Shaping up word of mouth marketing strategy:

the case of an independent health club.

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Abstract

Owner-managers of small businesses invariably cite word of mouth recommendations as the principal way in which they attract new customers. Marketing theory is under-developed in this field with little empirical evidence about the recommending behaviour of small business customers and referral groups. The case study of an independent health club reported here illustrates how these processes can be researched and the results used to influence word of mouth recommendations. The owner-manager of the club carried out some basic research on his customer base in order to identify the types of members who were most active in recommending the club, and the stimuli that led to recommendations being made. A key finding was that newer members were more likely to recommend than those who had been members for some time, contradicting the implications of relationship marketing theories that long standing customers generate most recommendations. Membership more than doubled following a number of activities designed to increase recommending behaviour. The most important stimuli to recommendations were believed to be involvement with the club, incentives and experiential factors. The case study indicates that word of mouth strategies benefit from research to find out which customers are recommending the business, what they are recommending about the business and what prompts them to do so.

INTRODUCTION

Research at the marketing/entrepreneurship interface emphasises the need to inform and update marketing principles through the study of successful entrepreneurial practice. The analysis in this article follows this theme by investigating how an entrepreneur developed his small business by managing and stimulating recommendations from existing customers. A number of studies have identified that small and medium-sized enterprises (SMEs) rely on word of mouth recommendations as their principal source of new customers (Curran and Blackburn, 1994; Orr, 1995; Barclays Review, 1997; Stokes *et al.*, 1997). This holds true for most SMEs especially those in business-to-business and consumer services sectors; even retail businesses rely on recommendations to supplement sales from passing trade (Blackburn and Stokes, 1999). However, little is known about if, and how, entrepreneurs have successfully incorporated word of mouth strategies into their marketing. Previous research relies on evidence mainly from owner/managers and not their customer base, so there are few empirical studies of how the processes of recommendations actually work between the word of mouth participants.

Case studies such as the one reported here are beginning to address these issues. An earlier study (Stokes and Lomax, 2002) of the entrepreneurial owner of an independent hotel illustrated some key problems in the recommending process. Through customer research, the owner discovered inconsistencies between the types of recommendations which customers sought *before* selecting a hotel, and the types of recommendations they passed on *after* their stay. Pre-purchase, they sought recommendations based on location, price and facilities. Post-purchase, their recommendations focused on their experiences in terms of service, cleanliness and friendliness. Thus, the recommending process was proving ineffective in attracting clients, not through the quantity of word of mouth

activity, but because of the type of recommendations made. The owner improved the effectiveness of recommendations through interventions designed to focus word of mouth on the key decision-making variables. This case study indicated that owners can successfully intervene to improve word of mouth communications following research into the recommending process. Following this theme, this paper reports on a second case study in which the owner of a leisure club investigated word of mouth processes amongst his customer base, and introduced strategies to stimulate recommendations.

The role of word of mouth in marketing communications

Word of mouth is a pervasive and influential form of communication, involving a regular exchange of information across a wide spectrum of individuals and stakeholder groups (Haywood, 1989). One of the earliest researchers, Arndt (1967) suggested that word of mouth has a particularly significant impact on the customer's final purchase decision:

> "*Whilst the mass media is generally effective in generating product awareness, in many instances consumers more often rely on word-of-mouth when making their actual purchasing decisions*" (Arndt, 1967: 291-295).

Increasing consumer cynicism of the true independence of third party advice means that word of mouth has the potential to be more influential even than well-researched printed sources of product information such as 'Which?' magazine (Culligan, 1995). Despite this, modern marketing text books contain little information on word of mouth communications. In over 800 pages on the principles of marketing, Kotler *et al.* (2001: 639) devote only one third of a page to 'personal communication channels' which includes a one line mention of 'word of mouth influence'. In a text book of similar length, Brassington and Pettit (2000) briefly discuss in one paragraph the importance of

word of mouth in the decision making process of buyers, but have no advice to offer on how to influence this.

Word of mouth has been investigated as an input into consumer decision-making, and also as an output of the purchase process (Bone, 1995). *Input word of mouth* occurs when the consumer seeks pre-purchase advice. This is particularly significant at the evaluation stage of the buying process. Buyers are more likely to seek word of mouth recommendations for products which have high experience and credence qualities such as taste, durability or comprehension (Zeithaml, 1992). When the product is predominantly intangible and high in experience qualities (such as a hotel or leisure club), buyers find it difficult to evaluate and seek input word of mouth to reduce their perceived risk (Herr *et al.*, 1991). *Output word of mouth* occurs when buyers engage in a post purchase communication. The impact of negative, output word of mouth has been well documented in the literature (Mizerski, 1982; Richins, 1983; Heath, 1996). However in this paper we focus on positive, output word of mouth and in particular recommendations and referrals to try a specific service.

Influences on recommending behaviour

Customer who have a sense of *involvement* with a business, in addition to normal commercial relationships, are more likely to communicate influentially about it. Empirical research by File *et al.* (1992) in the legal profession concluded that increased participation levels between lawyer and client were indicative of increased numbers of referrals. In support, Stokes and Lomax (2002) found in their case study of an

independent hotel that the owner increased customer recommendations by involving guests more in the workings of the hotel.

Incentives are another trigger known to promote recommendations (Mangold *et al.*,1999). The case study by Stokes and Lomax (2002) illustrates this with an account of the use of incentives to encourage guests and travel agents to recommend the hotel to family, friends and clients.

The length of customer tenure has also been linked to recommending behaviour. Theories of relationship marketing incorporating a 'ladder of customer loyalty' (Payne, 1995) suggest that as the relationship progresses over time, the potential for advocacy (output word of mouth) increases at each stage. In support of this, repeat purchase of a product by customers has been associated with their likelihood to recommend it (Dick and Basu, 1994). In a widely-quoted study, Reichheld (1996) also indirectly linked recommending behaviour to length of customer tenure by suggesting that one of the ways in which long-standing customers add more value to a business than recent customers is by making more recommendations. However, a study by East *et al*., (2000) reported that *recent* customers were more likely to recommend supermarkets and hairdressers than longer-term customers. The rate of recommendation of the current supplier *declined* with the duration of customer tenure for both services. This suggests that recently acquired customers may have been undervalued in relationship and word of mouth marketing concepts.

Word of mouth in the context of SMEs

Previous studies have found that owners/managers of SMEs seem to adopt a passive approach towards gaining new and repeat business through word of mouth recommendations (Stokes et al., 1997; Hall, 1995, Curran and Blackburn, 1994). Owner/managers perceive recommendations to be uncontrollable other than applying their technical expertise to satisfy the customer. Although Wilson (1994) asserts that owner/managers could be just as organised, thoughtful and systematic about word of mouth as about other media promotions, there is little existing evidence to suggest that they are.

Owner/managers are arguably over-reliant on recommendations for new customer acquisition (Barclays Review, 1997). As they have little direct control over the recommending process, business growth may be left to chance. Depending entirely on word of mouth may have disadvantages in restricting organisational growth. Total reliance on referrals for new customers limits growth to those market areas in which its sources of recommendations operate (Shaw, 1997). But Stokes *et al.* (1997) contended that, for many small firms, reliance on recommendations is realistic as it matches their resources. Referrals incur few, if any, additional direct costs and lend themselves to a more manageable growth of new business.

Although it seems as if entrepreneurs leave recommendations largely to chance, there is evidence that some do find ways of encouraging referrals and recommendations by proactive methods. Studies have shown that small graphic designers (Shaw, 1997),

lawyers (File *et al.*, 1992) and headteachers of schools (Stokes, 2002) have all successfully intervened to encourage word of mouth to achieve their aims. The case study reported on here is an attempt to document a further example of good practice in using word of mouth positively and to understand the processes that have enabled this.

METHODOLOGY

The case study is based on an independent health and leisure club in the Greater London area. The business was initially reliant on one customer group, but it successfully diversified and enlarged its customer base during the study period. The research used a longitudinal case study approach, which was carried out from 1999 to 2001. It documents the entrepreneur's attempt to build a business based on improving the effectiveness of the word of mouth communications. The case study approach was adopted as they are particularly relevant for investigations of a contemporary phenomenon (recommending behaviour) within a real-life context (the health club) when the boundaries between the phenomenon and the context are blurred (Yin, 1994). Recommendations are very difficult to observe and document and therefore have very blurred boundaries in relation to their context.

This study uses two main sources of data. The first is the data gathered by the entrepreneur to facilitate his development of an effective word of mouth strategy. The second source is the study of the entrepreneur and his actions by the authors of this paper.

The entrepreneur's research

The entrepreneur's aim was to develop a word of mouth strategy that would increase the rate of recommendations to join the health club. He carried out some basic research on his customer base in order to:

- Assess the significance of word of mouth in choosing the health and leisure club.

- Identify the types of members who were most active in recommending the club.

- Identify stimuli that led to recommendations being made.

From this information, he developed a word of mouth strategy based on a proactive approach to encourage recommendations.

The entrepreneur used primary research to investigate the recommending processes within the club. First, he studied database and paper based records of membership categories and any known characteristics of those categories. Secondly, members were given simple questionnaires to obtain data on if, and when, they had made recommendations to potential new members, and why they had done so. Those who had actively recommended the club were categorised by gender, age, marital status and length of membership in an attempt to identify commonalities. The entrepreneur sent out 350 questionnaires to the membership of nearly 600, and received 140 usable replies, a response rate of 40 %. The responses were analysed using descriptive statistics.

The authors' research

The authors of this paper had the research objectives of gaining insights into attempts to proactively manage the recommending process in order to offer suggestions to other SME managers regarding word of mouth marketing strategies. The main research instrument was a series of face-to-face interviews with the entrepreneur between 1999-2001, both

during and after his own research into the word of mouth process. These interviews were designed firstly to document his actions in developing a word of mouth strategy, and secondly to investigate his views on how to manage word of mouth communications. Analysis of the interviews involved a systematic dis-aggregation and re-aggregation of the transcripts into categories of data in order to develop coded themes and concepts in relation to the research issues.

The interviews were supplemented with documentation concerning the business. Retrospective data was collected from 1995, when the entrepreneur bought the business, which provided useful insights into the running of the business.   The authors also reviewed the results of the survey carried out by the entrepreneur, but did not intervene in the implementation of his research.

RESEARCH FINDINGS

Significance of word of mouth communications

The entrepreneur's survey confirmed that recommendations played a key role in customers' choice of the health club. When asked to indicate the sources of information that had influenced their decision to join the club, three quarters of members listed recommendations from either existing or non-members, as shown in Table 1.

Table 1: Sources influencing members into joining the club

Sources	Respondents (n=138) %
Recommendation from members	44
Recommendation from non-members	32
Newspaper advertising	20
External signs	19

Leaflets	15
Poster on notice boards	9
Business directories	4

This confirmed the entrepreneur' view that word of mouth communications were crucial in customer acquisition.

> *"Well it's (word of mouth) always been very significant for us because there is so little else really in terms of marketing. The newspaper has been fairly significant, Yellow Pages a little bit, Thomson Local a little bit but word of mouth was always the biggy. That's where most people were actually coming from."*
>
> (Owner manager, interview 3)

The findings pointed to a number of factors that influenced recommending behaviour.

Characteristics of those most likely to recommend the club

The entrepreneur's survey did indicate one important similarity in those members most likely to recommend the club. Newer members were more likely to recommend than those who had been members for some time. Of the 50 members identified as most active in making recommendations, the average length of membership was 3.5 months. As the membership extended beyond the first year there was a noticeable decline in recommending behaviour. Asked why he thought established members of over a year were less likely to actively recommend than newer members, the entrepreneur replied that:

> *"A lot of it is because the excitement is gone, I think, for them. They become creatures of habit."*
>
> (Owner/manager, interview 3, 2001)

Stimuli to recommending behaviour

Involvement

The entrepreneur felt that the most significant finding from his research was the role of involvement in stimulating recommendations.

> *"The key to referral is involvement. They've got to be in there, using it, participating... So there is more interaction, there is involvement and often when people join up especially beginners we see them two or three times. So you might end up devoting two or three hours to one person but it does make them very potent"*

> (Owner/manager, interview 3, 2001)

He used this finding to develop his recruitment strategy. Most members joined on a three-month trial basis. During this time, the entrepreneur ensured that staff attempted to keep the new member coming in regularly, participated in as many club activities as possible. Through this encouragement to become involved, he believed new members would not only continue their membership, but also recommend the club to their friends.

Use of incentives

Relationship marketing proponents advocate incentives to customers for recommending friends and families, and development of reciprocal referrals amongst organisations. (Payne, *et al.* 1995, Mangold *et al*. 1999). The owner accepted this advice and put a reward system in place.

> *"All the active referrers' names go into a hat at the end of the year and if they refer three or four people their names go in three or four times. Then we pick their name from the hat and they win a trip to New York, so that's a good incentive."*

> (Owner/manager, interview 2, 2000)

The entrepreneur also maintained that because of the impact the reward policy had on referrals, it could be improved further:

> *"There is so much more we could really do, we could have an 'active member of the month'. We keep talking about it we should actually do that... give them*

maybe a colour television or something. It would only cost a hundred quid but the actual impact of that would be huge."

<div align="right">(Owner/manager, interview 3).</div>

Experiential factors

Experiential factors (i.e. friendliness of the staff, atmosphere and quality of instructors) emerged as the most important factors when recommending the club to others. The entrepreneur emphasised that the performance of the employees had a significant impact on pre-purchase and post-purchase perceptions that in turn influenced word of mouth communications:

> *"Yeah, it was the experiential things. People had told me that facilities weren't important. I wasn't that convinced but I am completely convinced of it now they aren't important…. They (members) just experience the atmosphere, the friendliness of the staff and that's really all they experience".   (Owner-manager, Interview 1, 1999)*

Development of a word of mouth strategy

The entrepreneur described how the word of mouth strategy had evolved over the years since he had bought the club in the early 1990s. Although the club had a loyal customer base when he took over, this proved to be a block to expansion. A dedicated group of body builders attended the club frequently, and used the equipment intensively. Whilst they provided him with a core of good customers, they also blocked further expansion.

> *" It's a little bit like it is even today. People who have been there a long time they don't refer, because they would rather at the time they came to exercise it was exactly the same every time."*

<div align="right">(Owner/manager, interview 1, 1999)</div>

These long-standing members only recommended new members if they were primarily motivated by body building, not general fitness. The entrepreneur knew that he had to reach a wider segment of fitness enthusiasts if he was to develop the business.

> *"I knew that I had to change things, I knew that wasn't going to pay the bills indefinitely 'cause the market was starting to change."*
>
> (Owner/manager, interview 1)

He also recognised that the existing clientele actually deterred new female members - only 16% of the membership were women when he purchased the business. He decided that the only way to cater for the different needs of these customer segments was to provide separate facilities and he converted the first floor of the club into a women-only gym. Whilst this provided a talking point, it also gave him a particular problem in developing a word of mouth strategy: as so few customers were female, the base for making recommendations was very small. The entrepreneur tackled this issue by inviting fitness teachers to run their classes in the club. This provided the facility with the exposure to a new customer base that the entrepreneur needed. Female membership grew quickly to become over half of the membership.

> *"It caused a revolution and the female membership side rocketed. We put a package together like everybody elsewhere. Aerobics and the gym were all included when you are a member and you have to sign for twelve months as well…Quite a lot of original members left, probably about 30%. Once all the anti people had gone, it was fine."*
>
> (Owner/manager, interview 1)

Business performance

The club achieved substantial growth in terms of customer acquisition and turnover from the time it was taken over by the entrepreneur.

> *"When I first took it on we had just under 300 actual members, then the membership started to creep up. We are up over 700 (members) now, so that was from 360 or 370 at the end of 1995."*

The Club enjoyed a significant increase in revenue from £120,000 to £250,000.

over the period of the case study (1999-2001). The entrepreneur claimed that this had

been achieved despite a considerable increase in competition.

> *"The market place has changed a lot, there is a lot more competition. From when the health club first opened there was nobody else literally within ten miles but gradually its got to be more."*
>
> (Owner/manager, interview 3)

DISCUSSION

This case study contributes to the debate concerning several aspects of marketing

principles when applied to entrepreneurial contexts. In particular, it addresses the

following questions that owners/managers need to consider when formulating word of

mouth marketing strategies:

1. Is it possible for small business owners to manage word of mouth communications?

The lack of space devoted to word of mouth in modern marketing text books (e.g.

Brassington and Pettitt, 2000; Kotler *et al.* 2001;) is not because the authors dispute the

considerable influence of word of mouth communications in the decision-making process

of buyers, but because this power is considered to be essentially outside of the control of

marketing managers. Whilst this may be true of large corporations with a diverse,

international customer base, owner/managers of small businesses with localised demand

may be able to intervene more effectively to influence the word of mouth process. The

case study of the independent health club reported on here indicates that a word of mouth

marketing strategy can have a significant impact on business performance. Although no

tests were carried out to demonstrate rigorously the effects of the entrepreneur's

interventions in the word of mouth process, there is considerable circumstantial evidence

to indicate that these interventions did lead to improved customer acquisition. The entrepreneur's research showed that a high percentage of members were influenced to join through recommendations (76 percent). Having implemented a number of activities designed to increase recommending behaviour, the membership numbers more than doubled. This would seem to support Wilson's (1994) view that word of mouth communications can be managed. By exploring the process of recommendation and taking action based on this information, the entrepreneur demonstrated that word of mouth marketing can become an integral part of business strategy.

2. *Should entrepreneurs continue to rely on informal information gathering rather than more formal market research in considering a word of mouth marketing strategy?*
Owners/managers of SMEs tend to practise marketing intuitively, and rely on their personal experiences and intuition to inform their marketing decisions (Carson *et al*., 1995; Stokes *et al*., 1997). Whilst this is undoubtedly the case, is it always good entrepreneurial practice? In many circumstances, marketing theorists may have much to learn from entrepreneurs about how to seize opportunities through effective, intuitive decision making, rather than following market trends by waiting for research to validate demand (Carson, 1990). However, in attempting to informally understand word of mouth communications about their business, entrepreneurs may suffer a disadvantage. Their intuitive understanding of the market place in which they operate comes in part from informal networking, including communicating with influential customers (Shaw, 1997). However the credibility of word of mouth relies on impartiality and lack of vested interest. By their very nature, word of mouth communications are assumed to be

independent of commercial influence and therefore *outside* of the business to which they relate (Buttle, 1998). Owner/managers may find it difficult to intuitively understand such communications as they take place beyond their normal influence and networks. As it is difficult for an owner of a business to be linked informally into the word of mouth processes about their business, they may need to adopt more formal information gathering techniques to understand word of mouth in the context of their business. The entrepreneur in this case study certainly came to this conclusion and undertook a survey of members to learn about who was making recommendations and why. The case study therefore suggests that owner/mangers of SMEs need to institute more formalised information gathering and rely less on their personal experiences and intuition in order to understand the dynamics of word of mouth activity. In particular, the entrepreneur's survey of customers revealed basic but crucial information about who was more likely to make recommendations and what triggered them to do so.

3. Which type of customers are most likely to recommend a business?

Once it is established that recommendations from existing customers are a significant influence on customer acquisition, the next important issue in formulating a word of mouth strategy is to understand which particular customers are most likely to recommend. Despite the implications of relationship marketing theories that long standing customers generate most recommendations (Payne *et al.*, 1995), the entrepreneur in this case study found the reverse - that it was the newest members who were most likely to be enthusiastic about the club and tell their friends. East *et al.*, (2000) support this conclusion that recent customers recommend more than longer term

customers, but their study was also sector specific (dentists and supermarkets). More research needs to be done in this field as it is probable that other markets sectors work differently and longevity may indeed be linked to more referral behaviour in some circumstances. The important conclusion from this study is that it is important to find out how the processes of recommendations actually work in order to identify those most likely to recommend.

4. How can recommending behaviour be stimulated?

This case study adds weight to other evidence that recommendations can be stimulated in a number of ways. The entrepreneur found that the involvement of members in club activities was a good indicator of their propensity to recommend. This supports other research suggesting that the degree of interaction between producers and consumers in the delivery of a service has an impact on the degree of word of mouth generated (Haywood, 1989; File *et al*., 1992; Stokes, 2002). The entrepreneur also found that carefully used incentives could increase rates of recommendations. Involvement and incentives seem to offer potential to encourage the spread of favourable word of mouth.

5. What can be done to break out of a stagnant referral network?

The case study illustrates one of the drawbacks in relying on word of mouth to build a customer base: the problem of a stagnant referral network. Customer recommendations were restricted to the networks of the existing membership. When the membership consisted largely of body builders, the entrepreneur found it difficult to attract the different types of customers that he needed to expand his customer base through

recommendations alone. Referrals were limited to a network of customers that could be described as stagnant rather than dynamic as they were unlikely to expand beyond their limited, specialised contacts. He overcame this by doing something to get noticed by a new market segment (a women-only gym) and thereby building a new network of customers (keep-fit females) that could begin the recommending process to this segment. He found that this worked relatively quickly once he had made the initial breakthrough. Thus he demonstrated that it is possible for owner/managers to overcome the common problem of over-reliance on a small customer base in a stagnant network group (Shaw, 1997).

These findings indicate that word of mouth communications can be positively influenced to form part of an overall marketing strategy. Advice to other entrepreneurs based on this evidence would be to adopt a three stage approach to maximise the potential from word of mouth marketing:

1. Give customers a reason to talk about you: ensure you offer services and products of a consistently high quality. Do something exceptional or different.
2. Find out about the recommending and complaining behaviour of your own customers: investigate how recommendations and complaints operate in your industry and your business. Which customers are recommending you? What are they recommending about you? What prompts them to recommend you?
3. Intervene to influence the recommending process: develop a strategy to encourage more positive word-of mouth about your business.

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