I HEARD IT THROUGH THE GRAPEVINE:
ISSUES IN REFERRAL MARKETING

PROFESSOR FRANCIS BUTTLE
Marketing Group
Cranfield School of Management
Cranfield University
Cranfield
Bedfordshire MK43 0AL
Tel: +44 (0)1234 754352
Fax: +44 (0)1234 751806
Email: F.Buttle@Cranfield.ac.uk
ABSTRACT

Scholars have been pondering word-of-mouth (WOM) for over 2400 years, although modern marketing research into WOM started only relatively recently, in the post-war 1940s. WOM can be characterised by its valence, focus, timing, direction, and by the degree of management intervention. Most recently WOM research has been conducted from a customer-to-customer perspective, even though WOM is found in other contexts such as influence, employee and recruitment markets. Marketing research into WOM has attempted to answer two questions: What are the antecedents of WOM; and, what are the consequences of WOM? This paper reviews that research and attempts to identify researchable gaps in our knowledge. The paper ends with a very brief discussion of managerial issues in WOM.
INTRODUCTION

Word-of-mouth (WOM) has been acknowledged for many years as a major influence on what people know, feel and do. Work on interpersonal influence has ancient origins. Aristotle produced what has been called ‘the most important single work in the history of speechcraft’ [Thonssen and Beard 1948] in the 4th century B.C. The book Rhetoric [Aristotle, trans Roberts, 1924] emphasised the persuasive significance of three artistic proofs controlled by a speaker: ethos, pathos and logos. Ethos, the ethical and personal appeals of a speaker, includes all the ways in which the speaker projects personal qualities so as to elicit belief on the part of the listener. Pathos comprises the emotional appeals of the speaker. Logos, or logical appeals in the form of examples and enthymemes were regarded by Aristotle as the basis of reasoned discourse. Some 23 years later there now exists an immense literature on interpersonal communication [Littlejohn 1990].

Britt’s 1966 seminal review of the derivative relationship between consumer behaviour theory and the social sciences pointed out the impact of WOM on consumers [Britt 1966]. Among the research reported were the 1955 experiments in which Solomon Asch and a group of confederates conspired through WOM to convince unaware experimental subjects, despite clearly visible evidence to the contrary that one of three lines marked on card A was a length match for another line drawn on card B [Asch 1955].

The earliest edition of Kotler’s marketing management textbook acknowledged that ‘advertising is one of several influences on a person’s behaviour and probably less important - because it is known to be self-serving - than such influences as peers and personal observation’ [Kotler 1967]. The foundation of WOM’s alleged powers is not expressed here in terms of Aristotle’s three proofs, but of the speaker’s independence. Aristotle, however, would have recognised this as an ethical appeal.

Thirty years later, in the late 1990s, marketers, particularly those who espouse the emergent
claim that WOM is more influential on behaviour than other marketer controlled sources. Indeed it has been observed that WOM can be more influential than neutral print sources such as Which? And Consumer Reports [Herr et al 1991]

Companies are now beginning to be more programmatic in the way they pursue what is becoming known as referral marketing.

WORD-OF-MOUTH IN THE MARKETING LITERATURE

Johann Arndt was one of the earliest researchers into the influence of WOM on consumer behaviour. His 1967 definition: ‘oral, person-to-person communication between a receiver and a communicator whom the receiver perceives as non-commercial, regarding a brand, product or service’ was an attempt identify the domain of WOM research [Arndt 1967].

More recently, Stern has defined WOM by drawing on its distinctiveness from advertising. She writes: ‘WOM differs from [advertising...] on its lack of boundaries..... WOM involves the exchange of ephemeral, oral, or spoken messages between a contiguous source and a recipient who communicate directly in real life... Consumers are not assumed to create, revise and record pre-written conversational exchanges about products and services. Nor do they ordinarily use poetry or song to discuss consumption. Finally WOM communication vanishes as soon as it is uttered, for it occurs in a spontaneous manner and then disappears’ [Stern 1994]

WOM, however, need not necessarily be brand, product or service-focused. It may be organisation-focused. Neither in this electronic age need WOM be face-to-face, direct, oral or ephemeral. There is some evidence that virtual WOM through electronic bulletin boards functions analogously to face-to-face WOM. For example, Cobra Golf Inc., the golf equipment manufacturer, has created a bulletin board site on which surfers post unedited messages about Cobra’s own and competitors’ equipment [Hagel et al 1997]. The electronic
community in effect generates virtual WOM which is not face-to-face, not direct, not oral, and not ephemeral. The history of electronic WOM is traceable through archival threads.

CHARACTERISTICS OF WORD-OF-MOUTH

WOM is mischievously nick-named free advertising. If advertising can be defined as 'any paid form of nonpersonal presentation of ideas, goods or services by an identified sponsor' [Alexander 1964], then most WOM is not. Advertising, by this definition, is paid, nonpersonal, transparently sponsored communication. These distinguishing characteristics of WOM are being eroded. Some WOM is incentivized and rewarded; other WOM is produced electronically. Perhaps all that distinguishes WOM is that it is uttered by sources who are assumed by receivers to be independent of corporate influence.

WOM can be characterised by:

- valence
- focus
- timing
- solicitation
- intervention

Valence

From a marketing perspective, WOM can be either positive or negative. Positive WOM occurs when good news testimonials and endorsements desired by the company are uttered. These may be based upon personal experience, exposure to third party communication, or exposure to mediated communication. Negative WOM is the mirror image. It is worth noting that what is negative from a corporate viewpoint may be regarded as extremely positive from a consumer viewpoint.

According to File et al [1994], not only the valence but also the volume of post-purchase can be affected by management efforts. These authors cite evidence that the measured impacts of
guarantees or postpurchase WOM is clear evidence that management can influence the frequency and direction of WOM.

Focus

We have assumed thus far that management's focus is only on WOM between consumers. This need not be so. Relationship marketing's six-markets model points out that marketers are concerned with building and maintaining mutually beneficial relationships in a variety of domains: customers (which may be end-users or intermediaries), suppliers, employees, influentials, recruitment and referral markets (see Fig. 1, below) [Peck 1991]

![Six markets model diagram]

Figure 1 - Six markets model

The clear focus of most management writings on WOM is that of the satisfied customer communicating with a prospect. Put another way, the assumption is that WOM functions to draw customers on to the loyalty ladder (Fig. 2), thereby converting a prospect into a customer [Christopher et al. 1991]. Indeed, evidence of a powerful role for WOM in the diffusion of innovations is well documented [Mahajan, et al., 1990]. However, whilst it is conceivable that some WOM functions to migrate a customer up company X's loyalty ladder, other WOM may equally promote defection off company X's loyalty ladder.
Although research is thin, it seems self-evident that WOM can operate in the other five markets. For example, WOM can influence investment decisions (influence markets). WOM is also an important source of information in the recruitment market. One engineering company, for example, estimates that 80% of its employees are recruited following personal referrals. Indeed, some companies reward their employees for recruiting suitable folks. Rewards ranging from $50 to $2000 have been paid [Tyler 1996]. WOM is also the primary form of action in which organisation culture is expressed and reconstituted, therefore having a considerable impact upon the behaviour of employees.

**Timing**

Referral WOM might be uttered either before or after a purchase. WOM can operate as an important source of pre-purchase information. Known as input WOM, this may be particularly significant for high risk or intangible-dominant products [File et al. 1996]. Many consumers experience perceived risk in new product purchasing contexts. This risk can take several forms - physical, performance, financial, social, psychological or time loss [Mitchell and Hogg 1996]. Reference to WOM is a risk reduction strategy which can do much to reduce or eliminate the uncomfortable feeling of risk-exposure.
After purchases are made consumers will often make comparisons between their expectations and the product performance they experience. If performance is below expectation the customer might sense dissonance. Cognitive dissonance theory has a 40-year tradition in marketing thought [Festinger 1957]. Cognitive dissonance is definable as an imbalance in a cognitive system. Two elements in such a system are expectations and perceptions of product performance. One available strategy for customers who experience discomfort from cognitive dissonance is to seek WOM from sources which can reduce the discomfort. However, not all customers feel discomfort [McGuire 1972]. Post-experience utterance of WOM to third parties is known as output WOM.

**Solicitation**

Not all WOM communication originates from customers. Indeed, WOM may be offered with or without solicitation; it may or may not be sought. However, when authoritative information is sought, the listener might seek the input of an opinion leader or influential.

Until the 1940s, marketing communication thought was dominated by the 'magic bullet' or 'inoculation' theory of mass communication. It had been assumed that mass media messages impacted directly upon all audience members. In the late 1940s however, Lazarsfeld *et al*’s study of voting behaviour indicated that mass media messages were intercepted and distributed by strategically situated individuals he called opinion leaders [Lazarsfeld *et al* 1948]. The two-step flow hypothesis suggests that marketer-controlled mediated communication flows to opinion leaders (OL) who in turn communicate it through WOM to their peers, thereby influencing their attitudes and behaviours. In this theory, OLs are distributed in all levels and groupings of society and may be influential on just one or several topics. Katz and Lazarsfeld, for example, profiled different attributes for food opinion leaders, fashion opinion leaders, public affairs opinion leaders and movie-going opinion leaders [Katz and Lazarsfeld 1955]. Rogers, however, claimed to have identified three traits which broadly typified all opinion leaders: social participation, social status and cosmopolitanism [Rogers 1962].
cosmopolitanism, leaders were barely distinguishable from followers, but that they were more gregarious, more knowledgeable (for the area of expertise) and more innovative [Robertson 1971]. Knowledge is commonly assumed to be a determinant of personal influence [Solomon 1992].

Engel et al [1993] prefer to call these persons influentials rather than OLs. They note that influentials’ demographic characteristics vary between products, but that they are generally more gregarious, fashion-conscious, independent, innovative, and active in information-search. Opinion leadership theory has been subjected to much critical research and a multi-step theory of communication effects is now coming into broader acceptance. In the multi-step world, both opinion leaders and followers are legitimate targets for differentiated messages. Followers, for example, may be motivated to seek information. Recent work by Yale and Gilly [1995] suggests that information seekers do not necessarily select information sources matching the common profile for opinion leadership as deployed in the marketing literature, but will select persons who they believe to be high in product knowledge. Both the information-seeker and the source perceive the source to be more knowledgeable than the recipient in the area of consultation.

In the 1980s the concept of the ‘market maven’ was developed. This is a person who enjoys advising friends of new products/services and places to shop [Fieck and Price 1987]. It is the social integration of the maven, rather than any product-related expertise, that gives them their power. Market mavens are largely women but indistinguishable in other ways [Higie et al 1987]. Gelb and Johnson note that ‘not only does the market maven prompt WOM, but those with links to such individuals are disproportionately likely to act upon what they are told’ [Gelb and Johnson 1995].
Intervention

Although WOM can be spontaneously generated, an increasing number of companies are pro-actively intervening in an effort to stimulate and manage WOM activity. Managed WOM may operate at an individual or organisational level.

Individuals may be sought who themselves actively deliver WOM or who serve as role models for those who would follow. Companies are alert to the potential problems associated with celebrity endorsements. Celebrities can become unfashionable or attract bad publicity. Michael Jackson, OJ Simpson and Eric Cantona are cases in point.

Managed WOM may take a bi-lateral or multi-lateral form. Bi-lateral arrangements involve two marketers forming a mutual referral partnership. For example, a non-competing bar and restaurant might direct interested parties to their partner’s establishment. Multi-lateral referral networks have developed to a high degree in the hospitality industry. Hotel consortia are loosely-knit networks of independently owned and operated hotels: Leading Hotels of the World, Preferred, Logis de France and Inter Nor Hotels are examples. Often they share marketing, purchasing and most importantly, computerised reservation systems (CRS). Through the CRS they are able to cross-refer business throughout the network. Separate reservation networks may even hook up to each other. Norway’s Inter Nor Hotels, for example, is hooked up with Danway (Denmark), Arctia Hotels (Finland), Icelandic Hotels ((Iceland) and Sara Hotels (Sweden) in a pan-Scandinavian reservation network.

Although most managed referrals are to non-competing companies, there are circumstances under which referrals may be to direct competitors. Marketing in the legal profession has been largely via WOM. A lawyer’s best impartial advice to a client might be to recommend a competitor with better expertise in a particular field.
MARKETING RESEARCH INTO WOM

Marketing research into WOM has generally attempted to answer two questions: first, what are the conditions which precipitate the utterance of WOM by customer; second, what are the consequences of such utterances. What follows is a summary literature review, organised into the two categories - antecedents and consequences.

Antecedents of WOM

WOM is widely thought to be an outcome of customer experiences with a product or service. The disconfirmation paradigm of customer satisfaction/dissatisfaction predicts that when a customer's expectations are met, satisfaction will be experienced, when expectations are underperformed there will be dissatisfaction, and where expectations are exceeded there will be customer delight [Oliver 1997]. Satisfaction and delight, it is believed, motivate positive WOM. There is some evidence from the service sector that delight is less likely to be associated with 'right first time' service delivery than it is with excellent recovery following service failure [TARP 1986] and it has been estimated that it is generally cost-effective for management to invest twice the profit margin associated with a sales to recover a dissatisfied customer [Fornell and Wernerfelt 1986]. Similarly, negative WOM can be conceptualised as an outcome of an unsatisfactory imbalance between expectations and perceptions.

Several researchers have investigated the possibility of there being a hierarchy of expectations. The Yale Communication and Attitude Change Program which prolifically researched the relationship between mediated communication and attitude during the 1950s wrote of latitude of acceptance [Hovland et al 1957]. Miller [1977] wrote of four levels of expectation, ranging from ideal to lowest acceptable. He referred to these as the can be, will be, must be, and should (or ought to) be levels of expectation. Parasuraman, Berry and Zeithaml [1991] wrote of expectations being bounded by adequate (minimum) and desired levels. These form a zone of tolerance for consumers. Woodruff et al [1983] have conceptualised a narrower band of reasonable expectation they dub the zone of indifference.
has produced an integrated conceptualisation of expectations research (See Fig.3) [Oliver 1997].

It seems plausible to infer that positive WOM is associated with performance above that which was predicted, and negative WOM with performance below that which was wanted. Westbrook [1987] reports that WOM is mediated by satisfaction levels. Swan and Oliver [1989] report that (positive) WOM increases as satisfaction increases. Engel, et al [1969] however, contend that emotional response to product/service performance evokes WOM directly.

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Fig.3 Expectations according to level of desirability

There is some early evidence that WOM is driven not only by product/service performance but by dis/satisfaction with the purchasing process [Tanner 1996].

Hartline and Jones have concluded that intention to utter WOM is correlated with the customer's perceptions of value and quality [Hartline and Jones 1996]. The higher those perceptions the stronger the intention of uttering positive WOM. The stronger of the two correlates is value. Given that certain components of the service delivery process signal 'value' to customers, it makes sense for management to isolate these dimensions and develop them to promote referrals. There is evidence that customers who perceive that they are offered social support in a service encounter are more prepared to recommend the service
Verbal communication increases the customer’s sense of control by reducing their uncertainty, improves customer self-esteem, or enhances the customer’s sense of social connection to others [Adelman et al. 1993]. Social support is particularly found within strong-tie relationships. We experience everyday weak-tie support in relationships with strangers, casual acquaintances and service providers. Where service providers are able to strengthen the tie by providing social support, there is a greater propensity to utter positive WOM. Social support in the professional services environment (e.g. lawyers, GPs) is strongly correlated with client satisfaction.

Negative WOM has been researched in several purchasing contexts including cars [Swan and Oliver 1989] and hotel accommodation [Cadotte and Turgeon 1988], as well as in the not-for-profit context [Cermak et al. 1991]. Just as positive WOM has been linked to satisfaction, so has negative WOM been linked to dissatisfaction [Singh and Pandya 1991].

Negative WOM is thought to be one form of customer complaining behaviour (CCB). Hirschman proposed that customers have two options when faced with unmet expectations: voice their dissatisfaction or exit the relationship [Hirschman 1970]. Theoreticians have more recently conceptualised three forms of punitive action that a dissatisfied customer could take: exit the relationship, voice dissatisfaction to the supplier, and utter negative WOM to a social network. Singh has applied cluster analysis to complaints data and found evidence of a tripartite taxonomy of complaint style: voice responses (complain to, and seek redress from the supplier), private responses (negative personal WOM) and third party responses (e.g. write to a consumer affairs programme, consult a solicitor) [Singh 1988].

There is general support for the contention that customers dissatisfied with durables will exhibit higher levels of choice and lower levels of exit than for non-durables [Watkins and Liu 1996]. Singh explains this phenomenon in terms of the relative investment of the customer in the product/service and thus the value of any redress [Singh 1990].
Researchers have identified a number of specific contexts which evoke consumer WOM. Bayus observed that frequent repetitive advertising can increase WOM, particularly in the absence of other information sources [Bayus 1985]. Ambiguity in advertising matter may also provoke comment [Kong and Tinkham 1990]. These findings are in keeping with the advertising axiom that it is vital to create ads high in 'conversational value' and consistent with the evidence that if an advertising message generates uncertainty about a product/service, consumers will seek WOM in order to reduce perceived risk [Smith and Swinyard 1982].

WOM is also associated with product and service characteristics. WOM is a more important input to the decision process when purchasing services, rather than goods. Murray found that service consumers prefer to seek information from family, friends and peers, rather than sponsored promotional sources [Murray 1991]. Services are high in credence properties which are difficult to evaluate prior to consumption. Service intangibility and the potential for heterogeneous performance drive WOM-seeking. It has been reported in a health service context that the service characteristics of dependability and reliability are most closely associated with positive WOM, but that reliability and presentation are most closely associated with negative WOM [Headley and Miller 1993]. Gombeski et al.'s [1988] review of patient questionnaires found that 50% of new patients reported that peer referral to a health centre had the most influence on the patronage decision. The limitations of WOM are illustrated by Johnson and Meischke's [1991] finding that patients preferred to receive information about cancer treatment from doctors rather than family and friends. In the professional services context, buyers are known to seek input from other customers. This is weighted very highly in the buying decision [Kotler and Bloom 1984]. A survey of 324 CEOs in six industries identified 'a personal endorsement of the professional service firm from a business associate' as very important in the service provider selection decision [File, et al 1994].
WOM has also been associated with price. Richins found that the higher the price the greater the likelihood of negative WOM being uttered if the product fails to satisfy [Richins 1983 and 1987]. This, again, can be accounted for by the relative consumer investment in the product/service. All forms of CCB increase with the perceived importance of the problem [Folkes et al 1987].

WOM has also been associated with conditions in the business environment. Voice and exit behaviours vary inversely with the level of concentration in an industry. The more concentrated, the fewer alternatives the customer has in the face of dissatisfaction [Fornell, and Didow 1980]. As the difficulty or cost of expressing dissatisfaction rises, the expression of voice response declines, but the incidence of exit increases. The more receptive a supplier is thought to be to customer complaint, the lower the incidence of exit and voice behaviours [Richins 1983 and 1987]. Attribution theory suggests that when the supplier is held accountable for dissatisfaction, all three forms of CCB increase [Folkes et al 1987].

**Consequences of WOM**

Input WOM has been shown to influence a variety of conditions: awareness, expectations, perceptions, attitude, behavioural intention and behaviour.

Sheth concluded that WOM was more important than advertising in raising awareness of an innovation and in securing the decision to try the product [Sheth 1971]. Day inferred that this was due to source reliability and the flexibility of interpersonal communication. He computed that WOM was nine times as effective as advertising at converting unfavourable or neutral predispositions into positive attitudes [Day 1971]. Mangold’s review of the impact of WOM in the professional services context concluded that WOM has a more emphatic influence on the purchasing decision than other sources of influence [Mangold 1987]. This is perhaps because personal sources are viewed as more trustworthy [Murray 1991].
In the industrial purchasing context, WOM influences expectations and perceptions during the information search phase buying process, and influences attitude during the pre-choice evaluation of alternative service providers [Lynn et al 1987, 1992].

The influence of WOM on expectations has been reported by Webster [1991] and Zeithaml et al [1993].

WOM can influence decisions either positively [Richins 1983 and Engel et al 1969], or negatively [Bolting 1989; Tybout et al 1981]. It does appear that negative WOM has a more powerful impact than positive WOM [Arndt 1967]. TARP, for example, reports that dissatisfied customers are likely to tell twice as many people as satisfied customers. Desatnick [1987], writing of markets where customers have choice, asserts that ‘90% or more who are dissatisfied with the service they receive will not buy again or come back. Worse still, each of those unhappy customers will tell his or her story to at least nine other people, and 13% of those unhappy former customers will tell their stories to more than twenty people’. It is not reported to how many these WOM recipients retell the story.

One consequence of the receipt of WOM is an attempt on the listener’s part to ‘make sense’ of the reasons for its utterance. Attribution theory provides a framework for understanding this process. According to this theory, consumers will make a naive causal analysis of an utterance and make attributions about the communicator, the subject of the utterance (e.g. the unsatisfactory performance of a service provider), and the context of the utterance. These attributions are, in effect, an accounting of the reasons for the performance of an utterance [Calder and Burnkrant 1977]. It does appear that customers may attribute negative WOM about an object to the object itself, whilst attributing positive WOM to contextual or communicator factors. This perhaps accounts for the relatively more extensive diffusion of negative WOM.
OPPORTUNITIES FOR WOM RESEARCH

There are several gaps in this research profile.

From the perspective of consumer-to-consumer WOM the following questions remain unanswered:

1. Which is better at predicting intention to utter WOM or actual behaviour: the disconfirmation or attitudinal paradigm?

2. Does WOM co-vary more directly with perception, or disconfirmation, or value, satisfaction, or quality? Under what contextual conditions?

3. Which antecedent marketing conditions are most closely associated with WOM? In the service sector, which of the 7ps - product, price, place, promotion, people, process and physical evidence - has the greatest impact upon WOM? Under what contextual conditions?

4. How is intention to utter WOM connected to actual performance? What conditions, if any, enable or constrain performance?

Researchers could also extend the focus of WOM investigation -

5. How can we better understand the effects of WOM in influence, recruitment and internal markets?

6. How effective are existing referral programmes in generating enquiries, trial, retention and switching behaviours?

7. What is the attitude of the referring customer and the referred customer, to these
Finally, since most of the research published in the English language has been undertaken in Western economies, there are a number of unanswered cross-cultural issues of interest to managers in MNCs and theoreticians. In Western culture the person is viewed as a self-contained, autonomous individual. According to Markus and Kitayama [1990] ‘the Western view of the individual as a self-contained, autonomous entity who (a) comprises a unique configuration of internal attributes (e.g. traits, abilities, motives, values), and (b) behaves primarily as a consequence of these internal attributes’ has dominated scientific literature. However, not all cultures view the person as independent. At the opposite end of the spectrum, there are cultures which take an interdependent view of personhood. According to Markus Kitayama ‘experiencing interdependence entails seeing oneself as part of an encompassing social relation and recognising that one’s behaviour is determined, contingent upon, and to a large extent organised by, what the actor perceives to be the thoughts, feeling and actions of others in the relationship.’ Research into WOM has been undertaken at the individualist end of the individualist/collectivist spectrum. The relevance of this research in Asian, African, Mediterranean, Middle Eastern and Latin American cultures is questionable. If persons in collectivist cultures subordinate their individuality to the collective, this may well have relevance to WOM activity, whether seeking or giving, whether positive or negative. For example, in a collectivist culture, negative WOM about a personally unsatisfactory experience may not be uttered if the collective view is generally favourable. Collectivists may be more likely to develop strong emotional ties to products and services when they are signs of group membership, and to want to develop strong, trusting relationships with suppliers. Some researchers have begun investigating cultural differences in attitudes towards complaining [Thorelli, 1983; Arndt et al 1982; Richins and Verhage 1985]. Watkins and Liu [1996] have discussed the cultural limitations of WOM research.
MANAGING WOM

As observed above, managers are increasingly concerned to harness the power of WOM, whether this is done through formalised referral networks or organisations or through the motivation of individual customers. Broadly the managerial issues to be determined are:

WOM objectives
WOM strategies
WOM implementation
WOM organisation

In respect of customer market WOM, there would appear to be three broad objectives:

influence customer intention
influence customer trial
influence customer retention

Given that WOM has been construed as a product of customer experiences outwith the zone of tolerance, the two main strategies open to managers appear to be:

eliminate causes of negative WOM
enhance causes of positive WOM

Positive WOM through satisfaction delight can be enhanced in two broad ways:

managing customer expectations to a level which the company can deliver
raising performance to a level which at least meets, but preferably exceeds, customer expectations.

Expectations can be managed in a number of ways, for example:

promising, in advertising and other forms of marketing communication, only that which can be delivered.

developing a customer charter which sets out corporate commitments.
publishing service level agreements

Performance which matches or exceeds expectations can only be assured if a company truly understands customer expectations. Procter and Gamble, in their efforts to get close to their
customers' premises on jointly agreed category management objectives. Transactional research, customer comment capture, mystery shopping, satisfaction surveys are other ways of bridging the gap between company and customer.
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