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Marketing strategies that make entrepreneurial firms recession-resistant

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Abstract

The recession of 1990–1991 adversely affected nearly every industry in the United States, and entrepreneurial manufacturing firms were among those hardest hit by the recession. The failure rate among this group by mid-year 1991 had risen 37% from the previous year. Thus, recessions pose a serious threat to the survival of entrepreneurial firms.

Understanding how the business cycle influences performance and what strategies are effective in such turbulent times has practical value for managers of entrepreneurial firms. In this paper we report a large-scale empirical research study involving subjective and financial information from 118 publicly traded U.S. manufacturing firms. The participating firms are involved in technologically demanding and highly innovative industry segments: Industrial and Computer Equipment; Electrical Equipment and Components; and Measuring, Analysis, and Control Instruments. None of the firms has

components, and measuring, Analysis, and Control Instruments. None of the firms has achieved a market share of more than one half of one percent ($< 0.5\%$). The goal of the study was to determine the components of a marketing strategy that enabled a firm in these industries to withstand the negative financial consequences of a recession.

We find that, in these industries, a company's marketing strategies preceding a recession strongly impact the extent of economic downturn on the firm, and influence its odds of a timely and complete recovery. Our specific prescriptions follow: First, maintain marketing activities in the core business as assurance against recession. Increasing sales and advertising, increasing breadth of production, and increasing geographic coverage improve performance during both the peak and the contraction of the business cycle. Second, during the peak period, cautiously expand with an emphasis on marketing efficiency. Increasing the number of channels of distribution and cutting price have a negative effect unless accompanied by sales-force performance measurement. A simple emphasis on incentives and efficiency alone hurts a firm as a recession hits. All of these prescriptions run counter to existing views that suggest that recession simply requires cutbacks and retrenchment. Recessions seem to be different from other threats to firm viability, and marketing activities appear to help pull the firm through a macroeconomic downturn.



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