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# The referral marketing practices of travel agencies in the Western Cape province – An exploratory study

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*Organisations can make use of high levels of customer service delivery to stimulate positive word-of-mouth referrals. Referral marketing is primarily applied by organisations when the budget is the marketers largest limitation. The purpose of the paper is to indicate what the current status is of the relationships which travel agencies in the Western Cape have with their referral market and will provide recommendations to the management of travel agencies in the province regarding the improved application of the principles of relationship marketing to this market. The target population for this study was 118 travel agencies of which 61 managers and/or owners participated through personal interviews in the completion of questionnaires. Data analysis was done by calculating averages and standard deviations, Explorative Factor Analysis, Cronbach Alpha-values and practical significance by means of effect sizes. The owners and managers of travel agencies view their current ability to stimulate customers to provide positive word-of-mouth referrals as good. They also indicate that referral groups are used as a marketing instrument forming part of their marketing strategy. Travel agencies must create and establish more integrated relationships with strategic suppliers to increase the value offering of their (travel agencies) products and services to customers. The travel agency hereby ensures that the needs and wants of customers can be satisfied more successfully which, in the long run, can lead to positive word-of-mouth referrals.*

## Introduction

Service organisations are fundamentally important to the economy of any country, as they contribute, amongst others, to its Gross Domestic Product (GDP) and employment rate. Growth in the service sector has persisted since the late 1990's and service industries have a large impact on national economies (Baker, 2003: 586). Also, in South Africa, the contribution of the services sector to the country's GDP has increased from 55% in 1992 to 58% in 2002 while its share in employment increased from 58% in 1992 to 64% in 2002 (UNCTAD, 2004). The growth in the service sector lead to it becoming much more competitive, transforming the management and marketing of service organisations (Baker, 2003:586). For example, the number of travel agencies in South Africa has grown by 15% since 2000 and is responsible for the creation of 7.5% of all employment in the service sector (ASATA, 2007). Currently, the focus of service organisations is their clients and their needs and preferences (Christopher, Payne & Ballantyne, 1993:5).

Arndt (1967:6) have more than thirty years ago stated that marketers do not apply referral marketing to their formal marketing campaigns. Lutchford (1997:1) note that the scenario at the end of the 1990's have still not changed. The reason for this being that referrals are difficult to manage by the organisation and is also difficult to define. The development of referral relationships is a time consuming process and the advantages of investing in referral sources is not necessarily immediately visible. Little research has also been done so far in the field of referral marketing (Steyn, 2000:234).

Organisations can make use of high levels of customer service delivery to stimulate positive word-of-mouth referrals. Referral marketing is primarily applied by organisations when the budget is the marketers largest limitation. It is one of the few forms of marketing that an organisation can use without having to accrue payment to an individual or organisation (Strydom, 2004:52-64).

Word-of-mouth referrals by the customers of an organisation is done in a spontaneous manner. It occurs since customers base their buying decisions on the information provided by family members, friends and specialists in a specific field. Such communication is based on the personal experience of the reference group when purchasing or using products and services (Silverman, 2001:52, Steyn, 2000:251).

This paper will attempt to indicate what the current status is of the relationships which travel agencies in the Western Cape have with their referral market and will provide recommendations to the

management of travel agencies in the province regarding the improved application of the principles of relationship marketing to this market. In addition, the problem statement and the purpose of the paper will be highlighted and followed by a focus on the objectives of the study and an overview of the theory relating to the referral market. This is followed by a discussion of the methodology applied to the study and the major findings and managerial implications which form an inherent part of the research.

## Problem statement

Customers are loyal to an organisation because they receive the best value for money and not because the marketing of the products or services of the organisation are good (Grönroos, 2000:31). These customers communicate their experiences to other individuals which view it as an objective form of communication. Through this process potential customers create specific expectations regarding the type of service delivery expected from the organisation (Strydom, 2004:59). Steyn (2000:235-236) stipulate that positive referral sources primarily includes satisfied customers. These customers are positive towards the organisation, who returns to the organisation for repeat purchases and who recommends the organisation (i.e. its products and services) actively to other customers and potential customers. Negative referral sources includes, predominantly, unsatisfied customers of the organisation. Referral sources primarily uses the spoken word, but the internet (e.g. the website Hello Peter.Com) and the electronic mail (e-mail) techniques has become powerful personal communication mediums. The origin of negative referral marketing can be illustrated through the following equation (Renton, 2007:1-4):

*Negative referral marketing = expected performance = unmet expectations.*

Referral marketing are described as the most valuable marketing instrument. In the case of professional services such as travel services, referral marketing has been for decades the most influential form of marketing. The higher the risk associated with a decision and the closer an individual is to making a decision, the greater the value which the individual will attach to a referral (Renton, 2007).

The travel agency industry is a dynamic and competitive industry. The payment of commission to travel agencies by large suppliers of travel products such as the South African Airways and the Southern Sun and Protea Hotel groups were phased out from the 1<sup>st</sup> of May 2005. This implies that the only income stream for travel agencies from this date is their service delivery charge to corporate and leisure customers. This scenario therefore necessitates the travel agency industry to ensure that they deliver a service to customers that will satisfy their needs in a professional manner. Through such service delivery, the ideal outcome should be positive referral marketing. Ward & Dagger (2007:283) stipulate that in any form of relationship between customer and service provider the attitude of the customer towards such a relationship is likely to be of importance, thus the stronger the customer perceives the importance of relationships in general, the more likely the customer is to develop a stronger relationship with the service provider. While there are many potential dimensions to such a relationship, the importance of these dimensions to customers may impact on the strength of the relationship developed between the service provider and customer.

The development, maintenance and strengthening of a relationship with customers will depend on the customers perception of the importance of key relationship dimensions. These dimensions will also, eventually, influence the type of referral marketing which the customer will communicate to members of the public depending on their experience with the travel agency. These key dimensions are bonding, empathy, reciprocity, trust, friendship, recognition, thoughtfulness, understanding, time to listen, commitment and loyalty (depending on, amongst others, product and service quality) and shared values (Ward & Dagger, 2007:283) Therefore, it becomes important for travel agencies to implement referral marketing strategies based on the customers experience with the travel agency through their level of relationship commitment, product quality and service delivery. Such strategies could be to the benefit of the travel agency in the long term since a satisfied customer will communicate his/her experience to other members of the public in a positive manner. Such customer recruitment is done on behalf of the travel agency without any financial expenditure.

Against the brief background on the importance of referral marketing and the travel agency industry provided above (also refer to the literature section below), the problem statement of this paper is as follows:

## ***An investigation into the referral marketing practices of travel agencies in the Western Cape province***

More formally, the purpose of this paper is to research the relationship marketing practices in the referral market of travel agencies in the Western Cape. The paper wants to establish the current level of relationship marketing in the referral market of the travel agency industry in the Western Cape and to identify limitations in relationship marketing relationships which might exist in this market. The principles of relationship marketing in the referral market of travel agencies in the Western Cape are identified and the application thereof by the travel agency industry in the Western Cape determined. Ugbah & Evuleocha (2007:51) stipulate that the increasing role of specialisation and the partial disintegration of the traditional family structure, community entities and social groups have led to buyers (consumers and businesses alike) to look for expert advice that had been provided informally through local social networks such as family members and peers. Also, for many customers, shopping has become an undesirable or even aversive experience. As a result, the customer may be more willing to turn to a marketing data generator for quick and reliable data about goods and services through "referral marketing networks". In spite of the apparent utility of referral marketing networks, very little research exists on this subject, illustrating the importance of this research.

There is therefore a clear need for the management of travel agencies in the Western Cape to apply the principles of relationship marketing to their daily operations. It is furthermore important that travel agencies also apply these principles to their relationship building initiatives with the referral market that influence their competitiveness in the market place. In the next section, the contribution and objectives of the paper is discussed in more detail.

### **Contribution of the paper**

Limited research has been conducted in the field of referral marketing in South Africa, and no study has focused exclusively on referral marketing within the travel agency industry in the Western Cape. Prior research within South Africa, as well as internationally, includes studies conducted for the purpose of investigating referral marketing in a manufacturing environment or to provide a broad academic perspective on referral marketing networks without an application to a specific industry. This paper will provide a discussion on referral marketing from a service industry perspective which will be beneficial to the travel agency industry in the Western Cape. The results and conclusions drawn may be used to ensure higher levels of referral marketing in the travel agency industry in South Africa.

The findings of this paper could create a greater awareness among South African travel agents of the requirements for positive word-of-mouth marketing and reference groups as a marketing instrument. It is therefore proposed that this paper will contribute to the theoretical and empirical knowledge on referral marketing in the travel agency industry in the Western Cape.

### **Objectives of the paper**

The primary objective of this paper is to investigate the referral marketing relationships of travel agencies in the Western Cape and to make recommendations regarding the improved application of the principles of relationship marketing to the referral market of travel agencies in the province.

The secondary objectives are:

- To determine the requirements for positive word-of-mouth referrals in the travel agency industry in the Western Cape;
- To determine whether referral groups are being used as a marketing instrument by the travel agency industry in the Western Cape; and
- To make recommendations regarding the improved application of the principles of relationship marketing to the referral market of travel agencies in the Western Cape.

### **Hypotheses of the paper**

H1: There are requirements for positive word-of-mouth referrals by the customers of travel agencies in the Western Cape.

H0(1): There are no requirements for positive word-of-mouth referrals by the customers of travel agencies in the Western Cape.

H2: Referral groups are being used as a marketing instrument by travel agencies in the Western Cape.

H0(2): Referral groups are not being used as a marketing instrument by travel agencies in the Western Cape.

The section below provides an overview of the theory relating to the referral market.

## Referral market

The success of the South African travel agency industry depends on the quality of service which travel agents deliver to customers. Such service deliverance is in direct relation to the skills of management as well as the knowledge and professionalism of employees (Lubbe, 2000:134). When a customer's observation of the quality of service delivery and the purchase experience at an organisation is positive, the customers inclination towards the organisation becomes positive. The customers relationship with the organisation is also hereby strengthened. In addition, the relationship which the customer has with the organisation is further influenced by the customers evaluation of the purchase experience and the level of service delivery by the employees of the organisation (Lee, 2001:55). For the purposes of this study, the different literature components which constitute the referral market will be discussed in more detail below.

### ***The referral marketing environment***

Positive referrals by customers, through word-of-mouth, will increase if the level of service delivery is improved by the organisation (Maxham III, 1999:13). Referral marketing by the customers of the organisation is a spontaneous form of communication.

It is done since individuals base their purchasing decisions on information communicated to them by family and friends. Such communication is based on the own experiences of the reference group when using or purchasing products and services. The factors listed below characterise word-of-mouth referrals as a communications form within referral markets (Schonegevel, 1995:13; Silverman, 2001:52 and Eiriz & Wilson, 2006:275-290):

- *A powerful and influential factor within the market environment.* The organisation must take into consideration that negative experiences are communicated faster than positive experiences. It is usually to the benefit of the organisation if unhappy customers can be motivated to communicate their complaints to the organisation rather than to communicate their negative experiences to members of the public;
- *An experience mechanism.* The satisfaction or lack thereof which customers experience during their interaction with the organisation determines the outcome of customers word-of-mouth referrals;
- *Independent, therefore credit worthy.* Word-of-mouth referrals are based on the experience of an individual with the organisation. This form of marketing occurs spontaneously, without payment and objectively;
- *Become an inherent part of the product itself.* The quality of the products and services which the organisation provide to customers determines the format of word-of-mouth referrals; and
- *Unlimited in terms of speed and size.* Word-of-mouth referrals are initiated when satisfied customers recommend the organisation to other individuals. Through the pro-active management of referral markets, the organisation is able to improve the positive outcome of referral marketing and to prohibit negative word-of-mouth communication.

The format of word-of-mouth marketing (e.g. positive or negative) is directly influenced by the experience of customers with regard to the following aspects (Van Eeden, 2000:98):

- The willingness of the organisation to be sensitive towards the needs and wants of customers;
- The ability of the organisation to adapt speedily to a change in customer preferences;
- The inclination of the organisation to focus on aspects that make the customer feel special and important;
- The ability of the organisation to resolve customer problems and complaints in a fast and efficient manner; and
- The willingness of the organisation to deliver products and services according to the needs of high income customers.

Against the background provided above it is important for the organisation to focus on the following four questions. This will enable the organisation to develop a holistic understanding of word-of-mouth communication as a referral source (Silverman, 2001:52):

- What is the content of referral marketing?;
- What is the source of referral marketing?;
- Who is the recipient of the communication message?; and
- Through which channels does the message flow?

Answers to these questions will empower the organisation with the knowledge of how to initiate word-of-mouth referrals, to increase the number of referrals, channel and manage it to the benefit of the organisation (Silverman, 2001:52). It must, however, be emphasised that the development of a referral source is a timely process (Schonegevel, 1995:13).

### ***Guidelines when planning a word-of-mouth marketing campaign***

Referral relationships are meant to be beneficial to both parties involved. If not, one party will soon discover that it is not worth their time, money or effort and will leave the relationship. Both parties will end up with a sour taste in their mouth and not be all that excited about forming another referral relationship (Donovan, 2007:14). This is especially important considering that the focus of relationship marketing is the integration of customer service, quality and marketing. The primary reason why an organisation exist is to satisfy the needs of customers. The implementation of relationship marketing principles by the organisation ensures that a stronger emphasis is placed on the aspects of customer service and quality (Botha, 1999:21).

The organisation that wants to be successful in the future will have to consider the opinions of their customers. The organisation and its customers will develop and grow together, thereby developing a future together. The success of the organisation will depend on two important aspects, namely (Hilton, 2002:14-15):

- The ability of the organisation to have a greater involvement with their customers in public; and
- The manner in which the organisation obtains the participation of customers. The advantage of this for the organisation is the development of an improved understanding of customer needs, the empowerment of the organisation to react more positively to customer requests, the development of a greater awareness of customer's mindset as well as a larger profit margin and market share.

The cost for the retention of an existing customer is cheaper than prospecting for new customers. This statement makes it necessary for the marketer to focus on and understand the buying behaviour of customers. The buying preferences of the customer is directly influenced by the manner in which the needs and wants of the customer are satisfied. The satisfaction levels of customers are more directly influenced by their purchasing preferences compared to service quality (Maxham III, 1999:13). The guidelines below can empower the organisation to retain current customers and recruit prospective customers through positive referrals (Schonegevel, 1995:7):

- A product of high quality is a pre-requisite for the organisation;
- The communication of a positive message by the customer and the creation of a positive inclination by the customer towards the products and services of the organisation is a timeous process;
- The management of the organisation must develop a greater inclination towards the opinions of employees. The opinions and attitudes of employees influence the moral, sales performance, motivational level and profit orientation of employees;
- Organisations must develop a remuneration and acknowledgement system for customers who wants to pursue positive word-of-mouth marketing regarding the products and services of the organisation;
- Sound customer service delivery often determines the success or failure of an organisations' word-of-mouth marketing campaign. The delivery of a quality service to customers can contribute to non loyal customers becoming more loyal to the organisation;
- The organisation must strive to exceed the expectations of customers; and
- Motivate employees, suppliers and customers to express their unhappiness with the organisation. More than ninety percent of all unhappy customers do not communicate their unhappiness to the organisation. These customers rather shift their loyalty and buying power to another organisation.

Positive referrals by customers, through word-of-mouth marketing, will strengthen as the level of service delivery is improved by the organisation. 'n Larger number of marketing strategies must

incorporate word-of-mouth marketing components to influence customers level of need satisfaction and purchasing decisions (Maxham III, 1999:13). In an attempt to stimulate positive word-of-mouth marketing, an organisation can improve its service delivery to customers by focusing on the following aspects, namely (Brink, 2001:259-262; Brink, 2004: 188-196):

- A choice of communication mediums to the organisation can be provided to customers, for example a toll free number, web-site, e-mail addresses, street addresses and postal addresses;
  - The organisation must react to a customer complaint in a fast and efficient manner;
  - The organisation must be empathetic towards the customer. Customers that communicate with the organisation on a continuous basis, must be placed on a priority list;
  - Special offerings to all customers must be extended; and
- The recommendations of customers regarding the development of new products and services as well as how the organisations relationship with customers can be strengthened, must be determined on a continuous basis. If the involvement of customers in the daily functioning of the organisation can be increased, it can deliver a direct contribution towards the improved satisfaction of customer needs. The outcome of this is that customers communicate a positive message regarding the products and services of the organisation to the outside public.

The discussion above highlights that a service with which customers are satisfied, must be made available to the customer on a continuous basis. The organisation hereby ensures positive word-of-mouth marketing by the customer. This does not, however, imply that the organisation must distance itself from the responsibility to monitor customer needs on a continuous basis to improve customer service delivery (Norris, 2001:92).

### ***The influence of reference groups on word-of-mouth marketing***

A reference group is any group against which a customer measure his or her behaviour or purchasing patterns. Individuals express the need to be a member of a reference group. They deliberately express various purchasing patterns as proof of their membership (Renton, 2007:1-2; Cronje, Du Toit & Motlatla, 2000:194). In addition, a reference group also include one or more individuals whom the consumer use as a "basis of comparison" when determining behaviour (Van der Westhuyzen, 2002:181).

Individual customers compare their behaviour and decisions with those of the reference group who provide them with guidance regarding their own behaviour. Customers furthermore develop values and standards which determines their own behaviour by using referral groups and their normative practices as a source of referral basis (Sheth & Parvatiyar, 2000:183). Customers are motivated to purchase a product, trade mark or service to be identified with a selected referral group. These customers are influenced by the consumption patterns of the specific referral group and apply the same criteria when a purchasing decision is made. Both referral groups and opinion leaders possess the social influence to influence the behaviour of others (Lamb, Hair, McDaniel, Boshoff & Terblanche, 2000:87).

Referral groups influence the behaviour of customers since consumers, as a norm, respect the opinions and views of group leaders which are communicated to them. The opinions of group members are viewed as credit worthy when it is difficult for the customers to observe the characteristics or trade mark of the product (Cant, Brink & Brijball, 2002:150). The influence of referral groups on the purchasing behaviour of consumers are general practice. It is illustrated by advertising using individuals with a star status, who provides testimonials or who underwrites the product or service. Consumers within the teenager market are motivated to purchase products from sport shops who are underwritten by popular sports men and women with a star status (Sheth & Parvatiyar, 2000:183).

In addition, customers also purchase a product or service that portrays an image of them of whom they want to be and not who they really are. Through communicating a message which are similar to that of the reference group, the individual are empowered to satisfy individual aspirations. The rejection of the purchasing power of certain referral groups (Those groups that are perceived as being negative) enables the customer to reduce the risk of making an incorrect purchasing decision (Gaffney, 2001:140). The motivation of the customer for the reduction of choice are driven by their purchasing decision of what must be achieved and what must be ignored (Wolfe, 1998:465). The influence of social groups on the purchasing power of customers are directly influenced by word-of-mouth referrals.

Consumers are actively seeking information regarding the purchasing behaviour of other consumers or listen to the experiences of customers within certain purchasing scenarios. Opinion

leaders, through word-of-mouth referrals, exercise a direct influence on the ability of consumers to be innovative in their purchasing behaviour (Sheth & Parvatiyar, 2000:184).

Referrals occur through satisfied customers who recommends the organisation actively to other potential customers.

The credit worthiness of these word-of-mouth referrers amongst potential customers are higher compared to an advertising campaign initiated by the organisation due to its personal nature. Through the pro-active management of referral markets the organisation is able to strengthen the positive effect of relationship marketing principles in these markets and to reduce the influence of negative referrals through the provision of quality products and service delivery (Steyn, 2000:251).

## **Methodology**

In order to measure the research hypotheses, the appropriate research methodology was required. The following section will elaborate on the research methodology used. Specifically, the measuring instrument, sample and methods of data analysis will be discussed.

### **Research approach**

This study made use of a quantitative research approach and applied a descriptive research focus since it primarily depended on the interviewing of respondents (the managers or owners of travel agencies in the Western Cape). The study was also cross sectional since the respondents were only interviewed once.

### **Population and sample**

The population for this study included all the travel agents registered with the Association of South African Travel Agents (ASATA) in the Western Cape. The target population for this study was 118 travel agencies of which 61 participated in the completion of questionnaires. In terms of the small size of the population, it was decided to conduct a census. A census is a count of all the elements in a population (Tustin, Lighthelm, Martins & van Wyk, 2005:337). A response rate of 53% was obtained for this study.

### **Research instrument**

The measuring instrument used was a structured questionnaire which included some adapted items from previously tested measuring instruments, for example, the *Relationship Marketing* instrument from Steyn (2000:296). The empirical research component of the study consisted of the completion of structured questionnaires through personal interviews. The questionnaire consisted of two sections. Section A incorporated closed-ended questions to gather demographic data on the profile of the travel agency. The biographical data of the respondents was gathered through two questions in this section, namely the location of the travel agency and the type of target market (e.g. the leisure or corporate market).

Section B was in the format of a five-point Likert-type scale, comprising sixteen items on referral marketing. The purpose of these items were to test respondents' current and ideal application of identified relationship marketing principles in the referral market of travel agencies in the Western Cape. The following items on the questionnaire were used to develop the construct "Requirements for positive word-of-mouth marketing", namely:

- We use professional service delivery to stimulate word-of-mouth marketing
- The quality of our products and services is of such a high standard that customers talk about it and refer new customers to us
- Positive word-of-mouth is created by providing customers with products and services that satisfy their needs
- Positive word-of-mouth is created by resolving the complaints of customers in a professional and efficient manner
- Satisfied customers actively refer prospective customers to us
- We create a medium for customers to communicate their experiences to us

- The involvement of customers in the development of products and services improves positive referrals
- We are involved with social responsibility programmes to get customers referred to the travel agency
- Seminars, workshops and community projects are used to get customers referred to us

The following items on the questionnaire were used to develop the construct "Reference groups as a marketing instrument", namely:

- We are part of a formal referral network
- We are part of an informal referral network
- We use positive referrals as part of our marketing strategy
- Reference groups associated with our customers differ between corporate and leisure customers
- Reference groups form an integral part of our marketing strategy
- We identified potential referral sources and are feeding them with information about our products and services for them to be more effective referral sources
- Positive word-of-mouth referrals are responsible for the majority of our business success stories

The item's response continuum ranged from 1-5, where 1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree and 5 = strongly agree. The current application of the referral marketing principles were indicated as  $x(a)$  on the questionnaire, whilst the ideal implication were indicated as  $x(b)$ . Effect sizes were calculated between the current and ideal application of the identified relationship marketing principles in the referral market of travel agencies in the Western Cape. Structured interviews were conducted with six owners or managers of travel agencies in Cape Town to pre-test the questionnaire before its formal application as a data gathering instrument.

### ***Data gathering***

Personal interviews were conducted with the managers and/or owners of travel agencies in the Western Cape. A time frame of forty five days was used to complete the interviews. To ensure the participation of the maximum number of population elements, interviews were arranged on the premises of the travel agency.

### ***Data analysis***

The statistical software package SAS System for Windows Release, 2002-2005: Version 9.1 Edition; SAS OnlineDoc, 2005: Version 9.1 was used for the analysis of the gathered data. The following analysis was done:

- Averages of the differences between the ideal and the current application of referral market practices by travel agencies in the Western Cape were calculated;
- Standard deviations for individual items on the questionnaire were calculated;
- Explorative Factor Analysis (EFO) to determine the validity of the questionnaire as a measuring instrument. According to the MINEIGEN criterion in table 1 below one factor was retained for each identified sub-construct. The research instrument can therefore be regarded as a valid research instrument.

**Table 1 Results of the EFO analysis**

<b>CONSTRUCT</b>	<b>N</b>	<b>Number of factors retained according to the MINEIGEN-criterion</b>	<b>Cumulative variance explained</b>	<b>Communalities</b>
Requirements for positive word-of-mouth marketing	61	1 Factor retained	62,44%	51,71%-68,92%
Reference groups as a marketing instrument	61	1 Factor retained	58,66%	45,61%-66,50%

- Cronbach's Alpha-values to determine the reliability of the questionnaire as a measurement instrument. The calculation of Cronbach's Alpha-values was done for each sub-construct. Hocking, Stacks and McDermott (2003:131) indicate that Cronbach Alpha-values determine the consistency according to which respondents answered the different items on the questionnaire. Nunnally and Bernstein (1994:264-265) recommend Cronbach Alpha coefficient scores above a 0.7 cut-off value. Table 2 below illustrate that the statements on the research instrument was measured with scales that could be described as reliable.

**Table 2 Cronbach's Alpha-values for the recruitment market constructs in the study**

<b>CONSTRUCT</b>	<b>N</b>	<b>CRONBACH'S ALPHA CO-EFFICIENT</b>
Requirements for positive word-of-mouth marketing	61	0,84
Reference groups as a marketing instrument	61	0,72

- Practical significance by means of effect sizes. Cohen's d-values were used for this purpose. This study did not make use of inferential statistics (p-values), but applied the d-values of Cohen to calculate effect sizes. The effect sizes indicate the practically significant differences between the current application of the items on the questionnaire and what the ideal application of the items should be (Ellis & Steyn, 2003:51-53; Steyn, 1999:3). Effect sizes (d-values) were calculated by using the following formula (Cohen, 1988: 20-27):

$$d = \frac{|\bar{x}_1 - \bar{x}_2|}{s_{\max}}$$

where:

- d = the effect size;
- $\bar{x}_1 - \bar{x}_2$  is the difference between the current situation (a-value) and the ideal situation (b-value) (e.g. respondents had to indicate on a Likert scale of 1 – 5 how they currently experience a specific scenario, through a statement on the questionnaire, and how they want to experience it as an ideal scenario); and
- $s_{\max}$  is the maximum standard deviation of the two comparable groups.

Ellis and Steyn (2003:52) and Steyn (1999:3) specify below the cut off points which can be used when interpreting effect sizes:

- If  $d \approx 0,2$ , it indicates a small effect;
- If  $d \approx 0,5$ , it indicates a medium effect; and
- If  $d \approx 0,8$  or is larger, the effect is both large and practically significant.

The major findings below are discussed according to the two constructs developed for the study.

## Discussion of major findings

The referral marketing practices of travel agencies in the Western Cape was measured according to two constructs, namely the requirements for positive word-of-mouth marketing and reference groups as a marketing instrument. Each of these constructs, constituting the different items on the questionnaire, were statistically analysed to provide information on the means between the items for (a) the current application of referral marketing practices and (b) the ideal implementation of referral marketing practices, the standard deviation and the effect size. Table 3 below also provides an indication of the total number of respondents (n) who participated in the study.

**Table 3 Constructs for the referral market of travel agencies in the Western Cape**

Referral market as a relationship marketing construct					
Sub-construct	N	Average (a) [x(a)]	Average (b) [x(b)]	Maximum standard deviation	Effect size (d)
Requirements for positive word-of-mouth marketing	61	4,37	4,73	0,56	0,69
Reference groups as a marketing instrument	61	3,47	4,19	0,80	1,01

### **Requirements for positive word-of-mouth marketing**

The owners and managers of travel agencies (n=61) view their current ability to stimulate customers to provide positive word-of-mouth referrals as good [ $x(a) = 4,37$ ], but are of the opinion that the ideal application of these activities could be higher [ $x(b) = 4,73$ ]. The medium effect size ( $d=0,69$ ) indicate that the owners and managers of travel agencies would prefer that the requirements for positive word-of-mouth referrals be better implemented.

### **Reference groups as a marketing instrument**

The owners and managers of travel agencies (n=61) indicate that referral groups are used as a marketing instrument in their marketing strategy [ $x(a) = 3,47$ ]. They are, however, of the opinion that these referral group can, ideally, be better used to provide positive word-of-mouth referrals on behalf of the travel agency [ $x(b) = 4,19$ ]. The large effect size ( $d=1,01$ ) indicate that the owners and managers of travel agencies are of the opinion that the strengthening of the relationship between themselves and their referral groups to stimulate positive word-of-mouth , must be give priority.

The empirical results suggest that:

- H1 can be accepted, while Ho(1) had to be rejected. Travel agencies in the Western Cape do implement the requirements for positive word-of-mouth referrals to stimulate customers to provide positive word-of-mouth referrals; and
- H2 can be accepted, while H0(2) had to be rejected. Travel agencies in the Western Cape do use referral groups as a marketing instrument .

Against the background of the results discussed above, the managerial implications of the study are highlighted below.

### **Managerial implications**

The heart of a service business is the interaction with the customer. Raising the quality of the interface with the contact employee should raise the perceived quality of the service. If the contact employees are more productive in their task, the quality of the interaction will be enhanced (Bowers & Martin, 2007:88-89). An increase in the quality of service delivery to customers can enhance the ability of the organisation to satisfy the needs and wants of their customers. This could, eventually, lead to a stimulation of the positive word-of-mouth referrals by the customers of the organisation. Word-of-mouth referrals by the customers of an organisation occurs spontaneously. Through word-of-mouth, individuals base their purchasing decisions on information provided by family, friends and acquaintances. Such communication is based on the individual experiences of this reference group when purchasing products and services (Eiriz & Wilson, 2006:275-290; Silverman, 2001:52 & Schonegevel, 1995:13). The implementation of referral marketing activities by the travel agency industry in the Western Cape can be accommodated more successfully by focusing on the aspects provided below.

### **Requirements for positive word-of-mouth marketing**

Informal communication is the primary source of customers using a professional service. In the case of these services, it is challenging to measure quality and the use of mass media is not necessarily appropriate for the target market to be reached. Word-of-mouth marketing can have both a positive and a negative influence on the service organisation since a satisfied customer will inform seven other individuals about a positive experience.

A dissatisfied customer, however, can communicate a negative experience to nine other individuals (Money, 2000:316).

When individuals search for a travel company to manage their travel requirements, they want to be assured that their money is spent on a service that will add value to their travel needs. To strengthen their position in a highly competitive industry, travel agencies need to identify positive word-of-mouth referrers who can form part of their marketing strategy. Information pertaining to the products and

services of the travel agency can be provided to these individuals to develop their value-added advantage to the marketing strategy of the business. It is for this reason that the development of influential, potential word-of-mouth referrers are important for the travel agency. Donovan (2008) agrees with this argument by stating that referral marketing is about leveraging the referral network of an organisation for increased referral business. Referrals are born out of a relationship. It is about knowing who to spend your time with, who to educate, how to educate them appropriately to find business for the organisation and how to maintain the relationship. Referral marketing is the ultimate in word of mouth. It is empowering people to promote the products and services of the organisation on the its behalf although the organisation is not present when such promotion occurs.

In addition, travel agencies can also put a greater focus on the formulation of formal and informal networks to stimulate the development of their word-of-mouth marketing initiatives. The compilation of a customer data base is a pre-requisite for such an initiative. The formulation of networks must also be initiated against the background of the type of market to be targeted. Banfield (2008) also state that if an organisation have an existing database of clients, it can start generating referrals by continuously adding items of value and opportunities to its network. Referrals offer significant advantages over personal selling and direct marketing since referrals are more cost effective than advertising, referrals generally make decisions quicker about purchasing and advertising does not buy trust, but referrals do. Customers who purchase from an organisation through a positive referral are likely to purchase more often from the organisation and to become loyal customers of the organisation, less negotiation or convincing is required to motivate these potential customers to purchase and they are also more willing to make further referrals themselves, if satisfied.

Steyn (2000:248) stipulate that an organisation must be in contact with referral sources on a continuous basis and support their efforts to provide positive referrals on behalf of the organisation. Ugbah & Stervina (2007:51-54) further state that both open communication channels with referral sources and the organisations responsibility to keep them informed of the influence that their referrals have on the market share of the organisation are important to strengthen the relationship between the organisation and its referral sources. It is therefore necessary that continuous contact must be maintained with the word-of-mouth referrers of the travel agency to stimulate their positive word-of-mouth marketing communication to the general public.

Word-of-mouth referrers can be provided, on a continuous basis, of information regarding new product developments, special offers, organisational, administrative and structural changes which can improve the level of service delivery which the travel agency provide to customers. Such communication can be done via land lines, cellular phones (telephone calls or SMS), by computer (e-mail), newsletters or annual reports (especially in the case where travel agencies are part of a concession group), workshops, seminars, social functions as well as personal contact with the word-of-mouth referrer.

Word-of-mouth referrers should also be rewarded for their positive referrals to the general public. Such rewards can be in the form of special offerings (e.g. cash discounts on air tickets, accommodation and car rentals), the sponsorship of a travel package (e.g. a tour to a specific destination) or the sponsorship of a prize (e.g. a motor vehicle) to the word-of-mouth referrer who have secured the largest income value in Rands over a specified period of time through positive word-of-mouth referrals. It is important to emphasise, however, that the mechanisms to be used for the stimulation of a referrer's word-of-mouth referrals, must be determined through personal interviews with the referrer. This will ensure that the travel agency is using promotional techniques which will be to the advantage of both the word-of-mouth referrer and the marketing strategy of the travel agency.

### **Reference groups as a marketing instrument**

Reference groups influence the behaviour of consumers since they consider the opinions of group members communicated to them. The opinions of reference groups are viewed as credit worthy when it is difficult for the customer to observe the characteristics of a product or trade mark (Cant *et al.*, 2002:150). It is therefore important for the management of the travel agency industry in the Western Cape to provide customers with products and service delivery of a high quality. As a result, the travel agency can ensure that the communication of their customers to the general public will ensure that the latter will purchase the products and services of the travel agency. The positive word-of-mouth referral potential of referral sources must be based on their experience of the quality of products and service delivery offered by the travel agency and not their expectation thereof. Plesh (2003:3) support this argument by stating that if an organisation has difficulty to satisfy the needs and wants of existing customers, it is a certainty

that the referral business of the organisation will be negatively influenced. Customer satisfaction is a primary requirement in today's ultra-competitive market place. A referral is powerful because it comes from a customer who has experienced the products and services of the organisation firsthand. Therefore, to ensure that the organisation has enough paying customers for the foreseeable future, and that it is possible for the organisation to satisfy the needs of their customers on a continuous basis, it is necessary for the organisation to plan its referral program professionally. The organisation should formalise its referral program and promote it actively to potential referral sources.

In addition, travel agencies must also create and establish more integrated relationships with strategic suppliers to increase the value offering of their (travel agencies) products and services to customers. The travel agency hereby ensures that the needs and wants of customers can be satisfied more successfully which, in the long run, can lead to positive word-of-mouth referrals. Donovan (2007:14) is in agreement with this statement and argue that referral relationships are meant to be beneficial to both parties involved. If not, one party will soon discover that it is not worth their time, money or effort and will leave the relationship. Both parties will be left with a sour taste in their mouth and not be all that excited about forming another referral relationship.

## Summary

Referral marketing are viewed as an influential source of communication in the service sector. It has a direct influence on the purchasing decision of buyers to make use of a particular service (Jordaan & Prinsloo, 2004:260). The constructive influence which positive word-of-mouth marketing can have to reach the objectives of the organisation as well as the destructive influence of negative word-of-mouth on the same objectives, cannot be denied (Maxham III, 2001:13).

This paper provided a theoretical perspective on the referral marketing practices of the travel agency industry in the Western Cape. The findings concluded that when individuals search for a travel company to manage their travel requirements, they want to be assured that their money is spent on a service that will add value to their travel needs.

To strengthen their position in a highly competitive industry, travel agencies need to identify positive word-of-mouth referrers who can form part of their marketing strategy. Information pertaining to the products and services of the travel agency can be provided to these individuals to develop their value-added advantage to the marketing strategy of the business. The paper concluded with a focus on the managerial implications of the findings.

The major managerial implication of the study were that continuous contact must be maintained with the word-of-mouth referrers of the travel agency to stimulate their positive word-of-mouth marketing communication to the general public. Word-of-mouth referrers can be provided, on a continuous basis, of information regarding new product developments, special offers, organisational, administrative and structural changes which can improve the level of service delivery which the travel agency provide to customers.

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