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Development of Customer-Orientation, Brand-Orientation and Business Performance within the First Ten Years of the Firm

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Abstract

The business performance of young firms is significantly influenced by customer- and brand-oriented capabilities. These capabilities can be sustained competitive advantages for firms from an early age on and managers need to consciously develop them over time. In the first years, the development of these firms is still highly dependent on their environment. The products and services are still under development, and there are only little resources and market information available. Therefore, the development of customer-orientation, brand-orientation and their impact on business performance at this age is crucial to be understood for founders to appropriately manage these capabilities. The purpose of this article is to provide insights on how customer-orientation and brand-orientation vary across the three age groups of up to two years, two to five years and five to ten years. The paper is based on a quantitative analysis of 413 completed and usable surveys of founders of young firms at an age of up to ten years. Latent variables of customer- and brand-oriented capabilities as well as business performance were structured and analyzed for their components. In an analysis of variance, the differences in these variables between the age groups of up to two years, two to five years and older than five years are analyzed. Between the age groups, the three variables of customer-orientation, brand-orientation and business performance develop differently. While customer-orientation does not vary significantly, components of brand-orientation do. Business-performance even displays a crossover-effect of items.

Keywords: management; firm age; customer-orientation; brand-orientation; resource-based theory.

Introduction

The interest in entrepreneurship is constantly on the rise. Not only has the number of firms founded grown in the last years (e.g. OECD Publishing, 2014, p. 16); also the academic interest in the topic has been rising. When firms are still young, they have not fully developed, their capabilities are not defined and most likely they do not have many resources available (Hirvonen et al., 2013, p. 628). They are less structured and strategically planned (Gilmore, et al., 1999, p. 29). For

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firms in their early stages, the risk of failure is still high (Thornhill & Amit, 2003, p. 497). Environmental conditions are a great threat to the survival young and small firms (Covin & Slevin, 1989, p. 75). In the birth phase, the survival-rate of firms is rather low. To survive, young firms need to acquire and develop resources and capabilities to sustained competitive advantages. Marketing activities have been proven to generate value and provide equity for the organization by emphasizing on customer loyalty and creating a high price margin from as many customers as possible (e.g. Leone et al., 2006, pp. 129–130). Marketing capabilities span a wide set of highly important strategic capabilities including brand management and customer relationship management as well as functional capabilities such as product management, pricing, marketing channel management, communication management and market research (e.g. Helfat & Peteraf, 2003, p. 999). Marketing capabilities can also provide a central role in the firm identifying and anticipating trends and regrouping resources accordingly. With such an important role, these capabilities need to be developed early on in the firm to become sustained competitive advantages and have positive impact on business performance. In this article, the difference of the items of customer-orientation, brand-orientation and business performance amongst the young firms of three different age groups (up to two years, two to five years, older than five years) are analyzed.

Customer-Orientation, Brand-Orientation and Business Performance

Capabilities can be classified in many ways. Looking at measuring items of marketing capabilities, the grouping of the items varies depending on the research question and focus of the analysis. One popular way of classification is the split in customer- and brand-oriented marketing capabilities. These groups of capabilities are based on two different views on the organization. Customer-orientation is based on an "outside-in"-perspective and is rooted in the cultural belief of putting the customer and his / her needs first. Creating customer value and focusing on a successful customer experience are central contributors to a firms' success. Brand-orientation is rooted in an "inside-out"-perspective of the firm which puts an emphasis on the resources and capabilities of the organization itself and how they are successfully utilized and combined. Both views in marketing are closely connected and in the end focus on the end-consumer. There is not always a clear distinction between customer- and brand-oriented marketing capabilities and some of the capabilities integrate both views of the firm. Depending on the research-approach taken and indicators analyzed these capabilities then integrate customer- and brand-oriented elements as described in the definition above in one capability. In any case, linking marketing-capabilities with firm value and business performance, has recently gained significant interest among marketing scholars. Below, the author describes the definition of the factors of customer-oriented marketing capabilities, brand-oriented marketing capabilities and business performance:

Customer-oriented marketing capabilities: Customer-orientation is focused on the perception of products or services and how they are fulfilling consumers' needs. The theoretical base for customer-orientation roots in customer-behavior- and customer-satisfaction theories, but through a growing body of research, customer-orientation has been further evolved towards the Resource-Based Theory, especially through dynamic capability theory (Morgan, Vorhies et al., 2009, pp. 909–911). Especially capabilities in regards to the management of the customer relationship, customer responsiveness, or market sensing capabilities as well as more functional capabilities such as market orientation, the generation of customer feedback on products and product development capabilities have been proven to be connected to firm performance and profitability by a wide stream of research. The customer-oriented approach – also called market-orientation by several authors – is highlighting the "outside-in" of the consumer and market on the organization, which is based on the questions of how the product or service is perceived and how the products or services fulfill the needs of the consumer. Culturally, organizations which are very consumer-oriented set high importance on the fulfillment of customer needs. Internally, this shows in a strong focus on key-account management and customer relationship management (e.g. Baumgarth et al., 2011, pp. 8–10). The focus is on building durable relationships with the customer (Day, 1994, p. 41). Therefore, externally, it includes market-learning capabilities, customer relationship management capabilities. The customer is seen as focus of the firms' activities. Consumer-oriented organizations display market-oriented behaviors such as a strong focus on individual customer needs and adherence to its changes. They also strategically segment their customers to better focus on specific characteristics of separate groups (Urde et al., 2013, p. 14). The results of the customer feedback then are leveraged in product development capabilities, and product customization capabilities. Customer-feedback is integrated into the adaptation and development of the products and services. In early stages, the products or services of young firms are still under development. They are highly innovative and can react quickly to environmental changes (Weerawardena, 2003, p.18). Since structures are not yet established and finances are constrained, sources for customer-feedback are often direct interaction through selling activities or feedback of customers who have already used the product or service (e.g. Alvarez & Barney, 2010, p.563). This individualized feedback obtained is very valuable for product development as well as the assessment of market development. In later stages of firm development, the knowledge needs to be distributed through internal communication. Researchers are analyzing, how firms are integrating the customers' view in strategic decisions through customer relationship management and feedback input systems (e.g. Hult et al., 2005, p. 1180). By anticipating customer needs and requirements and developing the capability of customer responsiveness the firm can gain a competitive advantage because it can develop new strategies based on future customer needs and desires (e.g. Hooley et al., 2005, p. 26). The direct and very close interaction with the customer and the analysis of customer needs in the product development process provides a strong advantage for young firms in terms of customer-orientation.

<u>Brand-oriented marketing capabilities:</u> The concept of brand-orientation is putting the brand as strategic hub in the center of its focus. Brand-oriented capabilities are focused on building a strong brand, with strong positive associations and high brand awareness. Creating a brand positioning is a highly strategic capability, considering market characteristics and trends including the development of competing brands (Morgan et al., 2009, p. 286). The functional brand-oriented capabilities can be split into two main groups. One group is connected to the creation of the functional brand elements and branding guidelines, including mainly the definition of the brand name and the establishment of a brand meaning (e.g. Merrilees et al., 2011, p. 372). The second group focuses on the development and execution of marketing plans including the effective delivery of marketing programs, the choice of the appropriate marketing channels, as well as advertising and promotion initiatives (e.g. Chang et al., 2010, p. 854; Harmancioglu et al., 2009, p. 274). Long-term orientation and planning is crucial for brand-oriented strategic marketing capabilities to become a sustained competitive advantage. Together with customer-oriented marketing capabilities, these capabilities contribute to business performance. High brand-orientation stands for the firm centering its activities on a strongly developed brand. Successful brands create awareness for the firm and evoke positive associations, support of a positive brand image and differentiate the brand towards competitors (Aaker, 1991, p. 15). Image and personality of the brand are created in the evolution of the brand. They stand for emotional values, making the brand more difficult to copy. Marketing and

communication activities raise awareness for emotional and functional components of the brand and the customers build a relationship with the brand, and interact with it (De Chernatony & Riley Dall'Olmo, 1998, pp. 1078–1082). Culturally, brand-oriented organizations share a strong brand-philosophy, framing how they operate from the "inside-out". There is a strong emphasis of the integration across all parts of the firm, which requires a high level of brand knowledge of all employees. Brand-orientation draws on a high identification of the whole organization with the brand and focuses on uniqueness and continuity of their brand (Wong & Merrilees, 2005, p. 159). Brand-oriented organizations put an emphasis on branding-related disciplines from branding guidelines, to more strategic assets such as pricing, market potential exploitation and marketing communication (e.g. Urde et al., 2013, pp. 14 pp). In young firms, the brand is still under development. There are no elaborate brand definitions or structures, as they might be found in older firms (e.g. Bresciani & Eppler, 2010, p.357). The life of a brand very often starts with a distinctive name. Very often, the corporate brand is the same as the product brand and besides the name. There are no clear structures and processes and the reputation and perceptions still need to be established and built (e.g. Rode & Vallaster, 2005, pp. 125-126). The optimal brand and marketing communication manifest itself in the perceptions about the brand and consequentially the favorable customer behavior, consequentially also leading to higher sales and revenues (Kotler, 2009, pp. 446–454). Key performance indicators applied by the management of brand-oriented organizations are brand awareness, brand attitudes, brand loyalty and the brand value (e.g. Leone et al., 2006, p. 126). Capabilities representing brand-orientation are branding capabilities, pricing or brand performance as well as more functional brand-oriented capabilities like the definition of the brand name and logo, market planning, marketing communication or marketing implementation.

Business Performance: In the definition of business performance, financial performance is combined with further indicators of product-market performance to allow a detailed view of the effect of capabilities on organizational performance. Financial performance is measured through monetarily based metrics, metrics indicating financial ratios or metrics measuring monetary outcomes, like Return on Investment, Return on Assets etc. (Mintz & Currim, 2013, p. 17). Product-market performance indicators such as sales and related indicators such as market share can also be used as measures for organizational performance (Richard et al., 2009, p. 722). Business performance can be measured by linking measures of both kinds of performance indicators and get a full picture of the firms' situation.

This approach of analyzing business performance by combining indicators of financial performance and product-market performance has been widely applied in empirical research (e.g. Morgan, Slotegraaf et al., 2009; Orr et al., 2011, p. 1080). In addition, researchers apply other indicators for business performance such as financial market measures or further operational indicators specific for their question of research depending on the research question analyzed. In the studies analyzed, few authors used indicators for customer performance and customer satisfaction as further indicators for business effectiveness (Hooley et al., 2005; Vorhies & Morgan, 2005). Given the fact these papers have a strong focus on customer-oriented capabilities aiming at customer satisfaction, applying these performance indicators for papers are very valuable additional performance indicators. Since the author is analyzing the measures of business performance of young firms, she has decided to include additional measures for business performance include number of customers using the products without payment and the number of returning customers without payment. As previously mentioned, getting customers to test the product or service and use it is very important for young firms to generate first trial and confirm customers into paying customers. Finally, the number of buyers as well as repeat buyers are also included in this indicator.

A broad set of resource-based theory literature analyzes customer-oriented and brand-oriented marketing capabilities as well as business performance indicators. Specific research on the development of these variables over time is rare and young firms to the authors' knowledge have not been previously analyzed specifically. As previously mentioned, young firms face special challenges and opportunities in the creation of marketing-capabilities. A firm is a business organization that sells goods or services to make a profit. It is an aggregation of productive resources and capabilities, of which the use is determined over time by administrative decision of its managers. Young firms are more in risk of death and firm survival is often used as indicator for the success. Since the development of the firm is very individual, there is no clear definition on the timing and duration of the life cycle stages in literature (Rutherford et al., 2003, p. 322). There are only few authors who therefore give an estimation of the duration of the first stage of a young firm. The author has decided to define an age of up to ten years for a young firm based on the definition of the authors Miller & Friesen (Miller & Friesen, 1984, p. 1166). The focus of this research will be on the analysis of the variables of customer-orientation, brand-orientation and business performance for these young firms.

Methodology

Based on the definitions in literature of customer-orientation, brand-orientation and business performance mentioned above, this research builds on these findings too analyze the differences of customer-orientation, brand-orientation and business performance of firms within their first ten years. The main research questions are:

- Are there any differences in the variables of customer-orientation, brand-orientation and business performance in young firms during the first ten years?

- If yes, how do the variables and the items of the variables differ?

The author uses quantitative analysis in the form of principal component analysis and an analysis of variance of the single items of the latent variables. The analysis is based on survey data of CEOs and founders of firms founded a firm between 2004 and 2014, which still existed including the founder still working in the firm at the time of the survey. Since the population size for this group cannot be assessed, the author chose a judgement-based sample of a non-probability nature, which is common in international entrepreneurial research (Coviello & Jones, 2004, p. 493). Considering the non-identifiable population size and regarding common t-levels (t = 1.96) and a set error rate (e = 0.05) the minimum sample size of 370 is recommended for a population of 10.000 or more (Bartlett, Kotrlik, & Higgins, 2001, p. 48). To avoid coverage error, the sampling frame was combined of entrepreneurial associations, address databases of firms and entrepreneur-related groups in business- and social-networks. Excluding all incomplete datasets, the final number of usable surveys is 413, which exceeds the recommended number of 370. The majority of firms in the final sample consist of micro-firms with up to nine employees (80.1 percent). This share reflects the actual economy, where most firms (70 to 90 percent) are micro-enterprises (OECD Publishing, 2014, p. 26). Firms founded within the last two years were making up the biggest share (42.1 percent). Analyzing official birth and death rates of firms, it is obvious that nascent firms in the first years are providing the biggest share of firms at an early age. To avoid any bias, a broad distribution of industries and countries was generated.

For empirical analysis in Resource-Based Theory, researchers very often create causal models where capabilities are defined as latent variables to analyze the impact of capabilities. The author has decided to draw when possible on suitable measures from other authors which have been previously used and modify them based on her findings. The single items for the latent variables and the scales chosen by the author for their measurement in the qualitative research are described in Table 1.

Table 1: Measures for latent variables

CUSTOMER-ORIENTED MARKETING CAPABILITIES
How strongly do you agree or disagree with each of the following statements?
We try to help customers achieve their goals
A good company has to have the customer's best interest in mind
We try to influence a customer by information rather than by pressure
We try to find out what kind of product/ service would be the most helpful to a customer
We answer a customer's questions about products as accurately as we can
We try to bring a customer with a problem together with a product that help them solve that problem
We are willing to disagree with a customer in order to help them make a better decision
We try to give customers an accurate idea of what the product will do for them
We try to figure out what a customer's needs are
Please rate the following statements by importance
Many of our competitors had fundamentally similar products/ services to us *[Reverse coding]*
A few credible substitutes competed with our products/ services
Our company is capable of customizing our products/ services
BRAND-ORIENTED MARKETING CAPABILITIES
To which extent did you consider each of the following factors when you launched your company?
Determining market characteristics and trends
Conducting a detailed study of market potential
Appraising existing and potential competitors and their products/ services
Identifying characteristics to differentiate and sell your products/ services
Conducting marketing tests
Determining a pricing strategy
Developing a channel strategy
When you chose your brand, how important were the following criteria for you when choosing the brand?
The brand name clearly describes what our product/service is about
The brand name is distinctive and cannot be confused with competitors' names
The brand name is easy to remember for customers and other stakeholders
The brand name has potential to be "verbalized" (e.g. google => googling)
The brand name is available and legally protectable
The web-address (URL) for the brand name is still available
The brand name is easy to spell
The other brand elements (e.g., imagery, logo) support the name
The brand name produces the appropriate emotional response

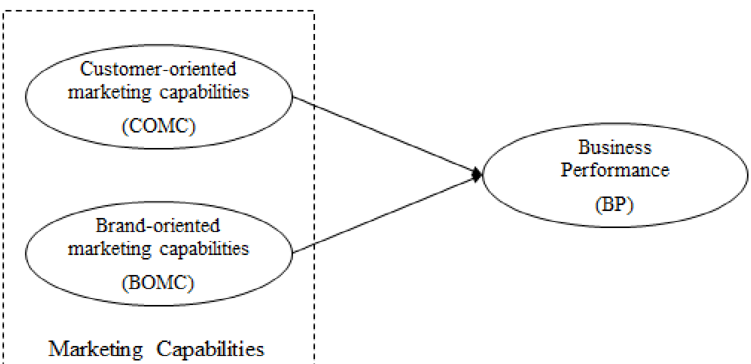
Table 1: continued.

BUSINESS PERFORMANCE
How much importance does your company attach to each of the following financial performance criteria?
How satisfied are you currently with your company's performance with regard to these criteria?
Sales levels
Sales growth rate
Cash flow
Return on shareholder equity
Gross profit margin
Net profit from operations
Profit to sales ratio
Return on investment
Ability to fund business growth from profits
How much importance do you attach to each of the following financial performance criteria?
How satisfied are you currently with your company's performance with regard to these criteria?
Number of customers registering for or downloading the products/ services (without payment)
Number of customers buying the products/ services
Number of repeat buyers of your products/ services
Number of customers returning to your products/services (without payment)

Analysis and Results

The author developed a model, describing the connection of the latent variables in a causal relationship. Customer-oriented marketing capabilities (COMC) and brand-oriented marketing capabilities (BOMC) are latent exogenous variables. Business Performance (BP) is the latent endogenous variable. The hypothesis and the two theses indicate an influence of the marketing capabilities on the dependent variable of business performance. An exemplary model of the variables and their relationships can be found in Figure 1.

Figure 1: Model of Marketing Capabilities and Business Performance



Before further analysis of the model, the theoretical construct has to be tested for construct validity. To get a first indication of the constructs, the author conducted a simple correlation analysis. This analysis already confirmed that the single indicators are standing in relation with each other. In a second step, the Cronbach's alpha for the three related variables of customer-orientation, brand-orientation and business performance were computed. All three results are well above the recommended minimum of acceptable validity of 0.7 (Peterson, 1994, p. 385). After the construct has been approved, further calculations could be conducted. Since this research is explorative, a principal component analysis was deemed appropriate for the next step, because it allows a more accurate description of factor loadings and a higher factor reduction and leads to more accurate research results (Widaman, 1993, p. 307). This analysis converts the set of observations of the potentially correlated variables into a set of principal components, which are linearly uncorrelated. Based on this analysis, the single items of the variables were grouped and reduced to a smaller set of factors for each of the variables. Single factor measurement models as the one which is now evaluated should have at least three indicators (Freeze & Raschke, 2007, p. 1484). With three factors for customer-oriented marketing capabilities, four factors for brand-oriented marketing capabilities and three factors for business performance, this criterion is fulfilled. The components of the latent constructs with a calculated Eigenvalue higher than 1.0 are summarized and reported in Table 2.

Table 2: Summary of principal component analysis statistics for latent variables

	Initial Eigenvalues	% of Variance	Cumulative %
Customer Oriented Marketing Capabilities (COMC)			
COMC_1	4.55	37.91	37.91
COMC_2	1.37	11.40	49.31
COMC_3	1.05	8.78	58.09
Brand Oriented Marketing Capabilities (BOMC)			
BOMC_1	4.48	28.03	28.03
BOMC_2	2.19	13.70	41.73
BOMC_3	1.20	7.48	49.22
BOMC_4	1.04	6.48	55.69
Business Performance (BP)			
BP_1	6.74	51.85	51.85
BP_2	1.64	12.63	64.49
BP_3	1.24	9.53	74.02

Depending on the calculation, the number of principal components can be maximum the same number of original variables. In most cases, the number of variables will be reconfigured and reduced. Based on the results of the principal component analysis, the previously defined items have been regrouped to new components and these components have been contextually interpreted based on the survey-questions they have been composed of. The newly aggregated components for the variables have to be described in the new context and renamed accordingly. Based on the patterns discovered, the component loadings can be explained for each construct.

<u>Customer-oriented marketing capabilities – component loadings:</u> For customer-oriented marketing capabilities, the twelve items were reduced to three components. Nine items load on the first component. These measures are mainly concerned with the relationship of the young firm and the customer. A customer-oriented mindset, the willingness to support customers with their goals and providing a helpful product or service are the main drivers of this capability on the strategic level. The component is called strategic customer-orientation. The factors of customization and the knowledge of customers' needs load on the second component and is called product customization. It is very closely connected to the first component, strategic customer-orientation, but focuses more on the product-development process itself. The third component is loading on two factors, which are focusing on product substitutability and competition and therefore, the component is named product uniqueness. Different from the first two components, this component focuses more on the market situation, evaluating competitive products or services and substitutes.

<u>Brand-oriented marketing capabilities – component loadings:</u> The sixteen items for brand-oriented marketing capabilities are reduced to four components. The first seven items of the variable do load on the component of strategic brand-orientation. The measures describing this component are concerned with the strategic analysis of the potential for and the development of a differentiated brand and brand strategy for the young firm, including pricing and channel strategies for the rollout of the brand. The second component is summarizing five items, such as easy spelling, the appropriate emotional response and the descriptiveness of the name for the product. It is called name clarity. While the second component, name clarity is concerned with the name itself and its' linguistic matters, the third component focuses on measures that ensure a clear functional and legal separation and protection of the name against any other firms and is therefore called name protection. Component four stands for brand distinctiveness and includes the item of ensuring that the

brand of the young firm is distinct and that it clearly separates the firms' brand from any other brand. In a later step, component three is eliminated, because its' distinction to component two is not strong enough in the context of a causal model.

Business performance – component loadings: There are some overlapping items in the variable of business performance. For this construct, the thirteen items were reduced to three components. Especially the factors of the first component, and the second component loaded partially on each other. This overlap can be explained, since the measures of the components are strongly connected. Seven items fully loaded on the first component, summarized as financial growth. The items of this component are comprised of several financial indicators such as return on investment, return on shareholder equity, net profit from operations, gross profit margin, ability to fund business growth from profits, profit to sales ratio and cash flow. Five of these factors also load on the second item. The second item summarizes the more sales-related measures with the additional four items of sales levels, sales growth rate, number of customers buying the products/services and repeat buyers. Therefore, it is named sales efficiency. The third factor is focusing on the topic of product usage items as part of product-market performance and therefore called product usage.

From the above described components, new items were calculated as regressions. These items have been used by the author to calculate a confirmatory factor analysis. However, this analysis is not part of this paper. In this research, the author wanted to further analyze three sub-groups of the young firms surveyed and analyze the differences between the groups of up to two years, two to five years and older than five years. These new items as described above were used in the calculation of the analysis of variance.

Differences in the variables of customer-orientation, brand-orientation and business performance in young firms during the first ten years

To answer the question of differences in the variables, the analysis of variance was deemed the appropriate statistical method. The one-way between subjects analysis of variance allows comparing the means of three or more unrelated samples (Bryman & Cramer, 2011, p. 177). This analysis was conducted to answer the research question and better understand whether there are differences in the variables of customer-orientation, brand-orientation and business performance in young firms in the first ten years. Therefore the effect of the three variables was analyzed in three age groups in the condition of up to two years (<= 2 years), two to five years (>2 <=5 years) and older than five years (>5 years).

The following factors had a significant effect on the age groups at the p< .05 level for the three age conditions:

- Strategic brand-orientation [F(2,410) = 7.43, p = 0.001]
- Sales efficiency [F(2,410) = 11.15, p = 0.000]
- Product usage [F(2,410) = 4.59, p = 0.001]

The other factors did not have a significant effect on the different age groups. Post hoc analysis was conducted, using the Scheffé test. In this analysis, the same three factors are significantly different between age groups. The results are exhibited in Table 3.

Table 3: Post Hoc Comparison Test (Scheffé) – extraction significant factors

Dependent Variable	(I) Age Group	(J) Age Group	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
BOMC_1	**<= 2 years**	>2<=5 years	-.13	.11	.50	-.41	.14
		>5 years	**.36***	.12	**.02**	.05	.66
	>2<=5 years	<= 2 years	.13	.11	.50	-.14	.41
		>5 years	**.49***	.13	**.00**	.17	.80
	>5 years	**<= 2 years**	**-.36***	.12	**.02**	-.66	-.05
		>2<=5 years	**-.49***	.13	**.00**	-.80	-.17
BP_2	**<= 2 years**	>2<=5 years	-.26	.11	.07	-.53	.02
		>5 years	**-.57***	.12	**.00**	-.87	-.27
	>2<=5 years	<= 2 years	.26	.11	.07	-.02	.53
		>5 years	**-.32***	.13	**.05**	-.63	.00
	>5 years	**<= 2 years**	**.57***	.12	**.00**	.27	.87
		>2<=5 years	**.32***	.13	**.05**	.00	.63
BP_3	**<= 2 years**	>2<=5 years	.18	.11	.27	-.10	.46
		>5 years	**.37***	.12	**.01***	.07	.68
	>2<=5 years	<= 2 years	-.18	.11	.27	-.46	.10
		>5 years	.19	.13	.34	-.13	.51
	>5 years	<= 2 years	**-.37***	.12	**.01***	-.68	-.07
		>2<=5 years	-.19	.13	.34	-.51	.13

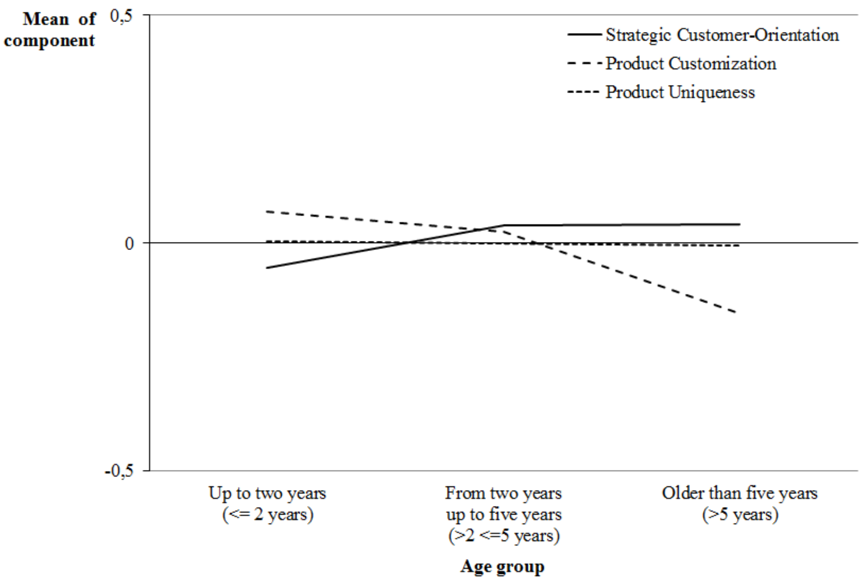
*. The mean difference is significant at the 0.05 level.

Looking at the multiple comparison between groups, there mean difference for strategic brand orientation between the up to two years and the older than five years group (mean difference = +/-.36, standard error = .12) and between the two to five years and older than five years group (mean difference = +/-.49, standard error = .13) were significantly different. The same is the fact of sales efficiency between the up to two years and the older than five years group (mean difference = +/-.57, standard error = .12) and between the two to five years and older than five years groups (mean difference = +/-.32, standard error = .12). For the Factor product usage, only the group of up to two years and the older than five years groups (mean difference = +/-.37, standard error = .12) was significantly different. Cross-tabulation with the values of the Tukey- and Bonferroni-Test provided similar values and was therefore not included. The results of this analysis of variance prompt that while no significant difference of effects between the three age groups for customer-orientation, there are differences in effects for one factor of brand orientation and two factors of business performance.

Differences in the variables and their components

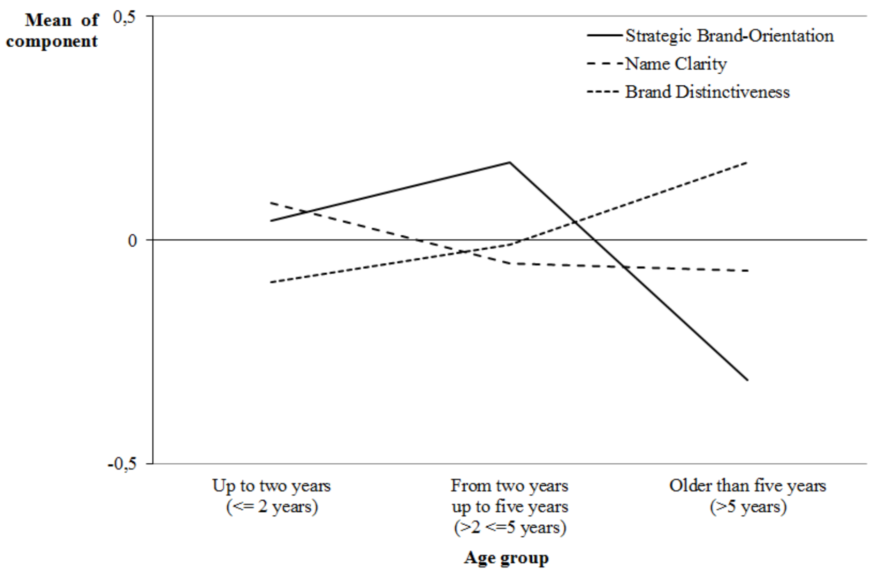
In order to gain a better understanding of the differences between the variables and the components of the variables across the three age groups. To better display the differences between the age groups, the mean plots of the single items of the variables are displayed in graphs. As previously mentioned, there are no significant variances for the components of the variable of customer-oriented marketing capabilities between the means of the age groups. The factors across the different age groups for strategic customer-orientation, product customization and product uniqueness are only varying slightly. The visualization of the differences between the three age groups is displayed in Figure 2.

Figure 2: Mean plot for customer-oriented marketing capabilities



Strategic customer-orientation increases slightly from the age group of up to two years to the two to five years group and then stays flat. This increase is rather small and not significant. Based on these findings, the focus on customers, answering their questions, managing their expectations, having their best interest in mind, identifying their needs and identifying the best solutions for the customers is slightly increasing for the age groups of over than two years. Product customization declines continuously from the up to two years group to the two to five years and the final more than five years group. This difference between the groups is logical since the products or services become more standardized over time to ensure scalability. The item of product uniqueness stays rather flat. Across all age groups, the differentiation of the firms' products or services and the little number of substitutes hold the same importance for young firms. The three components of the variable of brand-oriented marketing capabilities vary in their means throughout the different age groups. However, only the variation of strategic brand-orientation is statistically significant. Looking at the visualization of the differences between mean plots for the components by age group, these differences are clearly displayed in Figure 3.

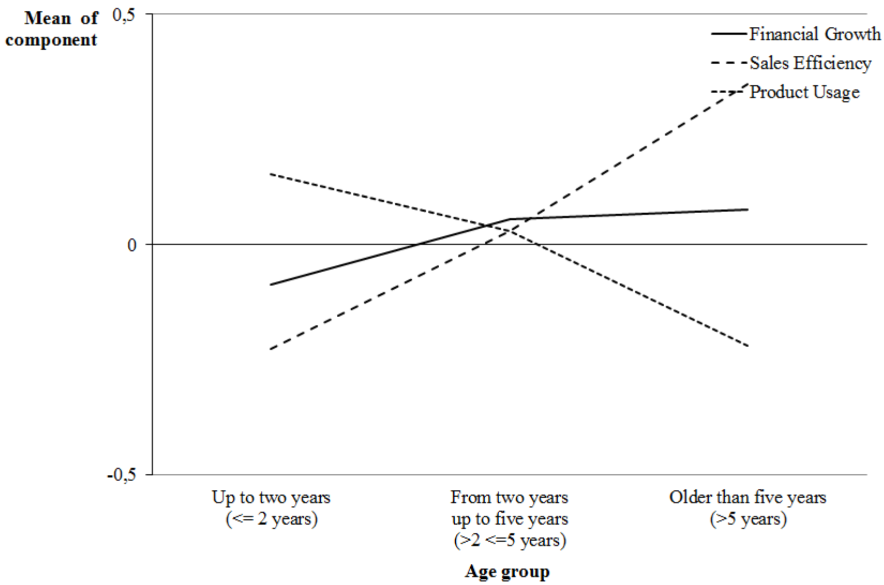
Figure 3: Mean plot for brand-oriented marketing capabilities



In comparison to customer-oriented marketing capabilities, the components of brand-oriented marketing capabilities vary more between the groups. These results prompt, that during the Birth Phase of the firm of the first ten years, young firms are facing more changes in the development of brand-orientation than they do with customer-orientation. Looking at strategic brand-orientation, there is a statistically significant development of this item between the group of up to two years and between two and five years as well as the group of between two and five years and the group of five years and older. This means that there is an increase of strategic brand-orientation, which stands for strategic potential-analysis, brand development, brand differentiation and brand strategy. This item then declines drastically for the group of firms of five years and older. The explanation for this development might be that the brand still needs to be established and strategic brand-orientation is still developed and optimized, it does not have to be developed anymore at a later age. The assumption is, that the strategy is already set at this point and therefore is more in execution than strategy. Once they are defined and optimized, the strategic development of the brand will become an important capability again in the later phases of the life cycle, when the firm needs to decide how it wants to continue after reaching maturity (e.g. Helfat & Peteraf, 2003, p. 1003; Sirmon et al., 2011, p. 1402). Even though the differences for the other two components are not significant, they are still interesting for the research. The mean of name clarity declines slightly across all three age groups, especially between the group of up to two years and the group of two to five years. The name is the most important component of the functional brand. This item is focusing on understandability and clarity as well as evoking the appropriate emotional response. Based on the findings of the mean plot, the importance of name clarity seems to decline slightly over time. This might be due to the fact that the name should be set very early in the life of the firm. The mean of brand distinctiveness increases slightly across the three age groups. Brand distinctiveness stands for the integration of the brand elements with the name and the distinctiveness of the brand name itself. A brand needs to gain distinctiveness to be known and remembered by customers and potential customers. Therefore, this item also grows over time.

For the variable of business performance, all three items changed between the groups. Financial performance only increases slightly across the three age groups. The indicators such as return on investment, profit to sales ratio, net profit from operations, gross profit margin, and so on almost stay stable across the three age groups. There is an evident significant crossover-interaction between the two factors sales efficiency and product usage. While the mean of sales efficiency is drastically increasing across the three age groups, the mean of product usage decreases strongly across the three age groups. These developments might be explained by the fact that in the early stages, it is important for the firm to gain adoption of the product or service, even without payment. In later stages, the focus is turning towards generating revenues and selling the products or services. The visualization of the differences between the mean plots of the three age groups for the three factors of business performance is displayed in Figure 4.

Figure 4: Mean plot for business performance



Looking at the overall results of the analysis of variance, there are the most changes between the group of between two and five years and the group of older than five years. It is important to mention, that this research is only giving a first indication and it can be concluded that the three age groups are heterogeneous and there are significant differences between the group of up to two years, between two and five years and older than five years. However, since this is not a longitudinal study, the author would suggest to further test these findings through additional research.

Conclusions and Suggestions

This research provides several important implications on customer- and brand-oriented marketing capabilities as well as business performance in young firms in the first ten years after founding. In the early stages of a firm the main task is the organization of resources and a flexible development of capabilities. Therefore, it is crucial to understand which capabilities are needed to be focused on specifically at what age of the firm. The research prompts that the development and importance of marketing capabilities is not static and they change over time. The concept of dynamic capabilities supports these findings. It is concerned with the constant creation, extension and relevance of the unique assets of the firm in a flexible environment (Teece, 2007, p. 1319). In the age group of up to two years, product usage, name clarity and product customization are the most important items for the firms whereas sales efficiency, brand distinctiveness and strategic customer-orientation are the factors with the lowest means per variable The firm is still very small, products and services are not fully developed and there is a strong focus on the individual customer and the customization of the product based on his or her needs. In the group between two and five years, strategic brand-orientation has a much higher mean, whereas for the other items in this age group, the means are rather flat and close to a mean of zero. In the group of older than five years, the different means vary the most. The span between the highest and lowest mean is the biggest in this group. The highest items per variable are sales efficiency, brand distinctiveness and strategic customer-orientation, whereas strategic customer-orientation is very close to the mean of zero. These items show that in this age group, professionalization and standardization are rather high. The lowest items are strategic brand-orientation, product usage and product customization. As previously discussed, at this age, the brand for most firms is already set and the product or service has been standardized and therefore the room for customization has decreased. Also, the focus has moved from the generation of sole product usage without payment to generating revenues through sales.

The different descriptions of capability life cycle theories support these variations of capabilities over time and provide various recommendations for firms on how to develop the organization. In this first phase of the development of the organization, new ideas are generated by identifying and leveraging opportunities – either discovery opportunities or creation opportunities – of imperfections in the market (Alvarez & Barney, 2010, p. 563). In terms of resources and capabilities, managerial cognition is especially important in this phase (Johnson & Hoopes, 2003, pp. 1057–1058). These young firms therefore are firms are focusing on innovation. This phase is dominated by the founder(s) and their first idea of the firm and of the product or service. Customer-oriented capabilities therefore are important for all three groups of young firms and there are no significant changes between the three groups. In regards to brand-capabilities, the findings prompt that there is more variation between the different age groups for brand-orientation. Looking at brand-orientation in young firms, e specifically engaged with the topic of the development of a brand in new firms, findings in literature support the findings of this research that strategic brand elements such as positioning, values etc. as well as their final functional elements such as name and logo are not finally established yet (Rode & Vallaster, 2005, pp. 125–128). Especially strategic brand-orientation seems to gain in importance during the first five years and then loose importance after. Most of the companies at the age of up to four years had not decided on their final brand Of the slightly older companies (up to five years of age), most had already defined their strategic elements, but the functional elements were still unclear (Bresciani & Eppler, 2010, pp. 359–361). Regarding marketing-communication, both studies confirmed the financial constraints. They also highlighted a lack of professionalism in communication and the lack of identifying suitable target audiences. Moreover, it is important to focus on the development of an easy to understand, clearly spelled name, which evokes the right emotions for the product or service and to develop a customized product at this stage of the firm. In the following two to five years, the capabilities need to be developed in parallel. In this phase, a focus on the development of the strategic brand seems to be very important, conducting a detailed study of the market potential, determine market characteristics and appraising competitors.

To advance their ideas quickly and at the right scope, the managers of the firm need to ensure a timely and continuous acquisition of capabilities to further experiment and build the product or service (e.g. Sirmon et al., 2011, pp. 1400–1403). Based on these findings, it is recommendable for young firms in their first two years to focus on getting as many potential customers to use the product or service (even without payment) to grow and continue development. This item seems to loose in importance over time while the importance of financial growth seems to be more important for older groups. In the first years of the firm, it seems that the indication for business performance in young firms varies by the stage of the firm and the complexity of the market environment. Numbers are often still small and therefore, success is very often measured in growth rates more than actual numbers and the firms are also focusing on returns.

In regards to research, it is suggested to further advance the resource-based theory by further investigating in the development of marketing capabilities over time. The main limitation of this research is that this is not a longitudinal study. Based on the findings on the differences between the age groups, it is suggested to take into consideration firm age when conducting analyses of capabilities and business performance and consider the changes in the importance of single items of variables over time.

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