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## IMPACT OF MARKETING ACTIVITIES IN THE EARLY YEARS OF A FIRM'S LIFE ON ITS FUTURE PERFORMANCE

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### ABSTRACT

The aim of this paper was to analyze in which year, after launching a new venture, marketing activities (dialogue with customers and engaging in promotional efforts) impact its future performance. To do so, logistic regression models were created in which the dependent variables considered as performance were survival and firm profitability. The independent variables considered were dialogue with customers and engaging in promotional efforts. The sample consisted of data collected in a longitudinal survey of 1,214 American nascent entrepreneurs, who formed the Panel Study of Entrepreneurial Dynamics II (PSED II). The beginning of marketing activities in the firm's first and second years was related to its performance in the second, third and fourth years. The results of this research show that the first year of operation is the optimal time for the entrepreneur to initiate dialogue with customers. They also show that engaging in promotional efforts in the firm's first year of operation leads to strong performance in subsequent years.

**Keywords:** Entrepreneurial Process; Future Performance; Marketing activities; PSED.

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## 1 INTRODUCTION

Marketing practices are directly related to firms survival and performance (Brooksbank, Kirby, & Taylor, 2004; Morrish, 2011; Sok, O'Cass, & Sok, 2013) and greater attention paid by the entrepreneur to managerial aspects during the early stages of business drives its growth rates. Entrepreneurs are responsible for pursuing creative and innovative marketing-related alternatives in order to stay in the market (Morrish, 2011). However, especially in the early stages of the business, notably characterized by a scarcity of resources, entrepreneurs trade off the strategies they will adopt, for example, either they take market-based or technology-based actions (Hao & Song, 2016). Another choice frequently faced by entrepreneurs is whether they offer a broad variety of products, which would lead to involving a wider range of consumers, and at the same time, higher costs (such as inventory management and supplier relationships) or focus on products aimed at one segment of customers (Patel & Jayaram, 2014).

The choices of which strategies should be pursued determine which activities will be prioritized by the new venture. Will they be focused on the internal environment, such as research and development, or actions aimed at integrating the firm with the milieu, such as the search for market information? (Hao & Song, 2016). This search for information is related to the use of marketing which, according to various authors (e.g.: Brockman, Jones, & Becherer, 2012; Lado, Duque, & Alvarez Bassi, 2013; Sok et al., 2013), leads to enhanced performance in small enterprises.

Indeed, for a new venture to succeed, according to the concept of the lean startup created by Blank (2005) and Ries (2011), entrepreneurs must be in constant contact with customers in order to validate their ideas of business and products, with a view to delivering what the customer wants. In this sense, Hopp's (2012a) study showed that the business plans and promotional activities which enhance company performance are those undertaken after dialogue with potential customers as early as the company's first year of life.

In addition to dialoguing with customers, an entrepreneur engages in promotional efforts in an attempt to publicize their company. They do this through promotional activities, public relations, sales or advertising and this is one of the most frequently experienced problems at the beginning of a business' operations, mainly due to the entrepreneur's lack of expertise for these tasks (Dodge & Robbins, 1992). Lado et al. (2013) found that ventures which most engage in marketing, such as sales promotion and explicit communication strategies perform better in terms of profitability, sales, and attracting and retaining customers.



An entrepreneur is free to decide when to start each action in their new business, and they make that choice based on personal beliefs, hopes for the future, previous knowledge, etc. (Bird & West, 1998). To reach their planned objectives, they need to choose which activities will be undertaken to the detriment of others, given that resource constraints do not allow them to do all they want (Lévesque & Schade, 2005). They could, thus, end up overlooking marketing.

What impact can the postponement of marketing activities have on the future performance of a firm? On the question of new ventures, this issue has been under investigated. Hopp's (2012a) study analyzed whether engaging in promotional efforts to collect information on customers and competitors affects the performance of new ventures - and found a positive outcome but it did not indicate whether there is any difference between undertaking such activities in a company's first or second year. This research seeks to go deeper into this issue by investigating what is the impact of the choice of time for engaging in marketing activities on the future performance of the business. Performance is considered here as the fact that the business is operating and is profitable (Steffens, Terjesen, & Davidsson, 2012). Thus, the aim of this article is to analyze how the moment of starting dialogue with customers and engaging in promotional efforts impacts on the performance of companies.

This article makes two main contributions. First, it helps to advance present discussion at the intersection between marketing and entrepreneurship. As most studies of these two fields are of a more general nature (Eggers, Hansen, & Davis, 2012), this research focuses on activities specifically carried out during the firm's initial period of life. Second, this article enhances knowledge in the field by showing that not only is it vital to engage in marketing activities, as the literature has already shown, but also by showing at what moment these marketing activities generate greatest impact. The research considers that the entrepreneur undertakes different activities in the first and second years of the business and, by making different combinations from the beginning of these activities, this study presents the ideal moment for carrying out each marketing activity. This research which is of a longitudinal nature, used data from the Panel Study of Entrepreneurial Dynamics II (PSED II).

## **2 THEORETICAL FOUNDATION**

### **2.1 Evolution of New Businesses**

With the passage of time, as firms emerge and evolve, they go through phases with unique and distinguishable characteristics (Lewis & Churchill, 1983; Miller & Friesen,



1984). Classical models which present the stages of the life of a business, such as that of Lewis and Churchill (1983), have shown that firms undertake different actions in accordance with their maturity. In the early years, in particular, businesses experience difficulties in finding customers and delivering their products and services, and satisfying these customers (Lewis & Churchill, 1983). In more recent studies, the global report of the Global Entrepreneurship Monitor (GEM), drafted by Kelley, Singer, and Herrington (2012), also presents a model of the evolution process of new ventures involving multiple phases, first described by (Reynolds et al., 2005). The GEM model aims at analyzing the individual, as does the model presented by the Panel Study of Entrepreneurial Dynamics, PSED. In other words, it is considered that the entrepreneurs' actions, values and knowledge are the same as those of the business in its initial stages. These initial actions can be related to the performance that the venture will achieve in its later years (Bird & West, 1998).

## **2.2 Activities in a Business' Initial Stage and Its Performance**

Many organizational strategies are based on the timing of each task, as getting the timing of certain activities right can determine the future of firms, and even their remaining in the market or their failure (Bird & West, 1998). In general, in the early years of a business, entrepreneurs make decisions to exploit the opportunities being offered by the market and maximize the chances of the enterprise's performing better in the future (Lévesque & Schade, 2005; Patel & Jayaram, 2014). This varies according to the life history of the entrepreneurs (Mathias, Williams, & Smith, 2015). Such opportunities can arise out of weaknesses seen in competitors or customer desires which are not fully satisfied, thereby making these actors (competitors and customers) impact on decisions that could lead to a firm's good performance (Simpson, Padmore, & Newman, 2012).

New ventures, unlike those already established, have not yet learned from past experience, that is, in the beginning they have to make decisions without any earlier reference (Wennberg, Delmar, & McKelvie, 2016). They, thus, have little notion of their potential market and of what can be done to enhance their performance (Wu & Knott, 2006). Studies by Mathias et al. (2015) show that the entrepreneur's decision is made according to personal experiences, especially their life references. For example, entrepreneurs who start a business on the basis of a hobby try to make decisions to provide products and services, without giving priority to the market. Likewise, entrepreneurs who start their businesses on the basis of a profession tend to make decisions linked to their profession, and do not see other business opportunities which could arise out of that initial idea (Mathias et al., 2015).



### **2.2.1 Marketing at the Initial Stage of a Firm**

From a marketing point of view, Coviello, Brodie, and Munro (2000) reported that nascent firms put the stress on their products or services in their marketing. According to them, of the marketing activities undertaken by this type of business, the aspect of relationships with the customers is the most appreciated, and entrepreneurs prefer direct communication with their customers to mass publicity.

#### **2.2.2.1 Marketing Activities**

The marketing activities presented in the following two subsections were selected because they are very explicit in the PSED II database used in this study and were used by Hopp (2012a) for his study relating marketing activities at a firm's initial stage to its performance.

##### **2.2.2.1.1 *Dialogue with Customers***

Consumer preferences are heterogeneous and their expectations in terms of products change over time. Understanding consumer desires and needs answering them within the expected time frame has positive effects on business performance (Calantone, Randhawa, & Voorhees, 2014). Authors such as Blank (2005) and Ries (2011) launched the lean startup model, which argues that the entrepreneur needs to understand as early as the first months of business (or even before it has been launched), by means of dialogue and research, what it is that potential customers value. The concept of lean startup has been discussed in studies, such as those by Trimi and Berbegal-Mirabent (2012), who studied the use of new practices for drafting business models; Al-Aali and Teece (2014), who presented the concept as an example of the dynamic capacity of nascent enterprises; and, Al-Aali and Teece (2014); Korsgaard, Berglund, Thrane, and Blenker (2016), who treated the lean startup as a theory which emphasizes the uncertainty of the environment and encourages change after listening to customers. Ries (2011) argues that entrepreneurs should present versions of their products to potential customers before launching them on the market. Through exchanging information with customers and accepting changes, entrepreneurs then refine their products so that they are more acceptable to the market, in a process called customer development (Blank, 2005).

Sarasvathy (2001), following the same line of reasoning, shows that a possible logic for the creation of new businesses would be the launching of products with minimum expenditure of resources, so as to get to know the market and understand who their customers are and what their needs and desires would be. Dialogue with customers could



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be valuable for new ventures to be more assertive about which products to offer and focus on those whose benefits are perceived by their customers so as to reduce the costs involved in offering a wide variety of products (Patel & Jayaram, 2014).

Through informal surveys with prospective customers, the entrepreneur would go on to build their new network of customers and partners even before the firm is launched, so that when the new business becomes operative, it already has a market to explore (Sarasvathy, 2001). Through this network, the entrepreneur would form a kind of alliance with partners and customers, which would reduce the degree of uncertainty when opening the business and enhance the company's chances of success (Chandler, DeTienne, McKelvie, & Mumford, 2011).

Using PSED II data, Hopp (2012a) showed that drafting business plans after dialoguing with prospective customers as early as the business' first year is positively related to the survival of new ventures. Thus, reinforcing the advice of the lean startup approach, which indicates that the entrepreneur needs to talk to customers very early on in the business to understand their needs and desires and thus be more assertive in terms of the products their company offers. On considering the concepts of the lean startup, customer development and Hopp's (2012a) studies, one can deduce the guideline that entrepreneurs should start to dialogue with their customers as soon as possible. Therefore, the first two hypotheses can now be presented:

H<sub>1</sub>: Entrepreneurs who initiate dialogue with customers during their firm's first year of life are more likely to be operational in the future than those who do so from the second year onwards.

H<sub>2</sub>: Entrepreneurs who initiate dialogue with customers during their firm's first year of life are more likely to be profitable in the future than those who do so from the second year onwards.

### **2.2.2.1.2 Engaging In Promotional Efforts**

Engaging in promotional efforts, such as promotion activities, public relations, sales or advertising is one of the problems faced at the beginning of a new venture's operations, mainly because of the entrepreneur's lack of expertise in this field (Dodge & Robbins, 1992; Gruber, 2004). One of the advantages of a business managed by an entrepreneur is the owner's direct contact with his customer, which can establish a close relationship and thus lead to reduced investment in outsourced promotional activities (Stokes, 2000). However, Dodge and Robbins (1992) and Stokes (2000) argue that, through this direct





contact, entrepreneurs find it difficult to guarantee that an individual becomes a captive customer of the business.

Gruber (2004) argues that at the beginning of the business it is necessary to create an identity that will attract customers and provide credibility for partners and suppliers, in order to strengthen bonds and obtain greater advantages with these stakeholders. But he further claims that this identity is not created exclusively through advertising, but rather through strategic issues, such as product quality, quality services or differentiation.

Thus, according to Carson's (1985) model of the evolution of marketing for new ventures, the company is initially concerned about quality and delivery of products, and communication is confined to the founders' contact networks and the use of word of mouth. When these activities have attained a certain consolidation, the search for customers becomes more extensive and goes beyond informal communication and the entrepreneur's friends and relatives and on to more intense promotional efforts, while not as yet professional.

Studies (e.g.: Gruber, 2004; Lado et al., 2013) have found that firms which most engage in marketing activities, such as sales promotion and explicit communication strategies, perform better. It has been seen that despite the difficulty of obtaining resources, when new business managers have more training and skills, the increase in sales is higher (Lado et al., 2013).

Hopp's (2012a) study found that promotional efforts would lead to enhanced performance only if undertaken after carrying out an initial marketing activity, in this case, dialogue with customers, while studies by Burmester, Becker, van Heerde, and Clement (2015) also suggest that promotional efforts produce more positive results when they are undertaken after the launch of a new product. Therefore:

H<sub>3</sub>: Entrepreneurs who initiate their promotional efforts after their firm's first year of life are more likely to be operational in the future than those who do so during the first year.

H<sub>4</sub>: Entrepreneurs who initiate their promotional efforts after their firm's first year of life are more likely to be profitable in the future than those who do so during the first year.

### **3 METHOD**

#### **3.1 Database**

The PSED II database was used in this study. The PSED II (hereafter referred to as "PSED") is a database formed from research with 1,214 nascent entrepreneurs. The PSED questionnaire covered questions related to the nature of the new venture, activities





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undertaken, possible enterprise registers, context assessments made by the entrepreneur, and others. As the entrepreneurs were contacted yearly to answer the questionnaire from 2006 to 2011, this gives the PSED a longitudinal character.

### 3.2 Analysis Design

For this article, logistic regression models were drafted to relate the marketing activities carried out in the first and second years, that is, when the company is considered nascent, to its performance in the second, third and fourth years. Figure 1 illustrates the relationships that were made.

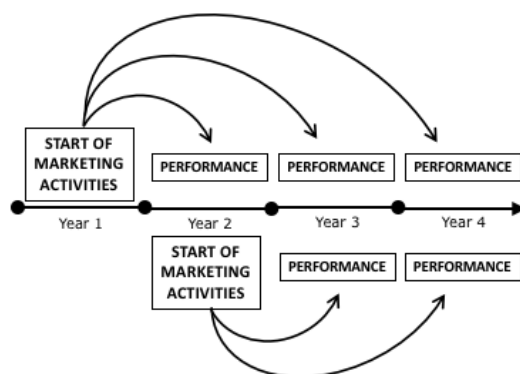


Figure 1: Illustration of relationships made in this study  
Source: Drafted by the authors

Data from the first and second years of the PSED questionnaire were used for data on marketing activities, that is, information on the first and second years from the launching of the company onwards, as also occurred in studies by Steffens et al. (2012) and Hopp (2012a).

Data on business performance were collected from the second, third and fourth waves of the PSED, which correspond to the second, third and fourth years, respectively, from the start of the business onwards (2007-2009). Control variables were collected in the first wave of PSED interviews. Subsequent sections describe each variable used.

### 3.2 Description of Variables

#### 3.2.1 Independent Variables: Marketing Activities

According to the construction of the hypotheses, the two independent variables in this study are: (1) dialogue with customers, called *CUS*; and (2) engaging in promotional efforts, called *PRO*. To measure the independent variables, the questions “Has an effort been made to talk with potential customers about the product or service of this new business, will an effort be made to talk to potential customers in the future, or is this not relevant for the new business?” and “Have marketing or promotional efforts been started



for the product or service this new business will be selling, will marketing or promotional efforts begin for the product or service this new business will be selling, or is this not relevant to the new business? from the PSED, were used. Respondents could answer “yes”, “no” or “not yet” to these questions. The responses given for each question were considered proxies for the variables used in this study, and “not yet” was considered “no”.

### **3.2.2 Dependent Variables: Business Performance**

One of the traditional ways of measuring company performance is through profitability (Morrish, 2011). However, it is difficult to get accurate data on the financial indicators of small business, as this type of information is not always known or correctly passed on by their managers (Steffens et al., 2012). Thus, following the performance variables used by Steffens et al. (2012) in their research with the Swedish PSED, and that used by Hopp (2012a), in a research with the same database that was used in this study, two means of measuring performance are used. The first indicates whether the business is operational, that is, whether it has sold a product or service over at least six of the twelve months prior to the survey. The second means of measuring performance is profitability, that is, whether the firm has had more revenue than expenses over at least six of the twelve months prior to the survey. Thus, the dichotomous variables, *OPE*, indicating if the company is still operational, and *REV*, indicating if the new venture had more revenue than expenses in the six months prior to the survey, were created. As proxies for these variables, answers (“yes” or “no”) to the following questions “Has this new business, received any money, income, or fees from the sale of goods or services for more than six of the past twelve months?” and “Was the monthly revenue more than the monthly expenses for more than six of the past twelve months?” from the second wave of the questionnaire used by the PSED, were used.

### **3.2.3 Control variables**

The control variables used in this study were: industry to which the new venture belongs; entrepreneur’s educational level; entrepreneur’s experience, measured both in years worked in that industry and in the number of startups they had previously opened; entrepreneur’s gender; and number of partners in the new business.

#### ***Industry***

The sample of nascent entrepreneurs captured by the PSED presents a high level of heterogeneity, as it includes business from different industries. To mitigate this



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heterogeneity, this research used the categories of industry captured in the PSED questionnaires as control variables in the same way as they were used by Steffens et al. (2012) and Coleman and Kariv (2013).

The PSED classifies industries into 16 different categories. To avoid multicollinearity in the logistic regressions, the 16 categories were grouped into three: trade, services and manufacturing. Three dummy variables were created, one for each industry classification, and these variables were used in the regression specifications. The reference variable was that of "trade".

### ***Educational level***

It has been seen that the years of formal education influence the performance of new ventures (Swinney, Runyan, & Huddleston, 2006). Thus, the level of formal education which was used by Hopp (2012a) and Hopp (2012b) was also used in this research.

The PSED classifies educational level into seven categories, from incomplete elementary schooling to complete postgraduate studies. As was done for the "industry" variable in this study, only two groups were considered for educational level purposes: one for respondents who completed second level education and the other for those who had at least started a university course.

### ***Experience***

Learning ability, related to earlier lived experiences of entrepreneurial activities, has a statistically significant and positive relation to the performance of enterprises according to studies by Hopp (2012a) and Sok et al. (2013). Thus, the variables *EXPINDUSTRY* (which shows how many years' experience the entrepreneur has in the industry of the business that is starting) and *EXPSTARTUP* (which indicates how many startups the individual opened before that research focus), were used. These same variables were also used in studies by Hopp (2012a), Hopp (2012b), and Coleman and Kariv (2013). This study only considers the experience of the entrepreneur responding to the research.

### ***Gender***

Studies have shown that there can be differences between men's and women's styles of creating and managing new ventures (e.g.: Coleman & Kariv, 2013; Gupta, Javadian, & Jalili, 2014; Lee & Marvel, 2014). Consequently, in this study as in those of Hopp (2012a) and Steffens et al. (2012), gender was used as a control variable, called *GENDER*.



### Team size

The size of the team can directly and positively influence a new venture's performance, due to the diversity of the members' abilities and thinking (Eisenhardt, 2013; Zhou & Rosini, 2015) and the complementarity of partners' competences (Porter, 1989). Thus, the discrete variable *PARTN* was used as a control for the size of the entrepreneurial teams.

### 3.4 Analysis Procedure

To test the hypotheses, logistical regression models (*logit*) were designed to estimate the degree of association between the independent variables (marketing activities) and the control at Time 1 (for example, in the business' first year of life) and the independent variables (continuing operational and profitability) at Time 2 (for example, in the business' second year of life).

Two models of logistic regression were carried out, one with the dependent variable "operational" (one specification referring to operation in Year 2, four referring to operation in Year 3, and four referring to operation in Year 4); and another model with the dependent variable "profitability" (similar to the previous model).

The independent variables (marketing activities) were used in combination in each model, according to the year in which each activity began. For example, to build Specification A, it was considered that the three activities began in the first year of the business' life. For Specification D it was considered that dialogue with customers started in Year 1, while promotional efforts began to be undertaken in Year 2.

## 4 PRESENTATION OF RESULTS

Table 1 shows the number of respondents in each PSED wave, and also the response rates of the follow-up interviews.

Wave	Research period	Number of respondents (n)	Response rate in relation to previous wave
A	October/2005 to March/2006	1,214	-
B	October/2006 to March/2007	972	80%
C	October/2007 to March/2008	746	77%
D	October/2008 to March/2009	527	71%
E	October/2009 to March/2010	435	83%
F	October/2010 to March/2011	375	86%

Table 1: Number of respondents in each PSED wave

Source: Research data



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In its first year of data collection, the database had 1,214 respondents, of whom 762 (62.77%) were male and 452 (37.23%) were female. In terms of schooling, 46.7% of respondents had at least already started a third level course while 53.23% of those who answered the questionnaire had, at most, completed their second level education.

The survey showed that most entrepreneurs (73%) talk to customers as early as in the firm's first year of life and that only 14% do not contact potential customers in the firm's first two years of life. A total of 43.14% engage in some kind of promotional effort in the first year, which is close to the percentage of entrepreneurs who do not undertake promotions either in the first or second year of the firm's life. As regards the pursuit of information about competitors, more than half (58.58%) of entrepreneurs stated that they did this during the first year of life of their firm; 13% said they did so in the second year while the remainder, 28.41%, did not collect information on competitors until the second year of the new firm's life.

About half of the companies reported that they continued operational in the second (47.6%), third (46.0%) and fourth (48.0%) years of the research. This number is relatively stable despite the fall in the total number of respondents over the years - 962 entrepreneurs answered this question in the second year, while only 400 responded in the fourth year of research. It should be noted that the fact that certain businesses do not respond to the survey in a given year does not necessarily mean that they are no longer operational.

The percentage of firms which did not show profitability in more than six of the last twelve months of operation in the second year is slightly lower (44.8%) than in the third (49.5%) and fourth years (50.3%). Fewer entrepreneurs answered this performance-related question than the previous question (operational). In the second year, only 455 answered the question about the firm's profitability (compared to 962 responses about operational); in the third year 289 responses were obtained (compared to 633); and in the fourth year 191 entrepreneurs provided information on the profitability of their firms, while 400 responded to questions on the continuity of operations.

### 4.2 Presentation of Regression Results

A total of 14 logistic regression specifications were carried out. Table 2 shows the results of the statistically significant specifications, including the classification capabilities of each specification and the odds ratios of each variable.

In general, the statistically significant logistic regression models showed that dialogue with customers as early as the first year of business increases its chances of being



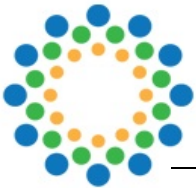
operational in the following years. For example, Specification A shows that, at a 5% significance level, entrepreneurs who contact their customers in the firm's first year of life have 1.82 more chances of being operational in the firm's second year than those who do not. The Specification also shows that entrepreneurs who engage in promotional efforts in the firm's first year have 2.36 more chances of being operational in the firm's second year than those who do not start promotional efforts in the first year, keeping the other variables constant.



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Specification	A		B		C		D		E		F		G	
Dependent variable	Operational in Year 2		Operational in Year 3		Operational in Year 4		Operational in Year 3		Operational in Year 4		Operational in Year 3		Operational in Year 4	
Independent variables	Coef.	Odds ratio	Coef.	Odds ratio	Coef.	Odds ratio	Coef.	Odds ratio	Coef.	Odds ratio	Coef.	Odds ratio	Coef.	Odds ratio
Dialogue with customers in Year 1	0.600*** (0.159)	1.82	0.428** (0.186)	1.53	1.081 (0.242)	2.949	0.447** (0.201)	1.56	1.123*** (0.258)	3.07				
Dialogue with customers in Year 2											-0.350 (0.260)	0.704	-0.976*** (0.338)	0.376
Does not dialogue with customers either in Years 1 or 2											-0.701*** (0.263)	0.495	-1.187*** (0.329)	0.304
Engages in promotional efforts in Year 1	0.859*** (0.147)	2.36	0.494*** (0.178)	1.63	0.535 (0.226)	1.708					0.475*** (0.182)	1.608	0.529** (0.230)	1.698
Engages in promotional efforts in Year 2							0.354 (0.259)	1.42	0.062 (0.324)	1.06				
Does not engage in promotional efforts either in Years 1 or 2							-0.820*** (0.202)	0.44	-0.664** (0.260)	0.514				
Gender	-0.136 (0.145)	0.87	0.086 (0.174)	1.09	0.123 (0.228)	1.131	0.116 (0.184)	1.12	0.148 (0.239)	1.159	0.107 (0.179)	1.113	0.097 (0.233)	1.102
Nº of partners	0.017 (0.022)	1.01	0.013 (0.022)	1.01	-0.40 (0.053)	0.960	0.007 (0.024)	1.00	-0.038 (0.043)	0.962	0.013 (0.022)	1.013	-0.040 (0.053)	0.960
Experience in industry	0.010 (0.006)	1.01	0.005 (0.007)	1.00	0.009 (0.009)	1.010	0.005 (0.008)	1.00	0.007 (0.009)	1.007	0.006 (0.007)	1.007	0.010 (0.009)	1010
Experience in other startups	0.075** (0.037)	1.07	0.063 (0.043)	1.06	0.123 (0.058)	1.131	0.036 (0.043)	1.03	0.106* (0.058)	1.112	0.56 (0.043)	1.058	0.107* (0.057)	1.113
of education	0.047 (0.139)	1.04	-0.108 (0.167)	0.89	-0.105 (0.221)	0.899	-0.044 (0.177)	0.95	-0.255 (0.232)	0.974	-0.071 (0.0172)	0.930	-0.057 (0.226)	0.943
Services (dummy)	0.529*** (0.181)	1.69	-0.107 (0.219)	0.89	-0.267 (0.292)	0.765	0.017 (0.231)	1.01	-0.133 (0.305)	0.874	-0.016 (0.226)	0.983	-0.224 (0.300)	0.798
Manufacturing (dummy)	0.464** (0.231)	1.59	-0.204 (0.274)	0.81	-0.153 (0.357)	0.857	-0.002 (0.289)	0.99	-0.025 (0.371)	0.974	-0.061 (0.282)	0.940	-0.158 (0.365)	0.853
Constant	-1.431*** (0.227)	0.24	0.674*** (0.266)	0.50	-1.036 (0.350)	0.354	-0.314 (0.302)	0.73	-0.666* (0.390)	0.513	-0.360 (0.265)	0.697	0.023 (0.340)	1.023
LR test p-value	0.0000		0.0061		0.0000		0.0000		0.0000		0.0056		0.0000	
Pseudo R <sup>2</sup>	0.0713		0.0269		0.0798		0.0529		0.0897		0.0307		0.0777	
Observations	945		620		393		571		362		587		375	





GOF p-value	0.4156	0.2877	0.3762	0.2010	0.3430	0.2588	0.3120
Sensitivity	55.33%	44.79%	69.47%	64.44%	72.38%	47.79%	71.20%
Specificity	70.91%	70.48%	62.07%	58.14%	58.01%	67.62%	59.16%
Correctly classified	63.49%	58.55%	65.65%	61.12%	65.19%	58.43%	65.07%
Note: * p<0.10, ** p<0.05, *** p<0.01. Standard deviation in brackets.							

Table 2: Logistic Regression

Source: Research data



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Through Specification A, it could also be seen that there is a positive relationship, at a 10% statistically significant level, between experience with previous firms and the firm being operational in the second year. The regression model also showed that those new ventures involved in services or manufacturing are more likely to be operational in the second year, at significance levels of 5% and 10%, respectively, than commercial enterprises. The other control variables were not statistically significant in this specification.

Thus, on analyzing all the specifications, with the aim of increasing the chances of success in the future, the optimal time for the entrepreneur to initiate dialogue with potential customers would be right at the beginning of the business. An analysis of the regression models also showed that engaging in promotional activities as early as the first year of the firm's life is a factor that increases the chances of the firm's survival in the second, third and fourth years.

Although the results indicate that engaging in promotional efforts as early as the first year is positive for new ventures, the results of this study are inconclusive as regards showing what the optimal time for starting these activities would be. This is because, in models D and E, the variables which measure a firm's chances of being operational when the promotional efforts started in the second year were not statistically significant.

Chart 1 presents the hypotheses with an indication of their rejection or otherwise. Each outcome is discussed separately in the next section.

Hypotheses	Statement	Result
H <sub>1</sub>	Entrepreneurs who initiate dialogue with customers in the first year of the firm's life are more likely to be operational in the future than those who do so from the second year onwards.	Not rejected
H <sub>2</sub>	Entrepreneurs who initiate dialogue with customers in the first year of the firm's life are more likely to be profitable in the future than those who do so from the second year onwards.	Rejected
H <sub>3</sub>	Entrepreneurs who initiate their promotional efforts after their firm's first year of life are more likely to be operational in the future than those who do so in the first year.	Rejected
H <sub>4</sub>	Entrepreneurs who initiate their promotional efforts after their firm's first year of life are more likely to be profitable in the future than those who do so in the first year.	Rejected

Chart 1: Results of the hypotheses  
Source: Drafted by the authors



## 5 DISCUSSION OF RESULTS

The  $H_1$  hypothesis is not rejected, namely, entrepreneurs who begin dialoguing with customers in their firm's first year of life are more likely to be operational in the future than those who do so from the second year onwards. The specifications presented in this research showed that, for better future performance, the ideal time for engaging with the customer is as early as in the first year of the company's life. This early contact with the customer leads to greater chances of being operational both in the second and third and fourth years.

That result is similar to those obtained by Watson (2007), who found that entrepreneurs who create and maintain contact networks right at the beginning of the business, and collect information about likely customers, see better survival rates and growth for their firms over time. These contact networks can be informal, involving relatives and friends, who are usually a firm's first customers (Ucbasaran, Westhead, & Wright, 2008). The results found in this study are also similar to those seen by Hopp (2012a), who found a positive relationship between drafting a business plan with information collected from customers and the performance of firms. Or rather, while Hopp (2012a) showed that dialogue with the customer is important for drafting a more assertive business plan, this study analyzed all firms - both those which make formal plans and those which do not - and found that, in general, there is a positive relationship between dialogue with customers in the first year and the firm's performance in the following years.

Leaving the dialogue with customers for after the firm's second year of life has a negative influence on its performance. In fact, Ries (2011) shows, by means of the lean startup, that approaching the market in the first months of the business with a view to understanding customers' wishes can be beneficial for new ventures in terms of promoting their survival. Thus, this study shows that the ideas presented by the lean startup in relation to the time to dialogue and get to know customers really lead to greater chances of survival in the future. After all, in all the models tested, entrepreneurs who stated that they did not engage with potential customers as early as in the first year of the firm's life saw their potential to be operational in the future reduced.

The  $H_3$  hypothesis, namely, entrepreneurs who start their promotional efforts after their firm's first year of life are more likely to be operational in the future than those who do so in the first year, yielded inconclusive results. Through the regression models it was found that engaging in promotional efforts in the first year increased the chances of better



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business performance in the following years. However, in the scenario comparing promotional efforts in the first and second years, the variable representing engaging in promotional efforts in the second year was not statistically significant. Thus, it is not possible to conclude whether it is better to start promotion in the first or second year. Other scenarios have indicated that entrepreneurs who do not engage in promotional efforts either in the first or second year, that is, in the early stages of the business, are less likely to perform better in subsequent years than those who do carry out these activities.

According to Clarysse and Moray's (2004) model of entrepreneurial process, firms normally engage in promotional efforts from the second year onwards because they already know the market and understand its internal processes more clearly. However, the results of this study indicate that, even if the time is not optimal, initiating promotional efforts early on - that is, as early as the first year of the company's life - could mean a better performance for the firm. This differs from what is usually done by the businesses analyzed in the above-mentioned entrepreneurial process models. Of the three marketing activities analyzed in this research, engaging in promotional efforts is the one which traditionally depends more on spending financial resources. Thus, firms can choose not to do this because they are investing their funds in product improvement, as stated by Marion and Meyer (2011).

On the basis of the models analyzed, no conclusion can be drawn in relation to H<sub>2</sub> (entrepreneurs who initiate dialogue with customers in the firm's first year of life are more likely to be profitable in the future than those who do so from of the second year onwards) or H<sub>4</sub> (entrepreneurs who start their promotional efforts after their firm's first year of life are more likely to be profitable in the future than those who do so in the first year), so both of these hypotheses are rejected, that is, because the models using the "profitability" dependent variable were not statistically significant. Thus, this study shows that engaging in promotional efforts in the first year has a positive relation only with the "operational" performance measure.

## 6 FINAL COMMENTS

The results of the research indicate that the sooner one begins to engage with customers and undertake promotional efforts, the better for the future of the firm. Thus, development agencies, governments and organizers of entrepreneurship training courses



should understand the results of this research and provide skills training so that entrepreneurs can carry out marketing activities as early as possible.

This study contributes to the literature through its dynamic analysis of engaging in marketing activities and its influence on business performance in subsequent years, thus helping to compensate for so few existing longitudinal studies (Fayolle & Liñán, 2014). The analysis model could serve as an example for other longitudinal studies related to other marketing activities or even other general enterprise activities. The results could serve as a starting point for studies analyzing the quality of dialogue with customers in the first year or the quality of engagement in promotional efforts.

The results of this article also promote the lean startup approach, which advocates dialogue with customers right at the very early stages of the firm's life. Previously, there had been no scientific evidence of the validity of the lean startup model. This research shows that it is really better for the company to initiate early contact with customers and, in addition, it shows how the chances of survival increase as a result of this dialogue.

As a managerial contribution, this research shows the entrepreneur what is the optimal time for beginning dialogue with customers and the moment for beginning promotional efforts which increase the chances of the firm's future survival, especially in its fourth year of operation. Thus, entrepreneurs have more scientific inputs for decision-making on the choice of one or other activity in their enterprises, such as, for example, engaging in marketing activities or investing in product quality.

One of the limitations of this study is inherent to the database. Although PSED provided a large amount of information on setting up a business, only three marketing activities were identified in the database, two of which were used for this research. So, for future research it is suggested that a similar analysis be done including other marketing activities. Another limitation is the fact that the control was done using the internal environment, but it is known that the external environment, such as market conditions, firm location and competition can all influence the performance of a new business. Further research could add the external environment as a control of firm performance.

The small number responding on the profitability of firms could also be considered a limiting factor for this study and could be an indication of why the results using this independent variable were not statistically significant. Controlling finances and preparing accounting documents could be difficult for certain entrepreneurs and may have been the reason why few answered the question on revenue being greater than expenses for at



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least six of the last twelve months prior to the survey. Thus, even if this variable was used as a measure of performance in other scientific papers (e.g.: Hopp, 2012a; Steffens et al., 2012), it was not possible to draw conclusions from its analysis.

In terms of the results found in this study, it is suggested that future research analyzes the reasons why most entrepreneurs do not engage in promotional efforts as early as the first years of business. Another suggestion for research would be an analysis of the quality of contact with customers and its influence on the future performance of firms.

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