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Mistaking Red Flags For Red Carpets: The Trouble with Services for Smaller Businesses

In the beginning, a business is a small team just getting work done and proving themselves to the market. Sell, execute, repeat. But pretty quickly, you start to have needs, from the mundane (like tax prep) to business drivers (like advertising). There are thousands of service vendors ready to “solve your small business problems,” and most of them are awful.

Here's an example. We've heard from small business leaders, time and again, that marketing doesn't work. It's inevitably followed by an impassioned recounting of all the marketing firms they've hired to help and how all of them have failed. And, of course, they're not wrong.

The truth is that marketing doesn't work for most SMBs. But it's not because potential customers wouldn't benefit from knowing about the business. And, it's not because there aren't ways to reach those potential customers. Marketing doesn't work because most marketing firms aren't very good at their jobs.

Marketing is hard, as is anything worthwhile in business and life. There's a tremendous amount of nuance around how to properly present a company to a specific audience at a specific time in a specific channel and get them to do something with the information. Potential customers are busy and distracted, so it takes skill to get the right message through to them. Hard (and frequently something small businesses don't feel they have the time, capacity, or knowledge to do themselves), but straightforward.

Enter the marketing firm. Marketing firms are almost always paid on some combination of project fees or retainers, based on hours worked. The marketing firm owners make money when they provide hours of staff labor for more than their cost after covering their overhead. So, they're incentivized two ways – to charge more on an hourly basis and to bill more hours.

The reality is that most marketing firms who work with small businesses only do so because they can't work with larger companies and larger budgets. If the vendors are excellent, they scale. This creates a selection bias of available help, where the only people available to work on small business marketing aren't very good at their jobs.

So, with rare exceptions, small businesses are choosing from a combination of new and subpar options, often without much guidance, and frequently based on dinner invitations and tickets to see their favorite team play. At first glance, it looks like a vendor is rolling out the red carpet. Look a little closer and that red carpet might actually be red flags. Most relationships are based on what's easy and enjoyable, rather than what is effective... with underappreciated consequences for the company.

Scare Tactics & Shady Setups

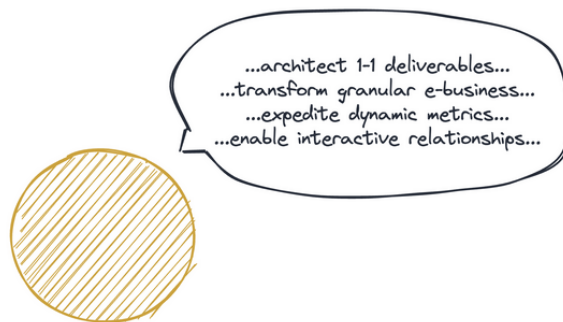
We invested in a business that spent a healthy monthly budget on Google pay-per-click (PPC) advertising to drive people to their website. PPC is a commonly outsourced service line. It's an algorithmically-driven auction for online users with intent – and many firms are very good at making a description like that sound intimidating to small business owners (who are sharp about many things, but maybe not the nuances of keyword optimization). This is the basis of technical BS sales, one of the more common sales scare tactics employed by vendors.

technical BS

/ˈteknɪkəl biː-ɛs/

noun

Words or phrases specific to a particular activity and used by a particular group of people (insiders) to make it difficult for others (outsiders) to understand what's being said (rel. jargon)



The beauty of PPC being algorithmic is that it is precise, and trackable. Given our interest in growing the company, we wanted to understand how competitive they were in PPC. Having no internal marketing expertise, the company had elected to rely heavily on marketing vendors, and an internal person was coordinating activities part-time. As such, we were directed to the service provider to request the data details, along with an endorsement about how great of a partner they were to the company.

It turns out, they were less friendly when we started asking questions. And the answers we received led us to ask far more questions, because the setup was almost unbelievable.

The way PPC works, any company can bid on any keyword and then, through a combination of how much you're willing to pay and how relevant the keyword is to your website content, you "win" auctions to be presented as an ad to people searching Google with that keyword. So, if two St. Louis plumbing companies bid on "plumbing services STL," they are competing against each other and driving up the price of the ad auction in the process.

Quality PPC tactics include lots of research around which keyword variations are most effective and least crowded, along with bid changes for types of users (e.g., plumbers in St. Louis probably don't want traffic from outside the metro area or from kids) and the development of website content to better qualify for keywords chosen. It's a lot of work, whether it's done by a vendor or with internal resources.

In this case, rather than running an independent account for our company, the money paid to the vendor was going into a master account run by the firm. The vendor argued the setup was "proprietary," and therefore they couldn't share the detailed data we requested. When we asked for proof that money was actually being spent on Google's platform on behalf of the company, they sent screenshots. You might call those immediate red flags.

As it turned out, multiple competitor companies were also clients of this service provider, and they were running everyone's money through the same account. Rather than helping any one client "optimize" for specific keywords, they were effectively driving up the bids for every industry keyword their client base used. And doing so behind the guise of "proprietary" expertise among a client base who didn't know what to ask for.

To put numbers to it, the keywords they were bidding on had ballooned to cost \$7-18 per click, meaning the company was paying that much each time someone visited the website through an ad. Tens of thousands of dollars was being spent per month with no bid adjustments to make sure people visiting were likely buyers. After moving the business away from the vendor and building a PPC strategy in a dedicated account, bids became \$2-9 per click. So, the result was somewhere between spending half the money or getting double the visitors, with better qualification and feedback loops either way.

Partners & Prep

In case it seems like we're just picking on marketing firms, rest assured that this selection bias permeates all service providers to small businesses. We've seen rogue employees at technical service providers implode a company's entire project management system, other vendors' work cause an expensive lawsuit for the client, and more. Whether it's lawyers, accountants, bankers, or even potential board members, the best, brightest, and most



experienced typically don't forgo better pay, bigger impact, and more prestige to work on smaller accounts. This is why it's critical to evaluate partners based on capabilities rather than the number of steakhouse dinner invitations.

But plenty of small businesses obviously do quite well. So how do you find service providers that work for you? You can hope your business gets lucky or that the work outsourced is not consequential enough to be costly. You can build the expertise, organically or inorganically (several of the founders with whom we've partnered have said building more expertise to support scaling needs was part of their rationale for seeking an investor). Or you can go out looking.

As a small business, the best service providers aren't going to knock on your door because you're not their ideal client. But, if you knock on their door, they might take you on.

If you're looking for the best marketing firm, do your research and ask around to businesses that you admire. Let them tell you who they'd recommend, then get a warm introduction. Or, call around to marketing firms and ask them who they admire and recommend if you chose not to work with them. Then triangulate. It's often not hard to figure out who really knows their stuff, but they don't show up on your doorstep asking for your business.

Whatever path you choose, in such relationships you are paying for a service. Basic partnership hygiene is always worth keeping in place:

- Ask for referrals before agreeing to anything, and actually follow up with them.
- Designate a clear point of contact on both ends of the relationship, and also have someone else internally regularly review the information received (personal relationships can sometimes get messy).
- Make sure the agreement is reasonable, including maintaining ownership over anything material to the business (e.g. your brand, your customers, your accounts, etc.) and clear language about how to end the relationship if you are not satisfied with the services provided.
- Mutually agree on metrics to be tracked upfront and receive regular communication on work performed (not screenshots).
- Regularly meet to review the quality of work, discuss relationship status, and appreciate how their business has changed, too (e.g. they may have grown considerably and you're in an outdated pricing model that automatically means you're getting lower service without anyone consciously talking about it).
- Keep all documentation tied to the partnership.



You Get What You Pay For

As a final note on service relationships, you do get what you pay for. Again, why would a great service provider want to provide services for less? Like you, they want to work with people who value them. It's sometimes hard to appreciate in advance, but we've seen value vs. price play out in multiple scenarios.

A true expert can oftentimes do something in half the time (or less) of others. A great attorney, for example, may have a significantly higher hourly rate, but may also save you half the hours.

Particularly given the pool of options and any limited knowledge on the area, it's worth doing the operational math before going for the lowest price. As described in the examples above, cheap can be very expensive.

PS: Same Goes For Employees

The same selection bias reality applies to the talent SMBs can access for the same reasons. Even though, on average, SMBs give employees far more autonomy, work-life balance, and diversity of experience, most top talent opt to work for higher paying, more prestigious, and perceivably more impactful organizations. Said differently, if you're a top-of-your-class graduate from a top-tier school, you're likely not staying up late at night dreaming about working for the local plumbing company.

If you're going to try to recruit excellent employees, you'll need to be similarly proactive in your outreach. Go on LinkedIn and do your research. Ask trusted advisors. Tell people who you're looking for. Then be ready to tell them a compelling story about your vision for growth and impact on your market.

