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

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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

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

Impact of Customer Recommendations

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

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

Sales
Time

Phase 1
Phase 2
Phase 3
Phase 4

Initial marketing activity
Reactive selling
Do-it-yourself marketing approach
Integrated proactive marketing approach

**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

**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

**Impact of Customer Recommendations: Growth Impacts**

- **Sales**
  - Without communication policy
  - With communication policy

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- **Introduction**
- **Impact of Customer Recommendations**
- **Empirical Study**
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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

**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
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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<th>Business Plans at Time of Establishment</th>
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<td>Publishing house start-ups with successful market entry</td>
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<tr>
<td>Business plan</td>
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<td>Proportion of publishing houses in start-up year with business plan</td>
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<th>People with Pre-Purchase Product Experience</th>
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<td>Publishing house start-ups with successful market entry</td>
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<tr>
<td>Average no. of free copies distributed</td>
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<tr>
<td>Average attendance at author's readings</td>
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<td>Average total no. of people provided with pre-purchase product experience</td>
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<th>Author's Readings for Product Experience</th>
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<td>Publishing house start-ups with successful market entry</td>
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<td>Author's readings</td>
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<tr>
<td>- Content not suitable</td>
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<td>- Trade not interested</td>
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<td>- Author-related reasons</td>
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<td>- Organizational shortcomings</td>
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<td>- Not stated</td>
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<th>Sales of Publishing House Start-Ups</th>
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<tr>
<td>EUR (in ,000)</td>
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<td>72.6</td>
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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

…. Questions, Comments, Complaints?

Thank you very much for your attention!

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