

Analysing effects of word of mouth



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Word of mouth (WOM) has been acknowledged to have a major influence on what people talk, love and know about any commodity, product or a service. People love to talk and share. Customers who have visited a particular hotel talk about it because they like the product and services offered to them or vice-versa. These comments can be a casual mention, a biting comment or might be something nice. “ Word of Mouth is all about earning this good conversation” (Sernovitz, A., 2009). It has been defined as a spoken communication that portrays either positive or negative data (Reid, R. & Bojanic, D., 2009). Many hospitality organizations are using the strategy of WOM as their major source of marketing. WOM is considered to be the most powerful and oldest means of marketing and also costs nothing. Many researchers support the fact that WOM is more influential on behavior and consumer thinking rather than other marketer controlled resources i. e. print sources as Which and Consumer Reports (Herr et al., 1991). The impact of commercials also does not stay for long time as to the impact of any recommendations made. WOM is a source of reliable marketing as it comes from actual and unbiased experiences. The adequate and correct use of WOM marketing technique leads to a successful business (Lindberg, K. 2001)

This essay will discuss how the strategy of Word of Mouth marketing impacts on a hospitality organization with few examples. It also discusses the implication of the strategy on the business and the outcomes achieved.

It also states the importance of WOM for hospitality industry.

WORD OF MOUTH in Hospitality – its importance and effect

Hospitality industry is highly intangible in nature therefore the importance of Word of mouth recommendation is very high. Many researchers believe that WOM is a very powerful form of communication in the world of business. This communication can hamper or damage company's reputation or give it a boost (Duncan & Moriarty, 1997). WOM also provides with loyal, long-term and repeat customers that can act as a competitive advantage. Word of Mouth recommendations have become more important in hospitality industry as it attempts to enhance the long-term customer relationship and increases the scope of repeat business (Lindberg, K., 2001). Day (1971) computed that WOM was nine times powerful than advertising media trying to induce positive attitude. Nielson's study also supports the fact that consumers think that the comments and recommendations posted online are more trustworthy. The survey carried out by Nielson in 2006 also proved the same fact. According to the survey 70% of people found word of mouth as a trustworthy source (Marketing search, 2007). A strong foundation for good WOM is created by fulfilling the guest needs and demands thus resulting in customer satisfaction (Shoemaker, S., Lewis, R. & Yesawich, P., 2007). WOM is recognized as a form of informal communication between guests that has a great economic impact (Gremler, 1994).

With the use of Word of Mouth Marketing technique a company can reduce its marketing budget thus having a greater sales target. A new approach towards retention of customer is via relationship marketing in context with Word of Mouth. The essay illustrates the examples in hospitality industry using the strategy of WOM and how the issue raised by Federal Trade Commission would affect them.

Industry Profile – The Cheesecake Factory Inc., Hawaii

Cheesecake Factory is a unique food chain who has almost nil advertising budgets on Air, TV or other marketing media sources. It's a unique and upscale dining that serves more than 200 menu selections. At the inauguration of its 120th store the company revealed its marketing strategy which has been Word of Mouth. Howard Gordon, VP of the company leads to their branding and restaurant marketing effort. He said that for past 28 years they have spent almost nothing on marketing and advertising. Instead the strategy was focusing on Word of Mouth. 80% of their brand marketing is done through the employees and the guest. During the heavy impact of the recession this restaurant was still doing well as they had their repeat and loyal customers (Reid, R. & Bojanic, D., 2009)

Natalie Diehm, Management Recruiter of the company says that over 3000 people dine in the restaurant daily on an average and most of them are been referred to by their friends and relatives (Reid, R 2009, pg. 87).

The Cheesecake Factory has over 150 outlets in USA. They have built up loyalty programs for their customers through means of viral marketing thus developing the customer relationship (cheesefactory. com).

Effects of WOM marketing strategy on the company –

The results have been positive for the company. The company has increased its no. of outlets over the years. The company always had its marketing budget at a minimal. They were successful through the recession period as well. They generated a huge amount of repeat and loyal business.

Disadvantages to use of WOM –

Though WOM is a powerful source of marketing it carries some disadvantages. It might limit the growth if there is a complete reliance on WOM. For e. g. A small business' dependence on recommendations for new customers is restricted to those markets and networks in which their current customers operate. It does take time to earn Word of Mouth and thus this can be a slow process of advertising.

Word of Mouth is assumed to be uncontrollable. Sometimes management gets busier in building effective management programs to influence guest other than providing best possible service. In such a situation an opportunity is lost to earn a good conversation.

The Cheesecake Factory Inc. can try to use other forms of WOM to develop their business more. Electronic WOM has gained a huge market in advertising media as it is able to reach every home, person around the world. In this way the company can enhance their target market.

This essay provides some more examples below.

Early UK success for Magnuson Hotels

Magnuson Hotels is the world's largest independent hotel chain and has signed up 20 properties across UK in first two weeks of its official launch. The hotel represents more than 1200 properties in North America. The joint CEO Thomas R. Magnuson said: " The response from the independent hoteliers has been phenomenal and is driven solely on word of mouth so far." The

hotel is expecting 50 more independent hotels to join their chain (Hospitality news, May 2010).

Their success of becoming the topmost chain of independent hotels is due to Word of Mouth marketing. They have used viral marketing as their means of WOM i. e. their promotional activities and guest reviews are published on various websites like expedia. com, Travelocity. com, Tripadvisor. com. The effect on WOM has strongly influenced the development of Magnuson Hotels. Their sales are rising high as said by the joint CEO.

Hilton Head Wine & Food Festival positions itself as a destination event

The Hilton group of company arranges these events every year in all their chains in America. The purpose of this event is to gather people in local community as well as along the coastline. The Hilton Hotel Group invites top chefs for a wine tasting event and the chefs and guests are served with the hotel restaurants specialty dishes. The percentage of visitors to Hilton Wine and Food Festival has increased since 2007.

The statistics are shown below –

2007: 51. 5%

2008: 59. 8%

2009: 63. 6%

2010: 78. 8%

(McCann Josh, 2010)

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The statistics above also state how a company has improved its sales with the use of WOM marketing. Ann-Marie Adams, Executive Director of Hilton Hospitality Association said, “ The success of the festival relies mostly on Word of Mouth and volunteers.” Through the WOM marketing the event has become a two-week event from 4 hour event. The Hilton Group has used this marketing strategy to attract local customers as well as people from outside the country. This strategy of marketing has helped this company to boost its sales. The festival does generate a word of mouth that will be spread across and company is using it as its competitive advantage to develop relationship.

FTC moves to unmask WORD OF MOUTH Marketing

The Federal Trade Commission declared in December 2006 that companies who indulge in Word of Mouth marketing, in which people are compensated to promote products to their peers, must disclose those relationships (The Washington Post, Dec., 2006). It has been argued that people are paid fair amount of money to publicize the product. Some advocacy groups have questioned whether marketers are using tactics of WOM to deceive consumers into believing that they are provided with honest and unbiased information. In the opinion of FTC it was noted that no accurate figures exist on how much is spent on this media of marketing as it has quickly become the most popular and faster method. This method has become an advantage for consumers with a cynical view about other forms of advertising. FTC has altered their current regulations of WOM marketing stating that such advertising practices should disclose where there is relationship between the endorser of the product and the company. FTC is also investigating cases

where this regulation has not been followed and its consequences would be civil penalties, fines or cease orders.

Reasons for introduction of the regulation –

The main reason to introduce this act was to stop fraudulent word of mouth. Many organizations as per FTC used its employees to write positive blogs about the company. This regulation was made for consumer awareness and for security acts.

How this will affect the hospitality organizations?

Many of the times guest post their comments on hotel website's blogs or other websites like Tripadvisor. com, Travelocity. com etc. If the management asks the guest to disclose the reason of their comments, some would not like it and it can be a loss of business. This regulation has made the company management to go in neat details of every small aspect thus making it more time consuming.

Word of Mouth Marketing – various aspects and methods

There are various types of WOM marketing which hotels are using to promote themselves. Most of it is through social media like facebook, twitter, MySpace etc. When the organization uses websites, emails and other electronic media for advertising it is called electronic word of mouth.

Electronic word of mouth has become very popular in today's world as most of the customers are online all the time. Hotels send their promotions, packages and other freebies via email. Hotels have also developed loyalty programs for their membership holders and regular customers.

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Referral marketing is creatively used by hospitality managers in order to develop customer relationships. Hospitality organizations have also developed referral programs i. e. creating tools that enable satisfied customers to refer their friends.

Creating blogs about the product and services and posting replies to questions and comment received is also a part of word of mouth marketing. This is usually spread through electronic media using open blogosphere or chat rooms.

This type of communication is open, honest and transparent.

Buzz marketing is also a part of word of mouth. It is reasonably old method – and sometimes controversial – form of publicity. Buzz marketing helps business to reach out to global market. This is a word of mouth concept that ripples on peer-to-peer recommendation of the product and services.

Word of mouth can also be obtained from volunteers, advocates etc. who are interested in spreading a word on your company's behalf. This is called evangelist marketing. This type of word of mouth can be controversial as questions are raised about payments to the volunteers. The FTC act has therefore altered their regulations and guidelines to prevent such acts of fraud.

When hospitality organizations are updating their customers about their products and services through various mediums of advertising; it creates a 'buzz' or an issue that they talk and spread in their social or business community. (Shoemaker, Lewis & Yesawich, 2007)

CONCLUSION

The conclusion withdrawn from the study states that effective use of word-of-mouth marketing is highly profitable to the organization. With the use of WOM marketing a company does reduce its marketing budget leading to higher sales targets. In hospitality industry products are intangible therefore they cannot be promoted before tasting and most of the advertisement or promotion is done through verbal communication. The verbal communication refers to referral marketing or word of mouth. It also concludes that a positive word of mouth has huge impact on the sales graph and reputation of the organization whereas a negative word of mouth has an opposite reaction. With Nielson's research it was found that WOM is more effective than other marketer controlled advertising media. A positive word of mouth is a must for any business and is a key to success. A negative word of mouth can be an indicator towards success of the business if evaluated and managed carefully and efficiently. Given, the powerful influence of WOM it should not be ignored or mistreated but enriched and managed to improve the effectiveness of firm's marketing strategy.

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