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Should Startups Worry About a Brand?

by: Larry Kubal, Labrador Ventures – November, 2005

For VC's investing in consumer facing Internet startups, there's a whole new ballgame in branding.

Larry Kubal

Guy Kawasaki doesn't mince words – what you see is what you get. And when he talks about branding he pretty much tells it like it is: "When all of that Super Bowl money was flushed down the toilet, it was because people were building brands without products or business models."

That was back in 2000 when, for a 30-second commercial appearing during Super Bowl XXXIV, Pets.com (remember them?) spent more than $2 million of their investors' money. But for what? Nine months later, the glorified online dog food company was out of business. And it wasn't alone. Seventeen other Internet companies placed high-priced ads during the Super Bowl that day. Two years later, 13 of them had disappeared. So much for 'branding for branding's sake,' say marketing experts.

Now, times are different. Very different. Today's VC buzz is all about "capital efficiency." How can marketing capital be efficiently deployed for an internet startup, with payback in terms of decreasing the cost of customer acquisition and increasing the lifetime value of the customer. Alex Wipperfurth, author of the book "Brand Hijack" and a partner with San Francisco, CA-based marketing consulting firm Plan-B, maintains the gold is in the latter – boosting the lifetime value of any customer. Too much attention is still focused on customer trials and not nearly enough on having the customer incorporate a product or service into his or her life, yielding true long-term customer trust and loyalty.

The problem, says Wipperfurth and others, is that money alone can no longer buy 'branding.' That's been the mistake made by companies, large and small, for years. Interestingly, consumer facing Internet startups are now among the first to learn this lesson, and the first to respond. "We live in a world with a consumer base that can detect bullshit a mile away, and is suspicious of any kind of marketing message," argues Wipperfurth. "That's why word of mouth, peer-to-peer marketing is so powerful, because it's about passion. And passion is where real substantive meaning comes about."

Don't Say That Word

For VCs currently paying far more attention to consumer facing Internet businesses than they have in quite some time, 'word of mouth' has taken on a whole new meaning. Traditional 'marketeers' have almost no role in this universe of brand 'evangelizing,' let alone any say in how Internet companies might create the communities of users so essential to building Internet businesses. Marketing budgets are now far leaner, while knowledge of, and familiarity with, a company's customer base is far more intimate.

"In our offices, the word 'branding' is banished, particularly at the stage we're at," says Eric Ries, CTO and co-founder of Palo Alto, CA-based IMVU, an early stage instant messaging company that uses cartoon avatars to create communities of loyal IM users. "We're in collaboration with our audience for our success, rather than having an audience for our supposed genius."

As a result, says Ries, marketing comes down to a budget of just $10 per day and is the direct result of evangelizing to the evangelists. "Our most loyal users will tell us what idiots we are when we release a new feature or a new product, and for us that's the best marketing of all. That means we can then respond to them, and they can share our responses with their own audiences."

Branding has thus become an exercise not of budgets and cost-benefit analyses, but of stickiness, habits, and conviction. As Ries notes, "For us, 'branding' comes down to three basic things. First, is what we have and what we do *viral*? Second, is it sticky or habit forming, will users automatically want to come back and use it more? And third, is it something that can be monetized"? It's clear that Ries has been talking to VCs as this is an articulate summary of exactly the questions we ask and the characteristics we look for in consumer facing startups.

Wipperfurth sees it as even more basic than that. "If I were a VC today, I would ask does this thing have the potential to make a difference in people's lives?

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It always amazes me that VCs don't even include this level of understanding of branding or marketing in their own due diligence." Perhaps he is right, particularly now that marketing must involve a decision to let go of control over one's brand entirely, rather than try and manage it or market it to death.

Brand must now be co-created with the market, where the marketplace acts as participant rather than audience. It's about creating buzz, not hype, about grassroots marketing and peer-to-peer communicating, not mass media messaging and staged events, says Wipperfurth. And it's about creating a long-term learning model versus merely short-term product awareness.

How (not) to Brand

So how does one do this? Viral marketing, intuitive messaging, word of mouth branding aren't altogether entirely new concepts, though the Internet certainly takes their subtleties to new heights.

In the offline world, when Red Bull was first introduced as a drink of choice, company representatives tossed empty Red Bull cans into the bathrooms of some of the trendiest bars and restaurants in New York. Those cans created buzz, that buzz spread rapidly, and a new mixer was born. W Hotels had a similar approach. Rather than load up on expensive magazine ads or television spots, it simply placed a host of models in all of its hotel bars and gave them unlimited expense for buying drinks. The models created buzz, the buzz spread, and W Hotels created the 'brand' it was looking for – rather cheaply in fact.

Smart consumer facing Internet businesses aren't behaving that differently. Though Burlingame, California-based video search startup, MeeVee, already has a billboard alongside Highway 101 near San Francisco, that's hardly their marketing strategy. "The direction from our Board was don't spend a lot of money on branding," says Michael Raneri, President and COO of MeeVee. The key for Raneri then was to 'influence the influencers.' "You target those few thousand of your most loyal consumers and let them hijack your brand," says Raneri. In the case of MeeVee, that meant first getting into the blogosphere, accessing the editors of sites such as TVgasm and Superficial. The hope was that the 200,000 active readers of TVgasm or the 1 million active users of Superficial would then send their recommendation of what's 'hot' to their friends, with those 'influencers' then becoming the opinion-holders for the early adopter segment.

According to Joe Kennedy, CEO of Pandora, an Oakland, California-based music technology company offering user-generated customized radio stations, two great things happened over the last five years to change branding. First was the development of search engine marketing, while the second was the development of blogging. "Six years ago you could go out and buy your typical TV and radio campaign, but only if you had $20 million," says Kennedy. "Search engine marketing changes that. It lets you make a little, sell a little, make a little more, sell a little more."

If search engines are the new branding vehicles, blogging is the new PR. In Pandora's case, the company's CTO is a long-time blogger so he knew not only how to access that world, but also how to talk to it, respond to it, and perhaps most importantly, let it work at its own pace. "Music is a category people get emotional and enthusiastic about, but even the blogging community had to recognize us as one of their own. Though I'd also say that even if we were talking about routers or servers, any new product or company should have a niche set of customers who can become their evangelists."

Like MeeVee, Pandora has spent at most a few thousand dollars on its marketing, though each company admits it's not about how *not* to spend a dime on marketing. Rather it's how to grow by spending a reasonable amount relative to incremental revenue growth. For Chris Devoor, CEO of Seattle, WA-based Judy's Book, an online community of user generated local content, a marketing budget wasn't even an option – or perhaps even necessary – for what he deems *open source branding*.

"We have no agency, no outside design capability, no promotions person, so we've essentially spent no money on advertising, branding or marketing. But then again, we wouldn't ever try and buy our growth, that just wouldn't work for us," says DeVoor. Even though he might think of his company as an online content site, to his users, Judy's Book is a blog. "They come there to read and write and express themselves, so we feel that trying to shove a brand down people's throats is not only non-productive, it's counterproductive."

For VC's, this doesn't mean consumer facing Internet startups should be allowed zero dollars for branding. As Wipperfurth notes, "Just because you're going underground doesn't mean it's not expensive." Rather, it means VCs of today need not be intimidated by the mistakes of the past when online consumer sites automatically meant spending lots of money on branding – perhaps needlessly. With a more viral approach to generating core groups of loyal users, startups may actually now have the opportunities to spend marketing dollars in the most efficient ways possible.

This is one in a series of monthly columns on seed and early stage investing that Labrador Ventures was selected to contribute to the *Venture Capital Journal.*

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