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Customer complaints as a source of customer-focused process improvement: A constructive case study

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Abstract

Process-based thinking commonly focuses on enhancing the efficiency of processes, while it is often criticized for not paying enough attention to the customer. This paper argues that customer complaint information can be used as a basis for customer-focused process improvement. Thus, it is not enough to make the complaining customer satisfied, but the complaint information should also feed back to the actual processes where the fault causing the complaint arose and where it can be removed. The empirical component of the study includes the development of a novel construction to utilize customer complaints for process improvements, which was implemented in a large Finnish enterprise operating in the wholesale logistics environment. The results show benefits at both operational and strategic levels.

Keywords: customer orientation, process improvement, customer complaints, complaint management, operations management, constructive method
1 INTRODUCTION

The market-oriented philosophy in marketing and management literature has emphasized customer satisfaction and loyalty as sources of performance and profitability (e.g. Deshpandé, Farley and Webster, 1993; Foster, Gupta and Sjoblom, 1996; Jaworski and Kohli, 1993; Knox, 1998; Oakland and Oakland, 1998; Slater and Narver, 1996). However, the customer orientation seldom reaches the operational level of business processes in theory or practice. Process-oriented management teachings such as activity based management (Turney, 1992), total quality management (Creede, 1994; Mizuno, 1992), business process re-engineering (Earl and Khan, 1994), continuous improvement (Davenport, 1994), lean management (Taylor, 1999; Vollmann, Berry and Whybark, 1997) and supply chain management (Shapiro and Heske, 1985) have traditionally focused on enhancing the efficiency of processes within organizations. While a number of scholars have raised the role of the customer in the improvement of business processes (Jones and Sasser, 1995, Kohli and Jaworski, 1990, Slater and Narver, 1994, 1996), these teachings have also been criticized for being rhetoric and not paying enough genuine attention to the customer (e.g. Wood, 1997). In short, despite their development towards increased customer focus, these ‘engineering’ approaches essentially concentrate on processes as such and do not appear to provide sufficient support to focus on the issues that are important to the customer.

This paper argues for a customer-focused approach to the improvement of business processes by developing a construction which systematically utilizes customer feedback in form of complaints to achieve process improvements both at strategic and operational levels. The basic idea is that it is not enough to make the complaining customer satisfied, but that the complaint information should be fed back to the actual processes where the fault causing the complaint arose and where it can be removed, thus avoiding similar future errors. This thinking is essentially utilizing the ideas of a learning system (Checkland, 2000) and feedback loops that balance the variety between the environment and the operations (Beer, 1985). While complaint management has been addressed in the previous literature (e.g. Boshoff, 1997, 1998; Brown, Cowles and Tuten, 1996; Feinberg, Widows, Hirsch-Wyntcct and Trappey, 1990; Hart, Heske and Sasser, 1990; Johnston, 1995), Johnston and Mehra (2002) emphasize that further research is required especially with respect to the ‘how’, that is, how the complaint information could be utilized operationally. Moreover, little research has been devoted so far to investigating how companies can better utilize qualitative customer complaint information. The present paper addresses both of these knowledge gaps.

Empirically, the paper adopts an applied approach based on the constructive case study method. The constructive method concentrates on developing and implementing a new, innovative and theoretically anchored construction (e.g. a model, plan, organization, technology, software or a combination of these) to solve a real-world problem situation (Kasanen, Lukka and Siitonen, 1993; Lukka, 2000, 2003, 2005). The implementation phase is an integral part of this method, as the ideal construction not only makes a theoretical contribution but also solves the practical problem (Lukka, 2000). Thus, in business studies the construction is subjected to the practical test of whether it works in the company or not. The construction developed in the present study includes a database solution for collecting and analysing qualitative customer complaint data in a large Finnish company operating in the wholesale logistics environment. The aim of the construction was to provide a tool for customer-focused process improvement.

The contribution of this paper is two-fold. Firstly, it introduces a novel construction which links customer complaints to the company’s processes arguing that complaint information can be effectively used to improve customer focus and operational quality. Secondly, from a managerial point of view, the paper describes a construction that effectively utilizes customer complaint information in support of managerial decision making both at operational and strategic levels aiming towards improved operational quality.

The paper is arranged following the logic of the constructive method. The first section reviews literature relevant to analysing the role of customer complaints as a source of information for the purpose of process improvement. This review summarizes the main literature used in developing the construction. Next, the constructive case study methodology is described and the case company and the developed construction are introduced. Finally, the results of the study are presented and discussed, followed by the conclusions and implications for management and further research.
2 CUSTOMER COMPLAINTS AND PROCESS IMPROVEMENT

Extending the market-oriented philosophy to the management of processes would imply that the emphasis should be placed on identifying and improving those processes in the company’s value chain that generate the most value to the customer. Such improvements are not just a cost but also an investment in long-term profitable customer relationships (Reichheld and Sasser, 1990). However, errors and unsatisfactory service occur in all businesses given that “mistakes are an unavoidable feature of all human endeavour” (Boshoff, 1997, p. 110). Occasional failures are not necessarily bad. As a matter of fact, most customers accept that things go wrong sometimes and are happy enough as long as the problems are solved and do not occur again (Bitner, Booms and Tetreault, 1990; Feinberg et al., 1990).

Different types of faults can be prioritized on the basis of the cost they cause to the company or its customers (Albright and Roth, 1994; Shank and Govindarajan, 1994). The Japanese quality philosophy distinguishes between random and systematic faults in this context (Mizuno, 1992). Random errors often have relatively simple causes and are thus fairly easy to identify and analyse. They are often ‘human’ and can therefore usually be corrected by the person responsible for the particular task (Cardy and Dobbins, 1996; EFQM, 1997; Oakland and Oakland, 1998). Systematic errors cause the customer to experience dissatisfaction on a continuous rather than sporadic basis. The reasons causing this type of errors are often multifaceted and removing their causes requires complex analysis (Mizuno, 1992). To correct the problem is therefore a task for the management who have the power to eliminate the causes. Our particular interest in this paper concerns systematic errors as removing such faults in a company’s processes demonstrates the greatest potential to improve quality in a way valued by the customer (Berry and Parasuraman, 1997; Clinton and Hsu, 1997; Hammer, 1990).

The identification of systematic faults requires a considerable amount of versatile data (Reichheld and Sasser, 1990). We argue that customer complaints can be a valuable and inexpensive source of information for identifying systematic errors and enabling customer-focused process improvement. The feedback that the customer provides out of their own initiative, such as complaints, is often very direct, concrete and detailed (Reichheld and Sasser, 1990). Thus, compared with data collected by means of customer surveys and panel studies, complaint information provides a more reliable picture of the customer’s true opinion. Complaint information has several managerial applications. Johnston (2001) developed and tested a conceptual model demonstrating three routes that link complaint processes with the company’s financial performance. We coined these routes as the Customer Orientation, the Human Resource and the Engineering routes (Figure 1).

Figure 1: Three routes linking complaints to performance (based on Johnston 2001)
The Customer Orientation route suggests that complaint processes impact on customer satisfaction, which in turn through its effect on customer retention has an impact on the firm’s financial performance. It essentially covers the customer recovery process, that is, making the complaining customer satisfied through an appropriate correction of the error made. Furthermore, Johnston (2001) argued that complaint processes, if made ‘staff-friendly’, can also have an impact on employee attitudes and to financial performance via employee retention. We call this the Human Resource route. The reasoning behind this route suggests that by making complaint management easier to the employees, allowing a certain degree of human error, and relaying not only the complaints but also the positive feedback received from the customers to the employees, employees are believed to be happier, learn from their mistakes and remain with the company, thus reducing operation and switching costs. Finally, Johnston (2001) suggested that complaint processes should be designed to focus on process improvements that are likely to achieve savings and thus positively impact profitability, which is not necessarily the case if the improvement merely targets customer satisfaction. These elements form the third route in the model, which we coined the Engineering route. According to our understanding, this is the process where the errors causing the complaints are identified, analysed and tracked back to their source. Thereafter the information can be used in aid of decision making in an attempt to improve processes, thus preventing similar errors happening again.

The focus in the following analysis is on the Engineering route. We argue, however, that the three routes are intertwined. Process improvements affect customer satisfaction and retention, as they do employee attitudes and retention. Similarly, process improvement should be based on information about the factors that have a positive impact on customer satisfaction and employee attitudes. The particular emphasis of the following analysis is on utilizing customer complaint information to determine what makes the customer dissatisfied and using this as a basis for process improvement, which in turn aims to avoid the repetition of the errors that gave rise to the complaint in the first place.

So far little research has been aimed at finding tangible methods to analyse and derive operational benefits from customer complaints. The following section presents a construction that was implemented in a large Finnish company as a solution for analysing complaint information and tracking back complaints to the processes within the organization where the fault causing the complaint occurred. This is followed by a discussion of the results achieved through the implementation at both the operational and strategic levels.

3 METHOD AND DATA

The constructive case study method

The constructive method is a specialized form of case study, which concentrates on developing a new, innovative construction to solve practical, real-life problems Lukka, 2003, 2005). Lukka (2000) characterizes construction as an abstract concept which has a nearly infinite number of possible realizations. Examples include different models, diagrams, plans, organizational structures, commercial products and information systems. A particular characteristic of constructions is that they are not discovered but invented. The construction developed in the present study is a novel, practically relevant method of systemizing the utilization of customer complaint information for processes improvement.

In addition to building a theoretically anchored construction, the implementation of the developed construction is at the core of the method. Therefore, unlike for example in action research, the researcher does not attempt to be an observing bystander but works actively and explicitly on the project in order to make it work in practice (Lukka, 2005). A constructive study is experimental by its nature. Following the pragmatic philosophy of science, the constructive method believes that one can make a contribution to theory through a profound analysis of what works and what does not work in practice (Lukka, 2000). The ideal results from a constructive case study combine both the solution to the practical problem and a contribution to theory. The theoretical contribution can take the form of an entirely new theory but more often constructive studies demonstrate, test or develop existing theory (Keating, 1995; Lukka, 2000, 2005).

The present study was carried out in three phases. The pre-study phase and the development of the construction took place mostly during 1999-2001, whilst the implementation of the construction in the case company followed in 2001-2002. Analysis and monitoring of the continuing implementation of the construction has continued ever since and the construction is still in use at the case company at the moment of writing this paper (August 2007). The relatively long period between the initial implementation in the case company and this analysis, strengthens the validity the construction and findings, as the construction has been not only initially successful, but stood against the test of time in ever changing world. The strong intervention required by the constructive case study method was
enabled by the main project researcher’s position as a project manager responsible for the development of the customer feedback system, and his previous experience with the company. The credible organizational role of the main researcher allowed him to collect a wealth of data by means of observation, participation and interaction with various staff members in meetings, informal discussions and email dialogues. The researcher made extensive notes over the course of the implementation process, which were used as a basis for the present analysis. The following sections present the case company and the theoretical construct, followed by a presentation and discussion of the results of the study.

The case

The case company ‘HouseTech Corp’ (pseudonym) is one of the major agents in the technical wholesale in Northern Europe. It generates an annual turnover of around one billion euros, has approximately 2500 employees and maintains operations in eight countries in Northern Europe. As is typical in the wholesale business, logistics has a central role in HouseTech Corp’s operations. Its role in the value chain is to act as an intermediary between the manufacturers and their customers. The present study was conducted in HouseTech Corp’s central distribution centre in Finland. This unit maintains a product range of nearly 30,000 items and delivers approximately six million order lines per annum. Its clientele includes electrical, heating, plumbing, ventilation, air conditioning and refrigeration contractors, industrial companies, power plants, public organizations and retailers. The central distribution centre delivers goods with the help of transport partners directly to business or public sector customers or the customers can choose to collect the goods from the central warehouse. Moreover, the company operates a chain of ‘express stores’ where local small businesses can purchase and collect a limited selection of items without prior order.

This study deals with the customer delivery process. The customer delivery process is a combination of the physical movement of goods and information. Quality in this operation means, from the customer point of view, that the ordered goods reach the right place undamaged and at the right time. Due to the nature of the technical wholesale business, the majority of complaints relate to actual ‘physical’ shortcomings in the delivery process rather than emotional perceptions of service quality. In other words, the complaints relate to situations where the products ordered have reached the customer late, in a faulty condition, in insufficient quantities, or the correct products have not reached the customer at all. These sorts of problems are common in all high volume warehousing operations. Most customers tend to complain about this kind of shortcomings because the operations management system automatically invoices all the goods that have left the warehouse. HouseTech Corp had and still has a back office function to handle complaints that cannot be immediately and informally solved by the sales clerk. While sales clerks input most of the complaints into the system, further processing and the correction of errors is dealt with by the back office complaint handlers.

The need for the project on which this paper is based arose because the logistics management was concerned about the increasing number of complaints and the associated costs. The preliminary analysis of the logistics management concluded that the quality management projects already undertaken – including a quality system covering all functions in accordance with the ISO9000 standard and self-assessments in accordance with the criteria provided by the European Foundation for Quality Management – did not seem to focus on the issues that the customers complained about. At the operational level, the complaint handlers were not satisfied with the IT system and had concerns over the quality of the complaints process. The complaint handlers are operational problem-solvers whose task is to solve the problem for the customer, make the appropriate corrections in the warehousing and invoicing systems as well as find out who is responsible for the direct cost associated with the error, whenever this is humanly possible. Complaints handlers did not have a managerial perspective to their work, but a lot of tacit knowledge on what caused the problems in the first place. Since the complaint data was neither systematically collected nor analysed and the complaint handlers merely focused on correcting individual delivery errors, the complaint information and the complaint handlers’ tacit knowledge did not reach the managerial level. An effective method and respective working procedures were required to address this problem.

The logistics director of HouseTech Corp had a strong belief in the benefits of using customer data, but no clear vision as to how one should go about realizing the benefits. At the time, there was no known off-the-shelf software or other solution available for the problem situation at hand. This is why the company decided to have a research-based solution developed to solve the problem. The aim was to provide a solution to the question of how to use the complaints information in order to improve quality in the processes causing the complaints in the first place. As the precise objectives of the project could not be clearly defined, the project was given plenty of room for innovation. The research process could be characterized as heuristic. As the objectives were not clear, the best means of getting there could not
be 'programmed' and planned in advance (e.g. Moustakis, 1990). Moreover, numerous small problems had to be solved during the course of the project as they emerged, and many of these solutions needed to be approved by a number of people in the organization, which slowed down the process. Against this backdrop, it was necessary to choose a method where the problems, disturbances and unexpected difficulties could be tackled heuristically as they appear (Wisner and Kuorinka, 1988), and the constructive methodology appeared appropriate and flexible enough for this purpose.

The construction

To function as the technical core of the construction, a database solution was created based on standard relational databases and the SQL protocol. The user interfaces were custom-developed, and although the system was built on standard database elements, the application itself was new and not available off-the-shelf at the time. The user interface for the input of data into the system was created around the job description of the complaint handlers. This was done because the complaint handlers were the ones holding the most information in each individual case and it was recognized that it would be beneficial to capture some of their knowledge to support managerial decision making. In the new system, a qualitative description of what went wrong from both the customer's and the sales clerk's perspective was made available to the complaint handler. A new task for the complaint handler became to link the complaint to the company’s process and activity descriptions in the database system. Furthermore, since complaint handlers obviously find out what happened and why as well as how the complaint was solved, the new system required them to record their own description of these elements too. All of the complaint related details, although recorded mainly for the needs of the complaint handler, were stored in the data warehouse. All the details, including the qualitative customer comments, could be easily accessed should someone wish to look deeper into the individual complaints later on.

The following information was put together for each customer feedback event:

- Complaint information from the customer, what has happened and the customer’s perception as to why this has happened.
- Sales clerk’s immediate reaction (e.g. calling the customer to find out what happened exactly), possible corrective action and interpretation of the event.
- Order data.
- Complaint handler’s description and analysis of the complaint’s causes and effects, and a description of the corrective actions taken.
- Link to activities and agents identified to have been part of the cause for the complaint.

The system recorded both negative and positive customer feedback in a similar manner. As much as 17 % of the feedback was positive. These customers could be described as particularly delighted about the service, given that they made the effort to specifically relay their satisfaction back to the organization. The rest of the feedback consisted of complaints, which can be classified roughly into errors caused by workers or local poor working methods (40 %), poor internal processes (10 %) and poor external processes (50 %, e.g. deliveries by the transport partners).

However, the real novelty of the construction does not lie in its technical structure, user interfaces or what data is recorded, but in its managerial aspects. Three contributions of the construction should be particularly emphasized in this context. First, the new system classifies the errors that have caused the customer complaint for the purposes of further analysis and aid in managerial decision making. Second, the system allows the management to trace back the complaint and the respective error to the procedures, individuals, vehicles, partners (transport companies) or machines responsible for the error within the whole delivery process. Thus, with the help of the new system, the management can aim process improvement actions to those processes that really matter to the customer. Third, the new system allows the company to combine the complaint data with other information already available in the company. The procedures and activities that the complaints are now linked to were already accurately defined in the company and used by its activity-based cost accounting system. As the whole company utilizes the same data warehouse, the construction now also links complaints directly with cost accounting, and provides qualitative data for the uses of management accounting. The following section discusses the impact of the construction at operational and strategic levels as it was implemented in HouseTech Corp.
4 RESULTS

Operational level – complaint handlers

The implementation of the construction had several positive effects at the operational level of complaint handling. As an immediate effect of utilizing the new construction, the complaint handlers perceived the recording, analysing and reporting of complaints data to have become easier, making their work easier and more motivating.

“The best thing in the new system is that customer feedback, with all associated order data, prints out automatically in our office. Just by reading one paper or screenful, I can now get a whole picture of the complaint, and start doing my job without the need to search for more information from the computer systems or telephone around the company and bother other people with simple questions. The system makes our work considerably easier and faster. Another great thing in the new system is the feeling one gets while recording one’s own actions into the database, that the work we do is not wasted – someone is going to use the information later on. Feels like the bosses have finally realized how important work we are doing!” (A complaint handler, April 2002)

Therefore, in terms of the conceptual model (Figure 1), the process improvement in fact feeds back to the employee attitudes component in the Human Resource route which, the model predicts, contributes to performance via employee retention.

Moreover, the average working time used for handling each complaint was measured to have reduced by approximately 15% (or eight minutes) due to the new construction. The measurement was conducted by recording the working time used on the different phases of the customer complaint process during one week each in June 1998 and November 2004 by means of work-time clocking and time-logs recorded by the new IT system itself. This result is a direct measure of success in terms of improving the effectiveness and efficiency in the process of complaint handling. Although no direct cost savings were made through staff redundancy, the direct time saving, for its part, made it possible to keep staff numbers constant despite growth in operations volume.

Operational level – warehouse management

The warehouse management (the lowest level of operational management) found the information created by the construction a very useful tool. With the implementation of the construction, these managers started to review the complaint data systematically and continuously, whereas previously their knowledge about complaints was based on sporadic discussions with the complaint handlers. They could now better monitor the performance in terms of the number of complaints tracked back to their area of responsibility. The following quote from one of the warehouse operations managers illustrates this:

“We have had the custom of going through the errors with employees every week. Occasionally, there were unpleasant situations where complaint handlers had marked an error as caused by a particular employee, but the employee himself denied responsibility. And who would want to take the responsibility for errors as they are linked to the productivity bonus and therefore to the worker’s pay check. We as supervisors must be able to prove the error and its link to the specific employee in a reliable manner if required, but previously without the system it was quite difficult. The new system enables us to print out every complaint with the associated data that shows extensively the cause for the error, who made it and what sort of hassle the error caused. An extensive and well documented description gives less room for guesswork and speculation, a thing that my workers have started to appreciate. Our work becomes much easier; we can take action backed by facts instead of guessing and shooting from the hip.” (A warehouse operations manager, August 2002)

Furthermore, the new system enabled warehouse managers to effectively analyse the reasons behind each complaint and combine this information with their own detailed operational knowledge. Thus, the system provided warehouse management with factual information backing their decisions to change working methods, relocate employees or initiate training. For example, when an employee was identified as the cause for a systematic fault, the warehouse management initiated discussions with the respective employee regarding the problem. In some cases this was enough, if the fault was caused for instance by unintended carelessness on part of the employee. In others, the reason could be traced back to faulty equipment, a local working method or a plain misunderstanding. Where the underlying cause
was identified as shortage of skill, the warehouse manager could rotate the employee to other duties more suitable to their skills or initiate further training.

Moreover, as positive feedback was recorded in a similar manner as complaints, the warehouse management adopted the habit of reviewing also this information and giving feedback to employees on their successful efforts that had led to customer delight. This was perceived to have very positive effects to employee satisfaction and thus employee attitudes in terms of Figure 1.

“We do help some “begging” customers occasionally to get their stuff delivered next day, although they have actually ordered too late in the afternoon to get next day delivery. It felt quite nice that my boss [Transport Manager] actually said that the customer had thanked us because I was still able to get his goods into the truck. Never thanked me for that sort of thing before. It seemed to be important for the customer to get the ordered pipes next day, so I did a little extra work, because of the hassle the customer would have otherwise had at his construction site.” (A transport co-ordinator, August 2002)

Strategic level

At the strategic level, the logistics management became more interested in utilizing customer complaint information with the implementation of the construction and started to review and analyse complaint data regularly, on a monthly and annual basis.

“Analysing the data seems to become more and more interesting as the size of the database grows. The database now has five months’ data, and it’s becoming quite interesting to play with the data in Access, and see whether anything new comes out. I can hardly wait until we can start looking at the data on an annual basis, when I expect we can better see the spread of different error types and can evaluate their cost effects and use that for improving our operations.” (Logistics Manager, August 2002)

“I have always believed that customer information is a key for achieving a new kind of, even strategic competitive advantage. However, I often wondered what is the relevant information we ought to get from the customer, and how we should go about getting that information. These customer satisfaction questionnaires we send out seem, from the perspective of improving logistics, rather useless. With regard to this new customer feedback construction, I was not convinced at the beginning that complaints information is a sensible source of customer information. I didn’t believe that it generates enough data for a reliable and systematic analysis. However, as it seems now, our large volumes cause a large number of complaints, even though they are relatively few proportionally [given the total volume]. A careful handling of customer feedback creates a surprising amount of useful and interesting data.” (Director of Logistics, November 2002)

By investigating and analysing the data in the long run, the top logistics management could identify trends and larger issues in the delivery process. This led to a further investigation concerning the potential for redesigning parts of the delivery process. For example, the logistics management initiated discussions with the transport partners aiming to reduce the number of errors occurring when goods are transported from the warehouse to the customer’s premises.

“I meet with all our transport partners once a month to evaluate and go through current issues and ponder about how to develop operations and cooperation. Before the latest meeting with one of the transporters, I filtered out from the system all the errors that, according to the system, they had caused and sent them the list a couple of days beforehand. It was quite a confusion and surprise for both of us, as we both claimed that we were innocent and that the other party was solely responsible for the mistakes. However, the uniform reporting of errors created an intensive and productive dialogue. Already during the first meeting we found a problem spot in the delivery process, which we obviously decided to fix as quickly as possible. I am going to do the same thing with all of our transport partners.” (Transport Manager, October 2002)

Numerous small changes in the warehouse operations were implemented during the observed period. As the construction continues to be in use, more will be done every month. In principle these changes, if correctly implemented, should lead to better operations, improvement in quality and reduction in the number of complaints. While it was not within the scope of this study to measure the
effects in absolute numbers, the management reported clear improvements on those occasions where changes were made based on the construction.

“Yes, the system is still actively used. It now forms an integrated part of our customer contact handling in the customer service centre.” (Business Planning Manager, May 2006)

5 CONCLUSION

This paper addressed the issue of utilizing customer complaint information as a source for customer-focused process improvement, which was argued to direct process improvements to those activities that generate most value to the customer. A previous study by Johnston (2001) had shown that a well-handled customer complaint process positively correlates with process improvements (the Engineering route), customer satisfaction (the Customer Orientation route), employee attitudes (the Human Resource route) and, ultimately, company performance (Figure 1). However, the literature acknowledged that the problem of 'how' to achieve process improvements by utilizing customer complaints remained largely unsolved (Johnston and Mehra, 2002). The present paper set out to address this problem by creating a novel construction that – along the lines suggested by process-oriented management teachings (see e.g. Albright and Roth, 1994; Berry and Parasuraman, 1997; Mizuno, 1992; Reichheld and Sasser, 1990) – recorded qualitative customer complaint information together with the complaint handler’s interpretation, and allowed these to be processed systematically and linked to the rest of the company’s information system. Hence, both the complaint itself and the complaint handler’s tacit knowledge became usable as a managerial tool both at operational and strategic levels. The study thus demonstrated the usability of various process management teachings and their compatibility with customer-focused thinking when correctly employed.

The construction was implemented in a large Finnish technical wholesale enterprise and the implementation was studied as part of the constructive case study research method (e.g. Lukka, 2000, 2005). The results attained through the implementation clearly demonstrate that it is possible to achieve business process improvements by utilizing customer complaint data, thus supporting the argumentation in previous research which has raised the role of customer information in the improvement of business processes (e.g. Jones and Sasser, 1995, Kohli and Jaworski, 1990, Slater and Narver, 1994, 1996). Moreover, in terms of the Customer Orientation, Engineering and Human Resource routes depicted in Figure 1, the results of the case study showed that these are intertwined rather than independent of each other. The process improvements achieved became manifest and had managerial implications on three distinguishable levels of organization.

Firstly, by making the complaint-handling process more effective and staff-friendly, the construction showed a direct impact on the time and costs associated with handling the complaints. The complaint handlers also felt that their contribution to the company was finally recognized and their work became more valued by the management. Thus, in terms of the model in Figure 1, the Engineering route also impacted the Human Resource route via the process improvement having an effect on employee attitudes.

Secondly, enabling the operations management to track back each complaint to its source improved the management’s ability to monitor performance and intervene to remove a problem if required. The customer complaint data was actively used to make minor adjustments and improvements within processes. These adjustments decreased the number of errors made and had a direct impact on costs, thus ‘engineering’ the processes and the Engineering route continuously to become more efficient.

Thirdly, the feedback data was also utilized in aid of strategic decision making regarding the long term development of warehouse operations and the network of transport partnerships. This had a direct impact on the Engineering route. Arguably the construction also improves customer satisfaction and thus the Customer Orientation route, although this was not explicitly demonstrated in our case. The developed construction did not really change the way the company deals with an individual customer recovery, with the exception of adding the possibility to give feedback via internet. However, as the customers complain and respective process improvements are made, customers do not experience similar errors in the future, which will reflect on their satisfaction in the longer term.

Based on the results of the case study, we propose extending the original model adopted from Johnston (2001) as illustrated in Figure 2. Thus, we propose that process improvements may also have indirect effects on company performance by positively impacting employee attitudes and customer satisfaction. The increased customer satisfaction and improved employee attitudes, in turn, are likely to have a positive impact on enhanced utilization of the customer complaint system and subsequent process improvement, thus creating a positive loop in the long run. The extended model could serve as...
a foundation for future research on this topic. For example, the constructs in the model could be operationalized and studied utilizing structural equation modelling in order to examine the impact of the different routes to company performance. This is where the limits of the present study become apparent: we do not have any hard, quantitative data to measure the effectiveness or efficiencies gained via the construction numerically. The scope of the study was set to describe a construction, a means by which customer complaints can be linked to processes. The developed construction helps to identify the weak points or the points of failure within a company’s existing processes and provides a tool for the management to identify and analyse these points. Measuring the actual effects of such process improvements remains a task for future research.

Figure 2: Process improvement as a central component of complaint management

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A further limitation is imposed by the sectoral context of the study, which was set in the technical wholesale logistics environment and concentrated on the process of delivering the product from the shelves of the warehouse to the business customer. The complaints in this environment often relate to 'physical' faults, rather than the 'feeling' of service quality. The developed construction should be further developed to tackle 'softer' faults more common in true service industries. Further research on the applicability of this type of construction in other companies and other type of business environments would confirm its broader usability. However, in principle the constructive methodology does not require multiple cases due to its pragmatic nature. The fact that the construction was successfully implemented and still in use is relatively strong evidence that the construction works and is useful for managerial purposes. Finally, it is useful to point out that the construction is not 'automated' and that it cannot be taken out of its context, especially the company’s organizational culture. The fact that the construction worked in HouseTech Corp was heavily dependent on the company already practicing process and quality management, and on the management of the company being committed to the project.
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Customer protest: Exit, voice or negative word of mouth

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Abstract

Of the three forms of protest the propensity of word of mouth (WOM) seems to be the most common, and the most exclusive form of protest seems to be exit. The propensity for voice lies in between. The costs linked to voice influence the propensity for WOM. The customers seem to do an evaluation between the three forms of protest, yet the rational picture of the customers should be moderated.

Leaders should improve their treatment of the customers making complaints. The more they can treat customer complaints in an orderly and nice way the less informal negative word of mouth activity they will experience and they will reduce the exit propensity and lead the customers to the complain organisation. They should also ensure that their customers feel they get equal treatment by the staff.

Keywords: voice, word of mouth, WOM, exit, satisfaction, loyalty
1 INTRODUCTION

The customer’s potential to complain or make positive comments is hidden from the shop prior to the purchase being made (Brief, 1998). This potential is of considerable significance for shops in a market where there is competition and where keeping customers is of the greatest importance (Aaker, 1991; Fornell, 1992). Hirschman (1970) presents two main forms of protest: protest to the shop or to a public complaints body (voice) or changing shop (exit). To complete the analysis of protest behaviour we include the third form of protest, Word of Mouth (WOM), a complaint to friends and acquaintances.

Figure 1: Customer loyalty and freedom of choice. Developed based on the work of Hirschman (1970).

The customers can choose among these forms of complaint, and according to Hirschman’s theory (1970) it is the costs and potential gains of the two alternatives that decide which is chosen. The costs of exit are connected to access to alternatives and to the degree of loyalty (Hirschman, 1970; Singh, 1991). Even though Hirschman’s theory looks at the relationship between the two forms of protest, an empirical study of the three main forms is lacking. However, studies have been done on the relation between voice and WOM (Bearden and Oliver, 1985; Richins, 1983; Singh, 1990b; Ping, 1997; Naylor and Klaiser, 2000). Ping (1997) has considered the relation between satisfaction, exit costs and complaint behaviour. We want to consider the relation between these three types of complaint:

- protest to the shop (voice) or a complaint to friends and acquaintances (WOM) or exit.
- What is the relation between these three types of protest?
- What influence the customer’s choice of protest method?

2 THE THEORETICAL PERSPECTIVE

Hirschman (1970) is focusing on the situation of choice when a customer is dissatisfied. A dissatisfied customer could choose between various forms of protest methods as voice (complain to the supplier, exit (leave the supplier for another one) or WOM (talk negatively to friends an acquaintance). Hirschman (1970) did not treat WOM, but we include that form of protest here in order to obtain a complete picture. This illustration of Hirschman’s (1970) theory shows three forms of protest. Exit, voice and WOM are customer protests if they become dissatisfied with the delivery from the company in relation to their own efforts to achieve what they want. According to Hirschman’s theory the loyalty is a key variable. High degree of loyalty will increase the costs linked to exit. An alternative form of protest (voice) is thus more likely. Accordingly the voice protesters are expected to be more loyal than the average in the customer, as “the like hood of voice increases with the degree of loyalty” (Hirschman, 1970: 77). Hirschman (1970: 35) sees the protest form of voice as a complement to exit
and not as a substitute for it. According to this theory exit is associated with costs and gains as the form of voice is. The costs linked to exit might be of emotional character and travel distance and price and quality variation. The voice costs are linked to bargaining power and by that to education.

We are focusing on the connection between these forms of protest since, to our knowledge these connections have not been treated empirically in a study.

The form of protests

Dissatisfied customers may react in various ways that often manifest itself through frustration and anger: for instance to go to the representative of the shop, respond in private by means of negative comments to friends and acquaintances, or go to a formal complaints body (Richins 1983; Singh, 1990b; Singh, 1990; Singh, 1991; Strauss, Schmidt and Schoeler 2005). Singh (1990) divides customers into four groups according to their pattern of response. The passive ones have a low score for all types of reaction.

Only a few of those who are dissatisfied, make themselves heard, (Teknologisk Institutt 1993; Gronhaug 1977). Andreasen and Best (1977) reported that more than half of those who were dissatisfied did not complain at all, while according to Brief (1998) only 20% of Americans complained in response to unsatisfactory service. The tendency to complain is, then, a function of insufficient satisfaction and of frustration behaviour (Strauss, Schmidt and Schoeler 2005). Many of the customers who are dissatisfied do not complain directly to the shop. Several authors, (Andreasen and Best, 1977; Tarp, 1986; Gronhaug and Gilly, 1991; Hernandez et al., 1991; Bearden and Oliver, 1985; Richins, 1983) see this in connection with the possibility of winning one’s case against the costs of complaining in the best Hirschman tradition (1970). Berry and Parasuraman, (1991) state that customers have a zone of tolerance where a performance that lies within the zone will be accepted. Performances exceeding the zone create delight and loyalty, while performances falling short of the zone create dissatisfaction.

Will loyalty be able to create an increased zone of tolerance or is the degree of loyalty not significant for the zone? Will the zone of tolerance be able to reduce the tendency to protest?

Exit

The main behaviour in exit is to leave the shop and start being a customer in another shop. This behaviour has costs and gains. The exit costs are related to access to alternatives and to the degree of loyalty. Hirschman (1970) argues that the exit costs are higher in those cases where there is no alternative shop. If the customer is convinced that complaining will be effective that could delay exit (Hirschman, 1970: 37). Customer loyalty will work as a barrier against exit. The barrier may be compared to a cost (‘protective tariffs’) (Hirschman, 1970:79). Exit propensity means the probability of a customer choosing the exit option.

How is the exit propensity affected by the degree of loyalty? When loyalty increases, we expect that the exit propensity will decrease since the costs of exit increase with increasing loyalty. How does exit stay as a protest form in relation to voice and WOM? Do the customers have equal access to each form of protest?

Voice

Voice works as a supplement to exit and not as a replacement for it (Hirschman, 1970: 35). A decreasing degree of satisfaction and increasing exit costs may seem to play an equal role in encouraging complaint behaviour (Ping, 1997). Those who are loyal are over-represented among the complainers if Hirschman’s theory (1970) holds. The complainers score high on complaining and low on the other forms of reaction. Those who are angry score high on comments to friends and acquaintances (WOM), while the activists score high on complaining and high on third-party action (consumer bodies) (Singh, 1990). Other factors which should be considered in an analysis of complaint behaviour are understood risk, confidence in the success of the complaint as well as the advantages and costs of complaining (Bearden and Teel, 1983; Tarp, 1986; Richins, 1985; Andreasen, 1997).

Gronhaug and Gilly (1991) suppose that the greater tendency to complain about the service industries may be linked to the fact that the services are difficult to standardise. Gronhaug (1972) finds that consumers with a high risk evaluation have a greater tendency to make use of consumer-related sources of information, while those with a lower risk evaluation make greater use of market-dominated sources.

When focusing on technology based service encounters Snellman and Vihtkari (2003) find that customers who actually consider themselves guilty for the outcome were the most frequent complainers, while the ones attributing the outcome to technology failures or service process failures complain less often. Online customers are less likely to complain than offline customers and online
customers are more sensitive to benefits/costs of complaining. The difference could be explained by a difference in personal competence expressed where the offline customers have highest score (Cho, Hiltz and Fjermestad 2002).

Complain, protest and avoidance have also been seen as negative effects of loyalty programs (Strauss, Schmidt and Schoeler 2005).

Each fourth of the potential complainers do not complain. The main reasons for this are linked to perceived costs of complaining as time and efforts (Voorhees, Brandy and Horowitz 2006). According to Gronhaug and Zaltman (1981), making a complaint is positively linked to experience, education and income, but negatively linked to age.

Voice handling

Poor handling of a complainer who chooses to complain instead of changing shop because he has a certain loyalty will weaken the complainer’s faith in the supplier. This results in fewer satisfied customers and reduced loyalty. The risk of exit and a reduction in repeat purchase increase, together with the increased probability of negative private comments (WOM) (Bearden and Oliver, 1985; Gronhaug, 1987; Richins, 1983). Griffin (1995: 191) points out those complainers who have obtained a quick solution have a repeat-purchase tendency of 82%, in contrast to those who have experienced a major problem without complaining and whose repeat-purchase tendency is 9%. Those who complain, irrespective of the result, have a repeat purchase figure of 19%. Gilly and Hansen (1985) point out that effective complaint handling results in customer satisfaction and loyalty.

We must suppose that many of the complainers are loyal customers. They choose to complain instead of changing shop because their loyalty has increased the costs perceived in changing shop. On the other hand a greater zone of tolerance among the loyal customers may keep them from complaining. Good handling of this type of complainer will strengthen the complainer’s faith in the supplier: ‘only moderate degrees of satisfaction with service recovery are needed to restore future repurchase intention’ (Andreassen, 1997: 195; Singh, 1990b; Gilly and Hansen, 1985).

Good complaint handling results in satisfaction and increased loyalty, and reduces the probability of negative private comments (WOM) (Bearden and Oliver, 1985; Gronhaug, 1987; Richins, 1983). This in turn reduces the risk of exit and increases the probability of repeat purchase. Increased probability of repeat purchase means a better financial result for the supplier. Calculations show that an increase of 5% in the repeat purchase share from 60% to 65% increases receipts by 15%. ‘On the other hand a fall in customer loyalty from, for example, 90 to 80 will result in future sales being halved.’ (Andreassen, 1997: 4) This is also shown by Oliver (1997, pp. 368-369). A better financial situation helps the supplier to satisfy complainers. A weaker situation makes it more difficult for the supplier to offer good complaint handling.

Negative WOM

Bearden and Oliver (1985) found that a higher potential loss stimulates various forms of complaint, and that the extent of private complaint behaviour is inversely linked to satisfaction with the response from the firm. They point out that if the organisation makes a mistake in its complaint handling, this may lead to loss of goodwill and negative WOM. Gronhaug (1977) pointed out that the complaints seem to build up round complex products which involve a high risk.

Richins (1983) found a connection between the consumers’ evaluation of the complaint handling and comments about the shop. The more negative the complaint handling expected by the complainer, the greater the probability of negative private comments (WOM). In another work Singh (1990b) points out that exit and negative WOM are linked to an evaluation of the probability of the complaint being successful. But Naylor and Kleiser (2000) do not find any effect of earlier complaint handling on negative WOM. No complainers are less likely to engage in negative word of mouth than the dissatisfied and recovery groups (Voorhees, Brandy and Horowitz 2006).

Some of the protest forms turn out the public against a firm that has wronged them. Protests published at the Internet are rooted in injustice, identity and turn out as a personal grievance into a “cause” worthy of public attention and support (Ward and Ostrom 2006).

Customer satisfaction

Customer satisfaction and dissatisfaction are associated with the expectations of the customer. If high expectations are met, the customer will be satisfied, but if low expectations are not exceeded by the delivery the customer will be dissatisfied (Oliver, 1997). The customer’s experiences could be linked to various sources as service performance, product quality, transactions, product delivery and other factors (Zeithaml, Parasuraman, Berry, 1990).
Churchill, Gilbert and Surprenant (1982) found possible effects of satisfaction dependent on product characteristics (durable and non-durable). Whilst Snellman and Vihtkari (2003) do not find any difference in complaining rate between customers in retail banking and traditional technology based service encounter, while Oliver (1997) finds a greater tendency to complain about durables than about non-durables, but the largest group is those who do not want to complain. This can also be linked to the significance of design, which plays a central role for durables.

Grønhaug and Gilly (1991) point out that customer dissatisfaction can be connected with lack of confidence concerning the transaction, and that much of the dissatisfaction could be linked to market-institutional circumstances beyond the seller’s responsibility, such as no product delivered or a long delivery time. Grønhaug and Zaltman (1981) find that it was the transaction frequency, and not the qualities of the good, which best explains the variation in customer dissatisfaction. Ping (1997) maintains that the tendency to complain is related to satisfaction and involvement in the relationship, in the case of firms. Richins (1985) shows a positive connection between potential financial loss and the tendency to complain.

However, there is no simple connection between satisfaction and loyalty. Even satisfied customers can switch to another store because there is no one-to-one connection between satisfaction and loyalty. The relation between satisfaction and loyalty is influenced by characteristics of the consumer such as age and income (Homburg and Giering 2001). Bloemer and Kasper (1995) and Bloemer and de Ruyter (1998), differentiate between two types of satisfaction. Manifest satisfaction conveys a customer who has made a deliberate choice and has reached the conclusion that he/she is satisfied with the offer. Latent satisfaction expresses an unconscious customer who has not compared the offer with other suppliers. They find that an increase in the manifest satisfaction has a greater impact on customer loyalty than an increase in the latent satisfaction.

Customer loyalty

In literature concerning consumer behaviour there are different approaches to view/define customer loyalty. It is differentiated between consumer loyalty in the consumer goods market, customer loyalty in the business-to-business market and the synthesis between consumer and customer loyalty (Kotler 1987; Oliver, Rust and Varki 1997).

The loyalty phenomenon is characterized by diffuse and vaguely delimited contents of meaning (Jacoby and Chestnut, 1978; Peter and Olson, 1993; Dekimpe and Steenkamp 1997). Hirschman’s loyalty concept is equated with “non-exit” and hence it is too simple (Huefner and Hunt 1994). In addition to being an unclear concept, several researchers have equated loyalty with repurchase (Carman 1970; Wind, 1978; Grønhaug and Gilly 1991). It is indicated that customer loyalty and repurchase can be increased through establishing barriers that make it more difficult for the customer to go to another store, and consequently repurchase increases (Aaker, 1991; Selnes and Reve 1994; Andreassen and Bredal 1996).

Loyalty as a development pattern in phases: This concept in particular has given inspiration to our approach. Oliver (1997) presents customer loyalty in the form of four Loyalty Phases, viewed as steps of a loyalty ladder:

- **Step 1 Cognitive loyalty** – The customer has favourable knowledge of the supplier, but a better offer will result in exit to the competitor. The loyalty is only based on cognition.
- **Step 2 Affective loyalty** – is an emotional attitude based on cognitive loyalty.
- **Step 3 Conative loyalty** – is intentional loyalty that includes a deeply felt obligation to buy.
- **Step 4 Action loyalty** – a determination to defy any obstacles in order to buy (Oliver, 1997: 392-393).

This seems to be a fruitful approach to this diffusing concept.

Research questions
1. How are the various forms of protest distributed?
2. How is the variation in satisfaction and loyalty distributed in each form of protest?
3. How could the variation in the propensity for each of the protest forms best is explained by customer related variables?
4. How do external factors as competition and type of shop branch influence the factors associated with each form of protest?
3 METHODOLOGY

Sample of shops

We choose a quantitative design in order to be better able to answer our research questions. The framework for the sample consists of four shops in the southern region of Norway, two in the grocery trade and two in the furniture trade. For each shop 100 customers were selected, a sample of 400 customers altogether. In the case of the grocery shops the interviews were carried out outside the shops on a Saturday and a Tuesday in October 1998. The sample of grocery customers was thus selected out of convenience (those who came out of the shop).

In the case of the furniture shops the plan was to carry out the interviews in the shop. However, because of a shortage of customers, a random sample of customers was selected from the shops’ customers list. The interviews were conducted by telephone. The Saturday customers were collected in one group since customers on this specific day of the week can have a different shopping pattern with several family members taking part.

The four shops differed on two criteria: type of trade to get variation in risks for the customers (grocery and furniture) and competition situation and by that getting higher variation in the exit costs. Consequently we included two grocery shops, one in a highly competitive area (low exit costs) and one in a less competitive area (higher exit costs), and two furniture shops, one in a highly competitive area and one in a less competitive area. All four shops are members of retail chains.

Definition of and Measurement of central variables

Loyalty

First we tried to establish an index variable based on loyalty as an attitude and a repurchase indicator: the percentage share of the respondent’s own trade in that type of shop for the shop in question. This index variable was not reliable since Cronbach Alfa came out under 0.7 (Hair, Anderson, Latham and Black, 1998).

Then we established an index variable based on loyalty as an attitude and an indicator of an emotional variable: To what extent the respondents would recommend the shop to others if they were asked for advice. This indicator of affective loyalty came out with a significant Cronbach Alfa 0.70 (N=396). Consequently our indicator of Affective Loyalty is measured like this:

Measurement of loyalty
a) Self-evaluation of loyalty to the shop in question on a scale from 0 (extremely low) to 10 (extremely high).

b) Self-evaluation of to what extent the respondents would recommend the shop to others if they were asked for advice on a scale from 0 to 10.

A reflective index (Troye, 1994) was worked out on the basis of these two indicators by the sum (a+b). In a reliability analysis Cronbach Alfa came out with 0.70 (Hair, Anderson, Latham and Black, 1998). This indicates satisfactory reliability. The customer loyalty variable is then measures in values from 0 to 20.

Satisfaction

Customer satisfaction comprises the opinion about the positive response in the exchange and the degree of satisfied expectations (Andreassen, 1997).

Satisfaction was measured as follows:

a) Self-evaluation of satisfaction with the shop in question measured on a scale from 0 to 10.

b) Self-evaluation of the perceived balance between the costs related to being a customer in the shop in connection with costs involving money and time, and the feeling of what one is left with in return for these costs, measured on a balance scale from 0 to 10.

The sum of a) and b) make up our index variable for satisfaction, a reflective index measurement (Troye, 1994). Cronbach Alfa between these two indicators is 0.861, which indicates high reliability. The satisfaction index is measured in values from 0 to 20.

Interaction between loyalty and satisfaction

By multiplying the two variables satisfaction and loyalty we got a new variable representing the interaction between them.
Service quality
Zeithaml, Parasuraman, Berry (1990) presented five dimensions in their Service Quality Concept. We have indicators to include three of these dimensions in our study. These are the following dimensions:

a) Reliability (ability to perform the promised service)

b) Responsiveness (Willingness to help customers and provide prompt service)

c) Assurance (Knowledge and courtesy of employees and their ability to convey trust and confidence)

As an indicator on Reliability we used respondent evaluation of the shop on how polite they found the employees in the shop on a scale from 0 to 10. As an indicator on Responsiveness we used respondent evaluation of the shop on willingness to serve you, they assessed the employees in the shop on a scale from 0 to 10. As an indicator on Assurance we used respondent evaluation of the shop on the level of relevant knowledge they assessed the employees in the shop on a scale from 0 to 10. We made our index variable, service quality, by first running a factor analysis of these three indicators (Principal Component Analyses).

The component Matrix comes up with one component.

Table 1: Factor analysis of service indicators. Component Matrix

<table>
<thead>
<tr>
<th></th>
<th>Component Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polite staff (reliability)</td>
<td>0.900</td>
</tr>
<tr>
<td>Willingness to serve (Responsiveness)</td>
<td>0.901</td>
</tr>
<tr>
<td>Knowledge (Assurance)</td>
<td>0.800</td>
</tr>
<tr>
<td>N</td>
<td>396</td>
</tr>
</tbody>
</table>

The three indicators are all in compliance with a common factor we will call service quality. We then performed a reliability analysis to see if these three variables could be joined together in an index variable. Conbach’s ALPA=0.84. This indicates high reliability if we make an index variable consisting of the sum of these three variable. Consequently this index variable is our service quality variable with values from 0 to 30.

Exit costs: Self-evaluation of perceived costs in changing shop measured on a scale from 0 to 10.

Propensity to exit: Propensity to exit is a self-evaluation of the probability of the customer continuing to use the shop in question. Those answering very likely or likely were given the value 0 for the variable tendency to exit, while those answering fairly unlikely or unlikely and do not know were given the value 1 for the variable propensity to exit. The group average is between 1 and 0 and is interpreted as the propensity to exit for the group.

Voice costs: Self-evaluation of the costs related to complaining on a scale from 0 to 10.

Propensity to voice: Self-evaluation of the propensity to complain measured on a scale from 0 (have never complained to the shop) and 1 (have complained once or several times to the shop). The group average lies between 1 and 0 and is interpreted as the propensity to complain for the group.

Negative Word of Mouth (WOM): Self-evaluation of to what extent one complains to friends and acquaintances rather than to the shop measured on a scale from 0 to 10.

Propensity to WOM: Self-evaluation of the propensity to WOM measures on a scale from 0 to 1. Those who found WOM actual or very actual we defined as high propensity (1) and those who found WOM little or not actual as low propensity (0).

Experience with complaining: The method chosen was self-evaluation of how the complaint was received and handled. 23% of the respondents had experience with complaints to the shop. They answered according to these categories: bad (1), less good (2), satisfactory (3), good (4) and extremely good (5).

Discriminated treatment: Self-evaluation of perceived discriminated treatment measured on a scale from 0 to 1. “Some times we may feel that other customers are getting better treatment than ourselves. To what extent is such discriminated treatment happing here?” Those who answered “it
happens often” and those who answered “now and then” and those who answered “seldom” were all
given value 1 and those who answered “never “were given value 0.

**Perceived risk linked to the shop:** Self-evaluation of risk linked to the customers’ shop. To what
extent do you feel a risk by doing your shopping at this outlet? Scale from 0 to 10 where 10 are
measured as extremely high risk. This question was only presented to customers from the furniture
shops since the risk linked to grocery shopping is considered low.

**Shopping frequency:** How many times have you done your shopping in this outlet the last 4
weeks?

**Age:** The age of the respondents in years.

**Education:** The number of years of education after primary school.

### 4 ANALYSIS OF THE RESEARCH QUESTIONS

**How is the various form of protest spread among the customers?**
What are the portions of the various forms of protest? Our data from this research might give an
idea.

**Table 2: the distribution of propensity and costs for each form of protest.**

<table>
<thead>
<tr>
<th></th>
<th>Exit</th>
<th>Voice</th>
<th>WOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>The propensity for</td>
<td>0.1</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Costs linked to each</td>
<td>2.3</td>
<td>3.0</td>
<td>42%</td>
</tr>
<tr>
<td>protest form, scale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from 0-10.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>380</td>
<td>396</td>
<td>396</td>
</tr>
</tbody>
</table>

According to these data, the propensity of Exit is lowest, of WOM protest highest and Voice in
between. Dissatisfied customers would choose to complain to friends and family four times more often
than make an exit and three times more often than to make “voice” to the shop. More than each three of
the customers in this sample have not been engaged in any form of protest. On the other hand only 2% of
the respondents have been engaged in all three forms. Of those with two protest forms, the ones with
Voice and WOM constitute the largest group (13%).

We do not have WOM costs measured in the same way as Exit and Voice, but the costs of WOM
seem to be low. The subjective costs linked to the other two forms are small and comparable.

**How are the customers distributed on various combinations of protest forms?**

**Table 3: the distribution of combinations of the protest forms.**

<table>
<thead>
<tr>
<th>Protest form</th>
<th>%</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>No protest form</td>
<td>36</td>
<td>380</td>
</tr>
<tr>
<td>Exit</td>
<td>10</td>
<td>380</td>
</tr>
<tr>
<td>Voice</td>
<td>31</td>
<td>396</td>
</tr>
<tr>
<td>WOM</td>
<td>42</td>
<td>396</td>
</tr>
<tr>
<td>All three forms</td>
<td>2</td>
<td>380</td>
</tr>
<tr>
<td>Voice and WOM</td>
<td>13</td>
<td>396</td>
</tr>
<tr>
<td>Voice and exit</td>
<td>5</td>
<td>380</td>
</tr>
<tr>
<td>Exit and WOM</td>
<td>5</td>
<td>380</td>
</tr>
</tbody>
</table>

More than each three of the customers in this sample have not been engaged in any form of
protest. On the other hand only 2% of the respondents have been engaged in all three forms. Of those
with two protest forms, the ones with Voice and WOM constitute the largest group (13%). More than
each three of the sample does not make any protest at all.
Is there any association between the various forms of protest?

Are the resources favourable for each protest form accumulative or following a Matthew effect so that those who have, shall have more and those who have less shall loose what they have (Merton, 1968)?

Table 4: Correlations between the propensities for protest forms

<table>
<thead>
<tr>
<th>Propensities</th>
<th>WOM</th>
<th>Exit</th>
<th>Voice</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOM</td>
<td>-</td>
<td>0.04</td>
<td>0.00</td>
</tr>
<tr>
<td>Exit</td>
<td>0.3</td>
<td>-</td>
<td>0.12*</td>
</tr>
<tr>
<td>Voice</td>
<td>0.00</td>
<td>0.12*</td>
<td>-</td>
</tr>
<tr>
<td>N</td>
<td>396</td>
<td>394</td>
<td>396</td>
</tr>
</tbody>
</table>

* Significant at 0.05

The only significant association between the propensities for protest is the association between voice and exit. WOM has no significant correlation with the other two forms of protest.

WOM do not fit in with the pattern linked to voice and exit. Voice and Exit, however, are fitting in well in the same dimension as we may call “formal active protest”, while the informal form of protest of WOM do belong in another dimension which we may call “informal active protest”.

We do a small sociological analysis of each protest form in order to look for possible explanations of the difference between the formal and informal form of protest.

Is there variation in sociological characteristics between these three forms of protest?

The similarities between the protest groups are more striking than the differences. The WOM group and none protest have got the lowest degree of education, but the difference is not significant. These results indicate that the active forms of exit and voice are linked with educational level.

Table 5: Age, education and sex within each form of protest.

<table>
<thead>
<tr>
<th>Protest form</th>
<th>Age</th>
<th>Education after primary school</th>
<th>Sex</th>
<th>Sex</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean years</td>
<td>% Men</td>
<td>% Women</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>WOM</td>
<td>39</td>
<td>40</td>
<td>60</td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>Voice</td>
<td>42</td>
<td>42</td>
<td>58</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>Exit</td>
<td>38</td>
<td>26</td>
<td>74</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Non-protest</td>
<td>43</td>
<td>40</td>
<td>60</td>
<td>144</td>
<td></td>
</tr>
</tbody>
</table>

Table 5 shows no significant differences between the various forms of protest. The voice form of protest has highest age, education and highest portion of men, but the differences are not significant.

How is the satisfaction and loyalty distributed in each form of protest?

Behind any form of protest there is some sort of dissatisfaction. The dissatisfaction and what creates it could be linked to a lot of factors and unfulfilled expectations (Oliver, 1977).

Table 6: Satisfaction and loyalty in each protest propensity group.

<table>
<thead>
<tr>
<th>Protest propensity</th>
<th>Mean satisfaction</th>
<th>F value on the difference between (1) and (0)</th>
<th>Sig.</th>
<th>Mean loyalty</th>
<th>F value on the difference between (1) and (0)</th>
<th>Sig.</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exit (1)</td>
<td>10.3</td>
<td>63.6 **</td>
<td></td>
<td>6.1</td>
<td>39.4 **</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Exit (0)</td>
<td>13.8</td>
<td></td>
<td>11.3</td>
<td>326</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voice (1)</td>
<td>12.0</td>
<td>31.9 **</td>
<td></td>
<td>9.4</td>
<td>10.2 *</td>
<td></td>
<td>116</td>
</tr>
<tr>
<td>Voice (0)</td>
<td>14.0</td>
<td></td>
<td>11.2</td>
<td>254</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOM (1)</td>
<td>12.6</td>
<td>12.8 **</td>
<td></td>
<td>10.1</td>
<td>2.6</td>
<td></td>
<td>159</td>
</tr>
<tr>
<td>WOM (0)</td>
<td>13.9</td>
<td></td>
<td>11.0</td>
<td>211</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None protest (1)</td>
<td>14.7</td>
<td>38.0 **</td>
<td></td>
<td>12.0</td>
<td>16.1 **</td>
<td></td>
<td>132</td>
</tr>
<tr>
<td>None protest (0)</td>
<td>12.5</td>
<td></td>
<td>9.8</td>
<td>224</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** S<= 0.01
* S<= 0.05
Table 6 shows for all protest propensity groups, the customers without experience with the protest form (with values 0) have highest score on satisfaction and loyalty. The differences are most profound in the exit group. The differences in value on satisfaction and loyalty are all significant except for degree of loyalty in the WOM group.

Exit seems to be the most potent form of protest with marked differences between those with exit experience and those without. WOM experiences do not influence the degree of loyalty in any significant way. The none protesters (with value 1) have both higher degree of satisfaction and loyalty than the protesters (with value 0) on the none-protest variable.

What is the association between protest propensity and loyalty? According to Hirschman’s theory (1970) voice propensity could be associated with high degree of loyalty and exit propensity would be associated with low degree of loyalty since a high degree of loyalty would tend to prevent the customer from exit. Table 6 seems to fit nicely to Hirschman’s theory (1970). The lowest degree of loyalty in the group of high propensity for exit and the degree of loyalty in the two other groups are marked higher.

**How could the variation in the propensity for each of the protest form best be explained?**

We will perform a series of logistic regression with each protest form as dependent variable and the theoretical based variables as independent. The results are listed up in Tables 7-12. We include an interaction variable between loyalty and satisfaction with a view to survey interaction effects. We use an exploratory approach since there are a lot of studies linked to each of the forms of protest.

<table>
<thead>
<tr>
<th>Theoretical factors</th>
<th>Exit</th>
<th>Voice</th>
<th>WOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affective loyalty</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Satisfaction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The interaction between satisfaction and loyalty</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Costs linked to the protest form</td>
<td>X</td>
<td>X</td>
<td>3</td>
</tr>
<tr>
<td>Service quality</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Transaction frequency</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Perceived risk linked to the shop¹</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Voice experience in separate analysis since only 93 respondents had experience²</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Discriminated treatment</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Age</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Sex</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

¹ This question was only asked to Furniture respondents and the variable is used in a special analysis.
² Only ¼ of the respondents had any complaining experience with the shop they left when interviewed so this variable is studied in special analysis.
³ We have no variable describing how difficult the customers felt it was to talk to friends and acquaintances.

We will sum up the factors that could influence the forms of protest. Subsequently we will run logistic regression and sum up with the significant variables for each form of protest.
The exit form of protest

We have seen the exit form of protest as the most exclusive one. How could we best explain the variation in the propensity for exit? Our start model is based on variables in Table 7. The significant model is presented in Table 8.

Table 8: Logistic regression with propensity to exit as dependent variable

<table>
<thead>
<tr>
<th>Propensity to:</th>
<th>Exit</th>
<th>Significant test: Wald statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>β</td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>-.31**</td>
<td>12.7</td>
</tr>
<tr>
<td>Affective loyalty</td>
<td>-.16**</td>
<td>7.6</td>
</tr>
<tr>
<td>Shopping frequency</td>
<td>-.16**</td>
<td>7.1</td>
</tr>
<tr>
<td>Initial – 2 LOG likelihood</td>
<td>220.6</td>
<td></td>
</tr>
<tr>
<td>Model – 2 LOG likelihood</td>
<td>144.8</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>75.8</td>
<td></td>
</tr>
<tr>
<td>Significance for model</td>
<td>P&lt;.001</td>
<td></td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>.42</td>
<td></td>
</tr>
<tr>
<td>Prediction ability</td>
<td>91%</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>396</td>
<td></td>
</tr>
</tbody>
</table>

Exit propensity could partly be explained by dissatisfaction, low degree of loyalty and low frequency visit in the shop. Table 8 shows the association when satisfaction, loyalty and shopping frequency increase the propensity for exit decrease. High shopping frequency seems to have a preventive effect on exit propensity. This finding fits nicely to Hirschman’s (1970) theory. Loyalty and satisfaction creates costs for the customers preventing them from making exit from the shop. The model is significant and explains 42% of the variance leaving 58% for other factors and explanations.

In a special analysis of the customers with voice experience, we find a tendency showing “the better the treatment of complaining customers, the fewer propensities for exit”.

The difference in evaluation the complain treatment between those without exit propensity (0) and those with exit propensity (1) is 4.0 and 3.1 (N=92, F=7.0, Sig.=0.009).

In another special analysis of respondents linked to furniture shops, we could estimate the possible effects of risk linked to shopping in the shop were the customers were interviewed. The risk evaluation was done on a scale from 0 to 10. Average evaluation of risk was 2.1 (N=199). Those with low exit propensity (0) had an evaluation score on 1.9, and those with high exit propensity (1) had an evaluation on 2.8, N=190, F=4.0, Sig.=0.005. There seems to be a tendency that increasing risk evaluation is linked to increasing exit propensity.
How does external variables as competition and type of shop branch (external variables) influence the factors associated with each form of protest?

Exit propensity influenced by external variables

We will trace possible effects of environment factors such as competition and branch on the factors explaining the variation in each form of protest.

### Table 9: Effects of degree of competition and of branch on propensity to exit. Four analytical models

<table>
<thead>
<tr>
<th>Degree of competition</th>
<th>Branch</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
<td>Grocery</td>
<td>Furniture</td>
</tr>
<tr>
<td>Exit propensity</td>
<td>0.14</td>
<td>0.12</td>
<td>0.10</td>
</tr>
<tr>
<td>Factors explaining</td>
<td>β</td>
<td>β</td>
<td>β</td>
</tr>
<tr>
<td>variation in exit propensity</td>
<td>- .31**</td>
<td>- .49**</td>
<td>- .33**</td>
</tr>
<tr>
<td>Affective loyalty</td>
<td>- .47**</td>
<td>- .16**</td>
<td>- .24**</td>
</tr>
<tr>
<td>Shopping frequency</td>
<td>Age</td>
<td>Initial -2 log likelihood</td>
<td>Model -2 log likelihood</td>
</tr>
<tr>
<td>93.0</td>
<td>32.3</td>
<td>125.3</td>
<td>97.9</td>
</tr>
<tr>
<td>52.1</td>
<td>45.8</td>
<td>118.7</td>
<td>94.4</td>
</tr>
<tr>
<td>94.4</td>
<td>24.3</td>
<td>108.8</td>
<td>54.1</td>
</tr>
<tr>
<td>54.7</td>
<td>0.59</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** N = 179 200 197 199

** $S<= 0.01$

The effects of competition

When the competition increases the exit costs are reduced. Moreover, the quality of the offer from the shops could be increased by the competition. When we compare the factors in Table 8, we find a “better” model for explaining exit propensity when competition is high with some negative effect of age reducing the propensity for exit. Shopping frequency seems to be more important in a competitive environment and loyalty and satisfaction seem to reduce the propensity for exit both when the competition is high and when it is low. When the competition is low there is an effect of loyalty, in high competition the effect is linked to satisfaction. Does low degree of competition promote positive attitudes towards the shops?

The effects of branch

Exit propensity seems to be higher in furniture shops than in grocery shops. The customers’ dependence of the shops might be higher for the grocery shops since they are more frequently visited than furniture shops. The difference between grocery shops and furniture shops is linked to shopping frequency which is a more important variable for grocery shops reducing propensity to exit. We tried to include the risky variable in the furniture shop model, but it turned out to be not significant. The satisfaction variable is a potent variable in both types of shops. In the furniture shops positive loyalty attitudes seem to reduce the propensity for exit.

When competition is low, and for shops with lower visit frequency (furniture shops), the loyalty seem to play an important role in preventing exit.

The four models in Table 9 are all significant. Models for furniture shops and shops in a competitive environment have the strongest explanatory power.

Voice propensity

We start the study of variance in voice propensity with all the theoretical variables listed in Table 7. The final significant model for voice propensity is shown in Table 10. We do a separate analysis of the customers with experience from previous complains.
Table 10: Logistic Regression with the propensity for voice as dependent variable

<table>
<thead>
<tr>
<th>Propensity for voice</th>
<th>Voice β</th>
<th>Significant test: Waldstatistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>-.19**</td>
<td>28.3</td>
</tr>
<tr>
<td>Age</td>
<td>.02*</td>
<td>4.9</td>
</tr>
<tr>
<td>Initial – 2 LOG Likelihood</td>
<td>464.7</td>
<td></td>
</tr>
<tr>
<td>Model-2 LOG Likelihood</td>
<td>431.8</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>32.9</td>
<td></td>
</tr>
<tr>
<td>Model significance</td>
<td>P&lt;.001</td>
<td></td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>.12</td>
<td></td>
</tr>
<tr>
<td>Prediction ability</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>396</td>
<td></td>
</tr>
</tbody>
</table>

** S<= 0.01
* S<=0.05

The propensity for voice is influenced by the satisfaction variable. The negative influence of the satisfaction variable fits with Hirschman’s theory (1970), but the relatively weak effects could reflect the effect of the theory of Zone of Tolerance (Berry and Parasuraman, 1991). Customers with high loyalty refrain from making voice more often than customers with a lower degree of loyalty. An increase in age increases the propensity for voice. Age is a resource for voice. The Logistic model is significant and it explains only 12% of the variation in the dependent variable.

In a special analysis of the respondents with voice experience, we find the same tendency as we found concerning exit propensity, but with opposite direction. The better the treatment of a complaining customer, the more increased propensity for voice we have. Those who had not complained to the shop had an average on treatment of 3.0, whilst those who had complained to the shop had an average on 3.9 (N=93, F=2.2, Sig.=0.15). However, the difference is not significant.

In another special analysis of the respondents in the furniture shops, we studied the possible effect of risk linked to do shopping in the actual shop on voice propensity. Those with low voice propensity (0) had a risk evaluation on 1.8, whilst those with high voice propensity (1) had a risk evaluation on 2.7, (N=192, F=8.8, Sig.=0.003). The propensity for voice seems to be proportional related to risk evaluation, the higher risk evaluation the higher voice propensity.

Possible effects of external factors on voice propensity

We will see how these internal customer related factors are influenced when we differentiate between high and low degree of competing environment for the shops and between grocery (with low risk) and furniture (with higher risk) shops.

Table 11: Effects of branches and competition on the propensity to voice.

<table>
<thead>
<tr>
<th>Degree of competition</th>
<th>Branch</th>
<th>Low</th>
<th>High</th>
<th>Grocery</th>
<th>Furniture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice propensity</td>
<td>0.30</td>
<td>0.34</td>
<td>0.34</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>Factors explaining variation in voice propensity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>-.18**</td>
<td>-.21**</td>
<td>-.20**</td>
<td>-.19**</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>.03*</td>
<td>.03*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial – 2 LOG Likelihood</td>
<td>222.4</td>
<td>247.4</td>
<td>236.5</td>
<td>229.2</td>
<td></td>
</tr>
<tr>
<td>Model-2 Likelihood</td>
<td>204.9</td>
<td>228.3</td>
<td>217.6</td>
<td>215.1</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>17.5</td>
<td>19.1</td>
<td>18.9</td>
<td>14.1</td>
<td></td>
</tr>
<tr>
<td>Model significance</td>
<td>P&lt;0.001</td>
<td>P&lt;0.001</td>
<td>P&lt;0.001</td>
<td>P&lt;0.001</td>
<td></td>
</tr>
<tr>
<td>Nagelkerke R²</td>
<td>0.13</td>
<td>0.13</td>
<td>0.14</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>Percentage correct predicted</td>
<td>73</td>
<td>73</td>
<td>67</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>179</td>
<td>194</td>
<td>184</td>
<td>186</td>
<td></td>
</tr>
</tbody>
</table>

** S<= 0.01
* S<=0.05
Possible effects of competition on voice propensity
The effects of competition on voice propensity seem to be linked to one factor; satisfaction. Table 11 indicates that the higher the satisfaction the lesser the propensity for voice. When competition is low, age could be a resource for voice propensity. The two models linked to competition are very week and unable to explain much of the variation in voice propensity.

Possible effects of branch on propensity to voice
The level of voice propensity seems to be somewhat higher in grocery shops than what is the case in a competitive environment.
Possible effects of branch on voice propensity are linked to age in the grocery shops. Age seems to promote voice behaviour to a certain extent in the grocery shops. We tried to include the risk variable in the model for Furniture shops, but it turned out as not significant.
The four models are all significant.
The voice propensity seems to be reduced by satisfaction in all the four models. Age seems to promote voice to a certain extent when competition is low and in grocery shops.

WOM propensity
We noted that the propensity for WOM is the most common form of protest among the customer. Again we start the study of variation in the WOM propensity with all the theoretical variables in Table 7. In Table 12 we show the significant result. In addition we tried a model with those who had complaint experience, but did not succeed in reaching a significant solution.

Table 12: Logistic Regression with the propensity to WOM as dependent variable

<table>
<thead>
<tr>
<th>Propensity for WOM</th>
<th>WOM ( \beta )</th>
<th>Significant test : Wald statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>-.12*</td>
<td>9.7</td>
</tr>
<tr>
<td>Voice costs</td>
<td>.17**</td>
<td>14.9</td>
</tr>
<tr>
<td>Discriminated treatment</td>
<td>.79*</td>
<td>8.7</td>
</tr>
<tr>
<td>Initial-2 LOG Likelihood</td>
<td>390.5</td>
<td></td>
</tr>
<tr>
<td>Model-2 LOG Likelihood</td>
<td>352.1</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>38.4</td>
<td></td>
</tr>
<tr>
<td>Significance for model</td>
<td>P&lt;.001</td>
<td></td>
</tr>
<tr>
<td>Nagelkerke R(^2)</td>
<td>.17</td>
<td></td>
</tr>
<tr>
<td>Prediction ability</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>288</td>
<td></td>
</tr>
</tbody>
</table>

** S<= 0.01  
* S<=0.05

Factors influencing the WOM propensity are the satisfaction variable, voice costs, and discriminating treatment. Increased satisfaction reduces the propensity for WOM. As voice costs increase the propensity for WOM increase as well. This fit nicely in a rational model for customer’s decisions. When the customers feel dissatisfied he/she normally evaluate either to voice or to WOM. With high costs linked to voice the customer turn to negative WOM. Increased feeing of discriminating treatment seems to increase the WOM propensity. The Logistic model is significant and it explains 17% of the variation in the dependent variable leaving room for other explaining factors.

A special analysis shows no significant difference in propensity for WOM between those who have tried WOM and those who have not tried WOM with respect to treatment of complain.

In another special analysis of the furniture respondents we tried to trace effects of risk evaluation to the actual shop. The risk evaluation was 1, 8 for those with low WOM propensity (0) and 26 for those with high WOM propensity (1). N=192, F=6.2, Sig.=0.014. The difference in evaluation score is significant. The higher the risk evaluation linked to a shop the higher the propensity for WOM.

We aim to investigate how these internal customers’ related variables are influenced by the external variables as competition and shopping branch.
Table 13: Effects of branches and competition on the propensity to WOM

<table>
<thead>
<tr>
<th></th>
<th>Degree of competition</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Voice propensity</td>
<td>0.50</td>
<td>0.39</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>-0.12*</td>
<td>-0.15*</td>
</tr>
<tr>
<td>Voice costs</td>
<td>0.13*</td>
<td>0.23**</td>
</tr>
<tr>
<td>Age</td>
<td>-0.03*</td>
<td></td>
</tr>
<tr>
<td>Discriminated treatment</td>
<td>1.0*</td>
<td>1.0*</td>
</tr>
<tr>
<td>Initial – 2 LOG Likelihood</td>
<td>241.0</td>
<td>188.8</td>
</tr>
<tr>
<td>Model – 2 LOG Likelihood</td>
<td>224.8</td>
<td>166.2</td>
</tr>
<tr>
<td>Difference</td>
<td>16.2</td>
<td>22.6</td>
</tr>
<tr>
<td>Model significance</td>
<td>P&lt;0.001</td>
<td>P&lt;0.01</td>
</tr>
<tr>
<td>Nagelkerke R^2</td>
<td>0.12</td>
<td>0.20</td>
</tr>
<tr>
<td>Percentage correct</td>
<td>60</td>
<td>74</td>
</tr>
<tr>
<td>predicted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>174</td>
<td>151</td>
</tr>
</tbody>
</table>

** S<= 0.01
* S<=0.05

Effects of competition on WOM propensity

When competition increases the voice costs hold its important position, yet show an increase. The discriminated treatment variable has a role in high competition, but is not present in low competition. Experiencing discriminating treatment is probably a subject in WOM conversations!

The models are having poor explanatory power leaving most of the variance in WOM propensity unexplained.

Effects of branch on WOM propensity

There is no clear difference between the two branches concerning factors for WOM propensity. The voice costs are important in both branches and so is the equity treatment.

The level of WOM propensity seems to be high when competition is low and for customers in grocery shops. The high level of WOM when competition is low could be explained by increasing costs linked to an alternative form of protest, exit. WOM flourish more when alternative forms of protest are more difficult.

Increased voice costs seem to increase the propensity for WOM. Feeling unequal treatment will increase WOM propensity when there are low degree of competition and for customers linked to furniture ships. The models are all significant, but their explanatory power is low.

5 CONCLUSION

Of the three forms of protest the propensity for WOM seems to be the most common with a propensity factor of 0.4. The most exclusive form of protest seems to be exit with a factor score of 0.1. The propensity for voice has a factor of 0.3.

Of the three forms of protest, we have the best model to explain the voice propensity. Nagelkerke R^2 is 0.79. The model for exit propensity is second best having a Nagelkerke R^2 of 0.42. The model for WOM propensity is not powerful, but we have identified some factors of importance to explain variance in the WOM propensity. Nagelkerke R^2 is 0.14.

How do customers decide how to make a protest? A theoretical reflection

The effect of satisfaction on the propensity to perform a protest is strongest on the exit propensity and weakest on the WOM propensity. The exit propensity seems to be the most serious form of protest. An increase in the evaluation of risk linked to the shopping has positive influence on the propensity to protest. An increase in the risk makes the deal more important for the customer.

The basis for any form of customer protest is low score on satisfaction. There are linkages between the various forms of protest, exit and voice are positively correlated. The costs linked to voice influence the propensity for WOM. The customers seem to do an evaluation between the three forms of
protest. If the customers feel high voice costs, the WOM propensity increase. Voice is a more often a chosen form of protest than exit, which seems to be more drastic and rare.

Customer protest seems to be a calculated behaviour governed by degree of loyalty, satisfaction and of possible gains. If the costs linked to voice are high some customers prefer to go to friends and acquaintances with negative WOM. The feeling of not being treated equally compared to other customers is a strong motive for negative WOM. This fits into a calculated behaviour. The calculated behaviour is seen as a sort of rational behaviour summing up feelings and factors linked to satisfaction and calculating possible gains and losses, costs linked to exit and voice or WOM before the form of protest is decided.

However, the calculated pattern is influenced and disturbed by a zone of tolerance created by loyalty and by shopping frequency. The rational picture of the customers should also be moderated since 1/3 of the customers (linked to grocery and furniture shops) do not use any form of protest. And only a small number (2%) has experience in using all three forms of protest.

Treatment of customers complains is an important variable. A good treatment increase the propensity for voice (instead of exit), while a good treatment reduce the propensity for WOM. A bad treatment will increase the propensity for WOM, but reduce the propensity for voice.

**Exit propensity**

Exit propensity is influenced by satisfaction, loyalty, shopping frequency, risk evaluation and treatment of complaints. Satisfaction, shopping frequency and treatment quality of complaining behaviour will all reduce the propensity for exit if increased, and function as barriers for exit.

When the competition increases the exit costs are reduced. But the quality of the offer from the shops could be increased by the competition. Shopping frequency seems to be more important in a competitive environment and loyalty and satisfaction reducing the propensity for exit both when the competition is high and when it is low. When the competition is low there is an effect of loyalty, in high competition the effect is linked to satisfaction. Does low degree of competition promote positive attitudes towards the shops?

Moreover, exit propensity seems to be higher in furniture shops than in grocery shops. The customers’ dependence of the shops might be higher for the Grocery shops being more frequently visited than a Furniture shop.

**Voice propensity**

Voice propensity is influenced by satisfaction and age, and a good complain treatment will increase the propensity for voice (instead for exit). The negative influence of satisfaction on voice propensity could have been weakened by a zone of tolerance since the effect variable is small, but significant. An increase in risk evaluation does have the same effect. There are small effects if any of external factors as competition and branch on the propensity to exit. Competition seems to make the effects of satisfaction on voice propensity somewhat stronger

**WOM propensity**

Word of Mouth (WOM) is influenced by satisfaction/loyalty as the other two forms of protest. If voice costs increases, the propensity for WOM also increases. A good treatment of complain behaviour will reduce the propensity for WOM. Shopping frequency is also linked to WOM propensity, the higher the risk evaluation, the higher the WOM propensity. The effects of competition seem to increase the importance of voice costs and complain treatment. Complain treatment have a stronger effect in Furniture shops than in Grocery shops.

**For leaders**

What measures should be made by leaders in shops in order to reduce formal and informal protest? Firstly, they should make it more easy and comfortable for customers to make a complaint. The more they can treat customer complaints in an orderly and nice way the less informal negative word of mouth activity they will experience and they will reduce the exit propensity and lead the customers to the complain organisation. Secondly, they should ensure that their customers feel they get equal treatment.
REFERENCES


Internet-induced marketing techniques: Critical factors in viral marketing campaigns

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Abstract

The rapid diffusion of the Internet and the emergence of various social constructs facilitated by Internet technologies are changing the drivers that define how marketing techniques are developed and refined. This paper identifies critical factors for viral marketing, an Internet-based ‘word-of-mouth’ marketing technique. Based on existing knowledge, five types of viral marketing factors that may critically influence the success of viral marketing campaigns are identified. These factors are the overall structure of the campaign, the characteristics of the product or service, the content of the message, the characteristics of the diffusion and, the peer-to-peer information conduit. The paper discusses three examples of viral marketing campaigns and identifies the specific factors in each case that influence its success. The paper concludes with a viral marketing typology differentiating between viral marketing communications, unintended viral marketing and commercial viral marketing. This is still a rapidly evolving area and further research is clearly needed to monitor new developments and make sense of the radical changes these developments bring to the market.

Keywords: viral marketing, marketing campaigns, internet word-of-mouth, social networking
1 INTRODUCTION

While the underlying principle of word-of-mouth marketing is well-established and acknowledged (Richins, 1983; Wilson, 1991), the Internet fosters new marketing strategies (Achrol and Kotler, 1999; Arnott and Bridgewater, 2002), one of which is viral marketing. At the core of this emerging form of marketing is the transmission of marketing messages through various Internet-based channels by peers. During these transmissions, information passes between individuals without the involvement of the original message source, propagating like a virus would have done, infecting the hosts.

This paper synthesises the emerging literature on viral marketing and identifies important factors that need to be considered when organising a viral marketing campaign. The paper first defines viral marketing and reviews emerging research streams. It then identifies the benefits and challenges associated with viral marketing and presents the critical factors that need to be considered when organising viral marketing campaigns. The paper then explores these factors in the context of three case studies. The paper concludes with the development of a viral marketing campaign typology before outlining future research possibilities and practical implications.

2 VIRAL MARKETING

The short history of viral marketing is generally agreed to have been launched by Hotmail’s tag line “Get your private, free e-mail from Hotmail at http://www.hotmail.com” (Helm, 2000, Porter & Golan, 2006) and the resulting successful widespread diffusion of Hotmail. This tag line, added automatically to every email sent from a Hotmail account, was passed on from existing Hotmail users to the recipients of their email messages in the way that viruses spread, hence the term viral marketing. While for Welker (2002, p.7) viral marketing is nothing more than “a new interpretation of the good old word-of-mouth-paradigm”, the use of the Internet for spreading the message clearly is a new concept that would not have been possible without the widespread diffusion of information and communication technologies. For the purposes of this study we will consider viral marketing as a technique which utilises the Internet to transmit and spread messages among individuals who will filter and forward the messages to their peers, who may be potentially interested in the message’s content.

The communication style used for transmission is usually informal. Messages are spread through different channels such as email, chat rooms and discussion forums. They may contain various types of content ranging from text and images, to MS PowerPoint files, Adobe’s Flash animations and so on. Recently, users found an additional channel to distribute and share their video clips online via services like YouTube. The value of such services and their potential impact as viral marketing tools were vividly demonstrated by Google’s acquisition of YouTube in 2006 for 1.65 billion US dollars (BBC, 2006a). One significant benefit of web-based viral channels when compared to other informal channels is that they often provide mechanisms for measuring the popularity and success of a campaign. For example, YouTube measures the number of times a clip was viewed and the viewers’ ratings, while it allows qualitative feedback through the viewers’ comments. This information is publicly available and will be used later in this paper when benchmarking the critical factors in two of the case studies presented.

2.1 Traditional ‘word of mouth’ marketing and viral marking

Word of mouth implies that informal, ad hoc communication between individuals concerning products and services (Bayus, 1985) is taking place. This communication can be positive as well as negative, depending on the satisfaction levels of the individuals (Evans et al, 2006). In comparison to other forms of marketing communications, information dissemination and sharing among individuals is rapid when word-of-mouth occurs. The behaviour and views of individuals are significantly influenced by negative word of mouth communication, which tends to be weighted more heavily by consumers than positive communication (Solomon, 2004). Research has found that 90% of dissatisfied consumers do not purchase products or services of the company involved in the negative word-of-mouth communication (Solomon, 2003). Equally importantly, these consumers will communicate their dissatisfaction to at least nine other people and 13% of these dissatisfied consumers will communicate their negative view to more than thirty people.

The Internet ‘word of mouth’ communication, i.e. viral marketing, is a far more effective, penetrating and faster medium compared to the traditional word of mouth communication (Helm, 2000). It is also a far more focused medium as consumers communicate their views in their social sphere (friends, colleagues etc) where their influence is more critical. This kind of communication can reach a wider audience gradually and can maximise its reach not only in their locality (as was the case...
with traditional word of mouth) but even on a national and global scale. The content of the message remains the same whilst it could be biased and filtered during traditional word of mouth communication (Helm, 2000).

2.2 Viral marketing positioning and emerging research streams

Viral marketing spans a number of marketing domains. Kaikati and Kaikati (2004), for example, categorise viral marketing as a stealth marketing technique. While stealth marketing is a recent proposition within marketing, viral marketing relates to the advertising (Phelps, et al., 2004, Porter & Golan, 2006) and brand (Dobele, et al., 2005, Moore, 2003) elements of traditional marketing. Of the emerging new marketing streams, viral marketing is firmly positioned in the e-marketing domain. The other major domain that viral marketing fits into is marketing communications. This approach puts emphasis on the spread of the message and its viral characteristics (Welker, 2002). While conventional communication in marketing directly addresses the consumer, viral marketing communication aims to create an environment where customers and consumers transmit messages without the involvement of the original source. Therefore, viral marketing can also impact on consumer behaviour by influencing consumer perceptions, attitudes and views and has the potential to emerge as a key element of a company’s promotional mix (Kirby and Marsden, 2006). The underlying principle of viral communication, however, remains the ‘traditional’ word-of-mouth paradigm that is now facilitated by the Internet.

The existing literature on viral marketing indicates four emerging research streams making both theoretical/conceptual and empirical contributions: viral marketing comparisons, consumer-to-consumer (C2C) viral marketing, studies of communications media and viral marketing positioning. Comparisons investigate different viral marketing variables in light of other marketing techniques such as television advertising (Porter & Golan, 2006). C2C viral marketing examines specific issues within the consumer context, such as impact on customer value and loyalty (Gruen, et al., 2006). Communications media studies may examine specific transmission modes like e-mail (Phelps, et al., 2004) and include communication domain studies (Welker, 2002). The final stream is viral marketing positioning, where research is concerned with identifying the positioning characteristics of viral marketing and drawing conclusions about the viral marketing domain (Dobele, et al., 2005, Helm, 2000). This research fits into the positioning stream as it investigates critical success factors of viral marketing, by developing, mapping and testing a model of critical factors for viral campaigns. The review of the literature, presented in the following sections focuses on the benefits and risks associated with viral marketing and constructs the basis for a model that could be used for viral campaigns.

2.3 Benefits and risks of viral marketing

The heightened attention paid to viral marketing in the computer and management literature is a sign that there can be significant benefits to be gained from viral marketing. One important benefit is that viral marketing is relatively inexpensive in comparison to many other forms of advertising and marketing campaigns (Dobele, et al., 2005, Kaikati & Kaikati, 2004, Welker, 2002). The other major benefits relate to the positive diffusion characteristics: viral marketing can, for example, reach audiences within a short period of time (Kaikati & Kaikati, 2004) as messages spread exponentially at a fast speed (Helm, 2000, Welker, 2002). This rapid diffusion can significantly boost the speed of the adoption of the marketed product or service (Dobele, et al., 2005). Yet, besides positive financial and diffusion implications, viral marketing makes use of peer-to-peer transmission (Dobele, et al., 2005), which is one of the most influential marketing methods available to marketers and it overcomes legal and privacy concerns as messages are not unsolicited anymore and hence may avoid being considered as ‘spam’. In addition, viral marketing can help achieve substantial audience reach as marketers get access to diverse audiences through social contacts (Helm, 2000) and can profit from effective targeting (Dobele, et al., 2005). The above points can be grouped into four categories as shown in Table 1: financial, diffusion speed, peer-to-peer transmission and audience reach.
Table 1: Potential benefits of viral marketing

<table>
<thead>
<tr>
<th>Category</th>
<th>Benefit</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reaches audiences within a short period of time</td>
<td>(Kaikati &amp; Kaikati, 2004)</td>
</tr>
<tr>
<td></td>
<td>Rapid, fast diffusion</td>
<td>(Helm, 2000, Welker, 2002)</td>
</tr>
<tr>
<td></td>
<td>Boosts adoption speed</td>
<td>(Dobele, et al., 2005)</td>
</tr>
<tr>
<td></td>
<td>Exponential</td>
<td>(Helm, 2000)</td>
</tr>
<tr>
<td>Diffusion speed</td>
<td>Voluntary transmission by sender</td>
<td>(Dobele, et al., 2005)</td>
</tr>
<tr>
<td>Peer-to-peer transmission</td>
<td>More effective targeting</td>
<td>(Dobele, et al., 2005)</td>
</tr>
<tr>
<td>Audience reach</td>
<td>Access to diverse audience through social contacts</td>
<td>(Helm, 2000)</td>
</tr>
</tbody>
</table>

Yet, besides these significant benefits, there are risks and challenges that marketers have to face when engaging in viral marketing campaigns. Probably the biggest risk is the lack of control associated with viral marketing campaigns: organisations have no means of controlling the spread of the message and the content of the transmission (Dobele, et al., 2005, Helm, 2000, Kaikati & Kaikati, 2004, Welker, 2002). The receivers of a message may even consider the transmission as 'spam'. With this lack of control comes the potential of a negative impact from a viral campaign. Negativity can occur through backlash and unfavourable word-of-mouth, and may result in a negative brand image, product or service boycott, unfavourable attributes associated with the organisation and its products and services, hate sites etc. (Dobele, et al., 2005, Helm, 2000, Kaikati & Kaikati, 2004, Phelps, et al., 2004). A lack of legal standards in terms of viral marketing is another potentially risky issue (Kaikati & Kaikati, 2004). The dependency on the consumer for message transmission is a further risk as consumers, for example, may want a return from the organisation for passing on a viral message (Helm, 2000). The final risk to be considered when engaging in viral marketing campaigns is the lack of ethical standards (Kaikati & Kaikati, 2004): consumers may feel exploited, cheated, and used (Dobele, et al., 2005), and may view viral messages as an invasion of their privacy (Phelps, et al., 2004). Table 2 provides an overview of the risks associated with viral marketing.

Table 2: Risks associated with viral marketing

<table>
<thead>
<tr>
<th>Category</th>
<th>Potential risk</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of control</td>
<td>• Uncontrollable nature, in particular loss over content and audience reach and few possibilities to measure success</td>
<td>(Kaikati &amp; Kaikati, 2004)</td>
</tr>
<tr>
<td></td>
<td>• Total loss of control in particular content and timing</td>
<td>(Welker, 2002)</td>
</tr>
<tr>
<td></td>
<td>• Spam</td>
<td>(Dobele, et al., 2005)</td>
</tr>
<tr>
<td></td>
<td>• Lack of control mechanisms:</td>
<td>(Helm, 2000)</td>
</tr>
<tr>
<td></td>
<td>o No control over distortion processes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>e.g. information passed by consumers might be filtered, incomplete, and biased</td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Adverse selection of customers</td>
<td></td>
</tr>
<tr>
<td>Potential negative impact</td>
<td>• Risk of backlash and negative brand impact</td>
<td>(Kaikati &amp; Kaikati, 2004)</td>
</tr>
<tr>
<td></td>
<td>• Negative word-of-mouth can happen</td>
<td>(Dobele, et al., 2005)</td>
</tr>
<tr>
<td></td>
<td>• Negative WOM leading to boycott, ruin, unfavourable attitudes</td>
<td>(Helm, 2000)</td>
</tr>
<tr>
<td></td>
<td>• Hate sites</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• May lead to negative perceptions of brands</td>
<td>(Phelps, et al., 2004)</td>
</tr>
<tr>
<td>Consumer dependency</td>
<td>• Consumers unwilling to provide referrals unless there is some return</td>
<td>(Helm, 2000)</td>
</tr>
</tbody>
</table>
Lack of legal standards
- Emerging legal issues have to be considered (Kaikati & Kaikati, 2004)

Lack of ethical standards
- Consumers may feel exploited, cheated, used (Dobele, et al., 2005)
- Emerging ethical issues have to be considered (Kaikati & Kaikati, 2004)
- Consumer privacy invasion (Phelps, et al., 2004)

2.4 Critical factors for viral marketing campaigns
From the previous discussion on benefits and risks, a number of critical factors applicable to viral marketing campaigns are emerging whilst the relevant literature acknowledges five key issues that critically influence viral marketing campaigns: the overall structure of the campaign, the characteristics of the product or service, the content of the message, the characteristics of the diffusion and, the peer-to-peer information conduit (Figure 1).

Figure 1: Emerging critical factors for viral marketing campaigns

**Risks categories identified:**
- Lack of control
- Potential negative impact
- Consumer dependency
- Lack of legal standards
- Lack of ethical standards

**Benefit categories identified:**
- Diffusion speed
- Audience reach
- Peer-to-peer transmission
- Financial

**Critical factors emerging:**
- Message Content
- Overall structure of the campaign
- Diffusion characteristics
- Peer-to-peer information conduit
- No influence on campaign

**Contextual critical factors:**
- Product/Service characteristics

The overall structure of the campaign needs to encourage viral activity and address ethical and legal issues. In cases where, for example, ethical issues are not considered, the viral campaign may end up in a negative outcome for the organisation launching it. The second critical factor is related to the characteristics of the product or service that is to be marketed. Whereas some products and services are suitable for viral marketing campaigns, others are less suitable. Another crucial element is the content of the message transmitted. Messages that foster imagination and provide entertainment to the receiver or even intrigue the receiver are more likely to be sent voluntarily. Overall, a message should be actively engaging the receiver in order to convert him or her to a transmitter. The fourth critical factor is related to the characteristics of the diffusion: at what speed is the message transmitted? What audience does the message reach? What is the nature of the exponential spread? The remaining critical success factor for viral marketing is the peer-to-peer information conduit: the transmission of a message depends on the communication channels and technologies available to the sender and used by the individual; and the combination of technologies leveraged. Another critical element is the credibility of the sending source. Table 3 illustrates these five critical factors for viral marketing campaigns, including specific aspects and example questions. These are placed in context in the next section using three cases of viral marketing campaigns.
Table 3: Critical factors for viral marketing campaigns

<table>
<thead>
<tr>
<th>Critical factor</th>
<th>Specific aspects</th>
<th>Example questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diffusion characteristics</strong></td>
<td>• Exponential</td>
<td>Does the message spread exponentially among audiences?</td>
</tr>
<tr>
<td></td>
<td>• Speed</td>
<td>Does the message spread at a very rapid pace among audiences?</td>
</tr>
<tr>
<td></td>
<td>• Audience reach</td>
<td>Does the message reach a wide and the right audience?</td>
</tr>
<tr>
<td><strong>Peer-to-peer information conduit</strong></td>
<td>• Channels available &amp; used</td>
<td>What communication channels are available to message transmitters and receivers? What channels do transmitters use to transmit the message?</td>
</tr>
<tr>
<td></td>
<td>• Technology available, used</td>
<td>What technology is available to message transmitters and receivers? What technologies do transmitters use to transmit the message? What technologies do receivers employ to get messages?</td>
</tr>
<tr>
<td></td>
<td>• Combinations of technologies leveraged</td>
<td>What technologies do transmitter and receiver combine to send and receive messages?</td>
</tr>
<tr>
<td></td>
<td>• Source credibility</td>
<td>How credible is the message transmitter to the message receiver?</td>
</tr>
<tr>
<td><strong>Message content</strong></td>
<td>• Imagination</td>
<td>Is the message imaginative?</td>
</tr>
<tr>
<td></td>
<td>• Fun &amp; intrigue</td>
<td>Does the message offer fun &amp; intrigue to transmitter and receiver?</td>
</tr>
<tr>
<td></td>
<td>• Ease of use</td>
<td>Is the message easy to use? Does it have a high visibility?</td>
</tr>
<tr>
<td></td>
<td>• Engaging</td>
<td>Does the message engage both the transmitter and receiver?</td>
</tr>
<tr>
<td><strong>Product/Service characteristics</strong></td>
<td>• Suitability</td>
<td>Is the product and/or service marketed suitable for a viral marketing campaign?</td>
</tr>
<tr>
<td><strong>Overall campaign structure</strong></td>
<td>• Encourages viral activity</td>
<td>Does the campaign encourage viral marketing activities?</td>
</tr>
<tr>
<td></td>
<td>• Ethical &amp; legal issues</td>
<td>Does the campaign adhere to ethical standards?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Does the campaign follow legal requirements?</td>
</tr>
</tbody>
</table>

3 VIRAL MARKETING CASE STUDIES

This paper is exploratory in nature as there is scant theory and literature about the phenomenon of interest, i.e. viral marketing. As the objects of enquiry are the campaigns a case study approach is appropriate and has been applied, combined with extant secondary data analysis (Yin, 1984). Such an approach limits our analysis and discussions to the content of each campaign and does not take into consideration the aims and goals of the campaigns designers and initiators, neither does it take into consideration the opinions and perceptions of the recipients of each message.

The three cases illustrated in the following pages are prime examples of viral marketing campaigns and, as will be fully illustrated in the next section, they represent very distinctive types of viral marketing campaigns. The number of cases is sufficient considering the scarcity of previous empirical research in this scientific field. The three cases are studied and are subjected to comparative analysis where underlying similarities, differences and systematic associations are sought out (Ragin, 1987) and subsequently, further insightful findings are generated.
Case 1: Social viral communication in practice: A ‘news-game’
In the final game of the 2006 FIFA Football World Cup, Zinedine Zidane, the captain of the French team, head butted an opponent on the pitch in front of millions of football enthusiasts. The referee instantly sent Zidane off the pitch for his violent act against the Italian player in the 110th minute of the game. Famously, Italy went on to win the World Cup in a penalty shoot-out.

Viral marketing campaign characteristics
The world cup final took place in Berlin, Germany on the evening of July 9th, 2006. It started at 8:00pm Central European Summer Time (CEST) and ended after 120 minutes excluding half time, extra time and penalty shoot out time. The Zidane head butt happened at approximately 10:00pm CEST. In a matter of a few hours the Internet was taken by storm by the ‘Zinedine Zidane Game’, developed by Alberto Zanot, an Italian graphic designer from Milan. The game encourages the computer user to head-butt the Italian player by way of mouse movements and mouse clicks. Zanot took less than an hour to develop the game using Macromedia flash, Action Script language, and TV shots of the football players (Heffernan, 2006). He initially emailed the game to friends, effectively initiating the viral marketing campaign. On July 11th, in a matter of one single day, the game had been viewed more than 1.5 million times (Heffernan, 2006). The game was spreading at an exponential rate around the globe, corresponding to the first critical factor, an exponential, fast, and wide reaching diffusion.

The two identifiable core channels used for peer-to-peer transmission in the Zidane case were email and online communities. The source of the game, Alberto Zanot, initially emailed his friends a copy of the game. These friends then sent it on to their friends and posted it in online communities. Even three months later, in October 2006, a Google search on the keywords ‘Zinedine Zidane game’ discovered many online resources for the same game. The Zidane game therefore satisfies the second success criteria, as it employs the peer-to-peer information conduit.

The message transmitted in the Zidane case was an interactive online game. The game itself is very simple, based on Adobe’s Flash, basic graphics and minimal game-play. From the web game developer’s perspective, the purpose of the game is twofold: it aims to entertain and it seeks to comment on a news event, hence it is categorised as a ‘newsgame’ (Frasca, 2006). The original game was enhanced with a timer and score at a later time. The game further provoked different spin-offs such as FootyMax (www.footymax.com/zidane.htm), where the various views of stakeholders are interpreted and pictured in a funny fashion. The French, for example, would have seen the Italian player running against a lamppost. The game scores on source imagination and contemporariness, for the fact that making a game about a topical, controversial action on the football pitch is engaging. The Zidane game therefore addresses the third critical factor, message content.

The Zidane game is in a format that is suitable for viral communication as it is a computer game that can easily be transmitted over the Internet. A particular feature of the game is that it stimulates recipient action: the receiver of the game is encouraged to play the game. The game is easy to use and understand, and it is funny. The game is about a topical event that reached a wide coverage in the news and promotes transmission through its characteristics including this association with the recent news event. The Zidane game therefore satisfies the fourth critical requirement, appropriate product characteristics.

When it comes to the overall campaign structure, there is no information available regarding legal issues raised in regards to the game. Potential legal concerns can arise from using images of the two players, therefore infringing image and personal rights. Another possible question is whether FIFA World Cup copyright laws have been breached and whether FIFA will take legal action against the game developer. The violent action displayed by Zidane during the game is a negative feature of football over which FIFA has only limited control: during the game, the referee did send Zidane off the pitch and FIFA did carry out an official investigation following the game. A specific feature of the Zidane game campaign structure is that it is short-lived, being based on a news event (Frasca, 2006). In terms of ethical issues, there are no indications that FIFA had any involvement in the message development and transmission process. A specific ethical aspect regarding the game is the fact that it displays violence, which message recipients and victim support groups may find disturbing.

Social viral communication as evident in the online game case contains messages about certain brands, organisations, events, etc. These parties and product/services involved can benefit from this type of communication. Still, the lack of control over message content can be an issue. Another important thing to note is that as news-games are topical they may end up having a shorter life-time span, which wears off as the related news and events buzz decreases. Still, this case clearly illustrates the potential of viral marketing as an information transmission mechanism that could be used for commercial purposes too, as show in the following two cases.
Case 2: Unintentional viral marketing: The pancake video

On August 25th, 2006 the BBC published an article about a pancake video on its news website (BBC, 2006b). This video, documenting the making of pancakes, was produced by a 1st year computer science student at Aberdeen University and uploaded onto YouTube.com on August 13th, 2006. The video has not only been shown to about six million viewers of ABC's Good Morning America, but it has also been featured on Fox news in America, Sky News, and Five News in Britain and in Australia by the Australian Broadcasting Company. By October 23rd, 2006 the pancake video had been viewed more than 1.2 million times on YouTube (www.youtube.com/watch?v=PnCVZozHTG8).

Viral marketing campaign characteristics

The hundreds of thousands of viewers who watched and continue to watch the pancake video are testimony to the suitability of this kind of video clips for viral purposes. The pancake video incorporates the first critical success factor, an exponential and fast diffusion that is reaching a wide range of audiences. It took only three days for the video to become the week’s hottest video on the YouTube Website and another nine days to appear on the BBC news website. By the time the BBC published the story the video had received more than 700,000 hits. With the number of hits the video was getting and the ‘buzz’ about the video spreading around the world, the diffusion is characterised as being exponential. Following the initial hype about the video in the first two weeks after the upload, the diffusion process slowed down slightly, but nevertheless it remained popular, managing to exceed 1.4 million viewings by early January 2007.

The second critical factor, i.e. peer-to-peer information conduit, incorporates communication channels and technology available, used and leveraged by the message senders. In the pancake case the exact message channels available, used and leveraged for information transmission, are not known. What is known is that the uploading of the video onto YouTube ignited the diffusion process. ‘Buzz’ about the video was generated by a large number of people viewing it measured by way of hits. This initial exponential diffusion of the pancake video also captured the interest of ABC's Good Morning America and resulted in an article on the BBC website, which further fuelled the success of the video.

When it comes to the content, the pancake video is based on both vision and sound. The video shows the process of making pancakes while the viewer is exposed to a pancake song specifically composed for the video. This song was very well-accepted among viewers and it even climbed to number one in the Israeli single charts. The message of making pancakes is engaging, imaginative fun to watch and intrigues through its simplicity.

Interestingly, although the video is primarily about the process of making pancakes, it features the following products indirectly promoting their use: BeRo Plain Flour, milk and eggs (no brand visible), Sainsbury’s raspberry jam, Sainsbury’s pure Canadian maple syrup, Nutella chocolate spread and Tate and Lyle sugar. Various unidentified items of crockery and cutlery are used in the process of making the pancakes. The video also shows one individual making and eating the pancakes, but it does not show the face of this person, nor does it disclose the identity of the person. It is evident then that a range of companies have been the recipients of a free promotion notwithstanding the stimuli given to viewers to engage in making a new activity, i.e. pancakes. It can be argued, although this needs to be empirically tested, that the pancake video could result in increased sales of specific products and could influence consumer behaviour towards novel uses of products. It also increases awareness and loyalty for the products and services involved and, at least in this example, it transmits positive marketing connotations for them.

When it comes to the last success factor, i.e. the overall campaign structure, the pancake video has been produced by an individual out of pure enjoyment for making videos. There was no identifiable commercial reason for making the video. There are no obvious ethical issues associated with the video either which encourages spread by sheer enjoyment of watching the video. This is not the case, though, when it comes to legal issues. It is unlikely that the owners of these brands shown in the video were aware that their products were being used in a video production. With the widespread diffusion and attention the pancake video was getting in the press, these brands receive free marketing, associated with enjoyment, without their involvement. Whether the organisations would have chosen to get involved in the first place remains open to question and shows the lack of control that organisations have over viral marketing. In this case the buzz that the clip generated could be perceived positively by the above mentioned companies, but there is no guarantee that this will always be the case.
**Case 3: Commercial viral marketing in practice: An Internet video ad**

Fat Wallet Inc. provides shopping discounts and pricing information for online shoppers. The American company, based in Illinois, commissioned the Scottish student who produced the pancake video to develop a promotional video. In this video FatWallet.com advertises its services using the slogan ‘Pocket the difference’ to the online audience. The video has a similar look and sound to the pancake video and was also well-received by the YouTube audience as indicated by the comments the viewers made.

**Viral marketing campaign characteristics**

The diffusion process commenced when the video was placed on YouTube (www.youtube.com/watch?v=5iC4K71yF5E) and a link was made from the FatWallet website to this video on October 19th, 2006. By early January 2007, the video clip had been viewed more than 25,000 times. Although the diffusion is not as fast as the pancake video, for a commercial ad it is considerable exposure. Hence, the commercial Fat Wallet campaign is satisfying the first characteristic of speedy diffusion and reaching the audiences. Source credibility was high as the producer could capitalise on the earlier success of the pancake video too. While it is clear that people interested in the producer’s videos and FatWallet.com will spread the message, it remains unclear what attributes of the message foster its non-commercially related diffusion among peers. Fat Wallet, however, makes clever use of the producer’s peer-to-peer network.

The content of the Fat Wallet video message is clearly commercial. Both, the producer as well as the organisation paying for the video promotion are open about this issue. In the comments left on the producer’s section in YouTube as well as on the Fat Wallet forum, the viewers express a positive flair towards this openness. The majority of viewers considered the content of the message, the commercial ad, to be entertaining and particularly like the music. The FatWallet video therefore fulfils the second characteristic: a fun message that is worthwhile transmitting.

With the buzz surrounding YouTube, online videos are increasingly proving to be a well-received method of communication. Online videos are easily transmitted by electronic means; this ease of electronic transmission is a key advantage in terms of viral marketing. Hence, the product characteristics make videos a suitable product for spreading viral marketing messages.

The FatWallet campaign’s clever use of the peer-to-peer network of the producer ensures that the video reaches a target audience, giving the organisation some degree of control over transmission. As FatWallet paid for this ad, the company was in total control of the message content. The content produced was original (for example the song was specifically composed for this advertisement) avoiding legal issues, such as copyright issues.

**4 ANALYSIS OF THE DIFFERENT TYPES OF VIRAL MARKETING CAMPAIGNS**

The three viral marketing campaigns discussed above illustrate the various aspects that contribute to a successful campaign. The first case is an example of how personal desire for social interaction can attract the users’ interest and spread very quickly. In the second one although the prime aim is to produce an entertaining clip, the video unintentionally acts as a marketing conduit for the featured products. Finally, in the third case a company with clear commercial motivations aims to capitalise on viral mechanisms in order to promote its services.

Table 4 is derived from a literature synthesis and cases of viral marketing campaigns. The three aspects of diffusion characteristics are all fulfilled in the social interaction (SI) and unintentional viral marketing (UI). For the commercial campaign (C), it is unclear whether it spreads exponentially and at high speed. It is, however, reaching the audience targeted by the organisation because the video was commissioned and placed on the web space of the producer of a successful UI campaign. If the organisation had not intended to target the followers of this producer, it would not have commissioned the clip and had it placed on this person’s YouTube web space. While email and online communities were the key channels and technology used in the SI campaign, a YouTube clip snowballed into various news coverage and email notifications in the UI case. The peer-to-peer information conduit in the commercial campaign uses the producer’s peer-to-peer network on YouTube; emails; forums and the organisation’s own website for spreading the message. All three originating sources are credible as none of the sources appears to be hiding their origin and intentions. For message content, SI and UI fulfil all the criteria identified (e.g. imagination). The commercial campaign is imaginative, fun, and easy to use. All three types feature suitable products and services. Equally, all three campaigns encourage viral activity although the activity at the commercial level is by no means as strong as in the other two. While there is no information available regarding legal issues that have arisen, there are potential legal grey areas in the SI campaign. UI campaigns remain to be studied in terms of ethical
issues, while there may also be legal issues caused when using referring to brands that are protected, e.g. by using trademarks. There are no legal and ethical issues emerging from the commercial campaign.

Finally, in terms of controlling the viral marketing campaign, it is evident from the previous analysis that we are dealing with a rapidly evolving phenomenon that operates within a very short timeframe and its power of online influence via the ‘word of mouse’ is critical during message dissemination (Skrob, 2005). This unique on-line channel puts the internet user at the centre of its operations and its strength lies within internet users’ willingness to share the message with friends, relatives and other interested persons (Skrob, 2005). Firms need to be aware that, upon the release of a message during traditional word of mouth marketing, consumer behaviour is influenced either positively or negatively by conditions such as awareness, expectations, perceptions, attitudes, behavioural intentions (Buttle, 1998). Day (1971) stressed that the impact of that medium is bigger compared to advertising in raising awareness during his examination of a product innovation. Firms face similar issues during viral marketing, an area where further research is highly recommended.

Table 4: Viral marketing aspects for social interaction (SI), unintentional interaction (UI) and commercial (C) campaigns

<table>
<thead>
<tr>
<th>Factors</th>
<th>Aspects</th>
<th>SI</th>
<th>UI</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diffusion characteristics</strong></td>
<td>Exponential</td>
<td>v</td>
<td>v</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Speed</td>
<td>v</td>
<td>v</td>
<td>Unclear</td>
</tr>
<tr>
<td></td>
<td>Audience reach</td>
<td>v</td>
<td>v</td>
<td>Potentially</td>
</tr>
<tr>
<td><strong>Peer-to-peer information conduit</strong></td>
<td>Channels and technology available, used and combined</td>
<td>Email Forums</td>
<td>YouTube News coverage Email</td>
<td>YouTube Email Forums Org. Website</td>
</tr>
<tr>
<td></td>
<td>Source credibility</td>
<td>Original source credible (designer)</td>
<td>Original source credible (student)</td>
<td>Original source credible (openly commercial)</td>
</tr>
<tr>
<td><strong>Message content</strong></td>
<td>Imagination</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td></td>
<td>Fun &amp; intrigue</td>
<td>v</td>
<td>v</td>
<td>Fun</td>
</tr>
<tr>
<td></td>
<td>Ease of use</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td></td>
<td>Engaging</td>
<td>v</td>
<td>v</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Product service characteristics</strong></td>
<td>Suitability</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td><strong>Overall campaign structure</strong></td>
<td>Encourages viral activity</td>
<td>v</td>
<td>v</td>
<td>v</td>
</tr>
<tr>
<td></td>
<td>Ethical &amp; legal issues</td>
<td>Potential legal concerns</td>
<td>Potential ethical issues</td>
<td>None</td>
</tr>
</tbody>
</table>
5 A VIRAL MARKETING TYPOLOGY

The cases presented in the previous section illustrate that there are different types of viral marketing. In the first case there is viral communication, which is interaction between message sender and receiver about a worthwhile issue. In this case, products, services and organisations are not a feature of the message; knowledge about these is intangible and intrinsic. In the second case, the transmission contains the actual product, service or organisation marketed, but the aim of the message is not to market these. Therefore, it is unintentional viral marketing. In the third case, the message contains the product, service and/or organisation being actively promoted. This type of viral marketing is commercial, as the aim is to promote a product, service or organisation. Table 5 tabulates these three types. Message content in terms of product, service and organisation visibility determines this viral marketing typology.

<table>
<thead>
<tr>
<th>Table 5: Viral marketing typology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>Motive</td>
</tr>
<tr>
<td>Visibility</td>
</tr>
<tr>
<td>Intention</td>
</tr>
<tr>
<td>Basis</td>
</tr>
</tbody>
</table>

The viral marketing typology presented in Table 5 differentiates between social interaction, unintentional and commercial viral marketing. The key factors that determine this differentiation are the underlying motive for the action, the visibility of the product, service and organisation, the intention of the originating source and the communication basis. The motive in both social interaction and unintentional is communication. In the commercial group it is to create interest in something such as a specific product, brand, service, or organisation. Visibility is different in all three categories: in social interaction it is intangible, with the message not containing any obvious marketing messages. In the unintentional type, products and services are included in the content. In the commercial group, visibility is driven by the intention, which can be openly viral or concealed viral. Openly viral is where it is clear who the organisation is or what product or service is being marketed. In concealed viral the intention is unclear. In this sub-type, ethical issues are likely to arise. Users may, for example, be tricked into believing a message originates form an un-biased, un-related source when this is not the case. The intention of social interaction is purely not viral marketing. In unintentional it can be not viral, concealed viral or a combination of both. As is the case in the commercial group, concealed viral raises concerns regarding ethical issues. The communication basis in social interaction is purely social. In unintentional it is social and/or commercial and in commercial it is commercially driven.

6 CONCLUSIONS

This paper has synthesised the emerging body of literature on viral marketing and in doing so, developed and tested five critical factors for viral marketing campaigns. The validity of the synthesis is underlined by a viral marketing typology which differentiates between social communication with viral elements, unintentional viral marketing and commercial viral marketing. For each form of viral marketing critical aspects emerge which are tested by way of using the three cases presented. In terms of the model and the typology developed, future research could test the validity of the model in different contexts and settings. The typology needs refinement and testing, which is another avenue for further research. Researchers may find it interesting to develop their own typologies and future research can then compare these typologies.

As with any emerging field of study, empirical evidence will bring in-depth understanding fostering knowledge creation about viral marketing. Scholars may be interested in empirically investigating diffusion patterns. Questions that may be of interest include: what are the diffusion patterns of different viral marketing campaigns and what are the differences between regions, countries and continents? In addition, what boundaries do messages cross and what are the transmission barriers? Moreover, at what speed do different messages spread, what factors increase/decrease message diffusions? In terms of peer-to-peer information conduit, researchers may be interested in studying what communication channels message transmitters use frequently/infrequently, what technologies are
used and to what extent, and whether the lack of certain technologies inhibits message transmission. What makes a source credible is another interesting question as is what characteristics do frequent message transmitters have? Another question might be how to foster viral activity among individuals. In terms of message content, interesting questions are: what are common characteristics of successfully diffusing viral marketing messages and what are the differences between highly successful versus mildly successful campaigns? Also, what are the key characteristics and attributes that make a message viral? For product and service characteristics, future research could investigate what products are specifically suitable and unsuitable for viral marketing and the underlying reasons for this suitability or unsuitability; and one could study what makes a product suitable for a viral marketing campaign and the underlying reasons. Researchers may also find it interesting to study differences between product and service campaigns. In terms of overall campaign structure, a potential line of inquiry is how organisations can ensure ethical issues are addressed and develop ethical standards for viral marketing campaigns. At this point in time, legal issues applicable to viral marketing campaigns are unknown and further exploratory research is needed. The emerging literature treats viral marketing as a purely individual centred phenomenon, yet it would be interesting to study the role of organisations and organisational networks in the diffusion process.

REFERENCES


Book Review:

Essentials of Marketing

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BOOK REVIEW

‘Essentials of Marketing’ is a condensed version of the same two authors’ hugely popular book entitled ‘Principles of Marketing’. Although ‘Essentials of Marketing’ is a condensed version, it comprises all the key topics at an appropriate depth necessary for an introductory marketing student to grasp the knowledge of the subject. These key topics cover, among others, buyer behaviour, market segmentation, marketing research, product, price, place, promotion, marketing planning, management and control.

The book is well structured and the tone of writing is clear, and thus the reader should not find it difficult at all to follow. There are a number of pedagogical features, such as corporate social responsibility cases, end-of-chapter questions and the eye-catching text design (e.g. Spiderman) on the book, as well as student companion websites off the book. These features, which are all well designed and well equipped with corresponding materials, provide additional support for the readers to enhance their learning effectiveness. For example, the corporate social responsibility cases, including counterfeit drugs in the Place chapter and product recycling in the Advertising and Personal Selling chapter, helps readers to taste the flavour of the emerging ethical trend in marketing. However, among all the characteristics and features of this book, we believe that the two of them are crucial in helping the book to stand out against so many competing books in the market.

First, Brassington and Pettitt have used numerous real-life examples throughout the book to support their explanation of specific marketing concepts. For example, in the Price chapter, they used altogether 15 real-life examples, ranging from Andrex toilet tissue to the hotel accommodation sector. These examples, all interesting, concise and well-presented, are derived predominantly from the UK and European market context and therefore a reader in the UK or continental Europe would find them familiar and even emotionally attached. We feel that these well-selected examples, which readers may have prior knowledge, experience or attitude, can promote deep learning. In addition, the case studies at the end of each chapter, which can be regarded as conclusive examples of bigger proportion and greater pedagogical importance, provide an explicit link to the knowledge contained in corresponding chapters through the questions at the end of the case studies. For example, in the Product chapter, the author put forward the Mini case study and posed questions for students to answer. These questions, such as ‘What is the core product that the Mini offers compared with the mainstream BMW range?’ and ‘How could the Mini’s core product be translated into tangible, augmented and potential products?’, serve well the purpose of linking theory to practice.

Second, the book has been written in a very lively manner. The academic knowledge of introductory marketing has been well developed. There is little room for extra knowledge not yet provided in the current publishing market that a new author can fill. Nevertheless, Brassington and Pettitt managed to organise the book in a way that some topics of marketing, which have been usually covered less than adequately among current introductory marketing textbooks, or have received strong interest among academicians and practitioners, are presented in a designated substantial part of a chapter or a separate chapter. For example, business-to-business marketing, which has been usually much less covered than business-to-consumer marketing in a typical introductory marketing textbook, has been covered in appropriate depth. Service and non-profit marketing, as well as e-marketing and new media, have witnessed increasing importance, and the authors have rightly assigned two separate chapters to deal with these two topics. This organisation of contents is definitely a bonus for the quality and appeal of the book. However, we believe it is the style in presenting the contents, rather than the contents themselves, that becomes a more important success factor of the book. The style of writing is not only well-structured and clear, but also hugely lively. For a reader who has very little prior knowledge of marketing, the book, for its attractive writing style, can become the magnetic gateway through which the reader is happily interested in exploring the sea of knowledge of introductory marketing.

In view of the popularity of Brassington and Pettitt’s authorship in introductory marketing, ‘Essentials of Marketing’ is likely to have an updated third edition in a few years’ time. For this, we suggest the following points that the authors could consider for further improving their work:

1. The authors introduced a number of important branches of introductory marketing in the first chapter, and have provided designated space for discussing most of them, including business-to-business marketing, service and non-profit marketing as well as e-marketing and new media, in greater depth. If book space allows, the updated edition can assign two additional chapters to discuss small business marketing and international marketing, whose importance has been noted in the first chapter but which have not been adequately covered in the current edition.
In the chapter of buyer behaviour, the terms ‘buyer’, ‘consumer’ and ‘customer’ are not clearly and consistently used. In our opinion, all three should mean differently from each other. If the authors believe that they can mean the same, they should clarify prior to the wide use of the terms. Besides, in the same chapter, the use of the term ‘consumer customers’ looks a bit odd.

We believe that the four Ps should be nearly equally important, with no one of them being significantly more important than the other. In the book, there are three chapters for promotion, and one chapter for each of the other Ps. This may convey an implicit message to readers that promotion is the most important element in the marketing mix.

Segmentation has been discussed in depth in a designated chapter. On the contrary, targeting and positioning seem to be inadequately covered.