The loyalty ripple effect

Appreciating the full value of customers

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Abstract *The influence of loyal customers can reach far beyond their proximate impact on the company. This impact is analogous to the ripple caused by a pebble tossed into a still pond. In this article we introduce the loyalty ripple effect construct and define it as the influence, both direct and indirect, customers have on a firm through (1) generating interest in the firm by encouraging new customer patronage or (2) other actions or behaviours that create value for the organization. That is, in addition to their revenue stream, we suggest loyal customers may engage in several behaviours, including word-of-mouth communication, that add value to or reduce costs for the firm. In our discussion, we provide some examples to illustrate our point and conduct an exploratory study related to arguably the most salient ripple generator, word-of-mouth communication. The paper concludes with managerial implications and provides some suggestions for future research.*

The cultivation of customer loyalty is an important, if not the most important, challenge facing most businesses. Indeed, businesses are concerned about not only attracting and satisfying customers, but also developing long-term relationships with them. Such organizations expend considerable effort cultivating these relationships with customers (Reichheld and Sasser, 1990). In practice, what these firms are striving for is the development of relationships with loyal customers.

Firms have increased their efforts to retain customers for various reasons, but most often the reasons relate to the customers' direct value to the company. Loyal customers can lead to increased revenues for the firm (Reichheld, 1993, 1996; Schlesinger and Heskett, 1991), result in predictable sales and profit streams (Aaker, 1992), and these customers are more likely to purchase additional goods and services (Clark and Payne, 1994; Heskett *et al*., 1997; Reichheld, 1996). Yet, to more accurately assess the full value of a loyal customer, we believe firms must look beyond the influence of these direct measures. That is, firms should look beyond direct revenue streams and include the value of all the benefits associated with possessing a loyal customer (Zeithaml and Bitner, 1996).

One particularly salient benefit, especially for service organizations, is word-of-mouth (WOM) communication – loyal customers often generate new business via WOM recommendations to prospective and other existing

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customers of the firm (Reichheld, 1996; Reichheld and Sasser, 1990; Schlesinger and Heskett, 1991; Zeithaml *et al.*, 1996). That is, the recommendations made by a loyal customer, especially those helping to generate new customers, add to the value that core customer brings to the firm. We propose the term loyalty ripple effect to indicate this added value a loyal customer can have to a firm. In addition to developing this new construct in the paper, we explore word-of-mouth behaviour and the loyalty ripple effect in two services contexts. A brief review of literature related to customer value, service loyalty, and word-of-mouth communication is presented next, followed by some exploratory empirical findings and a discussion of managerial and research implications.

Literature review

The loyalty ripple effect for service firms is anchored around three key concepts: value of a customer, service loyalty, and word-of-mouth communications. Consequently, before we elaborate on the ripple effect we will define and discuss each of these key concepts.

Value of a customer

The value a customer can have to a firm has been frequently discussed in business literature (e.g. Blattberg and Deighton, 1991, 1996; Dwyer, 1989, 1997; Gruen, 1995; Heskett *et al.*, 1997; Jackson, 1992; Peters, 1987; Pritchard, 1991; Reichheld, 1996; Reichheld and Sasser, 1990; Zeithaml and Bitner, 1996). For our purpose, we will define the value of a customer to be the direct benefits that accrue to an organization as a result of a customer's loyalty and continued patronage.

The research on the value of loyal customers to businesses over the past decade has generally focused on the direct impact of loyal customers on the firm. That is, the major focus has been on the direct revenue stream resulting from retaining a customer and keeping him/her satisfied (e.g. Blattberg and Deighton, 1996; Heskett *et al.*, 1997; Reichheld, 1993, 1996; Schlesinger and Heskett, 1991). For example, Peters (1987) estimates a loyal customer results in $360,000 in revenues to Federal Express over his/her lifetime with the organization; a Domino's Pizza franchise in Baltimore calculated the lifetime value of a loyal pizza buyer to be $4,000 in revenue (Heskett *et al.*, 1997); Stew Leonard, a Connecticut grocer, has calculated the ten-year value of a loyal customer to his organization to average $50,000 (Zeithaml and Bitner, 1996); and Carl Sewell, a Cadillac dealer in Texas, has computed the lifetime value of his loyal customers to be $332,000 (Sewell and Brown, 1990). Such calculations of a customer's value generally do not extend beyond his/her own consumption behaviour; thus, indirect contributors to the customer's value, such as influencing other new customers to buy from the firm, are usually not included in the calculations (e.g. Peters, 1987; Zeithaml and Bitner, 1996). That is, a conservative approach is usually taken when assessing the full value of a loyal customer. In the examples listed above, only Peters (1987) and Heskett *et al.* (1997) include any discussion of the influence the customer may have on other potential customers in considering the lifetime value of a customer.

When the lifetime value of a customer concept was introduced in the literature, most firms' accounting systems were not designed to capture the full value of a loyal customer (Dwyer, 1989; Jackson, 1992; Reichheld and Sasser, 1990). Almost a decade has gone by, and in spite of the attention the concept has received, we have seen little to suggest this situation has changed drastically. That is, most service businesses still do not seem to have appropriate systems and processes in place to adequately measure the true value of a customer to a firm (Dwyer, 1997; Reichheld, 1996).

Service loyalty

Service loyalty may be defined as "the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises" (Gremler and Brown, 1996, p. 173). Although loyalty is an important issue for all businesses, it is particularly salient for service firms for three reasons: loyalty is greater or more prevalent among services consumers than among goods consumers (Zeithaml, 1981); services provide more opportunities for person-to-person interactions which, in turn, often provide opportunities for loyalty to develop (Parasuraman *et al.*, 1985; Surprenant and Solomon, 1987); and perceived risk is often greater when purchasing services than goods (Murray, 1991), providing an atmosphere more likely to lead to customer loyalty since loyalty is often used as a risk reducing device (Zeithaml, 1981).

Word-of-mouth communication

From a marketing perspective, word-of-mouth (WOM) communications "consist of informal communications directed at other consumers about the ownership, usage, or characteristics of particular goods and services and/or their sellers" (Westbrook, 1987, p. 261). Arndt (1968, p. 190) describes this communication as simply "oral, person-to-person communication between a perceived non-commercial communicator and a receiver regarding a brand, a product, or a service." Using these definitions as a basis, we will consider WOM communication to be communication about a service provider offered by someone who is perceived not to obtain monetary gain from so doing.

Although WOM communication can be very influential in any purchase decision, previous research suggests it is particularly important for services. That is, personal recommendations received about service providers are often very influential in consumers' purchase decisions. In many instances, WOM has been reported to be the major source of information potential customers use in making a services purchase decision (Murray, 1991), including accounting services (Day *et al.*, 1988; Freiden and Goldsmith, 1988), legal services (Crane, 1989; Freiden and Goldsmith, 1988), medical services (Crane and Lynch, 1988), and auto repair and hairstyling (Dubinsky and Levy, 1981). WOM is particularly important for those services for which potential customers have high levels of perceived risk, which can be partially alleviated by asking a friend for advice (Heskett *et al.*, 1997).

The loyalty ripple effect

Zeithaml and Bitner (1996) suggest customers can contribute to their own satisfaction by their participation in the service delivery process. We contend the contribution loyal customers make to a service business can go well beyond creating value for themselves and beyond their direct financial impact on the firm's revenues. We offer several examples to illustrate. First – and maybe the most easily recognized influence – loyal customers often talk a great deal about a company and may "drum up a lot of business" over the years (Reichheld and Sasser, 1990) and persuade others to become regular customers (Heskett *et al.*, 1997). Second, loyal customers may engage in positive customer behaviour – labelled customer voluntary performance by Bettencourt (1997) – such as picking up trash, busing tables, or reporting burnt out light bulbs and messy changing rooms to an employee. Third, loyal customers may, because of their experience with and knowledge of the provider, be able contribute to the co-production of the service (Bowen, 1986; Lengnick-Hall, 1996) by assisting in service delivery. Fourth, for some services loyal customers may provide social benefits to other customers in the form of friendships (Goodwin, 1994; Goodwin and Gremler, 1996; Grove and Fisk, 1997) or as encouragers (Zeithaml and Bitner, 1996). And, in some instances, they may provide these social benefits to employees (Price *et al.*, 1996). Finally, loyal customers may serve as mentors (Zeithaml and Bitner, 1996) and, because of their experience with the provider, help other customers understand the explicitly or implicitly stated rules of conduct (Grove and Fisk, 1997).

As these examples illustrate, the influence of loyal customers can reach far beyond their proximate impact on the company. We view this impact as analogous to the ripple caused by a pebble tossed into a still pond – the effect the small stone can have on the surface of the pond goes well beyond the original water displacement – and introduce the loyalty ripple effect to illustrate the far reaching influence a loyal customer can have on other customers and on an organization. We define the loyalty ripple effect as:

> The influence, both direct and indirect, customers have on a firm through
> (1) generating interest in the firm by encouraging new customer patronage; or
> (2) other actions or behaviours that create value for the organization.

The ripple effect may be fairly obvious in its influence when loyal customers help generate additional revenues by recommending the firm to new customers. However, in addition to increasing revenues, we suggest loyal customers may engage in other types of behaviours, besides WOM communication, that may add value to and reduce costs for the firm. Unfortunately, such indirect influence is not easily measured.

WOM communication about services is arguably the most significant ripple generator. Customers who provide recommendations have been described in many ways. Berry and Parasuraman (1991) call those who spread favorable WOM true customers. Heskett *et al.* (1994) use the term apostles to describe customers so satisfied that "they convert the uninitiated." Wilson (1991) labels customers who provide significant testimonials to others and truly want the company to succeed as champions, while others call them advocates (Christopher *et al.*, 1991; Cross and Smith, 1995). For many services, customers are part-time employees actively involved in the service delivery. As co-producers of the service, they may find it a natural part of their "job" to tell others about the experience (Bowen, 1986; Czepiel, 1990; Mills and Morris, 1986). Perhaps the most illustrative term is used by Peters (1987), who describes loyal customers as appreciating assets – and the more they tell others the more valuable they are to the company.

To illustrate the loyalty ripple effect stimulated by WOM communications, consider David – a loyal customer of Astro Automotive Service Center. David is 38, married with two young children, and has two cars over five years old. On average David spends $800/year on repairing and maintaining the two cars. Assuming he will have similar automobile service needs for another 15 years and continues to live in his current neighborhood, David's direct contribution to Astro as a loyal customer is $12,000 ($800/year × 15 years). Although this figure provides some indication of how valuable David is to the organization, we contend his full value to Astro is actually much greater. Let us imagine David is pleased with the services provided by Astro and recommends the firm to five people over the next 15 years – one recommendation every three years. Even if only two of those five people subsequently take their cars to Astro and become loyal customers, the loyalty ripple effect of David's patronage becomes evident. Assuming these two new customers will have automotive needs similar to David's, his value to Astro can actually be $36,000 ($12,000 + 2 × $12,000). To further illustrate the power of the ripple effect, if David's two "converts" each convince one other customer to use Astro, David's value to the organization can jump to $60,000 ($12,000 + 2 × $12,000 + 2 × $12,000). As this illustration suggests, by far the greatest revenue impact loyal customers can have comes through referrals made to potential customers (Heskett *et al.*, 1997).

Beyond this direct revenue, David and the four new customers may offer indirect value to Astro that is not easily quantified. For example, as they become loyal customers they may be more inclined to engage in small helpful tasks such as picking up a glass bottle left in the parking lot or pointing out a water spout in a rest room that does not shut off completely. They may help co-produce the service by providing historical records of related repair work performed and offering the service person detailed descriptions of the vehicle's current malfunctioning. In addition, these customers may add to the satisfaction (and ultimately loyalty) of other customers and Astro employees by offering advice and encouragement and by sharing stories of past positive experiences with Astro.

Figure 1 illustrates our metaphor of the loyalty ripple effect. Using the previous example, David's influence on Astro Automotive is represented by a pebble being tossed into a still pond (represented by A). As a loyal customer, he has significantly influenced the surface of the pond. David's influence (through his WOM recommendations) on two others who become customers of Astro –

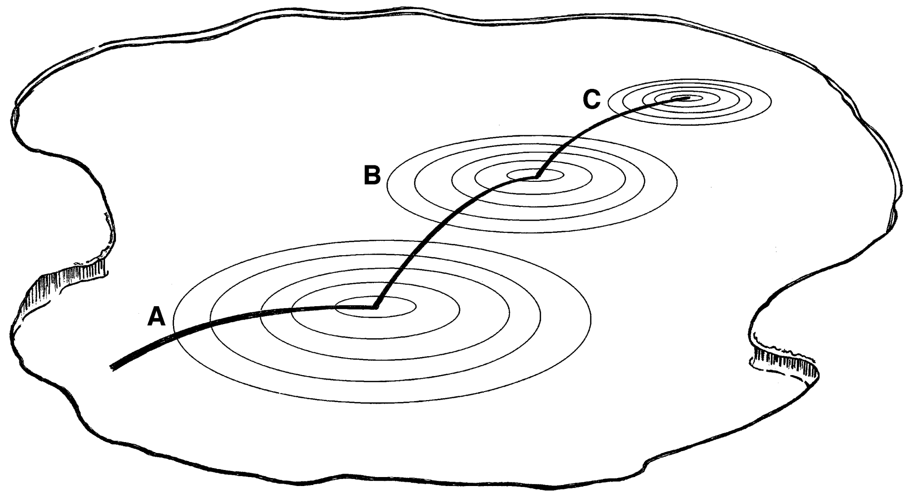

Figure 1.
Loyalty ripple effect illustration

similar to a rock being skipped across the pond – is represented by B and C. These two customers have, in turn, created their own ripples of influence on the pond's surface.

Ripples generated by word-of-mouth communication

Although the intent of this paper is not to provide an exhaustive look at all potential ripple generators, we did conduct a study related to arguably the most salient ripple generator, WOM communication. A customer's willingness to recommend a service provider is often presumed by both businesses and scholars to be a surrogate indicator of customer loyalty (e.g. Day, 1969; Reichheld and Sasser, 1990; Schlesinger and Heskett, 1991; Stum and Thiry, 1991; Zeithaml *et al.*, 1996). Intuitively, it makes sense that customers who have received good service and who continue to patronize a particular provider should be much more likely to recommend this organization than those who have not received satisfactory service and therefore switch providers. However, we are particularly interested in the extent that loyal customers actually do give word-of-mouth recommendations about the provider. This leads to our first research question:

(1) How much of a ripple is generated by loyal customers via WOM?

Reichheld (1996) argues that some customers are inherently more loyal than others and introduces a loyalty coefficient to help understand customers' predispositions to being loyal. His discussion led us to wonder if an analogous concept applies to the loyalty ripple effect. That is, does the impact of a ripple created by a loyal patron vary from one customer to another? Are certain types of customers likely to generate more powerful ripples? Can those customers be identified? These questions lead to our second research question:

(2) Does the ripple differ across types of loyal customers?

As stated earlier, consumers have a preference for personal sources of information in selecting among service providers (Murray, 1991). Reichheld (1996), however, contends WOM referrals are more important to some businesses than others. Indeed, some research seems to indicate that WOM communications are prevalent in professional services such as medical and legal services (e.g. Crane and Lynch, 1988; Smith and Meyer, 1980). However, other research indicates personal recommendations are also quite prevalent in nonprofessional services (e.g. Dubinsky and Levy, 1981; Gremler, 1994). This leads to our final research question:

(3) Does the ripple vary across contexts?

In order to better understand the loyalty ripple effect, and to answer the questions just posited, we conducted the cross-sectional study described next.

Methodology

In conducting our exploratory cross-sectional study, we used a self-administered questionnaire to customers from two services contexts: banking and dental services.

Contexts

Bowen's (1990) classification of services served as the basis for selecting the two study contexts. The two contexts are representative of the categories with the highest amount of interaction opportunities and customer-service provider employee contact in this classification scheme. The first context, a large regional bank, has many of the characteristics of Bowen's (1990) moderate-contact, semi-customized, non-personal services category. This bank serves more than four million households in 14 western (US) states. A dental office – the high-contact, customized, personal services in Bowen's taxonomy – located in the southwestern USA was the other context included in the study. Two dentists sharing a common office and support staff were selected, including one dentist with a 28-year-old practice and 3,500 patients and another with a 12-year-old practice and 2,000 patients. In addition to representing the two "higher-contact" categories of Bowen's (1990) taxonomy, these service providers vary considerably in their size and scope. The bank is a regional organization serving the entire western USA and the dental office is a local entity (serving a major metropolitan area).

Sample

A stratified random sample was used to select bank respondents from one district of the bank serving 40,000 households. With the assistance of the sponsoring bank, customers from this district were divided into five groups, based on the total amount of money included in all of their accounts. Approximately 3,400 customers (including about 680 customers from each of the five groups) were then randomly selected and surveys were mailed directly to respondents.

The sampling of dental patients occurred in two phases. In the first phase, 484 patients who visited the dentists during a three-month period were asked by the dental staff to participate in the study. In the second phase, surveys were mailed directly to 437 patients to include those who had not visited their dentist during the first phase of the survey distribution.

Of the 3,390 surveys mailed to bank customers, 849 usable surveys were returned, for a response rate of 25 per cent. Of the 849 respondents, 52 per cent were women, 58 per cent were married, and their average age was 48.4 (with a range of 18 to 90). The average length of time as a customer of the bank was 13.2 years, and varied from six months to 60 years. Of the 921 surveys distributed to the dental patients, a total of 279 usable surveys were returned for an overall usable response rate of 30 per cent. Of the 279 respondents, 58 per cent were women, 74 per cent were married, and their average age was 47.6 (ranging from 19 to 89). The average length of time as a patient was 8.7 years, and varied from one week to 28 years. The total number of patient visits to the dental office ranged from 1 to 121, with an average of 23.2 visits. Finally, the total amount of money spent for dental services at this office ranged from $55 to $13,719, with an average of $1,924. As these statistics suggest, there is considerable variability among the respondents in both samples.

Survey instrument

Each questionnaire included a cover letter from the researchers stressing the importance of the study and requested prompt completion of the survey. An attempt was made to keep the instruments as similar as possible for both contexts. The measures relevant to the loyalty ripple effect are discussed below.

WOM communication behaviour was measured into two ways. A five-item, 7-point Likert scale of WOM was used, followed by a question that asked respondents to provide the number of people to whom they had actually given recommendations about this provider[1].

A nine-item index was used to measure service loyalty. The items in the index were 7-point Likert scales, ranging from 1 (strongly disagree) to 7 (strongly agree), and included behavioural, attitudinal, and cognitive dimensions of loyalty. After a service loyalty score was determined for each respondent[2], each sample was divided into low, medium, and high loyalty customers.

Several demographic statistics and behavioural measures were also included in the study. For bank customers, questions regarding gender, age, marital status, length of time as a customer of the bank, and the types of services used at the bank were included on the survey. As mentioned earlier, the bank also provided information on the total amount of money each respondent had in all of his/her accounts at the bank. Information for the dental patients was collected directly from patient files and included gender, age, marital status, length of time as a patient, total number of visits to the office, and total amount of billings for services rendered.

Variable/level	Number of WOM recommendations made[3]	n
Gender:		
Male	5.70[a]	415
Female	5.40[a]	434
Age:		
19-34	3.43[a]	194
35-44	5.10[a,b]	189
45-59	6.78[b]	222
60+	6.46[b]	244
Marital status:		
Married	6.13[a]	491
Not married	4.75[b]	358
Customer loyalty:		
Low	5.09[a,b]	184
Medium	4.31[a]	284
High	6.69[b]	381
Length of relationship:		
0-3 years	2.92[a]	180
4-9 years	4.90[a,b]	193
10-14 years	5.62[b]	143
15+	7.32[b]	333
Total deposits in all accounts:		
\$0-\$1,000	4.50[a]	116
\$1,000-\$2,999	5.73[a]	164
\$3,000-\$7,999	5.05[a]	191
\$8,000-\$19,999	5.62[a]	190
\$20,000+	6.47[a]	188
Number of bank services used:		
1-2	4.37[a]	251
3-4	5.26[a]	300
5-6	6.10[a,b]	197
7+	8.23[b]	101
Average	5.55	849

Table I. WOM recommendations made across various variables – bank customers

Results

We present our results in a framework organized around the questions raised earlier in the article. Statistics for the bank sample are provided in Table I, while those for the dental sample are included in Table II.

How much of a ripple is generated by loyal customers via WOM?

Overall respondents indicated that the average number of recommendations made was quite high. On average, bank customers recommended the bank to 5.55 others and dental patients recommended the dentists to 5.49 others. We

Table II. WOM recommendations made across various variables – dental patients

Variable/level	Number of WOM recommendations made[3]	n
Gender:		
Male	5.19[a]	102
Female[3]	5.66[a]	177
Age:		
19-34	4.22[a]	65
35-44	4.26[a]	73
45-59	6.76[b]	74
60+	6.66[b]	67
Marital status:		
Married	5.48[a]	207
Not married	5.50[a]	72
Patient loyalty:		
Low	3.63[a]	78
Medium	3.76[a]	58
High	7.24[b]	142
Length of relationship:		
0-3 years	4.19[a]	78
4-9 years	5.22[a,b]	97
10-14 years	6.55[b]	44
15+	6.83[b]	60
Total spent on services		
$0-$1,000	4.40[a]	101
$1,001-$2,000	5.20[a,b]	86
$2,000+	6.96[b]	92
Number of office visits:		
1-9	4.19[a]	77
10-19	5.45[a,b]	69
20-29	5.16[a,b]	49
30+	6.89[b]	84
Average	5.49	279

were particularly interested in whether the ripple generated via WOM recommendations increases with loyal customers. Using the service loyalty index to separate customers into three groups, we found that for those who are most loyal to the provider the average number of recommendations made jumps to nearly 7.0 per person. Loyal customers do indeed create quite a ripple!

We also examined the ripple effect by looking at three separate behavioural indicators of service loyalty – length of time in the relationship, amount of money invested, and the number of services used. We found that the number of recommendations made significantly increases as the length of the relationship, a key indicator of service loyalty, increases. For bank customers, the number of recommendations increases at each level: 2.92 (for those who have been customers from 0 to 3 years), 4.90 (4 to 9 years), 5.62 (10 to 14 years), and 7.32

(15 or more years). For dental patients, the pattern for number of recommendations made is similar: 4.19 (for those who have been patients from 0 to 3 years), 5.22 (4 to 9 years), 6.55 (10 to 14 years), and 6.83 (15 or more years).

The amount of money invested in or committed to the service provider can also be considered a measure of service loyalty. The data suggest as the amount of money invested increases, the size of the ripple – in terms of number of recommendations made – also increases. For bank customers, the number of recommendations made is lowest for those with the smallest amounts in their accounts (less than $1,000) at 4.50 and increases to a high of 6.47 recommendations for those with the largest amount of money in their accounts (greater than $20,000). For dental patients, the number of recommendations is lowest for those who have spent the least amount of money on dental services (less than $1,000) at 4.40 and increases to a high of 6.96 recommendations for those who have spent the most on dental services (greater than $2,000).

The final way we looked at the WOM ripple and service loyalty was by the number of services used. As the number of bank services being used by the customer (e.g. checking account, savings account, loans, certificates of deposit, etc.) increases, the number of recommendations also increases. Those customers who use only one or two bank services made 4.37 recommendations, while those using seven or more services made 8.23 recommendations. Similarly, those patients who have made more office visits also tend to make more recommendations. Those patients with fewer than ten office visits made 4.19 recommendations while those with 30 or more office visits made 6.89 recommendations.

In summary, we found evidence to suggest a strong loyalty ripple effect generated by loyal customers. Across both studies, the average number of recommendations made by customers was 5.5. And, for those who are most loyal to the provider – as measured by the loyalty index – the average number of recommendations made jumps to nearly 7.0 per person. Using other indicators of loyalty, we also found the number of recommendations made to significantly increase as the length of the relationship, the amount of money invested, and the number of services used increase.

Does the ripple differ across types of loyal customers?

Generally speaking, there is little variation in the number of recommendations made when looking at gender. In the bank sample, the number of recommendations made by males (5.70) was not significantly different from the number made by females (5.40). The means were not significantly different in the dental sample, although females had a higher mean (5.66) than males (5.19). In terms of marital status, the results were mixed. In the bank sample, those who are married made 6.13 recommendations, a significantly higher number than those who are not married (4.75 recommendations). However, in the dental context the number of recommendations made by married respondents (5.50) is nearly identical to that of non-married respondents (5.48).

Age was the final demographic category investigated. Here the trend is a little more identifiable. In particular, the number of recommendations made tends to increase significantly with age. The fewest recommendations in the bank sample were from customers between 19 and 34 (with 3.43 recommendations) and this number increases and peaks with the 45-to-59 age group (6.78 recommendations). The pattern is similar in the dental context with patients between 19 and 34 making 4.22 recommendations and the 45-to-59 age group making the largest number of recommendations (6.76)[4].

To summarize, the ripples do not seem to vary significantly across types of customers. Our results suggest gender and marital status do not seem to make a difference in the size of the ripple – at least in terms of number of recommendations made. However, we did find the customer's age may influence the size of the ripple – the older the customer, the more of a WOM ripple he/she generates.

Does the ripple vary across contexts? The average number of recommendations made was remarkably similar across contexts. On average, bank customers recommended the bank to 5.55 others and dental patients to 5.49 others. Means for the most loyal customers, as determined using the loyalty index, were remarkably similar – those with highest loyalty to the bank made 6.69 recommendations while those with highest loyalty to the dental office made 7.24 recommendations. In fact, a visual inspection of Table I and Table II indicates both the pattern and the magnitude of the number of recommendations made is very consistent across contexts. These numbers tend to suggest that, on average, the ripple effect does not vary across the two contexts included in this study.

Thus, contrary to what we expected, the ripple did not seem to significantly differ across contexts. We believe the two contexts – banking and dental – included in this study would appear to be very different in many ways. Yet, the ripple pattern and magnitude was remarkably similar across the two contexts we studied. Although our experience leads us to believe the impact of the ripple effect is likely to vary across contexts, our findings do not support this belief – suggesting, perhaps, further research in other contexts is needed.

Discussion and implications

The impact of ripples on the pond

Importance for services. As mentioned earlier in the paper, personal recommendations are often very influential in customers' selection of service providers. The use of such recommendations has been particularly prevalent in the contexts investigated in the present study – both in medical services (Barnes, 1986; Crane, 1989; Crane and Lynch, 1988; Glassman and Glassman, 1981; Gremler, 1994; Kelly *et al.*, 1989) and in banking (Dubinsky and Levy, 1981; Reichheld and Kenny, 1990; Stern and Gould, 1988). In both contexts, most of these studies identify customer recommendations as the key factor in selecting a provider. Thus, not only is it important that customers are spreading the word but – perhaps more importantly – potential customers greatly value such information.

Use of a single recommendation. Not only is a personal recommendation a major influence in making service provider decisions, in many service contexts it may be the only source of information considered. Indeed, researchers have found a single recommendation – the only source of information obtained – is often sufficient to convince a person to try a particular provider (Glassman and Glassman, 1981; Gremler, 1994; Price and Feick, 1984; Reingen, 1987; Stewart *et al.*, 1989; Swartz and Stephens, 1983). Perhaps the major reason for such influence is that loyal customers are perceived as veterans who can paint an accurate picture of the service delivered by the provider to a potential customer (cf. Reichheld, 1996). Services are often hard to evaluate, so those receiving a recommendation may consider the recommender's experience with a service provider to be a vicarious experience (Day and Barksdale, 1992; Dubinsky and Levy, 1981) or a vicarious trial (Wilkie, 1986). That is, for services, the recommender's evaluations may serve as a substitute for the receiver's own evaluations or experience (Crane, 1989), and so the loyalty of the recommender may be "transferred" vicariously to the receiver.

Multiple ripples. Not only can loyal customers begin a ripple through recommending the provider to potential customers, a second ripple can be created by these new customers. Indeed, research suggests a majority of those who based their initial service purchase decision on a personal recommendation they have received have themselves subsequently gone on to recommend the provider to others (Barnes, 1986; Brown and Reingen, 1987; Gremler, 1994). Brown and Reingen's (1987) network analysis study in particular illustrates the ripple effect that a single individual can have in expanding a recommendation into a large social network. They not only found those with strong ties in a social network are particularly good sources of information, but that even individuals with fairly weak ties in a social network can have an impact on the information flow about a service provider.

Occasionally consumers will use the recommendation of a "friend of a friend." Gremler (1994) reports that in some circumstances consumers indicated they would follow a recommendation obtained through another person's social network, originating from a person they may know little – or even nothing – about. Thus, the ripple effect can extend to include third-party WOM recommendations – situations where the receiver of the information may have no knowledge of the originator of the information, but may use it as the sole basis for making a decision. Multiple ripples can and do arise when recommendees tell others, who in turn tell others, and so on. For some personal and professional services in particular a whole pond may be filled with these multiple ripples.

Ripples in managerial implications

Management can benefit from insight on how to build additional, profitable revenue by encouraging loyal customers to tout their firm to potential customers. We provide a few suggestions in the following paragraphs.

The power of the loyalty ripple effect. Firms can benefit in at least four ways from having customers provide recommendations to others. First, as argued throughout the paper, the customer base may be increased as a result of new customers generated by positive recommendations. Second, the firm not only gains new customers from such recommendations, it gains new customers who are more likely to become loyal customers. Indeed, Reichheld (1993) contends receivers of a personal recommendation are more likely to become loyal customers than those who buy because of an advertisement and others have argued that such receivers are favourably "predisposed" to the provider before purchase (Arndt, 1968; Gremler, 1994). Third, customers recommending a provider subsequently become more loyal to the organization (Gremler and Brown, 1994) which, in turn, can lead to increased customer retention and thus increased revenues. And fourth, firms who have customers generating ripples may be able to decrease advertising and promotion costs (Rust *et al.*, 1995). For these reasons, we believe service managers should place a high priority on encouraging recommendations by their customers.

Ripple generators – an extended salesforce. Marketing managers of service organizations might consider loyal customers as a kind of extended or part-time salesforce. One way to develop this extended salesforce is to increase the expertise of loyal customers. Since loyal customers tend to have much experience with the service offering, they may naturally, over time, develop knowledge about the service provider. However, anything the organization can do to proactively increase customers' knowledge of and confidence in the service provider will better equip them to "work" as an extended salesforce. For example, providers should willingly supply interested customers with information about the service, thereby making them better informed and potentially more likely to give WOM recommendations (Murray, 1991). "Bring-a-friend" programs encouraging customers to bring guests "gratis" to the service provider may help motivate them to tell others. Service managers might consider "tangibilizing" the service offering by providing visible or explanatory cues in order to give customers something to talk about or assist them in initiating discussions about the service provider (Murray, 1991). That is, managers might provide customers with brochures they can hand out to help introduce the service provider to potential new customers and help to explain the service offering. In effect, each of these examples suggest ways loyal customers can be better prepared for potential opportunities to "spread the gospel" (Dichter, 1966) about the service provider.

To encourage ripple-like behaviour from its loyal customers, firms might consider establishing some type of customer membership. Bettencourt (1997) argues that when customers see themselves as members of a firm, they are more likely to act as partners in service delivery. Bhattacharya *et al.* (1995) suggest managers build an identification bond with customers in order to get them to engage in pro-firm types of behaviours. Thus, the more an organization can formally get customers to commit to and identify with the firm, the more likely these customers are to engage in behaviours that create value for the organization.

Rewarding ripple generators. Marketing managers might consider rewarding a loyal customer who repeatedly recommends the organization to others by (1) giving personal recognition to the customer (e.g. a restaurant owner coming over and greeting the customer by name in front of his/her dinner party); (2) providing price discounts not available to other customers; (3)

dispensing other types of rewards, such as service upgrades, express check-ins, or extended/additional services (e.g. if you get someone else to sign up for our frequent flier program, we'll credit your account for 1,000 miles); or (4) directly compensating (i.e. paying) those customers whose recommendations result in new customers for the firm. Although some of these suggestions may push an organization beyond its comfort zone, many businesses fail to even acknowledge their gratitude for such recommendations. At a minimum, a thank-you should be provided to every customer whose recommendation leads to a new customer for the firm. Flowers, candy, or even discounts on future service can also be provided as a way to say thanks to those loyal patrons who have acted as an advocate on the firm's behalf. One chiropractic clinic actually posts in its lobby the names of those who have referred others to the clinic, thus giving public recognition to these customers. Expressing gratitude for recommendations further encourages such behaviour and reaffirms the customer's commitment to the organization.

The power of rapport. Some customers may not find the suggestions just made to be a motivating force to refer others to the firm. However, customers may be motivated to be contributors to the firm when they have developed interpersonal relationships with its employees. Indeed, for many services, an important component of the service offering is the interpersonal interaction between employees and customers (Czepiel and Gilmore, 1987; Surprenant and Solomon, 1987). Gremler and Brown (1996) refer to relationships between customers and employees as interpersonal bonds and argue that the degree to which the customer perceives such a bond exists depends on the extent to which the customer feels that a rapport has been established in the relationship. Reingen and Kernan (1986) suggest customers who are members of a service marketer's social network are more likely to make referrals. In situations where a rapport has developed between the customer and the service provider, a desire to help out a "friend" by giving referrals may be more of a motivating force than any type of reward. In contexts where rapport building leads to referrals, management should train and reward employees for positive interpersonal behaviours with customers (Bettencourt and Brown, 1997).

Encouraging employees to generate ripples. Through interpersonal bonding with customers, employees can help build ripples. Such behaviour, however, needs to be an integral expectation of the firm's culture and stimulated through employee recruitment and training (Bettencourt and Brown, 1997). Southwest Airlines, for example, carefully addresses rapport building and interpersonal skills of prospective employees before hiring them. Once hired, this behaviour is encouraged and reinforced through training and performance evaluations.

The overt asking for referrals by employees is a skill that can also be enhanced through training. As employees become more experienced and believe in the firm and its offerings, they can be shown how to ask for referrals from customers and become more comfortable in doing so. This overt asking can, of course, be further encouraged when the employee and customer are rewarded for generating successful referrals.

Ripples in future research

If we have done our job as scholars, we have probably created more questions than we have answers. We conclude our discussion by posing some research questions for the reader's consideration.

What other types of ripple effects can be generated by loyal customers besides WOM? Much of the discussion has been on the ripple effect generated by WOM recommendations. However, as we argued earlier, there are several other ways that a loyal customer can add value to the organization. For example, Bettencourt (1997) contends that, in addition to being a promoter of the firm, a customer can contribute value to the firm as both a human resource and an organizational consultant. Because of their experience with a particular provider, loyal customers may help co-produce the service (Bowen, 1986) by assisting in service delivery. And, these customers are "uniquely qualified" to serve as consultants to service providers (Lengnick-Hall, 1996) because of the intimate knowledge they have of the service delivery process. For some services, loyal customers may serve as mentors and encouragers to other customers (Zeithaml and Bitner, 1996), as well as provide social benefits to both customers (Goodwin and Gremler, 1996) and employees (Price *et al*., 1996). This list is certainly not exhaustive, and other types of loyalty ripples should be identified and researched.

How should ripple effects be measured? As the ways in which a customer can contribute to the overall value of a firm are identified, the next logical question becomes one of measurement. That is, what is the best way to measure such effects? Rust *et al*. (1995) report that, at an aggregate level, some data are available to indirectly measure the impact of WOM communication. Much more work is needed, however, to measure the loyalty ripple effect at the individual consumer level.

What is the full value of a loyal customer? We have pointed out several ways that customers can add value to an organization. However, identifying the ways customer can add value is relatively easy in comparison to quantifying what they actually mean to the organization. For example, how can you quantify the value of a customer who picks up a glass bottle lying in a parking lot and throws it in the trash? Or, what is the encouragement that one physical therapy patient provides to another who is trying to overcome knee surgery actually worth? Assuming that future research is able to identify and measure ripple effects, the primary question managers are sure to ask is – so what? What is a loyal customer really worth? And, similarly, what impact does the loyalty ripple effect have on the bottom line?

Is there a ripple effect coefficient? Reichheld (1996) contends that a loyalty coefficient exists, meaning that some customers are much more prone to be loyal than others. We believe a similar situation may exist in regard to the loyalty ripple – that is a ripple effect coefficient. This can be illustrated by thinking about WOM communication. Some customers prefer not to talk about service providers. Some have a more powerful influence because of their social status, stage of their life, or the number of social organizations to which they belong. Some have a much larger social network of contacts, friends, and associates. The idea of a ripple effect coefficient raises some additional questions needing to be researched.

Under what conditions are ripples stimulated? An assumption made throughout the paper is that loyal customers will indeed be ripple generators. However, there is limited empirical evidence to suggest that loyal customers necessarily provide recommendations about their service provider. The question of whether loyal customers actually do recommend the service provider has important managerial implications. Many service organizations, especially professional services, live by the creed "a satisfied client is the only requirement for a successful practice," and assume that such a client will spread positive WOM. As Wilson (1984) points out, this statement is only true if these clients actually make statements (i.e. recommendations) about their satisfaction to others seeking such information. Thus, it would be useful to identify under what conditions loyal customers actually provide word-of-mouth recommendations about a service provider. In particular, why don't all loyal customers provide recommendations? Why do some customers who are very satisfied with and repeatedly use a provider fail to make any recommendations? A better understanding of the conditions that help to facilitate the ripple effect can provide marketing managers with insight as to how to best stimulate such behaviour.

Does the type of pond make a difference? The magnitude of the ripple generated from tossing a stone into a pond may depend, in part, on the characteristics of the pond itself. Similarly, the magnitude of the ripple caused by personal recommendations may be influenced, in part, by the context. In some contexts, the loyalty ripple may have little effect – almost like dropping a small stone in the ocean. For example, several types of services in the USA, such as long distance telephone services, fast-food restaurants, and notary public services, do not seem to be affected much by the ripple effect. In other contexts, however, the ripple has large effect – like tossing a very large stone in a still pond. In particular, services such as financial planners, insurance agencies, and fine dining restaurants rely heavily on ripples for gaining new customers. In fact, many professional services in the USA, particularly legal, accounting, medical, and architectural services, have traditionally done very little promotional activity and count on a significant percentage of new clients being generated through the loyalty ripple effect. Although our findings did not suggest a significant difference in the magnitude of the ripples between the bank and dental contexts, we believe this issue is in need of further research. In particular, is the impact of personal recommendations more influential in other service contexts? If so, is perceived risk the primary reason, as some have claimed (e.g. Heskett *et al.*, 1997; Zeithaml, 1981), or are there other relevant factors that come into play?

Conclusion

Loyal customers are more than just purchasers. They can also act like a large stone tossed into a small, still pond and generate ripples benefiting the firm, its employees, and other customers. This paper examines the loyalty ripple effect as a means of recognizing that the full value of a loyal customer includes repeat purchases, referring new customers to the firm, co-producing the service, offering social support or benefits to other customers and employees, and mentoring other inexperienced customers. Firms understanding and encouraging the ripple effect are more likely to realize the full value of customer loyalty.

Notes

1. Factor analysis revealed that all five items in the scale load highly and significantly on the same factor in both samples. Cronbach's alpha for these five items was 0.913 for the bank sample and 0.849 for the dental sample. However, since the results for the WOM index are almost identical to the number of WOM recommendations actually made, we present only the statistics concerning the number of recommendations made in this paper.
2. Loyalty scores for each respondent were calculated using latent variable regression coefficients. For the bank sample, low loyalty was defined as those with a loyalty score of less than 5.7, medium loyalty 5.7 to 7.3, and high loyalty greater than 7.3. For the dental sample, low loyalty was defined as those with a loyalty score of less than 11.8, medium loyalty 11.8 to 12.35, and high loyalty greater than 12.35.
3. Means for any one variable not sharing a common superscript are significantly different for that variable using the Tukey test ($p < 0.05$).
4. It should be pointed out that older customers tended to have been with the bank (or dental practice) longer, and thus had more time to make WOM recommendations.

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