 Results in terms of creative ads will work as a multiplier for sales in the long term (H2)

This hypothesis is analysed by comparing the efficient ad periods before and after the creative ads to see if there is an exponential increase in revenue. We have found support for H1 and H1a which showed how creative ads did neither benefit sales nor hard metrics such as ATC and CPATC in the short term. The purpose of this hypothesis is to see the effect of creative ads in the long term, where long term is defined by the theoretical framework as everything over 1 month/1 period. Here we could see that the experiment is showing that the efficient ads in the subsequent periods after the creative ads had a higher revenue than the periods before the periods with creative ads. This would support the hypothesis that creative ads work as multipliers.





The hypothesis has support both for the target group and the control target group. The results also show that the effect of creative ads as a multiplier seems to increase with ad spend. This conclusion can be shown by comparing the effect of the creative ads for the experiment with the target group, with an ad spend of approximately 40000 SEK/month, with the control target group with an ad spend of approximately 1300 SEK/month. The chart below illustrates the difference in growth percentage in revenue between these two groups.

Control Target Group - 1300 SEK/day		Growth Percentage
Period 1 compared to period 3		9,5
Period 4 compared to period 6		7,1

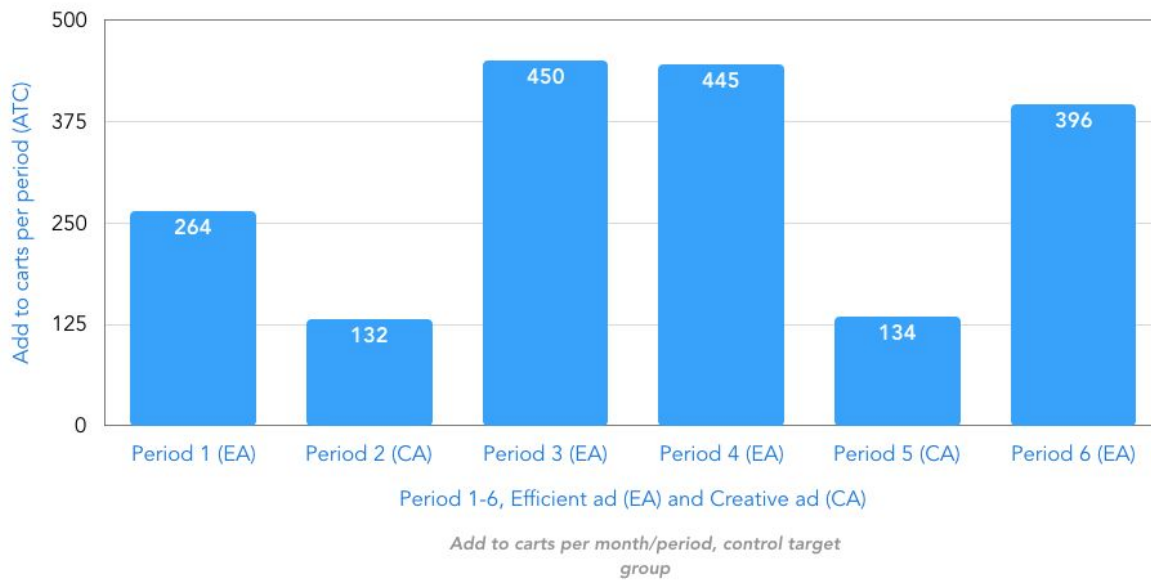
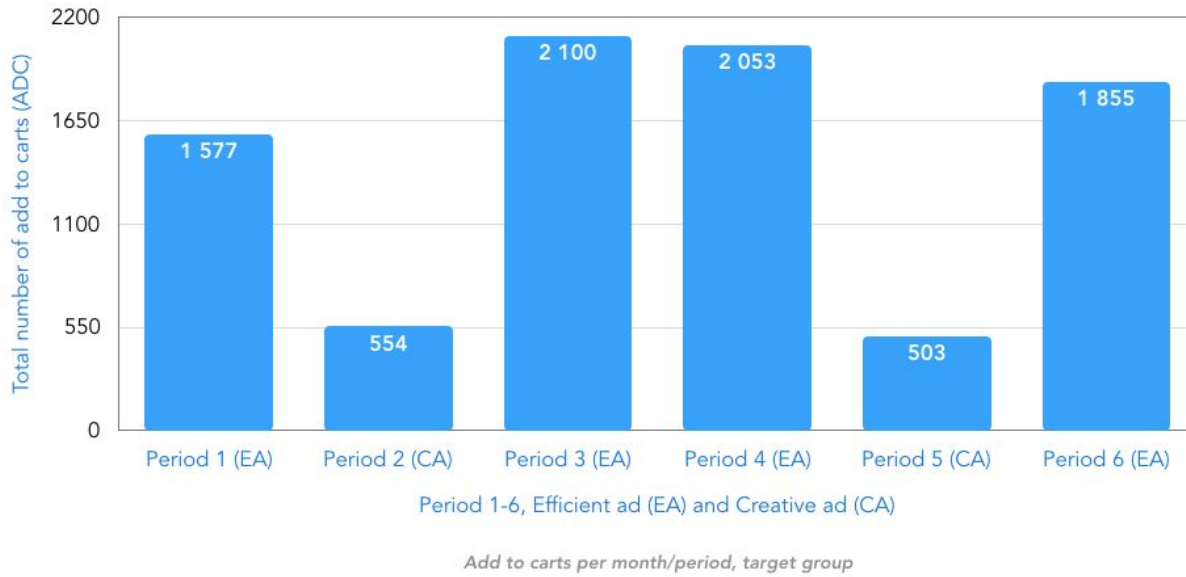
Target Group - 40000 SEK/day		Growth Percentage
Period 1 compared to period 3		21,7
Period 4 compared to period 6		26,7

Therefore we also conclude that H2 is supported by the experiment.

Hypothesis 2	
Creative ads will work as a multiplier for sales in the long-term	Supported

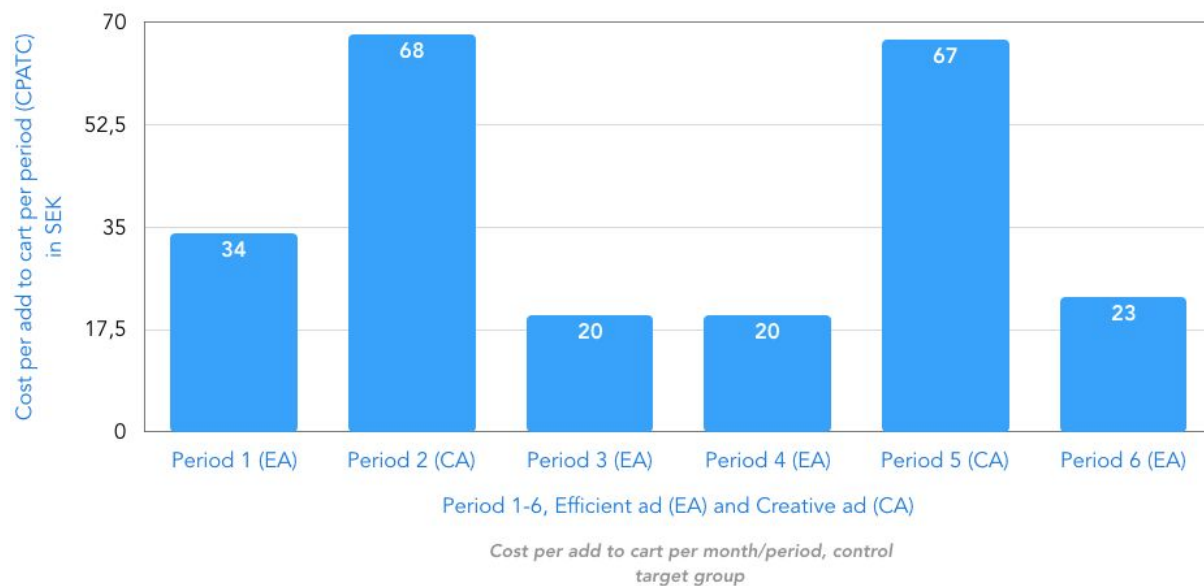
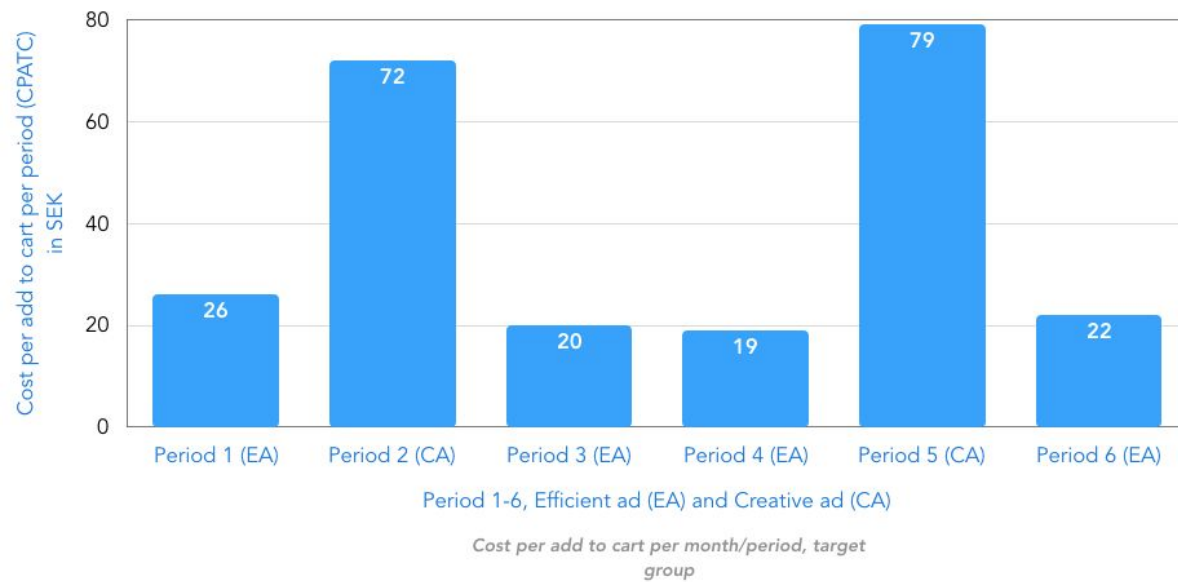
4.4 Results in terms of creative ads will work as a multiplier for sales in terms of ATC and CPATC in the long term (H2a)

The purpose of this hypothesis is to verify that the difference in revenue between efficient ad-periods before and after periods of creative ads, really could be explained by a multiplier effect. If the growth in revenue is not consistent with a growth in ATC and CPATC, this could mean that the growth in revenue is not really because of the creative ad-periods but something else. The results of the experiment show that the number of ATC did indeed increase between period 1 and period 3 - which would suggest that period 2 of creative ads worked as a multiplier, however, this is not supported for period 4 and 6, where the number of ATC decreased from 2053 to 1855. A similar result was found for the control target group. The hypothesis was supported for the control target group when comparing period 1 with period 3, which would suggest a multiplier effect of the creative ads in period 2. However, this was not supported comparing period 4 and 6 where ATC decreased from 445 to 396.



In terms of CPAC, the same pattern was concluded. CPAC decreased when comparing period 1 to period 3, which supports the hypothesis. However, the CPAC increased when comparing period 4 to period 6 which does not support the hypothesis. This was true both for the target

group and the control target group. Therefore, we conclude that H2a is partially supported.



Hypothesis 2a	
Creative ads will work as a multiplier for sales in terms of ATC AND CPATC in the long-term	Partially Supported

As we pointed out in paragraph 3.1 under the methodology section, we chose not to do a statistical sign test for our hypotheses. The downside of this decision was that it could have helped us make a better quantitative decision regarding our process. It would have helped us dictate whether there is sufficient evidence for our results.

5. DISCUSSION AND CONCLUSIONS

In the upcoming segment we discuss and summarize the most significant results from our field experiment. Furthermore, managerial implications for our investigation will be showcased in conjunction with it's critique, limitations and proposed future research.

5.1 Discussion and managerial implications

Based on the results from our field experiments we can conclude that efficient ads indeed perform better for short term sales. This was also verified by our second hypothesis that aimed to make sure that there indeed was a causality between the higher revenue and the efficient ads. To ensure this we measured other metrics as well such as add to cart and cost per add to cart and could conclude that these metrics indeed were in line with the findings on revenue. This brings the question: why should startups, with a limited budget ever conduct any other type of advertisement than efficient advertisement? As a startup with limited capital, having a stable cash flow is key in not going into bankruptcy. Here we furthered our research by hypothesising about the long term effect on revenue of creative advertisement. Could it be the case that the gains of creative advertisement in terms of share of voice and talk value is so great, that not participating in it is what separates startups that have rapid growth from startups that never seem to exponentially grow? We theorized that there might be a multiplier effect of creative ads that boosts up a company's efficient ads that can otherwise be quite normal, dull and uninspiring.

Our field experiments suggest that this hypothesis to some degree has support. We concluded that after roughly a month of ill-performing creative ads, our efficient ads seemed to gain higher

ground and bring sales to a previously unreached level. This pattern of exponential increase in sales the period after creative ads was found multiple times as well as for different target groups. This would suggest that a startup company that has the financial capacity to survive periods of low revenue should indeed engage in creative advertisement.

However, to not draw hasty conclusions and to increase the validity of our findings we wanted to make sure that the creative ads indeed were the multiplying effect on revenue in the following periods. Therefore we also measured other hard metrics such as add to carts and cost per add to cart. Here our findings were not as straightforward. The experiment only showed a consistency between revenue and these other metrics in half of the cases - both for the target group and the control group. This could mean that the exponential growth in revenue after periods of creative ads could be a result of other factors. Converting customers to actually making a purchase can take time, and when our findings do not conclude a support for causality between revenue and add to carts and cost per add to cart, this makes drawing conclusions difficult. We can not rule out the possibility that the higher revenue was not due to customers, for example, seeing an efficient ad in period 1, then seeing another efficient ad in period 3 and deciding to make a purchase. In those cases it would be easy to mistake the purchase as a result of a creative ad in period 2 - although it had nothing to do with it. If revenue was consistent with add to carts and cost per add to cart in all periods, drawing the conclusion of a multiplier effect would be easier since a causality would be proven.

Our conclusion of the experiment is that there still seems to be support for startups to engage in creative advertisement. However, further discussions should be made regarding what constitutes creative advertisement. Some marketing ideas that would go under the title “creative” might still be horrible ideas. In the end, one might not be surprised if this study would give a completely different result if our creative ads featured world-famous influencers or icons such as Kim Kardashian or Queen Elizabeth. Perhaps our findings in such a case would show that these creative ads performed outstandingly well during the periods they ran. Therefore one might conclude that the generalisability of this experiment is rather high for companies with limited

resources, but not for companies that have good financial backup or good connections. Furthermore, the conclusions drawn from this experiment might not be applicable to all branches of industries.

5.2 Conclusions

To summarize our findings and conclusions;

- Efficient ads seem to be more effective than creative ads in the short term when it comes to driving sales.
- It seems to be strategically smart for startups with budgets to engage in creative advertising efforts when running them for at least a period of one month in preparation for the efficient ads. -
- The “long term” seems to be a period of at most one month.
Modig et al (2014) stated that creative ads will have positive effects on revenue in the long perspective/term, we have come one step closer to concretize the expression “long perspective/term”, as our findings suggest that the long term is at most one month. It could be shorter, but since we did not have the possibility to test this, we can not conclude it.
- Creative ad campaigns seem to work as a multiplier for efficient ads when being run in preparation for them.

This has perhaps not come as a surprise for the analytical reader because the study by Modig et al (2014) somewhat indicated it.

5.3 Critique and limitations

Furthermore, we want to highlight the fact that we tested the positive effects of creative ads on the efficient ads when being run in preparation for them only after one month, since that was what we defined as the long term. We did not have the possibility to extend the experiment

further and test whether the “multiplier effect” could have made its mark on the efficient ads in earlier than one month, which we believe could have been of great value from an analytical and theoretical perspective.

Also, we conducted this field experiment by solely using single-channel advertising, because we hypothesized that social media marketing is the only thing many startups with low budgets can engage in. However, there are literally millions of companies, established and startups who do engage in multi-channel marketing.

Another limitation of our research was that we only conducted the experiment on a company within one industry (apparel industry). Therefore, we can not generalize our findings across all industries with certainty. Other than that, we believe that there are levels to how creative an ad can be. Higher or lower levels of skills might generate different results.

5.4 Future research

We want to encourage our future readers to take up where we left and extend on our research and if possible to redo our experiment, on a different scale, industry or with a different definition of the long term. This could be an interesting way to find out whether the “multiplier effect” gets stronger, weaker or if it becomes non-existent when changing the variables of our experiment.. We only decided to conduct our field experiment through single.channel marketing (only used social media), however, it would be interesting to see further experiments using multi-channel marketing which perhaps could include TV in the mix.

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