

Generating Customer Recommendations as Growth Strategy for Start-Ups during Market Entry

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Annual Conference on Corporate Strategy

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Customer Recommendations as Growth Strategy for Start-Ups in Market-Entry Phase

Introduction

- Impact of Customer Recommendations
- Empirical Study
- Summary and Future Outlook

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Introduction

- For start-ups, market entry as key event in company's development
- Quickly gained sales revenues important for further development
- Potential customers uncertain about quality of company's offering
- Recommendations made by initial customers represent credible product information

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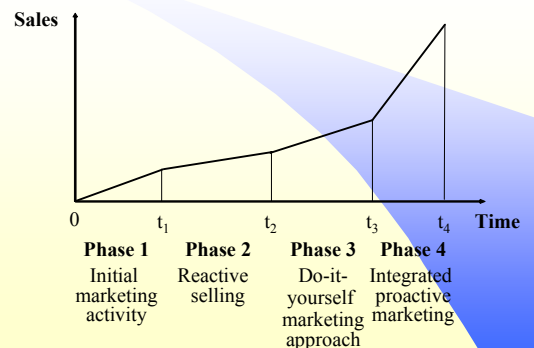
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Impact of Customer Recommendations

- (1) Carson's phase model of marketing
- (2) Approaches in communication policy
- (3) Growth impacts

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Impact of Customer Recommendations: Carson's Phase Model of Marketing



Source: Carson, David J. (1985): The Evolution of Marketing in Small Firms. in: European Journal of Marketing, Vol. 19, p. 15
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Impact of Customer Recommendations: Approaches in Communication Policy (1)

- Product involvement ➤ Experience of product can lead to inner tension that consumer attempts by product related discussions
- Self involvement ➤ Numerous motives for making recommendation serving purpose of self-affirmation
- Other involvement ➤ Recommendations based on motive tending to be altruistic
- Message involvement ➤ Recommendations mainly stimulated by product positioning in advertising

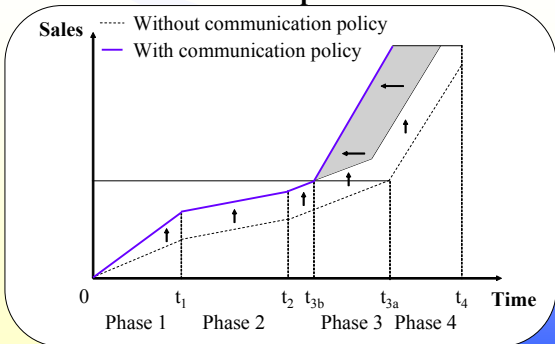
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Impact of Customer Recommendations: Approaches in Communication Policy (2)

- Product involvement ➤ Customers need to test out products before products can become the topic of conversation
- Self involvement ➤ Additional product information, allows consumers to present themselves as experts
- Other involvement ➤ Making it easy for consumers to pass on sample products to friends
- Message involvement ➤ Using play on words in advertising

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Impact of Customer Recommendations: Growth Impacts



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Empirical Study

- Study methodology ➤ Written questionnaire about marketing approaches for first publication to 352 publishing houses established 1990-2002
➤ 91 replies (response rate: 25,9 %)
- Classification of market entry success ➤ Sales revenues generated from first publication during first year after publication

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Hypotheses and Test Results (1)

- H1: More start-ups with successful than start-ups with less successful market entry have written business plans ➤ Not significant (Chi-Square-Test)
- H2: Start-ups with successful market entry communicate product experience in form of trial use offers to more members of target group than start-ups with less successful market entry ➤ Significant ($\alpha = 0.021$, t-test)

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Hypotheses and Test Results (2)

- H3: Start-ups with successful market entry achieve higher sales revenues in first financial year than start-ups with less successful market entry ➤ Significant ($\alpha = 0.000$, t-test)
- H4: Start-ups with successful market entry achieve higher sales revenues in 2nd financial year than start-ups with less successful market entry ➤ Significant ($\alpha = 0.0004$, t-test)

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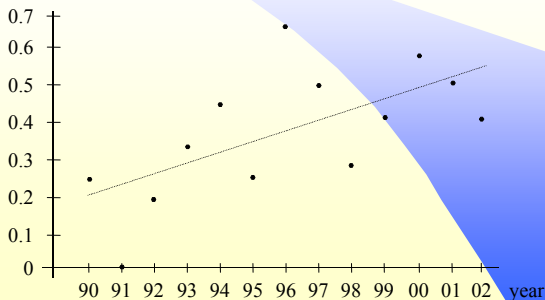
Business Plans at Time of Establishment

	Publishing house start-ups with successful market entry	Publishing house start-ups with less successful market entry	Total
Business plan	15	15	30
No business plan	24	24	48
Total	39	39	78

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Proportion of Publishing Houses with Business Plan in Start-Up Year (1990 – 2002)

Proportion of publishing houses in start-up year with business plan



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People with Pre-Purchase Product Experience

	Publishing house start-ups with successful market entry	Publishing house start-ups with less successful market entry
Average no. of free copies distributed	24.15	9.40
Average attendance at author's readings	460.23	58.75
Average total no. of people provided with pre-purchase product experience	484.38	68.15

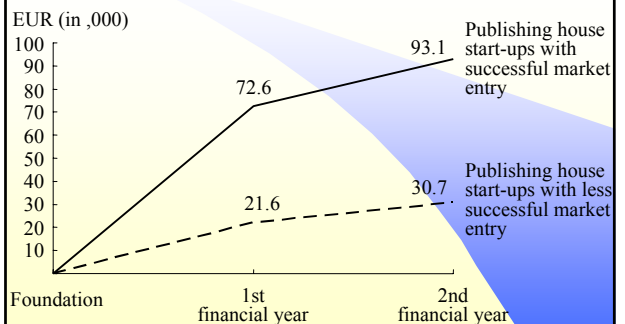
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Author's Readings for Product Experience

	Publishing house start-ups with successful market entry	Publishing house start-ups with less successful market entry
<i>Author's readings</i>		
- Held	26	18
- Not held	13	21
<i>Reasons for not holding readings</i>		
- Content not suitable	8	9
- Financial reasons	3	4
- Trade not interested	-	1
- Author-related reasons	-	3
- Organizational shortcomings	-	2
- Not stated	2	2

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Sales of Publishing House Start-Ups



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Summary and Future Outlook

- Customer recommendations as marketing tool of central importance in market entry phase
- High novelty of start-up's offering providing excellent prospects for successful generation of customer recommendations at market entry
- Trial offers as important vehicle for start-ups
 - ➔ Indirect way of stimulating recommendations
- Customer recommendations in market entry phase to achieve positive growth impact in subsequent phases of company's development
- Further research: Transfer to other sectors

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.... Questions, Comments, Complaints ?

Thank you very much for your attention!

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