Sacred Heart UNIVERSITY

New England Journal of Entrepreneurship

Volume 16 | Number 1

Article 7

2013

AdRoll: A Case Study of Entrepreneurial Growth

Todd A. Finkle
Gonzaga University, finklet2000@yahoo.com

Case Study

AdRoll: A Case Study of Entrepreneurial Growth

Todd A. Finkle

This case study examines the background, start up, and growth of one of the fastest-growing companies in the United States, AdRoll. It explores the various strategic factors related to the growth of AdRoll and how these issues must be addressed in order to maintain its level of growth. This case study is especially interesting not only because it focuses on one of the fastest-growing firms in the country, but also because it addresses on an understudied topic within the field of entrepreneurship, entrepreneurial growth.

Keywords: entrepreneurship, technology, Internet, entrepreneur, entrepreneurial growth

In 2013, AdRoll was the fastest-growing online advertising company in the United States. Its founding team consisted of CEO Aaron Bell, President Adam Berke, COO Peter Krivkovich, and Chief Architect Valentino Volonghi. This innovative company provided customers with critical information that could benefit their bottom line through advertisement retargeting. AdRoll had the capabilities to track each person's online shopping behavior on certain websites. For example, if a consumer looked at a pair of Nike running shoes online and then went back to that same site to look at colors, AdRoll would recognize this information. This information would then be sold and that consumer would experience Nike advertisements specifically targeted at them as they navigated through other websites. The potential market for services such as this was enormous. As a result, AdRoll was ranked the seventh fastest-growing private company in the United States by *Inc. Magazine* in 2013. *Forbes Magazine* ranked it as the number one fastest-growing company in San Francisco.

Despite AdRoll's unbelievable success, the company faced challenges related to growth. The founders knew that uncontrollable growth could lead to disaster. They had to figure out a plan on how to grow the company. They did not want to get into the same type of situation that other companies, such as Google, which grew so fast, and caused a significant amount of problems.

Background

AdRoll was founded in 2007 as a means to make advanced display advertising techniques available for brands of all sizes. In 2013, the original founders were still at the company along with two additions—Suresh Khanna, Vice President of Sales, and Greg Fulton, Senior Product Director—and 150 employees. It was projected that AdRoll would have 450 employees by January 2014.

The company's focus was on retargeting, which kept track of consumer's online browsing behavior. Once this information was collected, AdRoll would then display ads of interest to the customer as they traveled around the web. Without retargeting, only 2 percent of potential customers return to a site. Using retargeting, AdRoll had the potential to bring back the other 98 percent who would have otherwise never returned. AdRoll also displayed ads for products the consumer had never seen but could potentially be interested in. For example, if a customer looked at a basketball online, ads for basketball shoes by that same site would follow that potential customer around the web.

At the beginning of 2013, AdRoll was in the growth stage of the industry life cycle. The company, which infiltrated the online marketing industry before the Great Recession of 2008, chose to enhance the quality and performance of its products versus focusing on sales. AdRoll's exponential growth started in 2009 when it went into advertisement retargeting. In 2008, AdRoll's revenue was $111,000 and by 2012 it had sales of $50 million—a 45,000 percent increase over four years.

AdRoll captured 500 new customers a month with a 97 percent customer retention rate. The company began a partnership with Facebook that allowed most of AdRoll's clientele to advertise on the largest social networking site in the world. With the ability to advertise on Facebook, customers received a 1,600 percent return on their investment.

AdRoll received $15 million in funding in July 2012. With this injection, the company had plans to hire additional employees and expand its office space. AdRoll was also in the process of creating high-performance products in the mobile, video, and social markets.

AdRoll was a subsidiary of Semantic Sugar Inc., a technology company. Semantic Sugar, incorporated in 2006 and based in San Francisco, California, provided online advertising services and owned more than 50 percent of AdRoll.

SWOT Analysis

Strengths

AdRoll's strengths included a 97 percent customer retention rate along with cutting-edge display products. It also had products for all sizes of businesses. AdRoll was one of eight companies to advertise through the Facebook platform. The company had a high return on investment for customers and a skilled and experienced management team. In addition, the firm had a simple navigation platform.

Weaknesses

The weaknesses that confronted AdRoll included seven other competing companies that are also a part of the Facebook platform. Some feedback from consumers had been negative. The company could have a hard time sustaining its growth rate of 11,082 percent like it had in the past three years. AdRoll was a young company that did not have extensive experience in the growth process. The company had a lack of presence in the competitive mobile market.

Opportunities

Opportunities for AdRoll included possible expansion from retargeting retail into retargeting for movies, gaming, sporting events, business-to-business marketing, and other social media sites (Twitter, Pinterest, etc.). The company could partner with other search engines to track consumers' searches and to get a more specific idea of the ads that would be effective, provide search retargeting (a product sold by most of AdRoll's competitors), continue the development of RollFace in connection with Google glasses, and further expansion into international markets.

Threats

Threats to AdRoll included a possibility of lawsuits if consumers felt that their privacy had been infringed upon; competitors entering the market and replicating their products and services; and the possibility of Facebook's presence in the social media world diminishing and the potential of an economic turndown.

Strategies and Competitive Advantage

AdRoll's business-level strategy was overall low-cost leadership. Before AdRoll was founded, retargeting advertisements were primarily used by wealthy customers. AdRoll expanded its target market to include small businesses, retailers, and Fortune 500 companies. Furthermore, AdRoll had a heavy emphasis on customer service, always making itself available to customers to gain a competitive advantage through ease of use.

AdRoll had a "hands-on" management team that was not afraid of getting their hands dirty to make things work. Due to the smallness of the company there was a lot of transparency and a very creative and innovative culture.

AdRoll's primary competitive advantage was the quality of its products. The company claimed that the ads it placed on Facebook were two to three times as effective as those of the other seven competitors involved in the Facebook exchange. Additionally, AdRoll showed an extremely high return on investment, which made existing customers unwilling to switch from AdRoll.

Management Team

AdRoll needed to continue building and attracting a quality management team as the company grew. Its management team was all young men who came from either Stanford or Harvard and who had worked on start-ups in some way or another in the past. They created a culture that could be described as "forward thinking, fun, and hardworking."

AdRoll did not have a hard time finding employees; however, to keep up with its fast growth, the company needed to select the right future team members. If AdRoll chose the wrong people, it could be detrimental to the company. Because AdRoll already had smart, young, fun, and risky managers, it may have been beneficial to hire older and more conservative members for its management team. However, more conservative managers might not have worked well with the fast-growing and innovative starting team. Therefore, AdRoll put forth the effort to find managers with adaptability, an open mind, willingness to take risk, as well as those who were not afraid to ask the starting management team to give an idea or decision another consideration.

According to Erin Lockhart, AdRoll's PR Manager, its mission was "to make powerful performance advertising techniques simple for businesses of all sizes." Therefore, AdRoll needed to select managers who knew how to interact with small businesses and meet their needs while also knowing how to meet the needs of large Fortune 500 companies. The company also needed technical expert managers who had the ability to simplify its technology so any business or individual could use AdRoll's services.

Future of AdRoll

Due to its success, AdRoll had a lot of room for growth. While the potential for increasing the customer base was exciting, it posed many challenges. Thus, AdRoll needed to manage the expansion of the company in a controlled way.

During the expansion stage, AdRoll opened a new office in New York. The company projected that by January 2014 it would have more than 450 employees. AdRoll was faced with the challenge of growing at a controlled rate without losing customers. In addition, the company faced competition against larger, more experienced companies that had already been through the kind of growth that AdRoll was experiencing.

AdRoll began to be recognized as a serious competitor. More established companies had the opportunity to steal many of AdRoll's potential customers before AdRoll had the time to reach them because it could not keep up with the growing customer base. To survive in this market, AdRoll needed to continue to retain customers by providing excellent customer service. It needed to select a growth team to manage the expansion so that the rest of the company could focus on the customer base and creativity.

AdRoll's expansion meant a lot for the company in terms of changes to its organizational structure and culture. AdRoll facilitated a creative culture in a fast-paced environment. Its office was set up in a large room with lots of young people and dogs. The company had plans to take over more of the building. The question for AdRoll was whether it would able to maintain this structure and culture as the company expanded and grew.

As AdRoll expanded and grew, management realized they would have to either work hard to maintain this open-room structure or change to a more functional specialization structure. The problem with the latter structure was that it might result in less creativity. This was dangerous for AdRoll given that much of the company—and the resulting ideas—thrived on the allowance for creativity and innovation.

Big companies were starting to recognize AdRoll, and the company needed to focus on its product to keep customers. AdRoll needed to select a small team to focus on growth and the maintenance of the culture so it could simultaneously be successful at both things.

With continued growth, AdRoll faced several risks. One of which was that many of AdRoll's competitors, such as Chango, offered search retargeting. AdRoll focused mainly on site retargeting and contextual retargeting, which were also done by many of its competitors. Therefore, potential customers could choose to go elsewhere if AdRoll did not have what they were looking for. This risk could have been managed by expanding and innovating AdRoll's product line. The company needed to continue hiring qualified advertising experts who had experience in the social media industry. This would allow for AdRoll to stay competitive by introducing new and innovative approaches to retargeting.

Another risk facing AdRoll was the fickle nature of social media. Much of AdRoll's success could be attributed to being part of the Facebook exchange. During this time, Facebook was the most popular and widely used social media platform. But that could change in the future.

Additionally, AdRoll was the exclusive retargeting partner on Google Glass, an unreleased glasses product that customers wear and use their personal vision as the screen. AdRoll was working with the company to develop EyeRoll and RollFace, which would retarget advertisements based on items consumers looked at and their interest level. For example, if a consumer's friend was wearing a North Face jacket, EyeRoll would detect this item. Then, RollFace would identify the consumer's interest in this product by their facial expression and advertise this product right in the view of their personal vision.

The list of competitors for AdRoll would only grow as others saw the potential in the industry. New competitors would imitate the retargeting techniques AdRoll had developed, and would attempt to narrow the gap between its products and others. If competitors figured out how to provide the same service for a cheaper option, it could really hurt AdRoll's high customer retention rate. This was especially troubling for AdRoll since much of its focus was on small- to medium-sized businesses. If new competitors focused solely on small business, and provided a better product with better services, AdRoll was in trouble. However, AdRoll could combat that risk by staying up-to-date with its innovations in retargeting, and by ensuring that existing customers were pleased with the products and services they were receiving.

Regardless of competitors, AdRoll still needed to finance the company's growth. Fortunately, AdRoll had a couple of key advantages on top of its amazing growth. The company had a highly regarded team and had already made crucial relationships with venture capital firms and the "movers" in the Silicon Valley and greater San Francisco area. AdRoll's growth relied less on the money it was able to generate than on funds from venture capital investments.

AdRoll sought any necessary financing through relationships with venture capital firms including Foundation Capital, Merus Capital, and Accel Partners. AdRoll's early attraction of these venture capital firms and the amazing return on initial capital put the company in a great position to acquire additional capital requirements. Yet, it was not financing that was AdRoll's main obstacle to significant growth but rather being able to get the required talent on board.

This was a similar problem that confronted other high-technology companies such as Google and Facebook. Google became famous for its hiring processes and amazing employee benefits; Facebook earned very high remarks including the "Best Place to Work" by GlassDoor.com. It was crucial that AdRoll focused its attention on moving services forward and on the emerging technologies including the mobile spectrum.

Lastly, it was important that AdRoll's founders be proactive in the potential harvest of the organization. Although it was typical for companies that have seen this amount of growth to eventually seek an IPO, this strategy did not turn out to be very valuable for some technology companies. To ensure its growth, AdRoll could incorporate an employee stock ownership plan (ESOP), a strategy that would offer key talent a clear incentive for working for such a fast-growing company. Employees could be offered stock, which would give them ownership of the company and a vested interest in its success. This allowed AdRoll to stay away from the risks of an IPO and the regulation that comes from it.

Final Decision

AdRoll's founding management team met for dinner to discuss the issues related to growing pains in the company. Despite being the most successful and fastest-growing small company in the United States in 2013, they felt the stress that goes with growth. They talked well into the night on how to proceed.

References

AdRoll. "AdRoll Launches Retargeting on Google Glass." *AdRoll Blog.* p., 1 April 2013. Web. 30 Apr. 2013.

"AdRoll." *Retargeting and Display Advertising.* Web. 10 May 2013. <http://www.adroll.com/>.

"AdRoll Triples Revenue Surpasses $50M Run Rate in 2012." *Prnewswire*. 24 January 2013. Web. <http://www.prnewswire.com/news-releases/adroll-triples-revenue-surpasses-50m-run-rate-in-2012-188186831.html>.

"Chango." *Â· Real-time Marketing Solutions.* Web. 10 May 2013. <http://www.chango.com/>.

"Comparing the Top 4 Retargeting Companies." *SEOmoz.* Web. 24 January 2012. <http://www.seomoz.org/blog/comparing-the-top-4-retargeting-companies>.

"FetchBack - The Targeted Display Company." *FetchBack.* Web. 10 May 2013. <http://fetchback.com/>.

"Retargeting and Audience Targeting Solutions." Web. 10 May 2013. <http://retargeter.com/>.

Note: The instructor's notes are available upon request from the author at finklet2000@yahoo.com.

About the Author

Todd A. Finkle (finklet2000@yahoo.com) is the Pigott Professor of Entrepreneurship at Gonzaga University. His academic experience includes teaching entrepreneurship and strategy for more than 20 years at four different universities. He has consulted with hundreds of start-ups, governments, small businesses, and Fortune 500 corporations. Dr. Finkle has built two entrepreneurship programs. One of them became a nationally ranked program where he was the Director of the Center for Entrepreneurship. His industry experience includes growing up in a family business and working for a variety of small ventures and a Fortune 500 Corporation. He has also been an entrepreneur of four businesses and co-founded a nonprofit. This nonprofit won a national teaching award. He has published or presented over 190 articles on entrepreneurship including the book *Lessons Learned from Leading Entrepreneurs,* which focuses on significant entrepreneurs like Steve Jobs, Warren Buffett, Sergey Brin, and Larry Page. Warren Buffett invited Dr. Finkle to visit him twice. One of the visits led to an article on the front page of the *Wall Street Journal.* Other honors include runner-up for the most innovative entrepreneurship educator in the world by the Academy of Management and a MOOT CORP® Fellow through the IC_ Institute at the University of Texas at Austin. He has a B.S. in Life Sciences, an MBA, and a Ph.D. in Entrepreneurship/Strategy.