Nearly half of B2B startups choose not to market themselves, researchers find

April 10 2024, by Jeff Rice

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Marketing is one of the most effective ways for an early-stage business-to-business (B2B) startup firm to grow, yet nearly half of such firms that would benefit from it choose not to do any marketing, according to the findings of a paper co-authored by a Smeal College of Business professor and published in the journal *Industrial Marketing Management*.

The researchers focused on systematic marketing—where a firm has an ongoing process of collecting and using customer data to improve its offerings, communications and distribution programs. They specifically examined which startup firms conduct systematic marketing, what causes them to do so and what benefits they derive from that investment. The findings may help future startup firms determine whether or not to use systematic marketing and when it is best to do so, the researchers said.

"We have a recipe that tells you whether or not to add that marketing side to this particular dish," said Smeal Distinguished Research Professor of Management Science Gary Lilien, co-corresponding author on the study.

Lilien and University of Technology Sydney Associate Professor Ofer Mintz used data from the online valuation platform Equidam, analyzing 693 B2B or business-to-consumer (B2C) startup firms that had launched between July 2016 and April 2018, 202 of which also provided current and anticipated financial information for 2019 and 2020.

The startup firms had contacted Equidam for financial valuation, making them a self-selected population different from the larger startup population. To address potential bias in the Equidam data and validate their initial findings, Lilien and Mintz conducted an additional study surveying 377 startup firms selected from a Survey Sampling International panel of entrepreneurs.

The researchers found that 55% of the sample startup firms reported conducting systematic marketing and 45% said they did not. In both studies, the researchers discovered that early-stage B2B startup firms were the least likely of all B2B startup firms to conduct systematic marketing but the most likely to benefit from it, while early-stage B2C startups were the most likely to conduct systematic marketing but the least likely to benefit from it. Late-stage B2B startup firms also benefited less from conducting systematic marketing than early-stage firms.

They also found that startup firms' decision to conduct systematic marketing influenced the firms' valuations. More than half of the startup firms surveyed in the two studies—60% of those in the Equidam study and 61% in the validation study—got the decision about whether to conduct systematic marketing wrong, which would have negative effects on their valuations.

The study provides a framework--which used insights from interviews with startup founders, investors and startup firm consultants--that focuses on the consequences of startup firms conducting systematic marketing. The researchers found that the success of marketing efforts, and the likelihood it will improve a firm's valuation, depends on the startup firm's type of customer—direct consumers or other businesses; early versus late-stage development of the firm; previous startup experience of the firm's top management team; and the environment of the firm's industry.

Mintz said he initially thought the study would be more about "what types of marketing are best for startups?" but discovered during early interviews that many startup managers didn't consider marketing at all, often because it would mean redirecting already scarce financial resources.

"I would ask if, say, an investor gave you $10,000 or $100,000, or whatever additional number, how much would you spend on marketing? And most would say zero," Mintz said. "That was the 'aha' moment, when we knew we were on to something bigger than we thought."

Lilien and Mintz also found that early-stage startup firms were more likely to conduct systematic marketing if they had top management team members with previously successful entrepreneurial experience and were backed by investors with a financial stake in the firm. They observed that some B2B startup firms—many of them spinoffs from existing companies—had smaller but more knowledgeable customer bases than B2C startup firms and therefore a greater ability to verify the credibility of their firms through marketing.

"Marketing for these companies is really sales and tech support and getting a deep understanding of the evolving needs of the existing customers and co-developing products with them," Lilien said.

Startup firms that conducted systematic marketing provided an observable signal to potential investors about the firms' level of quality. The researchers said entrepreneurs could use the study to provide guidance for both early-stage startup firms and for investors. They concluded that future research is needed to determine how to best encourage early-stage B2B startups to conduct systematic marketing.

"I think this work is going to be of most benefit to venture capitalists," Lilien said.

More information: Ofer Mintz et al, Should B2B start-ups invest in marketing?, *Industrial Marketing Management* (2024). [DOI: 10.1016/j.indmarman.2024.01.003](https://dx.doi.org/10.1016/j.indmarman.2024.01.003)

Provided by Pennsylvania State University