Abstract

This paper presents an analysis of strategic marketing factors of Fast Growth family firms from the United States. Data reveal that Fast Growth Family Firms (FGFFs) prefer a differentiation strategy in general and are more likely to adopt an early follower strategy when marketing new products or services. We found that rely on existing products, those that are older than three years to a great extent. However, they commit almost a third of sales to new products and services revealing that the businesses are adept at finding subsequent products and services to maintain their momentum in the marketplace. Further, it seems that about a third of new products are sustaining the hyper-growth rate of these firms. In addition to finding new products and services, fast growth family businesses must pursue new customers. Although some researchers have pointed to globalization as the impetus for fast growth, others have noted that family firms avoid the global marketplace. Our sample reveals that U.S. FGFFs are most likely to gain the majority of sales within the U.S. We found international sales significantly correlated with several factors including having an outsider on the board of directors and the use of agents and brokers.

Key words: Family Firms, Strategic Marketing, Financial Performance, International Market, Contingency Analysis.

Resumen

Este artículo se basa en una investigación sobre las prácticas estratégicas de mercadeo de las Empresas Familiares de Rápido Crecimiento (EFRC) en los Estados Unidos. De acuerdo a los resultados de la investigación, en general, éstas prefieren una estrategia de diferenciación y son más propensas a adoptar la estrategia de "imitador creativo" al mercadear productos o servicios nuevos. Se valen de los productos existentes, en gran parte, las que tienen más de tres años en operación, sin embargo, casi una tercera parte de sus ventas provienen de productos y servicios nuevos. Este dato revela que estas empresas son expertas en ofrecer productos y servicios nuevos para mantener su ímpetu en el mercado. Además de encontrar productos y servicios nuevos, tienen que buscar clientes nuevos. Aunque algunos investigadores han señalado a la globalización como la fuerza para el crecimiento rápido, otros han notado que las empresas familiares evitan el mercado global. Nuestro modelo demostró que estas empresas tienden a ganar la mayoría de sus ingresos en el mercado local. Las ventas internacionales tienen una correlación significativa con varios factores, incluso la presencia de un director externo en la junta directiva y el uso de agentes y corredores.

Palabras clave: Empresas familiares, Estrategias de mercadeo, Funcionamiento financiero, Mercados internacionales, Análisis de contingencia.

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An Analysis of Strategic Marketing Practices of High-Growth U.S. Family Firms****

Introduction

Family firms are the prevailing form of enterprise, comprising approximately 95% of all business establishments in the world (Liz 1995), including 90% of US firms and 80-98% of private enterprises in Latin America (Poza 1995). In almost every country, family firms are recognized as important to the economy. For example, family firms account for a significant share of the economy in the US (40% GDP, 60% of its workforce), Germany (66% GDP, 75% of its workforce), and Britain (50% of its workforce), *Economist* 1996. Family firms are also recognized as critical for socioeconomic development and industrialization in transitional economies (Pistrui et al, 1997). Bhattacharya (2001) writes that in developing countries, family firms represent virtually the entire private economy.

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Despite their importance, the paucity of empirical research examining factors affecting performance, including business growth, is striking (Wortman 1995). A number of researchers have called for empirical studies that analyzed the relationship between determinants of growth and concentration of family ownership (Dyer, Jr. and Handler 1994). Business growth is important to family firm survival (Ward 1987). Poza (1989) writes that family firms must considers growth strategies to avoid the decline and loss of the family business, to promote continuity and family unity and to save jobs and create wealth. Empirical research regarding family firm growth strategies and implementation methods are severely limited (Sharma, Chrisman & Chua 1997). Goffee (1996) calls for research into how family firms grow while maintaining control. From a practical perspective, a family firm who wishes to grow rapidly while maintaining ownership control, would be hard pressed to find guidance on how to do so as much of the advice provided to growth-oriented firms is directed to non-family businesses (Upton, 2001). This paper responds to the need and call for fast growth family firm (FGFF) research by providing a first look at their practices in the area of strategic marketing and its cost.

Literature review and hypothesis

It has been proposed that several marketing factors contribute to company growth including a strategy of differentiation on the basis of quality (Robins, 1991) and introducing improved or new products (Hay and Kamshad, 1994). Bogaert, Jorissen, Laveren and Martens (1999) found several marketing factors contributed to family firm sales growth including better quality of goods supplied compared to competitors and providing existing customer with new products.

Strategy Selection

Ireland and Hitt (1977) found fast growth firms could achieve strong positive financial returns with a "high quality" business strategy and a "first to market" product strategy. Baum, Lock and Smith (2001) found firms that select and emphasize "differentiation through high quality or innovation" achieve the highest growth while those that selected "low cost" or "focus" experienced negative growth. Although few studies have examined family firm business strategy, it does seem that they prefer a differentiation strategy that emphasized quality instead of low cost or diversification strategy (Moores & Mula 1998; Ward 1997). There is some empirical evidence that family firms adopt one of two new product/service growth strategies. They prefer to grow either through a product development strategy (first to marker with new products and services) or through market penetration (early follower), (Daily and Dollinger 1992; Gudmundson, Hartman & Tower 1999; McCann, León-Guerrero and Haley, Jr. 2001). Based on this research we believe that FGFFs will prefer a differentiation strategy and adopt a first to market strategy when introducing new products and services.

Hypothesis 1: Fast growth family firms will prefer a differentiation strategy emphasizing quality.

Hypothesis 2: Fast growth family firms will prefer a first to market strategy.

Product and Customer Development

Family firms have been characterized as risk averse when considering new products or services (Singer and Mount, 1993). Dunn (1996) studied family firms in the United Kingdom (UK) and described their new product strategy as "cautious containment" which develops and expands products incrementally. Business growth demands a steady supply of new and/or improved products and services to new and existing markets. To grow, firms must either develop new products for existing markets or enter new markets with existing products. Previous research has shown that high growth firms are more likely to maintain a product market focus at or near their initial entry (Feeser and Willard 1990). In addition, findings indicate that greater growth occurs with the addition of new markets rather than new products (Cardoza, Reynolds, Miller and Ardishvili 1993). Specifically, high growth ventures begin with geographic expansion of their major product lines, then continue geographic expansion but make major additions to sales volume by expanding into new customer groups, Ardishvili and Cardozo (1994). As to timing of these expansions, Ardishvili and Cardozo (1994) found that high growth firms had a three year cycle of introducing a subsequent major product line, entering new geographic markets and deriving 50% of their revenue from these actions. Based on the actions of fast growth firms, in general, we make the following hypothesis regarding product and customer development.

Hypothesis 3: Fast growth family firms will see 50% of their revenues generated by new products and/or new customers (*new* is defined as within the past 3 years).

Marketing Expenditures

After examining several literature reviews of family business research (Upton and Heck, 2000, Wortman, 1995) and a search using American Business Index (ABI) Inform, we could find no family business studies of marketing factors such as expenditures for promotion and product/service development, sales distribution among new and existing products/services, pricing strategies, and geographic distribution of sales. It seems that the family firm literature in general has ignored all of theses issues except the latter, geographic distribution of sales or internationalization.

International sales

Studies indicate that firms with international sales have larger growth rates than those with only domestic sales (Burgel, Fier, Licht, and Murray 2000). It is uncertain whether U.S. family firms are pursuing global markets (Okoroafo & Kaye, 1999). According to one large-scale study, less than one third of family firms generate any international sales at all, only 7.5% collect from 11% to 50% of their revenues from overseas business, and only 1.6% generate more than half of their revenue sources from abroad (Arthur Andersen/Mass Mutual, 1997), Gallo and Sveen (1991) note that growth through internationalization is a challenge to family firms due to their slowness in making structural changes and their strong local orientation. Swinth and Vinton (1993) suggest that family firms may enjoy strate-

gic advantages by aligning with other family firms in international joint ventures. Okoroafo and Kaye (1999) surveyed family businesses from Northwest Ohio and found that they neither monitor the international marketplace nor integrate global developments into domestic decisions. Based on this literature, we hypothesized than FGFFs engage in international sales to a greater extent than domestic sales.
Hypothesis 4: Fast growth family firms will be significantly more involved in international than domestic sales.

Methodology

Sample

Several authors have noted that empirical research on family firms in the US is constrained by the lack of a national database (Upton and Heck, 1997) and thus researchers must rely on convenience samples (Chua, Chrisman and Sharma, 1999). This study uses data from a survey of the regional and national winners of the Ernst & Young Entrepreneur of the Year Program. The E & Y Entrepreneur of the Year Program recognizes fast growth firms in the United States. Participant firms are not restricted by age, sales volume, or industry. Both family and non-family firms are included in the survey. The survey was conducted by the National Center for Entrepreneurship Research at the Ewing Marion Kauffman Foundation. Surveys were administered to the 3,662 winners between August and October of 1996. The surveys were delivered primarily through the mail or faxed; however, a few were completed via telephone interviews. All of the survey participants served as Chief Executive Office (CEO) of their firm. A total of 906 usable responses were received, yielding a 24.7% response rate. The responses were tested for method bias and response time. Because no significant differences were found among those who responded early as compared to those responding late or among the different methods used to collect data, responses were combined. Sexton and Seale (1997) reported further information about the development of the survey and the data collection process.

There is no general agreement in the field as to how to define "family business". Several authors have called for definitions that use multiple conditions to identify family businesses (Litz, 1995). Of the definitions of that employ multiple conditions, many use requirements such as family ownership and control, family influence on decision-making and intent to transfer the firm to the next generation (Chua et al., 1999). Unfortunately, there is no consensus as to how much ownership is necessary to qualify a firm as a family business. Ward and Dolan (1998) suggest that ownership be measured by voting power, as it is a better indicator of "family business behavior and structure than relative economic interest", Chua, et al (1999) state that there is no specific delineation of how much ownership is necessary to qualify the firm as a family business. But Ward (1986) defines control by percent ownership of stock with 50% ownership considered in control for privately held firms and 30% for publicly held firms. To qualify as a family firm and to included in the sample for this research, founders and families of the founders control at least 50% of voting shares, a member of the founding family serves as the CEO and the firms have at least one family member as an internal or external director. By imposing these criteria, we isolated 120 FGFFs.

Measures

Strategy and New Product/Service Timing. Subjects addressed their overall business strategy by selecting from one of the following: low-cost producer, high quality producer or provider, time-based producer or provider or other. They were also asked to determine which of the following best described their strategic approach when marketing new products: first to market, early follower, in step with majority of competitors or late follower.

Development of New Product/Services and New Customers. Firms were asked to report the percent of sales they derived from new and existing products and services. A new product or service was defined as one that was introduced within the past three years. An existing product or service is one that is over three years old. Firms were also asked to report the percent of sales derived from new and existing customers. An existing customer is one that the firm has had for at least one year while a new customer is one who started doing business in the current year.

Marketing Expenditures. Respondents were asked to determine what percent of sales were expended on the following items: sales force, direct marketing, agents/brokers, others.

International Sales. Respondents were asked to determine what percent of firm sales were derived from local, regional, national or international customers.

Results

Demographic data is presented in Table 1. Although the average age of the firm in this report is 17 years, they are evenly distributed with 1/3 of the firms less than 10 years old. One-third is 10 to 20 years old and 1/3 are over 20 years old. There were no significant differences in the responses of the CEOs based on the age of their business. This means that the strategic marketing practices used by the firms are constant across the generations operating the business. Average sales for the sample are about $86 million and they are growing at about an average of 22% per year.

Table 1
Descriptive Statistics

	Criteria	% Firms		Criteria	%Firms
Sales Volume (In Millions $)	<$10	32%	Profitability	4.9% of less	72%
	$10 to 24.9	30%	(Net Income	5% to 9.9%	20%
	$25 to 74.9	16%	as % Sales)	10% +	8%
	$75 +	22%			
Asset Size (In Millions $)	<$3	42%	Number of	50-149	22%
	$3-9.9	24%	Employees	150-499	44%
	$10-49.9	18%	<49	>500	28%
	$50 +	16%			6%
Sales Growth (Annual)	10% or less	22%			
	10 to 24.9%	11%			
	25-49.9%	23%			
	>50%	44%			

Data presented in Charts 1 and 2 reveal that FGFFs prefer a differentiation or high quality strategy and a first to market position thus supporting both hypothesis one and two.

Chart 1

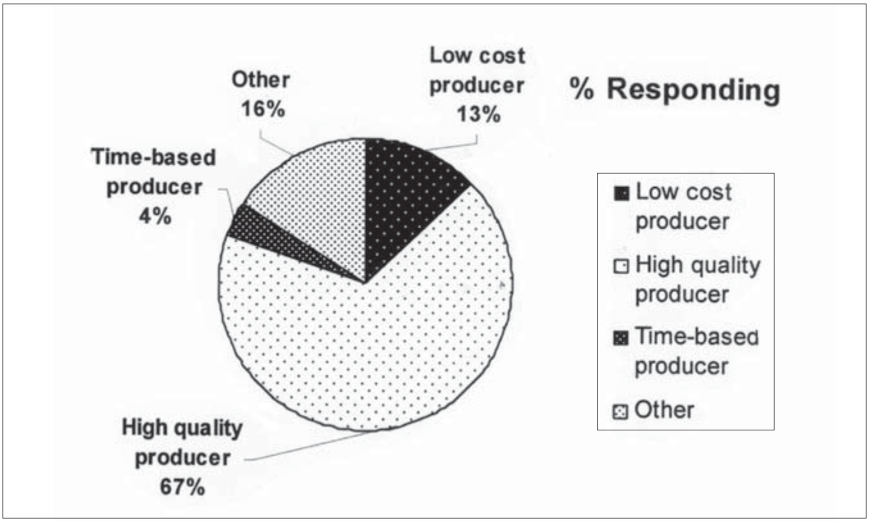
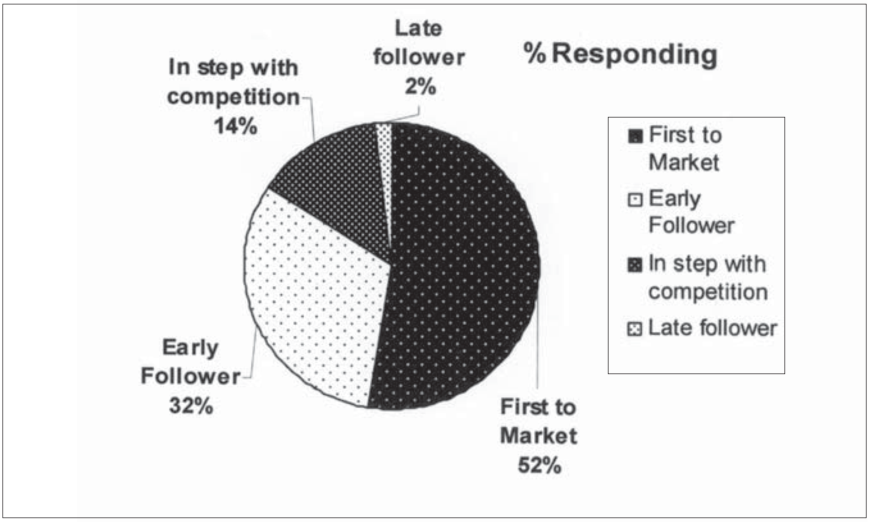


Chart 2
New Product Strategy



We asked our FGFFs the percent of sales they derived from new and existing products and services. The companies report and average of 72% of sales from existing products and 28% of sales from new products. FGFFs rely on existing products, those that are older than three years, to a great extent. Further FGFFs report that approximately 80% of their sales are from existing customers and 20% are generated through new customers. Therefore, hypothesis three is not supported.

According to Table 2, FGFFs spend the majority (51%) of their sales budgets on their sales force, followed by direct marketing (24%), mass advertising (20%), and agents/brokers (8%).

Table 2

Strategic Choices

		% Responding
Overall Business Strategy		
	Low Cost Producer	12.6
	High Quality Producer	67.3
	Time-based producer	3.8
	Other	15.7
New Product Strategy		
	First to Market	50.3
	Early Follower	30.2
	In step with competition	13.2
	Late follower	1.9

We asked the respondents to determine the percentage of sales attributed to geographic areas. Table 3 reveals that the majority of firms derive sales from local and national markets. Therefore, hypothesis four is not supported. When examining the distribution of sales in each of these markets, it seems that very few of FGFFs derive 50% or more of their sales from the local markets. The widest distribution of sales occurs in the national market with 60% of the firms indicating that 50% or more of their sales are derived from the national markets. Fifty-one percent of the firms state that they derive no sales from the international markets. For those firms that do engage in international sales, what company factors seem to be important? We correlated strategy and marketing factors with international sales and found significant correlations between international sales and (1) an outside non-family member on the board of directors (p=. 0214), research and development (p=. 0193), and the use of agents and brokers (p=.0001). There was a significant negative correlation between local sales and international sales (p=. 0003).

Table 3
Marketing Expenditures as Percent of Sales

Activity	Mean	Standard Deviation
Sales Force	51.07	34.60
Direct Marketing	24.47	27.15
Mass Advertising	19.84	25.12
Agents/Brokers	7.89	16.71
Other	4.81	15.91

Discussion

One of the hallmarks of any family business is an obsession for quality (Robins, 1991). It is their family name on the product or associated with the service and that name and reputation are treasured. We asked CEOs to select one of four strategies that best describes their overall approach to business. The majority of FGFFs chose a high quality strategy. A high quality strategy allows the business to gain sales by providing products and/or services that offer customers benefits that are superior to those offered by competitors.

FGFFs may believe that they must have exceptional quality to differentiate themselves from other quality leaders. Using this strategy, family firms might leverage their name and reputation in current markets as well as new ones. These firms are also building a sustainable competitive advantage by concentrating on relative quality.

Over 80% of FGFFs chose a first to market or early follower strategy. Fast growth family business that employs a first to market strategy may benefit from above average returns due to the fact that they are the exclusive provider of the product or service. They can enjoy premium pricing and build customer loyalty before competitors enter the market.

All firms are faced with growth decisions related to market expansion or penetration. FGFFs are committing almost a third or their sales to new products and services indicating that the firms are adept at finding subsequent products and services to maintain their momentum in the marketplace. Further examination reveals that the 28% of new product sales are sustaining the average 22% growth rate.

Family businesses seem to possess a strong degree of loyalty and sense of obligation from these early customers. For some firms, the price of growth is a decrease in the quality of service to existing customers. Fast growth businesses have found a way to balance a high level of service and quality to existing customer and activities that attract new customers.

In addition to finding new products and services, fast growth family businesses must pursue new customers. Fast growth businesses develop a healthy mix of revenues from new and existing customers. Most firms will use revenues from existing customers to fund the development of the new customer base. But, as was noted earlier, this cannot be done at the expense of the existing customers. The quality and service they are accustomed to must be maintained or a company can lose both markets.

To determine the balance of revenues from new and existing customers, we asked the fast growth family firms to estimate existing, -new customer and sales. We found that the number of new customers grows at an average of about 20% per year and these new customers represent an average of about 20% if total sales. Further, this percentage does not change dramatically as the firm grows in sales volume. It seems that fast growth family firms are doubling their customer base in a little less than 5 years. But are the new customers profitable? It costs more to attract a new customer than service an existing one.

Fast growth firms have been called selective in acquiring new profitable customers. To determine the percent of revenue generated by a new customer, we analyzed the percent of new customer revenue in relation to existing customer revenue. For fast growth family firms, the revenue received from new customers is 61% or greater of that from existing customers. One way to look at this is to say that new customers are immediately two-thirds the value of an existing customer. Fast growth family firms seem to have the ability to maintain an existing customer base that provides the resources to attract valuable new customers.

In our sample, FGFFs acquired the majority of their sales in the national and local markets. However, for those fast growth firms that do engage in internationalization, several interesting associations emerged. First, there was a significant positive correlation between international sales and the presence of a non-family outsider on the board of directors. This finding supports the notion that the CEO's decision to export is linked to existing social ties instead of formal scanning and market research (Ellis & Pecotich, 2001). International sales were also positively correlated with spending on new product development and the use of agents or brokers. The significant negative correlation between international and local sales may support the assumption that a strong local orientation discourages internationalization (Gallo and Sveen, 1991).

In summary, fast growth family firms use a quality focus, differentiation strategy and a first to market orientation. They are not as aggressive in pursuing new product/services and customers as non-family fast growth firms. They expend the majority of their marketing dollars on their sales force and concentrate their sales in the national, not international arena.

Limitations and Further Research

In 1994, Robert Brockhaus, page 23, wrote: "There is a vast amount of research needed about the impact of marketing on family businesses." While this study has provided some insight into the marketing practices of high growth firms, some limitations should be noted. First, the data provided are self-reported and may have a social desirability bias. However, preliminary work by researchers and the Kauffman Foundation indicated that the self-report data are very close to the publicly available data (Sexton, 2000). Second, this is a convenience sample of high growth firms from the U.S. and thus the results may not be generalized to other populations. Cross-cultural studies of family firms are needed. This would include populations of both fast growth and steady growth firms. Family firms may consider these findings as best practices or benchmarks for their own performance. However, a comparative analysis is necessary to determine if fast growth family firms as compared to fast growth non-family firms are using the best marketing strategies.

We did not control for industry and it is possible that certain market practices are more effective and profitable depending upon industry. Further research, which controls for industry would provide better information for family firms. Industry may also influence the findings regarding internationalization. Our findings support those of Ellis and Pecotich (2000) regarding the importance of social relationships and exporting. More research to determine the nature of these relationships and how they influence family firm decisions is of interest.

Family firms that wish to continue to the next generation must consider growth issues. The tactics and strategies presented here may provide some insight into these complex issues. At this point, we join with other researchers to urge a continued rigorous performance assessment of family firms, especially in important functional areas such as marketing.

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