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MARKETING IN NEW VENTURES: THEORY AND EMPIRICAL EVIDENCE**

ABSTRACT

Marketing is considered to be of utmost importance for the success of new ventures. Therefore, research on entrepreneurial marketing has increased considerably since the late 1980s. Its findings are varied and vibrant, yet also large and extremely fragmented, and a comprehensive theory of entrepreneurial marketing is still lacking. This situation proves to be a major hurdle for further advances, as the status quo of research cannot be accessed without major efforts. To help researchers and lecturers synthesize the growing body of knowledge, this paper brings together and reviews important research findings in entrepreneurial marketing. Thus, the paper creates a much needed map of the field, making this highly relevant topic readily accessible. Furthermore, the paper provides directions for future research, showing that many key questions of this field (e.g., various strategies and tactics of low-cost marketing) must be explored more thoroughly.

JEL-Classification: M13, M30, O32.

Keywords: Entrepreneurship; Marketing; New Ventures.

1 INTRODUCTION

Business mortality statistics suggest that, depending on the industry in question, discontinuance rates of new ventures can be as high as 70% in the first five years[1]. Yet, other results indicate that certain practices in new venture management considerably reduce the likelihood of failure. In particular, marketing is considered to be a major key to the success of new firms. E.g., research studies have concluded that a professional analysis of the target market can reduce venture failure rates by up to 60%[2], and venture capitalists rate the overall importance of marketing for the success of new firms at 6.7 on a scale of 7, a rating that is higher than all other business functions[3].

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1 See, e.g., *Yoon/Lilien* (1985); *Timmons* (1999); *Cooper/Bruno* (1977); *Dun & Bradstreet* (1967).

2 See *Hills* (1984). A study by *Cooper* (1980) comes to similar conclusions.

3 *Hills/LaForge* (1992).

Research on entrepreneurial marketing has been growing steadily since 1987, when an annual conference on "Research at the Marketing/Entrepreneurship Interface" was introduced in North America[4]. Its publications testify to the fact that new ventures face several specific marketing challenges that cannot be dealt with simply by looking at findings from general marketing[5]. Similar to research on the broader topic of entrepreneurship, this field also benefits from studies in related literatures, such as innovation management and strategic management.

Though many advances have been made, the current state of research on entrepreneurial marketing is very unsatisfactory to both researchers and lecturers. Research findings are extremely fragmented, and there is no integrated analysis or comprehensive theory of entrepreneurial marketing. Many studies are published in conference proceedings that are not as readily available as other publication formats. Thus, there is a general lack of transparency in research findings, making it tedious and time-consuming to develop a clear and comprehensive understanding of entrepreneurial marketing[6].

This situation can be seen as a major hurdle for further advances in research, as it is unclear which key research questions have yet to be addressed. Furthermore, lecturers who teach entrepreneurial marketing are handicapped by not being able to assess the status quo of knowledge in this field without committing major resources. This problem is quite severe, because there are roughly 50 new chairs of entrepreneurship at German universities[7], and entrepreneurial marketing should not be absent from any curriculum due to its importance for the success of new ventures.

To advance the topic at this stage, it is necessary to bring more transparency into the field. Thus, the purpose of this paper is to synthesize the growing body of knowledge by identifying and reviewing key research results in entrepreneurial marketing, and to point out promising directions for future studies. Thus, a much needed map of the field is created, making this highly relevant area in entrepreneurship accessible for researchers and lecturers with much less effort.

The paper is organized as follows. In the next section, I discuss the characteristics of new ventures and their competitive environment in order to arrive at a deeper understanding of the specific challenges these firms face in their marketing efforts. I continue with a comprehensive and systematic analysis of the literature, discussing major themes in this field of research, reviewing key publications, and offering directions for future studies. The article concludes with a summary of open research questions and an outlook on this young and growing field.

4 Also, since 1990, a marketing/entrepreneurship special interest group has been included in the biannual conferences of the American Marketing Association, see *Perreault* (1998).

5 See *Hills* (1984); *Muzyka/Hills* (1993).

6 See also the remarks by *Mellewigt/Witt* (2002).

7 See the homepage of the "Förderkreis Gründungsforschung" at www.fgf-ev.de.

2 Marketing in new ventures: Characteristics and challenges

~~Analogous to *Welsh/White*'s (1981) observation that "a small business is not a little big business" (p. 18), new ventures have distinct characteristics that distinguish them from larger, more established organizations~~[8]~~. These characteristics include their newness and small size, as well as the inherent uncertainty of the undertaking. Their markets often are characterized by high growth and turbulence. To adequately assess the challenges new ventures encounter in their marketing efforts, these organizational and environmental characteristics must be considered~~.

2.1 *Characteristics of new ventures and their environment*

- *Newness of the organization*

~~*Stinchcombe* (1965) argues that new organizations face substantial liabilities of newness. These liabilities lead to higher failure rates of new firms compared to older ones. He suggests that new firms have to define new roles and tasks, which is associated with high costs in time, temporary inefficiency, worry, and conflict. They are also challenged to create exchange relationships, though they lack the reputation, legitimacy, and experience of established firms, and must rely on interactions between strangers~~[9].

~~There is ample empirical support for the liability of newness hypothesis that originates mostly from researchers in organizational ecology~~[10]~~. Yet, being "new" also has certain advantages, which become evident when old organizations are compared to new ones. The most prominent concept discussed in the literature is "inertia" (or the liability of aging), which is primarily associated with an increasing reluctance to undergo processes of organizational transformation when maturing~~[11].

- *Small size of the organization*

New ventures usually start off as relatively small organizations with only a handful of employees and very limited financial resources. Although some new ventures are able to acquire venture capital and thus alleviate problems associated with

8 The literature on entrepreneurship offers various definitions of the term "new ventures" (see *Fallgatter* (2002). This paper focuses on new ventures in a Schumpeterian sense, i.e., we look at independent new firms that are based on some kind of "new combination" such as an innovative technology, process, business model, or product. However, many new firms are based on "traditional combinations" (e.g., architects). As they share some of the discussed challenges in marketing with the former type of firms (e.g., limited financial resources), our review of the literature will in parts be applicable to them as well.

9 See, e.g., *Hannan/Freeman* (1984); *Romanelli* (1989); *Robertson/Gatignon* (1986).

10 See *Freeman/Carroll/Hannan* (1983). Also see research by *Brüderl/Schüssler* (1990) proposing a "liability of adolescence".

11 See *Aldrich/Auster* (1986).

resource scarcity[12], the majority of new firms have problems in raising capital[13]. Resource scarcity makes small firms vulnerable, as their ability to sustain economic downtrends is limited. It is also likely that they encounter critical gaps in required skills due to lower skill diversity and disadvantages when competing with larger firms for employees[14]. And there is less slack within a small organization that could be used for innovative purposes or training.

Empirical findings in the area of small business show that smallness is negatively correlated with survival rates[15]. However, small firms also have some advantages over larger firms. In small firms processes are more flexible, communication is more direct, and red tape is rare. Thus, small firms tend to arrive at decisions faster than do their larger counterparts, and can act in a speedier, nimbler fashion when discovering opportunities in the marketplace[16].

- *Uncertainty and turbulence*

Liabilities of newness and smallness are exacerbated by problems of uncertainty. Uncertainty is both an unavoidable aspect of entrepreneurship and of a valuable opportunity in that it serves as a basis for asymmetrical perceptions among actors. Profit comes when a new venture capitalizes on an opportunity that is not obvious to others[17] or is inaccessible to others.

~~When we look at them in this light, entrepreneurial projects can be thought of as real-life experiments in which hypotheses on the utility of an innovative combination of resources are tested vis-à-vis existing resource combinations and other innovative approaches. Ventures that create new combinations of resources might replace less efficient or less effective solutions, thereby changing the competitive structure of the industry and causing turbulence~~[18].

2.2 *Distinct challenges for marketing in new ventures*

Each of the above-mentioned characteristics of new ventures and their environment contributes to the challenges that young firms encounter in their marketing efforts. These key challenges can be outlined as follows:

12 In Germany, only 1% of new firms in software/technology industries, and less than 0,4% of new firms in most other industries are able to obtain VC-financing, see *ZEW* (2001). Though these firms can alleviate the problem of resource scarcity, they still face challenges associated with their newness, and with uncertainty and turbulence.

13 See *Aldrich/Auster* (1986).

14 See *McGrath* (1996); *Aldrich/Auster* (1986).

15 See *Small Business Administration* (1983); *Aldrich/Auster* (1986); *Birch* (1987).

16 See, e.g., *Pleitner* (1995); *Füglistaller* (2001).

17 See, e.g., *Knight* (1921); *McGrath/MacMillan* (2000); *Schonhooven/Eisenhardt/Lyman* (1990).

18 See *Schumpeter* (1946); *Anderson/Zeithaml* (1984); *Tushman/Anderson* (1986).

- *Newness of the organization*

~~First and foremost, new ventures are *unknown entities* to potential customers and other parties, which often translates into a *lack of trust* in their abilities and offerings. Hence, young firms are challenged to win customers before such firms even have a company identity, brand name, or track record. They must also devote marketing resources to building an identity. However, such processes are often lengthy and costly~~.

The *lack of exchange relationships* of new ventures is challenging not only in the context of customers, but also for other parties such as distributors and suppliers. In many industries, establishing exchange relationships can be very difficult, as access to potential partners is restricted and costly (e.g., up-front payments for distributors). As such relationships often serve as critical complementary assets, they represent substantial *barriers to market entry* when they cannot be attained.

As with external relationships in marketing, new ventures are challenged to establish *internal structures and processes* in marketing by defining new roles and tasks. However, since too much formalization can have a negative impact on response times to market changes, implementing effective and efficient internal structures and processes is a demanding task.

~~Also, emerging firms typically *lack experience in marketing*, which means errors in marketing planning and execution are more likely. Yet, due to resource scarcities, errors may have fatal consequences for new ventures, because they cannot afford expensive trial-and-error processes. In addition, they cannot draw on historical data in their marketing planning, making this process more challenging than it is in established firms~~.

- *Small size of the organization*

Marketing in new ventures faces severe *resource limitations in terms of finances and personnel*[19]. In general, this limits the options and the scope of strategies new ventures can pursue. E.g., since they are unable to finance large-scale market development efforts, they might have to target small market niches and thus miss potential first-mover advantages in the wider segment.

Resource scarcity also demands a *high degree of effectiveness and efficiency* in the marketing efforts of young companies. Small firms must develop imaginative forms of marketing that are low-cost, but produce a strong impact on the marketplace (e.g., guerrilla marketing).

Further, the small number of marketing personnel means that new ventures often *lack critical skills in marketing*, especially if the founding team is comprised of individuals with a technological background. This lack often cannot be easily compensated for, because the development of capabilities is time-consuming and cost-intensive.

19 See *Carson* (1985).

Apart from resource limitations, smallness is usually associated with *limited market presence* and *lack of market power*. Thus, in many cases, small companies cannot achieve meaningful economies of scale and scope in marketing. It is more likely that marketing faces higher costs, because partners such as chain distributors might exert market power to get larger margins from new firms.

- *Uncertainty and turbulence*

~~Due to the high degree of uncertainty and turbulence surrounding innovative solutions in new markets, the *predictability of market data is restricted* and only *limited information* is available for marketing planning. E.g., there is little information on the nature and level of demand for new offerings. On the contrary, both depend on the strength and ingenuity of the marketing effort. Thus, critical decisions in marketing (e.g., client criteria for choice, quality/cost trade-offs) must be based on vague predictions[20], which leads to a higher level of trial-and-error in marketing that emerging firms are hardly able to afford~~.

Furthermore, to be prepared for several scenarios, new ventures must keep strategic options open. However, due to resource scarcities, new firms have only limited ability to pursue several strategic options at once. Also, a revision of earlier decisions possibly *disrupts the strategic guidance in marketing* and causes *internal turbulence*.

Because of uncertainty and turbulence it is likely that *best practices in marketing have yet to be determined* for a specific industry. Correspondingly, it is likely that the *dominant design of an offering has not yet been established* in the marketplace. Thus, a new venture is hard pressed to win widespread acceptance for its own offering and to establish it as the dominant solution in the industry.

Overall, these considerations show that marketing faces a multitude of challenges, which must be successfully addressed by an emerging firm if it is to establish itself as an economic actor. *Table 1* provides an overview on these challenges.

As this table shows, there are several challenges in marketing that are specific to new ventures. These include the lack of an image and reputation, the lack of exchange relationships, and the lack of internal marketing structures and processes. Yet, some of these issues are also concerns in established companies, e.g., when new products are launched. However, the uniqueness of marketing in new ventures can be explained by the fact that entrepreneurs face all of the identified challenges almost simultaneously, but the marketing departments of larger companies usually encounter only a subset and likely some other challenges such as inertia and red tape.

3 Empirical findings in entrepreneurial marketing

Although entrepreneurial marketing can build on basic insights from general marketing, the preceding discussion makes it clear that there are several distinct issues

20 See *Macdonald* (1985).

Table 1: Challenges for marketing in new ventures

CHARACTERISTICS	CHALLENGES FOR MARKETING IN NEW VENTURES	AUTHORS
Newness of the firm	• unknown entity to potential customers and other parties • lack of trust in the abilities and offerings of the new firm • reliance on social interactions among strangers • lack of exchange relationships • lack of internal structures, processes/ routines in marketing • lack of experience in marketing • lack of historical data	Stinchcombe (1965) Hannan/Freeman (1984) Robertson/ Gatignon (1986) Schoonhoven/ Eisenhardt/ Lyman (1990) Becherer (1993)
Small size of the firm	• very limited financial resources available for marketing • few human resources • lack of critical skills in marketing • limited market presence • limited market power, disadvantage in negotiations	Carson (1985) Aldrich/Auster (1986) Pleitner (1995) McGrath (1996) Mugler (1998) Lee/Lim/Tan (1999a/b)
Uncertainty and turbulence	• very low predictability of market and other data • only limited information available for marketing planning and for marketing decisions • best practices in marketing have yet to be determined for the specific industry • dominant design of an offering is unknown • competitive structure of the industry is changing, relationships with suppliers, distributors etc. are unstable • high risk of wrong decisions, which may have fatal consequences for small firm with limited resources	Knight (1921) Kirzner (1973) Macdonald (1985) Anderson/ Zeithaml (1984) Tushman/ Anderson (1986)

that must be addressed by studies that focus on marketing in new ventures. Also, the very nature of this topic requires considering findings from related fields, particularly strategic management and innovation management.

Because the research findings in entrepreneurial marketing are so widely dispersed, the field lacks transparency, which hinders further progress. Hence, the purpose of this section is (1) to explore the antecedents of research on entrepreneurial marketing, (2) to provide a general overview of the topic by discussing the insights of three stage models of entrepreneurial marketing, and (3) to review findings on selected aspects of this field in detail.

3.1 Antecedents of research on entrepreneurial marketing

Research on entrepreneurial marketing is a relatively new phenomenon. However, some core ideas pertaining to this area have already been noted in the classical literature on entrepreneurship[21].

In fact, the first studies that used the term "entrepreneur" stem from observations of the buying and selling behavior of merchants, craftsmen, and other sole proprietors. Most notably, *Richard Cantillon* concluded in one of the earliest theories on entrepreneurship (1725) that merchants – i.e., entrepreneurs – are risk takers who commit to certain costs without knowing at what price they will be able to sell[22]. Though this embryonic analysis leaves many questions unanswered, it emphasizes the elements of risk and uncertainty that still form cornerstones of contemporary works on entrepreneurship and entrepreneurial marketing.

The second half of the 18th century and all of the 19th century saw a string of publications that discussed the characteristics of entrepreneurs, yet none of the writings produced major insights for entrepreneurial marketing[23]. Notable advances were made in the early 20th century with the works of *Joseph Schumpeter*, who introduced innovation and newness to the concept of entrepreneurship, thereby raising several key issues in entrepreneurial marketing. For *Schumpeter*, the marketing of innovative products and their market success vis-à-vis competitive offerings constituted important parts of entrepreneurship. He defined the entrepreneur as an innovator who induces change in the marketplace by carrying out so-called "new combinations", like selling innovative products to an existing market or opening completely new markets[24]. *Schumpeter* also noted that entrepreneurs face distinct challenges in these activities as they move into untested waters and suffer from a general lack of data – an observation that refines the arguments brought forward by *Cantillon* and describes well the challenges associated with marketing planning in emerging firms. Furthermore, *Schumpeter* elaborated on the way innovations gain acceptance in the marketplace. He stressed that new products do not instantly replace existing ones. Rather, they compete head-to-head with existing offerings and – in case of their competitive superiority – win market share and induce "gales of creative destruction" in the marketplace[25].

In parallel to these fundamental insights coming from the classical entrepreneurship literature, further insights relating to entrepreneurial marketing were estab-

21 The scope of this paper does not allow for a complete history of thought in entrepreneurial marketing, making it necessary to focus on the most important contributions. However, I encourage researchers to further explore this topic; cf. Table 3.

22 See *Hisrich/Peters* (1995). Also see *Fallgatter* (2002).

23 To some extent this can be explained by the way business was conducted in those days. Up to the time of the industrial revolution and the introduction of the freedom of trade in the 19th century, marketing activities such as advertising were typically considered to be improper as they violated the moral codex imposed by the guilds (*Wischermann* (1995), *Blaich* (1982)). The ambitious marketing activities of some of the merchant houses in the 15th and early 16th century are special cases as they often originated from territories following at least partly the principles of individualism and economic liberalism (*Häberlein* (2000)).

24 See *Schumpeter* (1926), pp. 100–101, for a more comprehensive list of "new combinations".

25 See *Schumpeter* (1926), pp. 50/101, and *Schumpeter* (1942), pp. 134–142.

lished, of course, by research on general marketing, when the first scholarly writings on advertising were published in the late 19th and early 20th century[26]. But research that specifically focused on marketing in new firms was not conducted for most of the 20th century. E.g., a review of the Journal of Marketing from 1936 to 1987 shows that not even one single article dealt with marketing issues in new ventures. A review of the Journal of Retailing from 1927 to 1987 identified only four articles that address this topic[27]. This lack of studies can be attributed largely to the fact that studies in marketing (and management) focused on large corporations up to the 1970s, when the macroeconomic importance of new ventures was more widely recognized[28].

3.2 Models of entrepreneurial marketing

While the classical literature discusses particular aspects of new firm formation, contemporary writings follow a more comprehensive perspective and view entrepreneurship as a process. This process starts with the discovery of an opportunity that can be capitalized on by creating a new organization[29]. Closer insights on this multi-stage evolution process can be obtained from several models of new venture growth[30]. Although there is a relatively large number of models that are concerned with the organizational development of new firms, only few conceptualizations exist that focus on marketing aspects[31].

Table 2 gives a synopsis of three influential models that depict the development of marketing in new ventures. Each model identifies four distinct development stages.

The model by *Tyebjee/Bruno/McIntyre* (1983) is based on interviews with managers of fast-growing high-tech companies. The authors argue that the key to establishing a successful marketing organization is to anticipate the marketing efforts of the next stages of company growth, because strategies suited for the current stage might prove to be liabilities later on. Hence, a purely reactive marketing would endanger the transition from one growth stage to the next and limit the growth potential of new firms. As *Table 2* shows, early marketing efforts are informal and targeted towards friends and other contacts who buy customized products. Though early growth can be generated through such activities, the overextension of key people leads to diminishing effectiveness and requires the introduction of sales management, a rudimentary marketing department, and a more standardized product offering. In subsequent stages, young firms should focus on finding new growth opportunities while defining internal marketing processes and specific tasks of a marketing department.

26 See, e.g., a study by *Mataja* (1910) and the historical account of *Paneth* (1926).

27 See *Hills* (1987).

28 See *Acs* (2001).

29 See *Bygrave* (1997).

30 See *Albach/Bock/Warnke* (1985); *Nathusius* (1979). See, e.g., the models by *Greiner* (1972), *Churchill/Lewis* (1983).

31 It is particularly striking that no models on marketing evolution have appeared in major journals during the past decade. However, this finding coincides with the observation that most models of organizational development of new ventures stem from the 1980ies, too.

Table 2: Marketing in new ventures – a synopsis of stage models

MODEL	STAGE 1	STAGE 2	STAGE 3	STAGE 4
Tyebjee/ Bruno/ McIntyre (1983)	**Entrepreneurial marketing:** sell customized products to friends and contacts, gain credibility in the marketplace, informal/flexible marketing organization, market niche	**Opportunistic marketing:** achieve production economies and increase sales volume, introduce sales management, market penetration	**Responsive marketing:** achieve functional coordination/ internal communication and pursue customer satisfaction, seek further product-market development to strengthen growth	**Diversified marketing:** emergence of a marketing function at the corporate level, specialized skills in marketing, product life cycle and portfolio management, seek new growth opportunities
Carson (1985)	**Initial marketing activity:** find first customers, often on personal basis, product quality and functionality, price and delivery are important, marketing performed in primitive fashion, word-of-mouth	**Reactive selling:** increasing number of enquiries from strangers, more formal information needed, reactive to enquiries and demand, need for marketing expertise	**DIY marketing approach:** owners still do marketing themselves, marketing mostly comprises spasmodic and disjointed initiatives, imbalances in overall marketing package	**Integrated proactive marketing:** migration towards professional marketing, each marketing activity integrated with others, full-time marketing expert or consultant
Boag (1987)	**Seeking some sales:** adhoc meetings, no formal marketing structure, engineering culture, no strategic or task planning, no performance measurement, no evaluation/reward process	**Making good sales:** formal departmental status to sales, no strategic planning, partially developed product/sales budget, sales monitoring, no evaluation/reward process	**Seeking profitable sales:** expansion of marketing structures, no strategic planning, but comprehensive task planning, sales/profit performance monitored, evaluation/ rewards for sales performance	**Making profitable sales:** routinization of reporting procedures, nas-cent strategic planning, sales/profit performance monitored, evaluation/ rewards for sales performance

*Carson*s (1985) model, which is based on personal experiences and involvement with small companies, also identifies a four-stage evolutionary process in marketing. He argues that new ventures enter markets in ways largely prescribed by specific industry norms, and develop their first customers mostly through personal contacts. All in all, marketing is primitive at this initial stage. Management focuses on product quality and functionality, on price and on delivery, and word-of-mouth plays a key role in the new firm's communication activities. Yet, as more and more customers are interested in the firm's offering, formal marketing processes and standardized information are needed. Though entrepreneurs probably notice that additional marketing expertise is required, they are reluctant to spend money on hiring new staff. Rather, they prefer to follow a "do it yourself" marketing approach by trying to improve their own skills. However, their marketing activities typically comprise uncoordinated and disjointed activities, and therefore are suboptimal for the new firm. Thus, to progress to professional marketing, the key challenge is to acknowledge that specific capabilities are needed in marketing, and to understand how such capabilities can be harnessed either by hiring a consultant or employing a marketing expert.

*Boag*s (1987) model, which is based on interviews with 20 high-tech companies, focuses on aspects of marketing control in emerging firms. In the initial stage, *Boag* finds that new firms follow an engineering culture and completely lack elements of marketing control and as a consequence, market rationalization does not occur. Furthermore, the absence of planning activities leads to uncoordinated efforts in marketing. As *Table 2* shows, the next stages of marketing development bring a gradual evolution of the marketing function and an increased formalization of marketing planning and control processes. For the soft factors, the new firm evolves from an engineering culture to a sales culture and subsequently to a marketing culture in stage 4.

Though each author uses his own empirical investigation to develop a model of marketing in new ventures, these models have strong similarities. All models see marketing starting off in a primitive fashion in emerging firms and gradually gaining in professionalism, e.g., through the introduction of formal structures and marketing planning processes, and through the development of marketing know-how. Several points are notable:

- As *Tyebjee et al.* and *Carson* point out, personal networks play an important role in early stages of marketing development as sales to personal acquaintances help emerging firms to get their first cash flows from customers. In doing so, new ventures partly overcome liabilities of newness, particularly their lack of exchange relationships and their lack of credibility and trust.

- All the authors address challenges associated with the small size of emerging firms. The authors see the lack of financial and personnel resources in marketing and the lack of specialist expertise as key liabilities that must be overcome so that new firms can progress to "higher" stages of marketing evolution.

- Furthermore, the models show that scalability must be achieved in the marketing practices of new ventures if the new firms are to be able to manage the growth process. New structures, roles, and processes in marketing must be defined, new capabilities must be developed and new marketing resources must be acquired.

- All the authors find that during the initial stages, management lacks awareness of the importance of marketing, partly because firms have an engineering culture and focus on the functionality of their products. Later on, experiences with customers and a need to strengthen growth serve as catalysts for a cultural change towards market orientation. Thus, as *Drucker* (1973) said, firms need to realize that the purpose of a business is not to create a product; the purpose is to create a customer.

Although these models offer valuable insights on the emergence of marketing in new ventures, and thus help entrepreneurs in becoming more sensitive to important issues, some shortcomings limit their usefulness:

(1) Except for *Boag*s model, which focuses on aspects of marketing control, these concepts look at the emergence of marketing from a broad perspective. By giving overviews, they touch only the surface of many issues.

(2) The authors portray these activities as an aggregate of issues, rather than applying a more systematic approach. E.g., these models mix strategies with operational/tactical activities in marketing, though such distinctions are elementary[32]. This criticism points to a more general problem of these models, which is that they are based mainly on empirical observations without being well rooted in marketing and entrepreneurship theory.

(3) These models give an incomplete account of the evolution of marketing in emerging firms, because they omit the key stage of opportunity recognition, for which market-oriented behavior is essential.

(4) Although the authors give recommendations on how to cope with various marketing challenges, they do not mention that many new ventures are able to plan "on the green field" and can adopt a professional approach to marketing from the start.

Overall, these models paint a bleak picture of many aspects in marketing during the initial stages of venture development. When looking at these deficits, it is easy to understand why venture failure rates could be reduced considerably by an early introduction of professional marketing, as the numbers cited in the introduction indicate.

3.3 Review of selected topics in entrepreneurial marketing

Building on the general overview the various models of entrepreneurial marketing have been able to give, in this section I review selected topics in more detail.

32 See, e.g., *Porter* (1996).

Looking at past and current findings[33], a multitude of research questions can be identified that have been pursued by researchers. In general, these findings show that entrepreneurial marketing must address tasks associated with the *formation of a new organizational entity* (e.g., establishing a marketing function, developing a market-oriented firm culture), and tasks associated with the *process of new product development and -launch*.

The latter group of tasks particularly benefits from insights on innovation management, where research has produced important findings on new product success. This literature shows that marketing considerations should play an important role from early on in the process of new product development, spanning all stages from opportunity recognition to product evaluation, market entry, and marketing management of the launched product[34]. Though these findings cannot be transferred per se into the domain of entrepreneurial marketing – as some insights on new product success are only valid in the context of large, established firms[35] – there are many studies that are relevant to new product success of emerging firms, yet such studies have not been adequately received by the entrepreneurship community so far.

A detailed review of research findings on all marketing tasks associated with new firm formation and new product development/launch goes beyond the possibilities of a single article. Furthermore, it is unnecessary to review in detail those issues which are adequately covered by the general literature on marketing, e.g., market segmentation, positioning, and pricing. Without doubt such issues are very important to new firm success, but they are already well documented. Thus, my review focuses on the following five topics, which are particularly apropos for entrepreneurial marketing and which can assist in shaping the contours of this emerging field:

33 By past and current research I mean articles published in the following major journals: Administrative Science Quarterly, Academy of Management Journal, Die Betriebswirtschaft, Entrepreneurship Theory & Practice, Harvard Business Review, Journal of Business Venturing, Journal of Product Innovation Management, Journal of Marketing, Journal of Marketing Research, Journal of Small Business Management, Strategic Management Journal, Zeitschrift für Betriebswirtschaft, Zeitschrift für betriebswirtschaftliche Forschung, and the complete proceedings from the annual conferences on Research at the Marketing/Entrepreneurship Interface since its inception in 1987. Following *Brown/Eisenhardt* (1995), I include in my literature review those studies that are frequently cited and which have theoretical/empirical rigor.

34 See, e.g., *Zirger/Maidique* (1990); *Atuahene-Gima/Li* (2000); *Cooper/Kleinschmidt* (1987/1993). Potential customers can be integrated into this process from the beginning, and in some cases may even be willing to fund the project, see *von Hippel* (1988); *Meyer/Pfeiffer* (1998).

35 There are major differences in new product management of large, established companies and of emerging firms. E.g., established firms can launch a new product using an existing company brand, thereby benefiting from its image (*Albers* (2001)), and also have complementary assets such as access to distribution channels (cf. section 2). Such differences also limit the transferability of insights coming from meta-studies on new product success, since these studies are based on research on large, established firms. E.g., the meta-analysis conducted by *Henard/Szymanski* (2001) uses predictors of new product performance such as marketing synergy (i.e., congruency between existing marketing skills and skills needed for the new product), technological synergy, and cross-functional integration/communication across different departments, all of which are of limited relevance to emerging firms.

- Opportunity recognition
- Establishing a marketing function
- Establishing a company identity/brand name
- Leveraging scarce marketing resources
- Market entry strategy

3.3.1 Opportunity recognition

Recognizing an opportunity to offer a particular product or service in the marketplace is often the earliest stage of new venture creation[36]. This stage is heavily influenced by marketing and market-related knowledge, because not only is such knowledge required for spotting a business opportunity, but also for evaluating whether it is worth pursuing.

Although it is considered a critically important aspect of entrepreneurship[37], relatively few studies have been conducted on opportunity recognition, mainly due to difficulties associated with researching such an early stage in the entrepreneurial process[38]. According to *Ardishvili/Cardozo/Ray* (2003), the literature on opportunity recognition has identified a number of factors that influence the way opportunities are recognized and developed. From the perspective of entrepreneurial marketing, key issues are *entrepreneurial alertness, prior knowledge* and *personality traits*, and *techniques assisting in opportunity identification.*

Entrepreneurial alertness addresses the ability to spot opportunities in the market. In hindsight many business opportunities seem obvious, but the choices are rarely that clear at the time of opportunity recognition. As *Tellis/Golder* (2002) point out, the discovery of business opportunities has an important visionary component that is based on the worldview of the aspiring entrepreneur. Often, this visionary component comprises radically different ways of doing things, making it difficult for others to understand the opportunity. The literature holds many examples of successful entrepreneurs whose business ideas were initially considered infeasible or even foolish[39], and of experts who completely misjudged the future development of innovations[40]. In this regard, *Kirzner* (1973) stresses that entrepreneurs find and exploit opportunities by knowing or recognizing things that others do not, e.g., unsolved maker and user problems, unmet needs, and novel interests of consumers. Hence, a general acknowledgement of the importance of fulfilling customer needs, which often is absent in technology-based ventures, and a heightened awareness of the market and the needs of potential customers are essential for discovering business opportunities.

36 Some scholars regard opportunity recognition as a discrete event, while others take a broader perspective and view it as a multi-stage creative process. See *Lumpkin/Hills/Shrader* (2001).

37 Definitions of entrepreneurship have increasingly focused on opportunity as being at the core of the phenomenon. See, e.g., *Bygrave/Hofer* (1991).

38 See *Lumpkin/Hills/Shrader* (2001).

39 See the histories of firms such as Gillette, FedEx, and McDonald's given by *Tellis/Golder* (2002).

40 See, e.g., *Mohr* (2001), who relates how Gordon Moore of Intel failed to recognize the commercial attractiveness of home computers in the 1970s.

Prior knowledge and personality traits of entrepreneurs are also considered as major factors that influence the way opportunities are recognized and developed. *Stevenson/Jarrillo-Mossi* (1986) suggest that individuals define a business opportunity based on their upbringing and their perception of possibilities available within societal surroundings, as well as a sense of what is “right”, “justice”, and “need fulfillment”. Similarly, *Cooper* (1981) reports that entrepreneurs intuitively perceive opportunities based on their feel for the market, while *Ardishivili/Cardozo/Ray* (2003) suggest that three major types of prior knowledge are instrumental in the process of opportunity recognition: prior knowledge of markets, of ways to serve markets, and of customer problems[41]. And *Hills/Lumpkin/Singh* (1997) conclude that entrepreneurs with an extensive social network are particularly well positioned to spot opportunities for new offerings.

Studies that examine the origin of opportunities also confirm the importance of this kind of intense market-orientation. They show that opportunities are mostly discovered by recognition, and not through planned search activities[42]. Yet, researchers have developed some techniques lately that assist in the process of opportunity recognition and which can provide practical help to aspiring entrepreneurs. In general, the literature on creativity offers a variety of methods that can be used to discover new business opportunities. In the context of entrepreneurship, *McGrath/MacMillan* (2000) propose several methods that stress the importance of understanding customer needs and behaviors. First, they see business opportunities available in the improvement of products currently offered in the marketplace, e.g., by closely analyzing products’ design components and improving their overall attractiveness with the help of an “attribute matrix”. Second, opportunities can also be discovered when re-differentiating existing products (e.g., through consumption chain analysis) or re-segmenting an existing market (e.g., through behavioral segmentation). More radical ideas for new businesses can be generated by looking for ways to reconfigure existing markets, e.g., by improving existing business models or creating new ones, or by focusing on customer groups that are currently not served.

In sum, these results point out that would-be entrepreneurs who are looking for a business opportunity can raise the odds for its discovery by adopting a market-oriented behavior and by gathering knowledge on the market and on customer needs. Although research has targeted key questions, the underlying issues are not well understood:

First, a more comprehensive study is needed that examines the process of opportunity identification and evaluation in new ventures from a marketing perspective. Here, it would be helpful to distinguish resource-based/technology-driven opportunity identification and market-driven opportunity identification, since the underlying search processes and marketing challenges are fundamentally different. For instance, scientists who hold a patent on a certain technology are challenged to find a promising product-market combination, while people who discover a need

41 Strategy scholars distinguish activities of “local search” from activities of “distant search”, thereby addressing the distance of search activities from the existing area of expertise. See, e.g., *Stuart/Podolny* (1996); *March* (1994).

42 See *Bhidé* (1994).

for a product in the marketplace are challenged to acquire adequate resources and to build sustainable competences to be able to capture the opportunity.

Second, it would be helpful to understand which types of prior market knowledge support opportunity identification, and how networks with customers can be used to identify promising new products. E.g., the lead-user concept[43] is prominent in the field of innovation management, but there is no knowledge on how to apply it to the process of opportunity identification in new ventures. Going one step further, researchers should also take a closer look at the process of product/market identification[44]. It would be particularly interesting to explore the influence that early-stage private equity financiers exert on this identification process, because it is in their interest to direct an emerging firm towards the biggest/most lucrative market opportunity.

Finally, to understand the process of opportunity recognition more thoroughly, researchers should also study the role of cognitive biases and heuristics in this process. As *Tversky/Kahneman* (1974) stress, biases prevent decision-makers from correctly processing information. For instance, it would be interesting to study from a cognitive perspective whether scientists with prior knowledge of particular markets are more inclined to develop product-market combinations for these markets, rather than for markets where they would need to collect information (and that might have much more potential). In a similar vein, some entrepreneurs might tend to ignore market information that has negative implications for their venture project[45].

3.3.2 Establishing a marketing function

The evolution of business functions, and specifically the evolution of the marketing function in new ventures, has received very little attention by researchers[46]. However, knowledge of these phenomena has important implications for understanding how organizations grow, how they overcome liabilities of newness, and how to evaluate the costs and benefits associated with establishing a functional structure. Previous studies have focused mainly on three sets of issues: the *degree of formalization that is required in marketing*, *the delegation of marketing responsibilities within emerging firms*, and *possibilities to outsource marketing activities*:

The models of *Tyebjee et al.* (1983), *Carson* (1985) and *Boag* (1987) give the impression that new ventures start off with an informal approach to marketing and gradually formalize their activities as they grow by introducing a marketing department and related structures. Other authors such as *Kotler* (1994) argue that companies already start off with a sales department, since sales is one of the primary functions of businesses, which later on evolves into a modern marketing department.

43 See *von Hippel* (1986). See also research on user toolkits, e.g., *Franke/Piller* (2003).
44 See also the remarks by *Stasch* (1996).
45 See *Stasch* (1990).
46 See *Ardishvili/Reynolds/Williams* (1996).

More detailed insights on these questions come from research on innovation management. However, these authors do not distinguish between stages of venture development because they look primarily at the innovation processes of established firms. Based on contingency theory, several researchers argue that the management of innovation, which occurs mostly in uncertain environments, needs organic and intensively integrated structures[47]. This being the case, it can be concluded that new ventures should adopt an amorphous, informal approach to marketing. Other researchers such as *von Hippel* (1986) stress, however, that a formalized marketing position supports the product development process, because such a position can collect valuable data on the marketplace and lead users. The marketing arm's interaction with other functional departments, such as R&D and engineering, plays a critical role in the management of innovations[48].

Following this line of reasoning, the conclusion could be drawn that it is more favorable for new ventures to adopt a formalized approach to their marketing activities than to rely on an ad hoc organization. This latter result is also confirmed by research that focuses on new ventures. *Schoonhoven/Eisenhardt/Lyman* (1990) conclude that elements of formal structure, such as marketing and manufacturing positions, support emerging firms in bringing their products to market faster, because these elements capture attention within the firm and combine the functional expertise in the respective area.

Ardishvili/Reynolds/Williams (1996) take it as a given that a marketing function exists at the inception of a new business and explore whether the primary responsibility for marketing is delegated to someone other than a member of the founding team, and how that delegation evolves. They find that venture teams rarely delegate primary functions (including marketing) at the time of inception, and that the marketing function is retained longer than most other functions. In those instances in which delegation occurs, the delegates are usually established employees.

This hesitance in delegating the marketing function is explained by two observations. First, this function plays a key role in the business development planning of new ventures, which is another functional area that is mostly retained by the founding team. Second, because many new firms start with only a handful of key customers, the way the marketing function is managed directly influences customer relationship management, and hence is particularly critical for achieving growth.

As an alternative to an internal marketing function, new ventures can also look outside their boundaries to harness marketing infrastructure. For example, as *Coviello/Brodie/Munro* (1995) point out, an effective way is to form network relationships with well-established firms, especially large vendors, and to practice interaction-based marketing, which increases market exposure and certain types of business knowledge. The authors also stress the risks associated with outsourcing certain parts of marketing, especially those cases in which knowledge and expertise are no longer created in-house.

47 See, e.g., *Miller* (1988). For a related line of reasoning see *Burns/Stalker* (1961).

48 See also *Atuahene-Gima/Li* (2000); *Souder* (1988); *Brockhoff* (1989); *Cooper* (1988).

Though previous studies give some important insights on the emergence of the marketing function in new ventures, our understanding of this phenomenon is still very incomplete. This is particularly dissatisfying, as research findings on the origins of the marketing function and its development are valuable beyond the area of entrepreneurial marketing, specifically to researchers in general marketing.

First, as a starting point for future studies, it would be insightful to track in detail the development of the marketing function in several new firms. Here, the study by *Ardishvili/Reynolds/Williams* (1996) can be instructive, as it makes the important distinction between the entrepreneurial team as the nucleus of the firm and additional employees that join the company at a later point in time.

Second, following the much cited results of *Greiner* (1972) we suspect that several of the new firm's challenges are associated with finding the optimal way of formalizing marketing activities as organizations grow, because, as noted earlier, the costs and benefits of formalization will likely change during the growth process. Researchers should explore whether certain stages of growth of the marketing function exist and how scalability can be achieved, as marketing is elementary to fueling firm growth and therefore should not become a bottleneck for company operations.

Third, because it is difficult to assess all costs and benefits associated with formalizing marketing activities in new ventures, researchers should try to understand the most important components of this problem. These insights will also be of practical help to entrepreneurs who are developing the organizational design of their emerging firms. E.g., as shown above, findings on the basic problem of whether or not to formalize marketing right from the outset not only point in different directions, but are also still generic. These findings do not give a clear understanding of how a formalization should occur (e.g., by appointing a chief marketing officer, by introducing a marketing department, etc.).

Fourth, expanding on the issue of costs and benefits, researchers should ask whether those ventures that did introduce a marketing function from early on became more market-oriented than ventures that did not. Since research has shown that market-oriented ventures clearly outperform firms lacking such an orientation[49], empirical insights would have interesting implications for new venture management, particularly for the large number of venture teams with a technological background.

Finally, new ventures from a variety of industries must be studied, because it is likely that industry factors impact the development pattern of the marketing function. For example, emerging firms in industries such as biotechnology must concentrate on long and tedious R&D efforts and therefore do not require a marketing function from the outset[50]. Yet, new firms that focus one Commerce must often obtain access to many customers very quickly, as their business models often rely

49 See, e.g., *Raffa/Zollo* (1995); *Roberts* (1991).

50 In the case of biotechnology start-ups, *Freier* (2000) reports that the marketing and sales function is the last primary business function to be established, typically four years after the inception of the company.

on "locking-in" a critical number of customers in order to benefit from network externalities and economies of scale and scope[51]. For these companies, it is critically important to perform marketing activities professionally from the start[52].

3.3.3 Establishing a company identity/brand name

Emerging firms typically lack a company identity, brand name, and legitimacy, which makes it difficult for them to enter exchange relationships as their credibility, promises, and staying power are put into question[53]. Yet, they are dependent on resource commitments from various stakeholders and particularly on revenue streams from customers in order to establish themselves as viable entities[54]. Furthermore, because new firms lack a distinct identity, it is difficult for them to distinguish their offering from competitive offerings and to achieve the essential competitive advantage[55].

Though researchers in entrepreneurial marketing acknowledge the importance of establishing a company identity and brand name, there are only few findings coming from this field. Together with studies from related literatures, it is possible to obtain a preliminary understanding, namely of *factors which are important in brand management*, *the process of building an identity and brand*, and – related to this question – *the process of building credibility*:

Benefiting from a long research tradition going back to authors such as *Domizlaff* (1939), the literature on general marketing has a wealth of knowledge on identity and brand management that is well documented[56], and thus will only be discussed briefly. Insights on the various dimensions of a corporate identity and of a brand, and on determining a favorable positioning for a company are vital to brand management in new ventures. Here, marketing research stresses that a corporate identity and brand are not only a function of rational characteristics, but must also be augmented and communicated to consumers through a well-orchestrated set of marketing activities. These studies also show that advertising alone rarely creates brands, and that quality is the prime determinant of brand strength, along with factors such as superior service, first-mover advantages, and differentiation[57].

Table 2 shows that an initial strategy for building an identity and brand name is to sell to customers who are personally known to the entrepreneur, i.e., to a constituency where the anonymity of the firm is less important and where the lack of firm-based credibility can be compensated for by a strong person-based credibility. Because this strategy allows a new venture to quickly make its first sales, it

51 See, e.g., *Wirtz* (2003); *Amit/Zott* (2001); *Albers/Panten/Schäfers* (2002c).
52 See *Bergin* (2000).
53 This problem is illustrated best by an anecdote about a cynical IBM salesman who reportedly told a purchasing manager, "Nobody's ever been fired for buying IBM." *(Doyle* (1989)).
54 See *Pfeffer/Salancik* (1978); *Timmons* (1999); *Qu/Cardozo* (1997); *Starr/MacMillan* (1990).
55 See, e.g., *Cooper* (1987) and the meta-analysis by *Henard/Szymanski* (2001).
56 For an overview see, e.g., *Aaker* (2002) and *Riel/Balmer* (1997).
57 See *Doyle* (1989) and the body of literature cited in his study.

can prove the functionality of its product, thereby generating firm-based credibility. Also, the availability of the product on the marketplace and its usage initiate word-of-mouth[58], which can lead to further sales and possibly to "snowball"-effects ("buzz") in marketing. Yet, spreading information this way is usually much less controllable than are specific marketing activities undertaken by a company, so it would be problematic for a new venture to rely solely on consumers' word-of-mouth. Hence, investments in professional marketing and sales management (cf. *Table 2*), including promotional activities, are indispensable for an emerging firm to achieve its desired positioning in the competitive arena. However, the typical scarcity of financial resources that would be required for these activities puts these firms in a dilemma, unless revenues generated by past sales, cash flow from other sources of financing, or the adoption of certain strategies to leverage resources can alleviate this problem.

Since no study could be found that actually traces the process of identity and brand building in new ventures, these insights from the stage models cannot be substantiated by empirical research based on larger sample sizes. However, studies on closely related subjects lend support. For example, research on networking activities of new ventures confirms that personal relationships play a key role when entering a new market[59], and studies researching trust-building activities stress the importance of person-based trust for new ventures looking to establish credibility[60]. Furthermore, studies that focus on low-cost "guerilla" marketing activities emphasize consumers' word-of-mouth for achieving popularity in the marketplace.

Another related area of study is credibility research[61], which helps researchers to understand how firms impact the perceptions of stakeholders. Research on the credibility of new ventures concludes that four separate dimensions of credibility – expertise, trustworthiness, competence, and innovativeness – are significantly related to how favorably a new firm is perceived by an individual. Thus, it is suggested that the marketing strategy, particularly the advertising and public relations plans, should provide information on the strength of the capitalization, the wealth of experience of the founders, and any patents or licenses that the firm may hold[62]. Furthermore, *Sanner* (1997) shows that emerging firms often cite their relations to consultants, certification agencies, and early buyers to draw from the trust these associates enjoy. The same can be said of strategic alliances with top-tier firms, because their reputation is transferred, at least in part, to the emerging entity, creating a "signaling" or "halo effect"[63]. Also, communication elements that may appear minor, such as the quality of brochures and business cards, are important tools that influence communication between a new firm and its stakeholders, and impact the overall perception of a new business[64].

58 See *Carson* (1985).
59 See, e.g., *Carson et al.* (2000).
60 See *Sanner* (1997).
61 See, e.g., the overview on this topic given by *Gruber* (2003). See also *Volery/Mensik* (1998).
62 See *Becherer* (1993).
63 *Shan* (1990); *Li/Atuahene-Gima* (2001); *Hoang/Antoncic* (2002).
64 See *Becherer* (1993).

In summary, it can be noted that researchers regard the lack of an identity/brand name and related to it the lack of legitimacy of new ventures as critical liabilities. Although existing studies target key research questions, there is much room for future research:

First, like the research on the marketing function of new ventures, future studies need to arrive at a deeper understanding of this subject by tracking the process of brand and reputation building. As new ventures pass through different stages of development, they are likely to encounter varying challenges in these efforts. For example, growing the customer base from a personal network to unknown customers requires varying techniques of brand and reputation building, with the venture gradually moving from person-based trust to establishing firm-based trust. Yet, there does not appear to be any study that addresses this challenge conceptually or empirically.

Second, expanding on this issue, researchers should also look at the role of regional innovation clusters, because the geographic proximity of key industry players, clients, and support services makes it easier for new ventures to become visible in the industry and to establish a reputation.

Third, though researchers in entrepreneurship frequently stress the importance of strategic alliances, there is surprisingly little knowledge available on how alliances assist in building a favorable reputation and brand. Studies are needed that not only look at the choice of alliance partners, but also at the contents of these alliances and the process of establishing them. Future studies must also include alliances with various stakeholders, such as research institutes and venture capitalists, because these partnerships can have strong signaling effects.

Finally, building a solid reputation and attractive brand name is a lengthy, resource-intensive activity that puts new ventures into a dilemma, because they need to make sales quickly[65]. As *Sanner* (1997) points out, based on his case study research on new ventures, the trust development process usually takes 4 to 5 years[66]. However, one can imagine that there are several strategies new firms can adopt to reduce the amount of resources and time needed for accomplishing this task, e.g., by establishing strategic alliances with top-tier firms. Thus, it would be a worthwhile research opportunity to look at solutions to this dilemma from a conceptual perspective, as well as empirically.

3.3.4 Leveraging scarce marketing resources

As noted, one of the key challenges of marketing in new ventures is scarcity of financial and personnel resources. This scarcity demands a strict monitoring of marketing costs[67], and restricts the range and intensity of marketing activities a

65 For a discussion of first-mover advantages in brand building see, e.g., *Urban/Carter/Gaskin/Mucha* (1986) and *Urban/Hauser* (1980).

66 A study by *C4 Consulting/WHU/VDI* (2001) outlines that entrepreneurs and venture capitalists mostly think that a time frame of two years is adequate for establishing a brand.

67 See *Albers/Panten/Schäfers* (2002c).

new venture is able to pursue[68]. Entrepreneurs can either alleviate this problem by trying to acquire additional resources, such as venture capital or bank loans[69], or by trying to achieve a maximum effect of these scarce resources. The following discussion will focus on the latter.

Findings on this topic can be categorized in two groups: *strategies and tactics for reducing the amount of resources that must be spent for particular marketing activities ("let others pay");* and *strategies and tactics that require only few resources, yet have a high impact in the marketplace.*

Strategies and tactics for reducing the amount of resources spent for particular marketing activities include the *free-riding strategy* as well as the *strategy of forming alliances* with other organizations:

The theory of free riding is a concept that originated in economics. It focuses on problems of excluding consumers who enjoy benefits from the provision of public goods without paying for their costs. Free riding occurs in various forms in the business world, e.g., when firms imitate attributes of products from competitors without incurring R&D expenditures made by the innovating company[70]. In following a strategy of targeting only established markets, *Lee/Lim/Tan* (1999a); 1999b) argue that new ventures can lower the risk of failure because the demand for a specific offering has already been proven. Furthermore, new ventures can free ride on the sometimes substantial market development efforts undertaken by the innovators, learn from the experiences made by earlier entrants, and avoid their costly mistakes. New ventures might also be able to enjoy cost savings in R&D, marketing planning, etc., when imitating strategies used by the originating firms ("mimicry"). Thus, *Lee/Lim/Tan* stress that due to cost savings, entrepreneurs may be able to enter markets that would otherwise be out of reach. However, they neglect to evaluate the opportunity costs of these strategies.

The formation of strategic alliances with other organizations is one of the most popular research topics in entrepreneurship[71]. In general, inter-organizational relationships alter the system of constraints and dependencies that confront a new firm[72], as they allow accessing or absorbing resources and competences of other firms, and hence lend support in overcoming liabilities of newness and smallness. Considering strategic alliances in marketing, researchers stress that alliances permit acquisition of critical resources in marketing, help to gain access to specialist expertise, improve the technical and marketing capabilities of new firms, support

68 See the examples in *Weinrauch/Mann/Robinson/Pharr* (1991).

69 While VC-backed ventures typically possess more financial resources than non-VC-backed businesses, their cash-outflows are usually monitored closely by VCs, putting them under pressure to select effective and efficient strategies in marketing. However, as the period of "irrational exuberance" in capital markets a few years ago illustrates, there can be times when new ventures are challenged by an abundance of financial resources rather than by their scarcity. For an overview on the development of eCommerce ventures during this time and the subsequent consolidation period see *Albers/Panten/Schäfers* (2002b) and *Kollmann* (2003).

70 For further examples see *Lee/Lim/Tan* (1999b).

71 For an overview see *Hoang/Antoncic* (2002).

72 See, e.g., *Pfeffer/Salancik* (1978); *Dubini/Aldrich* (1991); *Steier* (2001).

emerging firms in finding new customers and doing market research, and leverage their impact on the market place (e.g., through co-branding, barter deals[73])[74]. As *McGee/Dowling/Megginson* (1995) point out, however, experience in marketing plays a critical role in achieving success in cooperative marketing activities. There are examples of particularly successful marketing alliances in the eCommerce area, where new ventures use affiliate marketing programs to generate additional sales and to gain visibility. Because these alliances can be standardized, they allow new firms to quickly build a widespread network of affiliated websites that promote their goods and services. Royalties will only be paid for successful referrals[75].

The second group of findings focuses on strategies and tactics that require only few resources, yet promise to produce a high impact in the marketplace. These strategies/tactics include the adoption of a *niching strategy*, a *gradual "step-by-step" development* of marketing activities, and *low-cost "guerrilla" tactics* in marketing. This paper does not discuss strategies of *franchising* and *multilevel marketing*, both of which seem to be suitable for leveraging the scarce resource base of emerging firms.

The niching strategy rose to prominence during the 1980s as one type of generic strategy that was proposed by *Porter* (1980). It is probably the strategy that is most often advocated for small firms. It suggests that emerging firms should focus on market segments that are less crowded or even ignored by more resourceful companies. In such niches, new ventures can gain their first customers away from larger competitors and establish themselves as credible business partners, before using their rising status as experts as a bridgehead for venturing into larger markets[76]. Research shows that 75% of successful small businesses pursue a niching strategy[77]. Yet, larger firms might enter the niche when it becomes clear that good returns can be achieved.

The strategy of developing marketing activities step-by-step comes back to the models discussed above. It has been argued that new ventures can achieve their first revenues by selling to personal contacts, thereby initially saving financial resources in marketing while generating much needed cash inflows. These inflows can then be used for larger-scale marketing activities, which will generate even more cash inflows, and so on. However, the opportunity costs of following this strategy must be considered carefully. In essence, the step-by-step approach represents a strategy of slow growth as opposed to a strategy of high growth that might be required to succeed in some markets.

Tactics of low-cost "guerilla" marketing are a further option that can be used to leverage scarce marketing resources, as they follow the basic principle in entrepreneurship of "spending imagination instead of money"[78]. Several guides written for practitioners have addressed guerilla marketing and have amassed large lists of

73 For an account of the use of barter deals by eCommerce ventures see *Reiter/Pansy* (2002).

74 See *Carson* (1985); *Shaw* (1999); *Hill/McGowan* (1997).

75 See *Brettel/Heinemann* (2002).

76 See, e.g., *Moore* (2002).

77 See *Lee/Lim/Tan* (1999a).

78 *McGrath/MacMillan* (2000).

such tactics[79]. In one of the most comprehensive research studies to date, *Stasch* (2000) stresses the importance of consumers' word-of-mouth, creating a fan club for the offering, handing out flyers, and delivering free samples. Similarly, *Weinrauch et al.* (1990) find that customer newsletters, brochures, and phone book yellow pages are among the promotional vehicles most often used by new ventures. Contemporary forms of low-budget marketing such as viral marketing via electronic mail or the online distribution of press releases to newspapers, journalists, radio stations, etc., can also be added to this list. Case studies show that PR is an important activity for many new ventures, because it can achieve much visibility in the marketplace at a relatively modest cost[80].

Summing up, it is clear that marketing in new ventures is restricted by the limited resources that can be used to pursue marketing activities. However, the above-mentioned strategies and tactics, either used separately or, if possible, in combination, outline several ways to leverage the limited resource base of emerging firms, and have direct practical relevance to entrepreneurs. However, as noted, many questions remain open:

First, apart from this brief overview, there are no studies to date that examine the diverse set of strategies and tactics available for leveraging scarce marketing resources. Due to their importance for new ventures, filling this void should be placed high on the research agenda in entrepreneurial marketing. Such a "mini map" would help entrepreneurs in formulating their marketing plans, and would support researchers in a systematic exploration of the area. Except for the niching strategy, the remaining strategies and tactics are not very well understood.

Second, looking at the free-riding strategy, several questions should be answered. For example, it is unclear which types of free-riding strategies exist and how they support entrepreneurial marketing. Furthermore, from a practical perspective, research needs to address the question of how the benefits and (opportunity) costs of these strategies can be evaluated against other strategic alternatives.

Third, though research on strategic alliances has been the focus of many studies in entrepreneurship, there is hardly any conceptual and empirical knowledge on cooperative marketing activities of new ventures. Any area of marketing can be considered as a candidate for cooperative activities. Hence, research is needed that looks systematically at the various possibilities for alliances in entrepreneurial marketing, and analyzes these options both conceptually and empirically. In particular, studying the process of alliance formation should give some valuable insights, because, given their liabilities of newness and smallness, it can be challenging for new ventures to enter such alliances.

Fourth, equally interesting questions need to be answered in the area of guerilla marketing techniques. So far, this topic has been dealt with almost exclusively in nonscientific ways. While there is still no clear definition of guerilla marketing, it is also worrisome that these techniques lack conceptual anchoring. It is problematic that to date, these tactics are discussed separately from marketing strategies. Thus,

79 See, e.g., *Levinson* (1998).
80 See, e.g., *Tarara/Alagöz* (2002); *Albers/Panten/Schäfers* (2002c).

as a first step, a conceptual analysis of guerilla marketing techniques is needed. Such an analysis should subsequently be substantiated with empirical results.

3.3.5 Market entry strategy

Compared to the topics that have been reviewed above, the market entry strategy has received considerably more attention from researchers. Market entry represents a major milestone for an emerging firm, and means that the new venture is on its way to a more favorable resource-dependence position when the first sales of the product are made[81]. Furthermore, because market entry determines the strategic basis from which the firm tries to achieve competitive advantage in the marketplace, it imprints the organization with a certain set of decisions and generates a platform from which future, path-dependent decisions can be made[82].

Studies on this topic generally focus on the various elements of the market entry strategy, in particular on the *choice of target market*, the *type of competitive advantage* that is pursued, the *timing of product launch*, and *barriers to market entry*[83].

The selection of a promising target market is one of the most important decisions during the early development of new firms and ties in with the process of opportunity recognition[84]. The conventional wisdom of marketing textbooks and works on business planning says that markets should be analyzed and segmented, but venture capitalists report that many new firms lack a clear idea of their market and their most promising segments. New firms are apt to fall for the temptation of offering their product to a wide range of customer groups because they see much potential in all of them[85]. Subsequently, these ventures end up over- or under-engineering their product and fail to achieve an attractive positioning. They are also unable to develop targeted marketing activities and thus are likely to get disappointing returns from their marketing expenditures. The importance of identifying and selecting the most promising market, and of understanding customer benefit are evident, but there are no simple answers on how to arrive at this end.

The literature on innovation management offers several important insights on this process. These insights range from an early inclusion of potential customers/lead users into R&D activities, to using test markets for getting initial customer feedback[86]. Also, empirical findings show that the prior product/market experience of the founders and industry contacts have a beneficial effect[87]. Furthermore, findings consistently suggest that targeting a single segment is better for new firms. This finding corresponds to the above discussion on leveraging scarce marketing resources by focusing on a niching strategy.

81 See *Schonhooven/Eisenhardt/Lyman* (1990)

82 See the theory of organizational imprinting, *Stinchcombe* (1965).

83 See *Di Benedetto* (1999); *Lilien/Yoon* (1990).

84 See also *Mohr* (2001).

85 Also see *Stasch* (1996). A similar discussion can be extended to national or international market entry, see *Coviello/Munro* (1997).

86 See, e.g., *Cooper* (1993); *Rogers* (1983).

87 See *Long/Graham* (1989).

In this vein, *Carroll* (1984/1985) argues that a strategy of specialization is advantageous to new firms that wish to overcome their liabilities, since fewer resources are required in specialization than in generalization. *Romanelli* (1989) adds to this argument by stressing that in a narrower segment firms can more easily gain a foothold. Doing so allows small firms to build a revenue base that can then be used for further expansion. Although studies such as these give convincing arguments, we must consider that in the face of fleeting opportunities (e.g., network effects that can only be captured by a pioneer), new ventures might do better to look for additional sources of financing (e.g., venture capital) that would allow them to enter multiple market segments at once and thus reap larger returns. However, no study could be found that addresses this issue.

Achieving a sustainable competitive advantage with an offering is often considered to be the most important factor of new product success. As far as the type of competitive advantage – and thus the value proposition of the new venture – is concerned, most studies show that emerging firms follow a differentiation strategy rather than a strategy of cost leadership. Some studies conclude that a differentiation strategy produces more successful results[88]. However, a recent study by *Durand/Coeurderoy* (2001) included the order of market entry in the analysis. Their results show that a strategy of cost leadership is better suited for pioneers, and that firms who are second into the market should differentiate their offering. Yet, as the authors discuss, these unexpected results could be the reflection of a survivor bias in their data.

Research on the timing of entry has produced mixed results[89]. Many studies suggest that market pioneers capture higher market shares than do later entrants, because they enter industries in the early stages of their development, can erect barriers to entry and to preempt scarce resources, can capture greater economies of scale, and benefit from buyers' greater knowledge of pioneering brands[90]. Research also makes the point that pioneers face a great risk of mortality, partly because later entrants are able to benefit from the first mover's marketing mistakes and diminishing market uncertainty[91]. Also, recent studies from contingency scholars challenge the assumption that early entrants achieve higher performance, and stress that the timing of entry and subsequent performance of the entrant depend on marketplace conditions and the choice of appropriate market strategies. Thus, entrepreneurs should direct their attention to contingent factors in order to achieve superior performance, and in addition try to be first in the market[92]. For example, *Szymanski/Troy/Bharadwaj* (1995) conclude from their meta-analysis that pioneering advantage is augmented by factors such as R&D expenditures, service quality and immediate customer purchase frequency.

Furthermore, firms should consider barriers to market entry when pondering the timing of entry. In the most comprehensive literature study to date, *Karakaya/*

88 Also see the overview by *Mellewigt/Witt* (2002).

89 See *Szymanski/Troy/Bharadwaj* (1995); *Albers* (2001); *Covin/Slevin/Heeley* (2000); *Robinson* (1988).

90 See *Szymanskj/Troy/Bharadwaj* (1995).

91 Based on their historical analysis *Golder/Tellis* (1993) show that the failure rate of market pioneers is 47% across their sample of 50 product categories. Also see *Tellis/Golder* (2002).

92 See *Szymanskj/Troy/Bharadwaj* (1995); *Kerin/Varadarajan/Peterson* (1992); *Lévesque/Shepherd* (2003).

Stahl (1989) identify 19 different market entry barriers, such as access to distribution channels, the incumbent's cost advantages, and customer switching costs. However, considerations of the pioneer's advantages and the latecomer's disadvantages must be complemented by a careful analysis of a new venture's ability to erect entry barriers or to overcome them. Yet, *Narasimhan/Zhang* (2000) observe that new ventures often race into a market to avoid the disadvantages of entering late, rather than to capture the advantages of being early.

Summing up, it can be noted that the market entry strategy is a heavily researched topic and that findings sometimes point into different directions, leaving entrepreneurs that search for simple answers relatively clueless. On the one hand, this diversity of results is comforting as it mirrors the heterogeneity which entrepreneurs encounter in reality. On the other hand, however, it leads to the not so surprising insight that all-encompassing formulas simply do not exist in strategic management, and that a contingency perspective should be pursued by entrepreneurs. Though much research has been conducted on market entry, there are still key questions that need to be addressed:

First, personal networks seem to be of particular importance for entrepreneurial marketing during the early stages of firm development. Yet, surprisingly little knowledge exists on how market entry is actually achieved through selling to personal networks and how such activities are planned. Furthermore, the overall importance of this type of market entry vis-à-vis other strategies has not been determined empirically.

Second, many studies on market entry planning implicitly assume a rational planning process with clearly defined market entry decisions. Yet, research on strategic management suggests that some firms do not plan deliberately. Rather, they are muddling themselves through a string of tasks, making several incremental, disjointed decisions[93]. We suspect that the latter type of firm behavior could be particularly common with new ventures entering markets via personal contact networks, as some studies show that marketing activities of new ventures are often informal, follow a short-term orientation and lack strategic content[94]. Furthermore, it can be assumed that explicit market entry strategies are more common with VC-backed ventures, as they are required to write comprehensive business plans and need to detail their strategies during multi-stage evaluation processes. Empirical studies that compare planning activities of VC-backed and non-VC-backed firms are necessary to confirm these assumptions.

Third, as with studies on opportunity recognition it should be insightful to explore cognitive biases and heuristics in market entry planning. E.g., entrepreneurs with industry experience and market expertise may exhibit an overconfidence bias, leading to a sub-optimal market entry planning and a less successful market entry. They might be inclined to use too simple heuristics in decision-making, given the complexity of market entry decisions.

93 Also see *Mintzberg* (1978) and *Lindblom* (1959).

94 See *Weinrauch et al.* (1991); *Coviello/Brodie/Munro* (2000); *Bhidé* (1994).

Last but not least, studies looking at new ventures in various industries are needed, as some key differences can be observed in practice. E.g., new firms in sectors such as biotechnology typically need to form strategic alliances in order to launch their products in the marketplace, while internet ventures can start their marketing activities almost instantaneously[95].

4 Directions for further research: Summary and conclusions

I began this paper by noting that marketing is of utmost importance for the success of new ventures. Although many findings of the literature on general marketing apply to marketing in emerging firms, these companies face several distinct challenges that are not adequately addressed by the general literature. Thus, given the economic importance of new ventures, it is not surprising that research on entrepreneurial marketing has been growing steadily in the past years.

However, the preceding review makes it clear that in this field, there are many more questions than there are answers, which makes this area very attractive for researchers. Apart from the research questions outlined above, the foregoing discussion raises several additional issues in entrepreneurial marketing, which, given the space limitations of an article, could not be discussed in detail. However, it is promising to further explore these issues:

- *Developing a market orientation* is an important task for new ventures, and particularly challenging for venture teams with a technological background. But our understanding of how a market orientation can be achieved in emerging firms, how it can be fostered during phases of rapid growth, and how outside actors can support this process is very limited.

- Furthermore, in section 2 I argue that *uncertainty* plays a key role in entrepreneurial marketing. Though entrepreneurship scholars have used real-options reasoning lately to address challenges associated with uncertainty[96], to date there is no study that applies this reasoning to issues in entrepreneurial marketing.

- *Market penetration* is another issue that should be addressed in detail. The literature on innovation management and especially on the diffusion of products has generated much knowledge on this issue, but studies are needed that take into account the liabilities of newness and smallness of emerging firms, because these liabilities make it more difficult to penetrate the market with an innovative offering. Recent writings on high-tech marketing stress that ventures have great difficulty in "crossing the chasm" between the early market dominated by a few visionaries and the mainstream market, which is dominated by pragmatists and needs to be penetrated if the new firm is to achieve viability[97].

95 See the various case studies on successful eCommerce ventures in *Albers/Panten/Schäfers* (2002a).
96 See, e.g., *McGrath/MacMillan* (2000).
97 See *Moore* (2002).

Table 3: Key research topics in entrepreneurial marketing

	KEY RESEARCH TOPICS
Opportunity recognition	• market-based vs. resource-based opportunity identification and their effects on marketing planning in emerging firms • lead-users and their role in entrepreneurial opportunity identification • the role of "local" and "distant" search in entrepreneurial opportunity recognition • the impact of VCs and other stakeholders on the process of product/market identification • cognitive biases and heuristics in entrepreneurial opportunity recognition
Establishing a marketing function	• the development of the marketing function, responsibilities/delegation - the roles of the founding team and of additional employees, stages of growth • achieving scalability in the marketing function • costs and benefits associated with formalizing marketing activities; effects of an ad hoc organization vs. formalized marketing function, in particular on the market orientation of new ventures • industry-specific studies, e.g., biotechnology and eCommerce
Establishing a company identity/brand name	• challenges in reputation building during different stages of venture growth • the role of networks, clusters, strategic alliances and personal relations in establishing a favourable reputation and brand • strategies for reducing the amount of resources and time needed for establishing a solid reputation and attractive brand • building reputation with various stakeholders, e.g., VCs/business angels, capital markets
Leveraging scarce marketing resources	• typology of low-cost marketing activities/resource-leverage strategies • use and impact of low-cost activities vs. conventional marketing practices • role of the free-riding strategy, strategic alliances and guerrilla marketing techniques in leveraging scarce marketing resources • role of personal networks as a medium for low-cost marketing, evolution from network-based selling to selling to unknown customers
Market entry strategy	• market entry through a network of personal contacts • deliberate planning of market entry strategies vs. muddling through • cognitive biases and heuristics in market entry planning • market entry strategies for biotech ventures and firms in other industries
Further topics	• new models of entrepreneurial marketing as guidelines for entrepreneurs ("which marketing challenges to expect in different stages of firm development", "how to prepare for coming challenges", etc.), and as a basis for theory building • antecedents of research on entrepreneurial marketing • developing a market orientation • dealing with uncertainty in entrepreneurial marketing, real-options approach • achieving market penetration with an innovative offering, crossing the "chasm"

- Although this paper does not expand on industry-specific differences in entrepreneurial marketing, I expect that much can be learned from single-industry and comparative studies. In a similar vein, research is needed that compares marketing practices of *new ventures with and without VC-financing*.

Table 3 summarizes the proposed ideas for future research studies.

Looking at the empirical rigor of research projects in entrepreneurial marketing, a steady improvement can be noted. Early studies were often based on anecdotal evidence and findings from very limited samples, but more recent studies apply state-of-the-art econometric models and use large sample sizes[98]. It would be advisable for future research in this area to rely less on cross-sectional analysis and to focus more on longitudinal research designs, as the preceding discussion has shown that a process perspective is important to gain insights on entrepreneurial marketing.

With more researchers contributing to research on marketing in new ventures, the field itself will gradually overcome its own liabilities of newness and smallness. Much remains to be explored.

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98 See *Morris/Schindehutte/LaForge* (2000).

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