

# **The Effect of Word of Mouth Marketing on Customer loyalty & Product sales**

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**Abstract:** *Word of mouth marketing (WOMM) is a valuable and most powerful form of marketing. It differs from naturally occurring word of mouth, in that it is actively influenced or encouraged by organizations. The concept of word of mouth marketing has now gained more popularity as it acts as a trustable way to influence customers. This paper discloses the effects of word of mouth marketing on customer loyalty and product sales. This study also analyzes the terms of word of mouth, word of mouth marketing, marketing performances. This study reveals that word of mouth marketing has a significant effect on building customer loyalty and increasing product sales. Explorative research design and secondary data has been used for this study. To prepare this study, relevant literatures are reviewed. The available literatures show that the proper implementation of word of mouth marketing can significantly affect increasing sales level and building customers' loyalty. As a new marketing tool, company need to have adequate knowledge for the proper implementation so that business success can be achieved.*

**Keywords:** *Word of Mouth Communication, Marketing Performance, word of mouth advertising,*

## **1 Introduction:**

To sustain in this competitive business field, company should achieve competitive advantage which is rarely possible through the use of traditional marketing approaches. WOM marketing is a way to achieve competitive advantage (Abdolmaleki et al., 2016). It is a kind of informal communication about the features of a business or a product that can be exchanged in a community (Brown and Reingen, 1987). In addition, word of mouth communication involves activities that are likely to encourage customers to talk about a product or a company or a brand, to their friends and neighbors, setting in motion a chain of communication that could branch out through a whole community (Roger, 2008).

The importance of this study rises from the fact that the traditional marketing approaches is getting less and less popular with nowadays' customers, that contributes directly in the growing importance of word of mouth in the realization of purchasing processes. Therefore, word of mouth marketing (WOMM) became a new standard in modern marketing (Meiners; Schwarting and Seeberger, 2010). Despite of its importance indicated above, up to now few studies have examined the whole concept of word of mouth marketing and it's effect.

In many countries around the world, word of mouth marketing is being applied. Unfortunately in Bangladesh it has very few influences at all. But it may be expected that the effective application of word of mouth marketing will gain popularity in Bangladesh.

Through this study, word of mouth marketing concept is analyzed with its effects on customer loyalty and sales level. This study's insights will help companies to start its application and gain competitive advantage. The remainder of the paper is designed in six sections. Section 2 contains literature review. Section 3 states objectives of the study followed by methodology in section 4. Authors put findings in section 5. Finally, author draws a conclusion and makes some recommendations in section 6 and 7.

## 2 Literature Review

There are some studies to the word of mouth marketing by some experts who have tried to explore knowledge on such marketing. Some of the significant studies are described below:

Organizations continuously explore the new ways to achieve competitive advantages; WOM produces this opportunity because it influences greatly customers' attitudes and behaviors (Mazzarol, 2007; Day, 1971). According to Silverman (1997) the independence of this tool source gives it the credibility, so it determines speed of product adoption, also it is more relevant and complete. It accelerates the customers' decision-making process, spread information, reduces risk associated with purchasing, increases customer loyalty/retention, builds profitable relationships, and provides competitive advantages. It is the type of communication which competitors find difficult to duplicate (Ennew *et al*, 2000; Arora, 2007), because it's based on the customers' opinion and attitudes which rely basically on their real experiences.

Silverman (1997) proposed that the unknown reason why WOM is so important is that it is a mechanism of experience delivery. The value of this communication tool will grow, because it is the most honest form of marketing communication that originates from the human desire to share ideas, opinions and experiences with friends and relatives (Rosen, 2009, p. 69).

Word of mouth marketing (WOMM) is the least understood marketing strategy (Misner, 1999). Recently, WOM advertising plays an important role in the distribution of information to other individuals. On the other hand, people feel WOM advertising is a reliable source for their decisions (Lim, 2006). Therefore, WOM advertising is an early indicator of the success in the future (Kim and Trail, 2011). WOM advertising is usually more important for services than goods. Services are experimental in nature and hence it is difficult to evaluate them before purchasing (Abdolmaleki *et al.*, 2014a).

Naz (2014) in his study concluded that marketing managers through the use of positive WOM advertising can have loyal customers. Ntale *et al.* (2013) in his study found that WOM advertising has an impact on customer loyalty, so that WOM advertising leads to customer loyalty. Kisang and Hessup (2010) in his study found that satisfaction and loyalty of our customers tend to re-direct connection. Yoon *et al.* (2007), according to their findings, suggest that quality of service and positive WOM advertising often lead to reuse of the service by the organisation's clients.

WOM leads to more product sales, which in turn generate more WOM and then more product sales. The positive feedback mechanism indicates that WOM is not only a driving force in consumer purchase but also an outcome of retail sales (Godes and Mayzlin 2004; Srinivasan, Anderson, and Ponnnavolu 2002).

Several researchers have been conducted on word of mouth communication. However, very little research has been conducted in our country, especially on the word of mouth marketing and its effects. This study aims to analyze the issues of word of mouth marketing and effects of this marketing approach on the customer loyalty building and increasing sales level (Shamim, 2022).

### 3 Objectives of the study:

The main objective of this study is to assess the effects of word of mouth marketing on customer loyalty and product sales. The specific objectives are to-

- Define the word of mouth marketing
- Examine the effects of word of mouth marketing on marketing performances
- Examine the effects of word of mouth marketing on customer loyalty building and increasing sales level.

### 4 Methodology

The concept “Word of mouth marketing” is new in the business arena. So, researcher has adopted the exploratory research design to explain it. This study has been prepared by using secondary data. In addition, this paper is based on the systematic review of literature on word of mouth marketing which seeks to synthesize the current thinking and evidence. Literature for this study was predominantly sourced from books, journals and internet searches. However, based on judgmental approach relevant articles have been selected.

### 5 Findings

Effects of word of mouth marketing on customer loyalty and sales

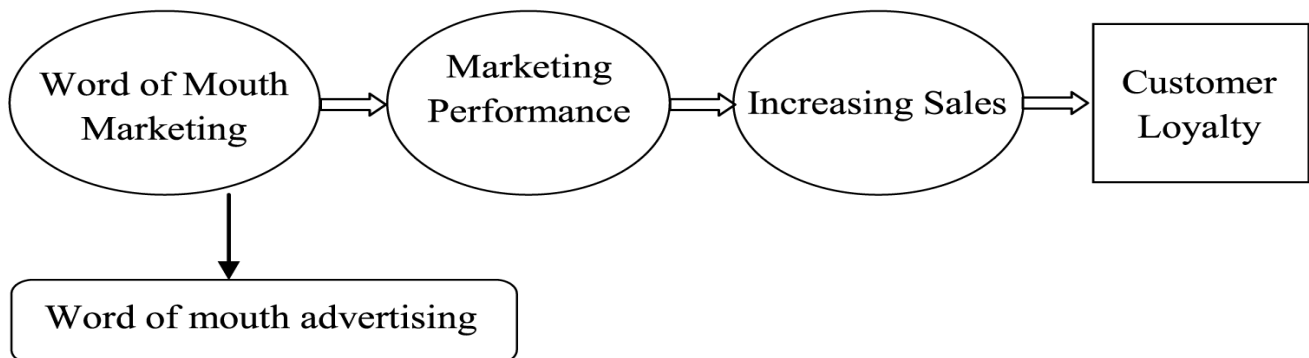


Figure: Adapted by the researcher.

The association among these is described below-

#### 5.1 Word of Mouth Marketing

According to marketing point of view, WOM communications are defined as “informal communications directed to other customers about the ownership, usage, or characteristics of particular goods and/or services and/or their sellers” (Westbrook 1987, p. 261). The advances of information technology and the emergence of online social network sites have profoundly changed the way information is transmitted and have transcended the traditional limitations of WOM (Laroche et al. 2005). Now a days, dynamic companies are trying to

influence positive word of mouth to attract new customers and create loyal customers through the word of mouth marketing.

### 5.2 *Marketing Performance*

Marketing performance is composed of effectiveness, efficiency and adaptability; and it concerns market place awareness and reactions to the realized positional advantages. It can be defined from customer perspective, as the cognitive and affective responses (e.g. brand awareness and perceived quality) and the subsequent behavior consequences (e.g., purchase decision making and actions) of prospects and customers in the target market to the realized positional advantages achieved by the organization (Mutonyi and Gyau, 2013). Accordingly, marketing performance can be measured from company's perspective through marketing operation efficiency and from a customers' perspective through effectiveness and adaptability of its output with customers' needs, wants and preferences. This allows it to gain their satisfaction and their loyalty.

### 5.3 *Effect of word of mouth marketing on marketing performances*

Customer satisfaction and customer loyalty are the elements of the key inputs to achieve sustainable competitive advantage. Customer satisfaction can be defined as the customers' evaluations of multiple experiences with the same product or brand provider over time (Bolton and Drew, 1991; Matos and Rossi, 2008). Whereas customer loyalty is defined in the marketing context as "an intention to perform a diverse set of behaviors that signals a motivation to maintain a relationship with the focal company, including allocating a higher share of the category wallet to the specific good or/and service provider, engaging in a positive word of mouth (WOM) to reach the advocacy level, and repeat purchasing" (Zeithaml et al, 1996; Matos and Rossi, 2008). In addition, customer loyalty, sales are the indicator of marketing performances. In this way word of mouth marketing affects the marketing performances. On the other hand, the purpose of marketing is to attract new customers and create strong relationship. As a new marketing tool WOM marketing serves this purpose.

### 5.4 *Effect of word of mouth marketing on sales*

Previous studies show that a variety of aspects of WOM influence sales. Some found that WOM dispersion (Godes and Mayzlin 2004) and valence (Chevalier and Mayzlin 2006; Forman, Ghose, and Wiesenfeld 2008) have significant effects on product sales, while others found that WOM volume serves as the key driver of product sales (Chen, Wu, and Yoon 2004; Liu 2006). A unique aspect of the WOM effect that distinguishes it from more traditional marketing effects is the positive feedback mechanism between WOM and product sales. That is, WOM leads to more product sales, which in turn generate more WOM and then more product sales. The positive feedback mechanism indicates that WOM is not only a driving force in consumer purchase but also an outcome of retail sales (Godes and Mayzlin 2004; Srinivasan, Anderson, and Ponnavaolu 2002). However, a recent phenomenon is eWOM which has a tremendous effects on online sales. Research on the impact of eWOM on product sales has focused on two main attributes, namely, *volume* (number of messages that friends sent to each other), and *valence* (nature of the rating or message [review], which can be positive, negative, mixed, or neutral)

#### 5.5 *Effect of word of mouth marketing on customer loyalty*

Loyalty reflects optimistic attitudes toward the brand or organization (e.g. Dick and Basu, 1994). In this respect, one aspect linked to loyalty positive WOM and recommendation (Hallowell, 1996). To be precise, loyal customers usually support the firm by emphasizing the main attributes of its products and services. This is motivated by the fact that loyalty is the result of the individual's beliefs that the quantity of value received from consuming a product or service is greater than the value of non-consuming (Hallowell, 1996). Thus, in response to this greater value obtained, the individual is motivated to remain loyal to the firm and to promote it by, for instance, positive WOM behaviors.

In addition, WOM advertising is the discussion of consumers in conjunction with their wonderful experiences of particular goods or services that they share with family members, friends and colleagues and encourage them to purchase the product or service. As well as, it refers to interpersonal communications among consumers in relation to the assessment and their personal experiences of an organization or product or service (Jason et al., 2010).

In the past few years, we have seen the rising rate of WOM advertising to increase sales of products and customers' loyalty in the long run (Kim and Hanssens, 2017). In an environment where confidence to organizations and advertising has fallen, WOM communication is a way to achieve competitive advantage. Thomas et al. (2006) in a research stated that the WOM advertising can affect the evaluation of products and services, and, in particular, customer loyalty.

These results are consistent with findings of Naz (2014), and Brown et al. (2005). On the other hand, Carvajal et al. (2012) states that customers who receive information through WOM advertising are more loyal than others who receive information from traditional media. So, it can be said that WOM advertising can affect customer loyalty. This mutual relationship of WOM advertising and customer loyalty is very important

## 6 Conclusion & Future Research

At present, very few company initiate word of mouth marketing approaches. In this study, the effect of word of mouth marketing is assessed on customer loyalty and product sales. The major findings of the study are the significant effects of word of mouth marketing on customer loyalty building and increasing sales level. In addition, this study also reveals that word of mouth marketing influence better marketing performances through the word of mouth advertising. On the otherhand, it directly effects on building strong customer relationships and increasing the brand equity. As a trustable source, it affects product's quick adoption, increasing sales volume. Moreover, this type of marketing avoids the clutter of the usage of traditional marketing approaches and help to gain competitive advantage. Overall, this study's insights will help marketers to realize the effects of word of mouth marketing so that business success can be achieved.

In this study, the researcher has evaluated the effects of word of mouth marketing. This helps to increase the research literature on the future studies, because there are few studies in relation to word of mouth marketing. Thus, the effect of WOM marketing will lead to better understanding of the relationship of WOM and customer loyalty and product sales.

### 7 Recommendations

This study's concept can help companies to consider the application of word of mouth marketing. To remain competitive in this business field, company should initiate this marketing through the effective use of word of mouth advertising campaign. They should be careful during the application of WOM marketing to deal with clutter. In addition, company should also train the service providers or the customer care personnel so that they can avoid customers' dissatisfaction. Every company should think about the positive effects of WOM marketing and implement effective WOM advertising to accomplish the business goal.

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