

Policy Prototyping Project

# The Effects of Restricting Targeted Advertising for Startups

Startups Policy Prototyping the Repercussions of Restricting Targeted Advertising



Startups in Europe are investing in new digital tools and competencies faster than ever before to meet European buying habits and compete in the global market. Targeted advertising is one of the most important tools in the startup growth cycle to validate business ideas, reach critical masses and scale operations beyond local markets. Restrictions on targeted ads would disproportionately hurt the European startup ecosystem by hindering expansion possibilities and disadvantage startups in the global competition.

Europe should be the leader in fostering innovation, empowering entrepreneurs and supporting our startups, which Europe is built upon.

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*Policy Prototyping brings evidence-based recommendations and voices from the start-up to policy-making processes. With the project, we want to close the gap between policy-makers and startups and find common ground in the legislation making.*



# Startups are needed in the policy discussions

As an entrepreneur and an advocate for startups, I see entrepreneurs too often placed in between Big Tech and policy-makers' tug of war. For the past several years, entrepreneurs have been struggling with the imposed policies that inherently disregard startups and which are built in a way that makes entrepreneurship increasingly difficult. *Startups have shown incredible resilience and adaptability since the spring of 2020 by transforming operations completely and digitising their business models to survive. As a silver lining, startups have taken massive digital leaps and developed ever more resilient and sustainable, digital business models which correspond to the demands of the sustainable and digitally native Europeans.*

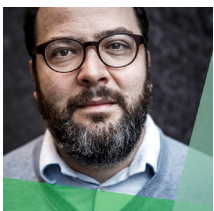
European buying habits have changed significantly over the past two years and already in 2021, 74% of European internet users ordered goods and services online<sup>1</sup>. For startups, the new buying habits demand fast adaptation to the world of e-commerce and digital marketing to reach customers in and outside of their local markets. Digital marketing plays a key role in testing vague prototypes to scaling operations internationally. Startups in Europe can challenge global competitors even with significantly smaller marketing budgets.

The often quoted report on tracking-based advertising by the Irish Council for Civil Liberties

claims that contextual ads perform vastly better and generate much more revenue<sup>2</sup>. However, we and the startup community would beg to differ: if contextual ads perform exceedingly better than targeted ads, wouldn't businesses then have switched to contextual ads a long time ago? To add value to the discussion, concrete evidence and real-life cases are needed to understand what restrictions on targeted advertising would do, not just to startups but arguably to the whole European media plurality<sup>3</sup>.

Restricting targeted advertising has been discussed among policy-makers in Brussels as an effective tool to stifle Big Tech in Europe. The ban disregards the disproportionate effect it would have on Europe's startup agenda and the recovering startups in Europe already hurt by the pandemic. European citizens agree on keeping the Internet as is with targeted ads by a majority of 75%, over a scenario where sites and apps would be funded through user subscriptions<sup>4</sup>. *Targeted ads are vital to the success of the startups in Europe and restrictions would set innovation, growth, welfare and the green transition back by years.*

This will be the first of many rounds of Policy Prototyping with the aim of providing evidence-based recommendations straight from startups to policy-makers. The value of Policy Prototyping is to bring reality to the policy-making table and find common ground forward. With the project, we want to continue the discussion about targeted advertising and support startups in Europe in the years to come.



**Peter Kofler**

Entrepreneur and Chairman  
of Danish Entrepreneurs

# Policy Prototyping as a methodology

Policy Prototyping is an interdisciplinary and human-centered way of getting a “crowd involved in policy” and opening new democratic spaces in policy making<sup>1</sup>. The aim of prototyping is to learn about the strengths and weaknesses of an idea and explore its technical and/or social feasibilities<sup>2</sup>. Policy Prototyping can be also referred to as “sandboxing”. The concept was developed due to the rapid developments in the financial markets<sup>3</sup> and has since gained prominence by being employed in a wide range of sectors. Digital transformation poses regulatory challenges and therefore, policy prototyping offers space for experimentation to fail early and avoid unintended side effects.

## Policy Prototyping focuses on one specific proposal that



**1. Will have a strong impact on startups**



**2. Is possible to isolate, test, measure and evaluate**



**3. Makes it possible to test different scenarios and outcomes of a proposed regulation**

**Victor Lund**  
Associate Professor,  
Danish Technical University  
& External Lecturer,  
Copenhagen Business School

“

Policy Prototyping is a straightforward way of testing the regulative frameworks and the implications they would impose on those stakeholders, who are often left out of policy discussions. With the results from startups, we can learn and rethink elements of such proposals before signing regulations that would cause harm to the whole European startup and entrepreneurial ecosystem. ”

1. [How to bring prototyping into policy design | Apolitical](#) - 2. [Prototyping in Policy: What For?! - Prototyping for Policy Prototyping for Policy \(stanford.edu\)](#)  
3. Jenik, I, and K Lauer (2017), “Regulatory sandboxes and financial inclusion”, CGAP Working Paper.

# Restriction on targeted advertising

The whole picture of restricting targeted advertising is highly unknown and, the consequences are not sufficiently tested to estimate the effect restrictions would impose on startups. Startups are the most consumer focused businesses ever and empowering them has led to more consumer choice. Restrictions would effect the level of service and lessening the choices for consumers in the EU. Restrictions would set startups in Europe at disadvantage against their Asian and American counterparts if they are not competing under the same regulatory frameworks. If startups are met with restrictions on targeted advertising, they would arguably experience rising acquisition costs and lower customer lifetime values which would limit the first-mover advantages and growth potential.

## Regulating the gatekeepers - harming the startups

Privacy, data and sovereignty of the Internet have become an increasingly important part of the European Commission's working agenda over the past years. The restrictions on targeted advertising concerning startups are addressed in various legislative proposals, for example the just concluded Digital Services Act (DSA)<sup>1</sup>. Even though the DSA is concluded, the discussion on targeted advertising and the potential ban will continue to concern the startup communities in Europe. Proposals, such as the DSA, aim to limit the power of the online intermediaries and platforms such as social networks, online marketplaces and content-sharing platforms acting as "gatekeepers" between businesses and customers. Regulating such services would remove them as gatekeepers but fill the position of publishers and digital marketing agencies to be in between startups and customers instead. In this scenario, startups will experience a sharp increase in budget spending on marketing activities as seen in the results of the Policy Prototyping.

More discussions between policymakers and startups are needed in order to avoid imposing harmful policies and sudden updates (such as loS 14 update changes on data collection and tracking) which will set startups to fail with limited resources and cut their core strategies of acquiring valuable customers.



# Targeted advertising is vital for startups



## To start a business

Targeted ads can be used to validate a business idea to see if there is a market for a service/product.



## To strengthen

Targeted ads can be used to secure a critical mass of customers which is core for building a competitive business model and receive investment.



## To scale

Targeted ads is a tool to find relevant markets and expand efficiently e.g. by finding the right cost per acquisition (CPA).



## To find the right customers

Targeted ads are an efficient way of securing innovative products reaching the right and most potential buyer.

**Dr Daniel Knapp**  
Chief Economist, IAB Europe

“

SMBs have seen digital ads as a lifeline early on during lockdown ”

“

A market without targeted advertising will eliminate competition and therefore significantly reduce the quality of the services and products offered<sup>1</sup>. ”

**Yoan Petrov**  
Co-founder, RelaxifyApp

1. [The importance of targeted advertising for startup ecosystems in Europe | alliedforstartups.org](https://alliedforstartups.org/the-importance-of-targeted-advertising-for-startup-ecosystems-in-europe/)

# Applied methodology for prototyping the two forms of advertising

The policy prototyping was conducted by six startups from Denmark, Sweden and Finland. The preconditions of the selection were for the startups to represent fields or business models, which we see as the future backbone of the EU economy. Out of the six, three can be considered as scale-ups in their native markets. Three companies are in the B2C sector and the other half are in the B2B.

## Split test between contextual and targeted ad campaigns

### Planning the split test

Each case is given a budget of 2.000 USD to split equally between a contextual and a targeted ad campaign. Cases will plan the campaigns, set campaign goals and find the most relevant channels (1 or 2) for the ads. Early-stage startups will receive additional assistance to set up campaigns due to the lack of resources and know-how.

Contextual ad campaign

Targeted ad campaign

### Running the tests

The tests are running for seven days during which the startups are not launching other major campaigns. The traffic for the test campaigns is aimed to be as isolated as possible from other factors.

### Analysing data from the tests

After the testing period, the campaign data is analysed with each case to see patterns and KPIs and to discuss the process of setting the two tests. The data is evaluated and put into an index for the purpose of the report and to protect sensitive market data.

Cost per Conversion

Leads

Customer Acquisition

New Customers



# Definitions and examples

## Contextual advertising

Contextual ads do not use third-party cookies or other forms of user-specific data. Ads are matched with the environment to reach audiences who are assumed to be interested in such products or services. Contextual ads are placed next to the content the potential customers are assumed to be reading or watching.

### Virta's campaign on Challenges.fr

Virta chose a French publisher to have their contextual campaign on. The ad is shown to people clicking on the real estate section. The ad campaign does not use any user data to find the right audiences. The audiences have to land on the pages in the real estate section to see the ad.



Fall in love with the seductive combination of salty heart-shaped liquorice smothered in dulce chocolate with layers of fruity and ...See more



LAKRIDSBYBULOW.COM  
FRUITY CARAMEL 🍷

SHOP NOW

## Targeted advertising

Targeted ads are placed based on an individual's behaviour online, rather than the environment. Targeted ads use third-party cookies and other user data to identify the best potential audiences likely to be interested in the shown product or service. Targeted ads are placed in the potential customer's feed regardless of the environment (content, pages) they are scrolling.

### LAKRIDSBY BÜLOW campaign on Facebook

LAKRIDSBY BÜLOW chose Facebook as their channel for the targeted campaign. BÜLOW'S campaign targeted the Dutch market and with the data from other audiences, Bülow could build a lookalike audience of the potential customers in NL could be. People who fit the characteristics saw the ad on their Facebook page. Building lookalike audiences are a common tactic for testing new market demand.



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## Targeted advertising performed better

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by  
**+162%**

in delivering new and returning customers to websites.

Targeted ads outperformed contextual ads by an average of +162% in terms of driving new or returning customers to the case brand's websites based on click-through rate.\*

in **4 out of 6**

cases by attracting more clicks on targeted campaigns.

Targeted ads delivered a higher rate of clicks on digital ads whilst remaining lower on the cost compared to contextual ads.

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## Contextual ads resulted in a price increase

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of  
**+104%**

in delivering new and returning customers.

Contextual ads resulted in an increase of +104% in prices (Cost per Click\*) for getting new or returning customers to click the campaign ads compared to targeted ads.

**CPC:** Cost per Click. What an advertiser pays per click on their ad.

**CTR:** Click-through Rate. The number of clicks that the ad receives divided by the number of times your ad is **shown**.

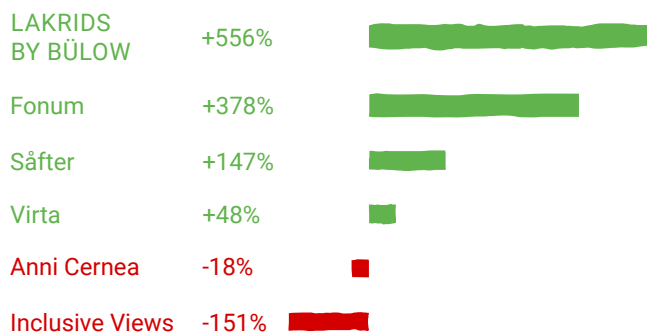
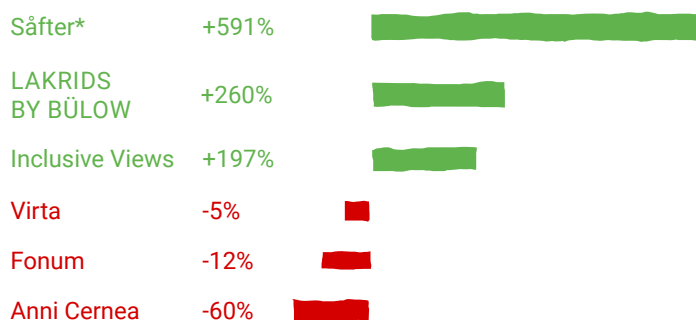
# Startups need different strategies to succeed

## Click-through rate

Targeted ads performance compared to contextual ads by %

Targeted ads were more effective in delivering customers to case's websites. CTR: Ad clicks divided by the number of times the ad is shown.

*\* Sâfter's targeted ad campaign's performance compared to their contextual ad campaign*



## Number of clicks

Targeted ads performance compared to contextual ads by %

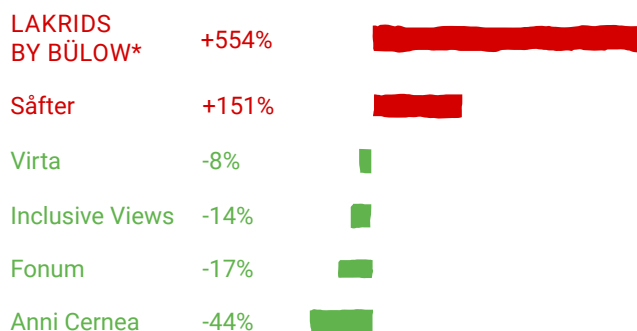
Targeted ads drove clicks to case's sites more effectively than contextual ads in most cases.

## Cost per Click

Contextual ads price increase compared to targeted ads price by %

Contextual ads proved to be much more expensive in driving new or existing customers to click an ad than targeted ads. **CPC:** Cost divided by Clicks.

*\*LAKRIDS BY BÜLOW'S contextual ad's price increased by 554% compared to their targeted ad.*



# Startups rely on data to serve customers, build brands and innovate



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All of our marketing efforts are based on data. Restrictions on targeted advertising would immediately affect Fonom's sales and reflect badly on our brand. I see targeted advertising as an important part of customer service and *advertising without data would mean bad customer service, poorer brand image and fewer euros for us, putting it bluntly*. If our customer acquisition cost would increase, we would stop buying ads and find another way - perhaps through influences, who's audiences' behaviour we understand. Take the bigger digital service-platforms out of the equation, new ones will always emerge. ”

**Ida Nevala**, Marketing Communications Manager, Fonom

“

Not using personalised, targeted ads will take Virta back to the stone age. We create ads based on user characteristics such as the audience's online behavior, location and demographics and with the data, we provide qualified leads to our sales team. This way, we can reduce budget wastage and only use money for marketing, when it's backed up with data. We would not even know where to start with contextual ads. ”

**Samuli Ahola**, Director of Digital Sales, Virta



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From my perspective, contextual ads can never substitute for targeted ads. The sudden iOS 14 update shook our operations and startups had no chance to prepare. As an established scale-up, we rely tremendously on targeted ads and the data we receive from the platforms in return. The data allows us to innovate, expand to new markets and serve our audiences better. ”

**Michael Ewald Hansen**, Ecommerce Director, LAKRIDS BY BÜLOW



# Startups need...

## Action and performance right here, right now

Startups are looking for quick performance first to test their services and products and also the possibility to fail fast if needed. Startups need to gain information of the market demand and secure the critical mass to get revenue and attract investments.

## Cheaper prices and campaign flexibility

Targeted ads are cheaper and offer better flexibility to change the campaign budgets immediately if needed on the service and content platforms. Natural choice for startups is to use targeted ads due to their small budgets and effectiveness they offer in return for the price. The younger the startup, the more budget needs to be allocated to marketing campaigns (12-20% of gross revenue) compared to established companies (6-12% gross revenue) to reach audiences <sup>1</sup>.

## Quick feedback loops to learn and optimise campaigns

Service and content platforms offer data in real-time by which startups can learn and are able to optimise campaigns on the go. For contextual ads, the learning curve is longer and much more expensive. Startups do not have the budgets or time to waste. Publishers do not offer the possibility to modify campaigns in real-time and ads are bought on assumptions - not data.



1. <https://www.wordstream.com/blog/ws/2016/10/26/marketing-budget>



# We call the EU policy-makers to...



## Invite startups to the policy discussions

to find balanced regulative frameworks which will encourage entrepreneurship and prepare startups better with ongoing dialogue and tools. The dialogue could be had within informal coalitions or committees which can advice policy makers on the topics concerning startups.



## Build clear legislative frameworks for the future

which do not overlap with existing legislation (such as GDPR) and resulting in adding pressure on startups who are not equipped to absorb complex digital regulative patchworks.



## Provide easy access to users to redress the use of their personal data

and keep the European online spaces functional, user-friendly and competitive, in addition to users' right to redress the use of their data. The common ground should be found together with the citizens whose data is used. The restriction should not be formed by stakeholders in the extreme ends of the issue.



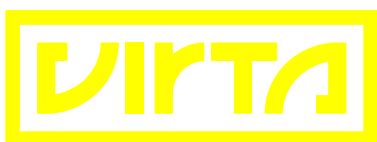
## Evaluate the consequences of banning targeted advertising

to understand the repercussions for small businesses and ensure potential regulation solves the right problem. Policy-makers should strive to clarify the definition and scope of any regulations and ensure it does not create harmful effects for startups without truly improving user experience.

# Acknowledgements

## Cases

The Policy Prototyping tests were conducted with the six Nordic startups, who tested two forms of advertising and gave the data for the purpose of comparing contextual and targeted advertising in real life conditions. The opinions and recommendations on the report do not reflect the startups opinions unless quoted.



# Prototyping advisory board members

The advisory board members of the first round of Policy Prototyping represent diverse voices from the policy-making, industry and academic fields.



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Danish Entrepreneurs strive to cultivate an environment where founders and their teams can share knowledge, support and excel with the greater startup community.

We do this by advocating startup-friendly policies, challenging legislation that hinders innovation and giving startups a voice in the most important conversations.

Danish Entrepreneurs represents more than 30,000 members and has established itself as one of the most fundamental supporters of the local ecosystem of entrepreneurs in Denmark and beyond.



[www.d-i-f.dk](http://www.d-i-f.dk)



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