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DISC Behavioral Styles and Sales Performance

by Kirk Wakefield, Ph.D.

Does an agent’s behavioral style influence performance? Do groups or offices work better if there is an appropriate mix of individuals with different behavioral styles? What is a behavioral style in the first place?

Let’s answer the last question first. The focus of behavioral styles is not so much on personality, values, or beliefs, but on what you say or do. How you tend to act in response to problems, people, places, and procedures gives us a good idea of who you really are. One of the most popular methods to measure behavioral style is the DISC model, which classifies individuals based on the four dimensions (see table) of dominance, influence, steadiness, and compliance.

**Should your office blend individuals with varying behavioral styles?**

<table>
<thead>
<tr>
<th>D-Dominance</th>
<th>Response to Problems and challenges.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High D: Very active and aggressive in gaining results. Will go directly at the problem with little or no fear.</td>
<td></td>
</tr>
<tr>
<td>Psychological need: To direct/dominante others</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>I-Influencing Others</th>
<th>Response to People with different points of view</th>
</tr>
</thead>
<tbody>
<tr>
<td>High I: Has high contact ability: outgoing, social, very verbally persuasive.</td>
<td></td>
</tr>
<tr>
<td>Psychological need: To interact with others</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>S-Steadiness</th>
<th>Response to the Place or environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>High S: Prefers a more structured, predictable environment, having the boundaries of the “pond” clearly defined. Prefers a secure situation.</td>
<td></td>
</tr>
<tr>
<td>Psychological need: To serve others</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C-Compliance</th>
<th>Response to Procedures and rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>High C: Enjoys that things are done the “right way,” according to the book or established (accepted) standard or expectations.</td>
<td></td>
</tr>
<tr>
<td>Psychological need: To comply with their own high standards</td>
<td></td>
</tr>
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</table>

ce: Adapted from TTI, Ltd., www.ttiinc.com

It seems obvious that an office staffed completely by high I’s would risk productivity unless output was measured by spoken words per minute. Given that individuals with high D characteristics are high risk takers, it makes sense that having a high C around would provide needed balance. In general, arranging work groups with complementary behavioral styles is thought to be more productive, as it should increase flexibility in dealing with various kinds of customers, responsibilities, and challenges. Surprisingly, no
research evidence exists to support this belief\textsuperscript{1}. The Keller Center intends to answer the question of effective teams more definitively in future research regarding DISC behavioral styles.

**Initial Study: Do High D’s Perform Better?**

The starting point in the Keller Center’s ongoing research regarding DISC behavioral styles and performance is to begin investigating the effects of behavioral styles on performance among sales people. In particular, we are interested in learning if an individual’s adapted style, versus natural style, predicts sales performance. Your natural style is just that — how you behave naturally, particularly when under pressure and unable to adapt. Adapted style is how you behave in your current work environment in order to do what you believe is necessary to succeed. If the difference between your natural and adapted style represents a dramatic shift, you are likely to be stressed out.

Working with Target Training International (find out more about TTI at www.ttiltd.com), we gathered an initial round of data from over 100 sales professionals and sales managers. In addition to measuring natural and adapted behavioral styles, we also measured other individual factors known to influence productivity and performance. Each of these is one of the GATES to successful selling:

1. **Goal clarity:** the extent to which expectations, goals, and output are clearly defined for the job.
2. **Adaptive selling skills:** flexibility in approaches to match the customer.
3. **Training:** clear understanding and expectations regarding how to interact, serve, resolve issues, and communicate with customers.
4. **Experience:** number of years in the current position.
5. **Self-Efficacy:** the level of confidence an individual has in one’s own selling abilities.

Note that each of these is controllable. Managers and individuals can change or improve upon each of these, though some take more time or are more difficult than others to acquire. In contrast, a reason we are interested in understanding the effects of DISC dimensions is that your natural behavioral style tends to remain consistent over time — and there is a limit to adapting your style before turning into a basket case.

In this study, we measured performance along six dimensions:

1. Generating a high level of dollar sales
2. Quickly generating sales from new offers
3. Identifying qualified prospects and contacting them
4. Exceeding sales targets
5. Assisting the manager to meet his/her goals
6. Contributing to the group’s sales performance

We also collected information regarding each individual’s total annual earnings, finding that this measure of performance is strongly correlated with reported annual individual income.

Look back at the four behavioral dimensions of dominance (D), influence (I), steadiness(S), and compliance(C). Which of these do you think influences sales performance? Do you think someone who

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scores highest as a D, I, S, or C will succeed at selling? In our recruiting, training, and placing sales people, our observation led us to believe that high D’s, who make up less than 15% of the population, are more likely to perform well. High D’s tend to be very competitive, goal-directed, and embrace personal challenges. Many are also high I’s, who use persuasive skills to influence others. Conversely, High C’s tend to shy away from high levels of personal interaction (low I) and take criticism and “no’s” personally. Since many high C’s are also high S’s, who tend to be sensitive to the needs of others and seek security and safety (generally good traits for developing good relationships), we were not particularly optimistic that High S’s would perform well in sales.

Early Findings

Accounting for all of the individual factors and behavioral style dimensions, the strongest determinant of sales performance was self-efficacy — or confidence in your own selling ability. This is not unexpected. We thought each of the individual factors had potential for explaining performance. Somewhat surprisingly, aside from two behavioral dimensions, the only other significant determinant of performance was experience. As individuals persist in the business and gain experience, performance tends to increase or the individual gets out.

What about behavioral styles? The early results of our studies confirm one expectation and partially disconfirm another. Individuals with higher dominance (D) behavioral traits perform better than those who are low D’s. Since this is the first published study we could find of this kind, we seek further data collection to confirm this finding across sales and business settings.

Does this mean that only High D’s will succeed in sales?

No. Indeed, we found individuals within our sample who possessed relatively low dominance (D) traits but who also perform well in sales. So, it can be done. In particular, our findings suggest that those who have gained experience and confidence in their selling skills are particularly strong performers. The kicker is, however, that our data shows that High D’s are more likely to be confident in their selling abilities.

What about the other behavioral styles? We found no significant relationship between the level of Influence (I) or Compliance (C) with performance. So, High I’s or High C’s could be successful in sales, but it is not related to their behavioral style. Surprisingly, we found that those with higher levels of steadiness (S) were apt to be better performers. This makes sense. The servant’s heart of a high S should lead to good customer service. After closer investigation, however, it was determined that only those with a moderate level of the S behavioral style performed well. The results indicate that those at the highest end of the steadiness dimension perform very poorly—likely due to the fact that successful selling requires good service after the sale, but that cannot substitute for finding and closing business.

Future Research

The Keller Center will continue to report on research and findings in the area of DISC behavioral styles and its effects on performance and other important elements of successful operations. In future issues, we will also examine how DISC styles influence job satisfaction and relate to other workplace motivators.
About the Author:

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Professor of Marketing
Director, Keller Center for Research

Dr. Wakefield's current research focuses on (1) valuation of sponsorships, (2) marketing of music & films, and (3) how fans process information and make decisions. His book on Team Sports Marketing and 50+ publications (including Journal of Marketing, Journal of Retailing, Journal of Advertising, Journal of Leisure Sciences, Journal of Advertising Research, Journal of Business Research, and others) involve conducting research in virtually every professional sport (NASCAR, ATP Tennis, anything with a ball or puck) and with teams such as the San Antonio Spurs, Dallas Mavericks, Texas Rangers, Houston Rockets, Houston Texans, and San Francisco 49ers.
Housing Prices Likely to Turn Around in 2009, Survey Finds

by Charles North, Ph.D., Chris Pullig, Ph.D.,
Laura Indergard, M.B.A., Jacqueline Simpson, M.B.A. Candidate

Housing prices are likely to stop falling by the end of 2009, say nearly three-fourths of economists in a recent survey. In addition, life-cycle issues, such as needing a home, should determine when people buy homes, not investment considerations.

The online survey, conducted in July 2008 by researchers from the Keller Center at Baylor University’s Hankamer School of Business, asked 840 economists their opinions on several matters related to the housing market. Topics addressed included expected future mortgage interest rates, reasons for buying and owning a home, and anticipated trends in future home prices and numbers of sales.

Housing Prices Likely to Stabilize

Since the first quarter of 2007, housing prices across the U.S. have fallen by about 6 percent.¹ In many cities, the drop in home values has been even more dramatic. For example, from the second quarter of 2007 to the second quarter of 2008, housing prices fell by about 9-10 percent in the Orlando, Detroit, and Washington, D.C. metropolitan areas. For the same period, prices fell by about 13-14 percent in Los Angeles and Tampa/St. Petersburg, and by over 17 percent in Las Vegas and Sacramento.

Despite the dramatic decline in home prices, most of the economists surveyed expect the market to bottom out no later than next year. As Table 1 shows, almost three-fourths expect housing prices to stabilize by the end of 2009, with just under half of the respondents expecting the bottom to be reached by the end of the second quarter of 2009.

Table 1. When will declining housing prices stabilize?

<table>
<thead>
<tr>
<th>Period</th>
<th>Percent of Responses</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Quarter 2008</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Fourth Quarter 2008</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>First Quarter 2009</td>
<td>14%</td>
<td>22%</td>
</tr>
<tr>
<td>Second Quarter 2009</td>
<td>24%</td>
<td>46%</td>
</tr>
<tr>
<td>Third Quarter 2009</td>
<td>17%</td>
<td>63%</td>
</tr>
<tr>
<td>Fourth Quarter 2009</td>
<td>11%</td>
<td>74%</td>
</tr>
<tr>
<td>Sometime in 2010</td>
<td>22%</td>
<td>96%</td>
</tr>
<tr>
<td>Sometime in 2011</td>
<td>4%</td>
<td>99%</td>
</tr>
<tr>
<td>Sometime in 2012</td>
<td>1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*n = 754. Differences between columns are due to rounding error.

The surveyed economists were also generally in agreement that housing prices would increase over the next five years, though the anticipated gains are expected to be modest. As Table 2 shows, nearly four out of every five economists surveyed believe that housing prices will be higher in five years than they are now. The expected price increases are modest though. Nearly half think that home prices will go up by less than 10 percent over five years – i.e., less than 2 percent a year. At that rate, housing prices are unlikely to keep up with overall inflation, which has averaged 2.9 percent per year from 2002 to 2007 and was 5.4 percent from August 2007 to August 2008. Thus, while housing prices are expected to stop falling at some point in 2009, large price increases in the near future are unlikely, according to the economists surveyed.

Table 2. Compared to today, home prices in five years will be . . .

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>Percent of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least 10% lower</td>
<td>5%</td>
</tr>
<tr>
<td>0% to 10% lower</td>
<td>16%</td>
</tr>
<tr>
<td>1% to 5% higher</td>
<td>24%</td>
</tr>
<tr>
<td>5% to 10% higher</td>
<td>25%</td>
</tr>
<tr>
<td>10% to 20% higher</td>
<td>23%</td>
</tr>
<tr>
<td>20% to 30% higher</td>
<td>6%</td>
</tr>
<tr>
<td>More than 30% higher</td>
<td>1%</td>
</tr>
</tbody>
</table>

*n = 803.

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Timing the Market, Sales Volume, and Interest Rates

The reluctance of buyers to get into the market may be making the housing slump worse. More than half of the economists (57%) believe that there is a sizable number of people waiting for the housing market to bottom-out before buying a home.

Two-thirds of the economists believe that overall sales volume will slowly rebound over the next two years, and only a small minority (7%) thought declines in the number of home sales were likely in the next two years.

The economists also expected little change in mortgage interest rates, which averaged around 6.5 percent in the first half of 2008. Over the next year, approximately three-fourths of the economists thought that interest rates would be between 6 and 7 percent, with 51 percent expecting rates to average between 6.5 and 7.0 percent. Over the next ten years, almost 6 of 10 economists (58%) expected mortgage interest rates to hover between 6 and 7 percent.

Why Buy A Home?

The Keller Center survey also asked economists for their opinions on why people should buy homes. The overwhelming response was that people should buy homes because they are ready to do so from a financial and life-cycle perspective. Moreover, a slight majority of the surveyed economists recommended against trying to “time the market” in order to get the largest possible financial gain. Table 3 shows the economists’ degree of agreement or disagreement with several statements about home-buying strategies.
Table 3. Reasons to Buy a Home

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percent Responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>In choosing a time to purchase a house, buyers should primarily focus on whether they are ready for such a purchase from a financial and life-cycle perspective.</td>
<td>94% 4% 2%</td>
</tr>
<tr>
<td>In choosing a time to purchase a house, buyers should try to “time the market” in an attempt to obtain the greatest possible financial gain.</td>
<td>26% 23% 51%</td>
</tr>
<tr>
<td>The primary reason that individuals should purchase and own a home is as a place to live.</td>
<td>79% 14% 7%</td>
</tr>
<tr>
<td>The primary reason that individuals should purchase a home is as an investment vehicle.</td>
<td>9% 20% 71%</td>
</tr>
<tr>
<td>A person can increase their long-term wealth by purchasing a house rather than renting.</td>
<td>58% 32% 10%</td>
</tr>
</tbody>
</table>

In addition, 89 percent of the economists agree that people should closely evaluate the benefits and costs of owning versus renting before buying a home. Combined with the results in Table 3, the economists’ responses imply that a home purchase is best viewed as a life-cycle decision rooted in prudent financial analysis. While financial gain on the home may be an added benefit to home ownership, the economists on the whole do not think investment value should be the main motive in buying a home.

Conclusion

The recent decline in home prices has made many people nervous about buying a home. The Keller Center’s survey of economists conducted in July 2008 should provide some assurance to potential buyers that, in the opinion of an array of experts, the housing market should stabilize within the next year, with price declines ending and sales slowly rebounding. Additionally, the economists expect mortgage interest rates to stay relatively level in both the near- and longer-terms.

Also, the economists’ opinions about when to buy a home revolve around the buyer’s needs and readiness to buy a home, not efforts to time the market and garner investment gains. This is not surprising, because economists rarely believe that most people can perfectly and systematically time markets so as to buy at the lowest point and sell at the highest.
Finally, it is worth noting that these survey responses came in July 2008, well before the turmoil in the financial markets of September 2008. We cannot know how the subsequent stock market decline and collapse of the investment banks would affect the answers reported above.

About the Authors:
**Charles North, Ph.D., Associate Professor of Economics, Baylor University**
Professor North conducts research in the economics of religion, law and economics, and labor economics. Prior to entering academia, he earned a J.D. from the Duke University School of Law and practiced law with firms in Dallas and Austin. He has a Ph.D. in Economics from the University of Texas and has been on the faculty at Baylor University since 1998. He has taught microeconomic theory from the introductory to the graduate levels, along with courses in law and economics, game theory, and an upcoming course in labor economics. He recently published the book Good Intentions: Nine Hot Button Issues Viewed Through the Eyes of Faith, and his academic work has appeared in the Southern Economic Journal, the Industrial and Labor Relations Review, and other journals.

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**Chair of the Marketing Department**
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**Editor, Keller Center Research Report**
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Lead Conversion: Adaptation, Influence, and Customer Value

by Christopher P. Blocker, Ph.D., Laura Indergard, M.B.A., Jacqueline Simpson, M.B.A.
Candidate, Chris Matcek M.B.A./Masters of Engineering Candidate

Summary of Key Findings

A national study was conducted to explore the approaches that real estate agents use to influence their clients in face-to-face meetings. Findings revealed the following insights:

1. Agents use a variety of selling approaches. However, the study revealed two approaches that have widespread effectiveness for positively influencing clients:
   1. Inspiring clients through appealing to their emotions and values and,
   2. Providing clear recommendations that show potential benefits for clients.

2. Beyond these approaches, results demonstrate how important it can be for agents to adapt their selling efforts to an individual client’s communication style. Specifically, results illustrate how approaches such as: (a) presenting information, (b) rapport building, (c) promising incentives, and (d) offering tactful warnings can prove to be effective, inconsequential, or detrimental depending on a client’s communication style.

3. Being “customer-oriented” contributes significantly to client influence across all situations. This means demonstrating a high-concern for satisfying clients, creating value for them, and taking time to uncover their specific desires, both big and small.

4. Overall, findings suggest that salespeople who rely on standardized scripts and influence approaches should consider altering their presentations and selling styles to increase their levels of adaptation. Results indicate that doing so will enhance the influence agents have with clients, which in turn, helps them convert more listing appointments and attain higher personal performance (measured by gross commission income).

Acquiring New Clients Can Be More Art than Science

The first appointment with a potential client is critical. Clients are forming key impressions and, in a real estate context, are relying on their conversations and other clues to decide
whether to “hire” the agent. Seasoned agents often expect to win new clients once they have gained this critical first appointment. Yet, in a crowded marketplace, rejection is common and sometimes the reasons for losing to a competitor remain a mystery.

**Selling Formulas**

In this uncertain environment, many salespeople consider their selling efforts a “numbers game” and memorize standardized scripts, approaches, and presentations to influence clients. This largely represents their personal “selling formula” – and just like science – it is held to be universally effective across most situations. This is no surprise; selling formulas can often build a track record of success and be quite useful.

The downfall is that, unlike the science lab where the factors at play can be observed and are relatively stable over time, potential clients are richly complex individuals who are motivated by unseen goals and desires, which are shaped by their unique personalities, life histories, and dynamic circumstances. Beyond this, the overall landscape of the way salespeople and clients interact is constantly shifting as consumers in large mass have become more connected, sophisticated, and demanding over time. The net effect is that salespeople can encounter a colorful spectrum of individuals who may respond quite differently to uniform sales approaches and techniques.

So, although selling formulas can be effective, the gap between having a good lead conversion rate and a best-in-class conversion rate may be the *art of effectively adapting the selling approach* to each individual and their perceptions of value. Since the livelihoods of salespeople sink or swim based on the success of their client interactions, it thus, behooves them to continually improve their ability to engage in the art of client adaptation.

**The Art of Adaptation**

Adaptive salespeople are constantly learning. Early in a sales call, they attempt to recognize a client’s signals and reactions to better understand how the sales message can be customized for the unfolding sales interaction. At a more basic level, adaptive salespeople also assess client personalities, personal values, and styles of communicating. Exploring these areas can help uncover a client’s psychological needs and how they prefer to socially interact with salespeople as they progress toward their decision. Understanding clients at this deeper level can help salespeople manage the overall client experience.
From a sales perspective, the goal of these adaptations is having greater influence with clients and ultimately earning their business. The trick, however, is that adaptive selling can only prove useful for influencing clients if salespeople can determine just how they should adapt. Unfortunately, there is not much evidence from research conducted in a real estate context about the effectiveness of various approaches across different types of clients. Without robust insights in this area, real estate agents are left to trial-and-error and anecdotal evidence about how they should adapt.

This gap in industry knowledge motivated the current study to explore questions like:

What sales approaches are effective for influencing various types of real estate clients?  
Are there any sales approaches that appear universally effective in real estate selling?  
Are there any sales approaches that appear consistently detrimental in real estate selling?

**Having Influence with Clients**

In some ways the idea of “influencing” clients can appear to be a negative term associated with manipulation or unethical persuasion. In contrast, this study simply examines (within a real estate context) some basic influence strategies people use when communicating with each other that are applicable in a variety of contexts such as influence in interpersonal leadership. In other words, each of the influence strategies explored in this study can be utilized within the framework of an ethical selling philosophy that seeks to both satisfy customers as well as strive for superior sales performance.

**Six Influence Strategies**

To examine the research questions at hand, this study draws insight from recent research examining adaptive selling and six influence strategies that salespeople use frequently. These general influence strategies are described below:

1. **Information exchange**: informing clients with statistics, presenting materials, and using other information without making specific recommendations.

2. **Recommendations**: making clear suggestions or summary statements that advise clients to take a specific course of action that may prove beneficial for them.
3. **Warnings**: tactfully cautioning a client about potential negative outcomes, such as letting them know they may fail to get the best results in the selling process if they delay making a decision, go elsewhere, or discount the suggestions given.

4. **Promises**: offering the client a benefit of any type (special attention, discounting, small incentives, additional resources) to induce clients to go along with suggestions.

5. **Inspirational appeals**: appeals to the client’s emotions, values, and/or ideals, by attempting to communicate (in content and style) with enthusiasm and conviction.

6. **Rapport building**: any non-selling personal talk to build rapport, such as discussing shared interests, complimenting the client, or just generally trying to make them feel good about themselves.

Although these influence strategies are widely used with clients, recent studies show that these six influence strategies may impact different types of clients in a varied manner.

**Client Orientations**

As previously mentioned, individual clients bring their unique personalities into selling interactions; however, research helps classify clients using three buyer styles, which have also been called “orientations.” These client orientations include:

1. **Task-oriented**: goal-oriented and purposeful clients that really want to accomplish the task at hand as efficiently as possible, and as such, can often place little value on any activity that deviates from the current task.

2. **Socially-oriented**: clients who believe that socializing is an important aspect of the interaction and are interested in fostering interpersonal relationships more so than getting immediately involved in the specific content of the task at hand.

3. **Self-oriented**: clients who tend to be preoccupied with themselves and their own welfare during their interactions and generally exhibit lower levels of task or social orientations.
Other Factors Measured in the Study

In addition to exploring influence approaches and buyer orientations, this study captured an agent’s overall customer-orientation and situational factors like the population the agent works in, average home prices the agent sells, and years of experience as an agent. As agents reflected upon their use of various influence strategies, they also assessed their overall level of perceived influence with specific clients. Average conversion rates for client appointments and gross commission income (GCI) were then used to assess whether higher levels of influence impacted performance.

Results

Wide use of all six influence strategies. As shown below, results revealed that agents make moderate to extensive use of all six influence strategies. Specifically, use of information, recommendations, and inspirational appeals were used most extensively, averaging 5.6-5.7 on a scale ranging from very little use (1) to a great deal of use (7).

Influence strategy effectiveness. Beyond their widespread use, strategies demonstrated significantly different effects within those sales interactions. The charts below report results from the analysis of a series of statistical models. These models estimate the relationship between each influence strategy and the overall client influence across a sample of over 1,000 agents. Colored bars represent the positive (greater than zero) or negative (less than zero) effect for each strategy to facilitate influence with clients and lead
conversion. Bars marked “not significant” represent scores for strategies that can be regarded as showing “no apparent effects” at all on overall client influence.

So, for example, the combined sample for all clients shows that inspirational appeals (inspire), recommendations, and information exchange (inform) demonstrate a strong, positive impact on overall influence, and indicates that promises have a negative impact on influence. Warnings and rapport building demonstrated no significant impact.

**Influence strategy effectiveness by customer type.** A key purpose of this study was to examine the need to adapt influence strategies. So, the six charts below illustrate the effects of different strategies when examining high and low levels of each client orientation type.
**Inspirational appeals.** These models reveal several tentative insights. First, inspirational appeals to emotions and ideals demonstrated the strongest effect in all cases, with exception of a highly social client, where it obtained the second highest effect. Agents making greater use of inspirational appeals also held higher lead conversation rates (79% versus 72%). These results coincide with other research which indicates that customers frequently experience emotions when they interact with salespeople. For example, during the process of selling their home, clients might encounter a range of emotions such as worry, frustration, excitement, and pleasure. Salespeople who have the ability to arouse positive emotions in customers may improve a client’s overall experience, and, in turn, those clients may tend to be more satisfied and loyal to their agents.

It is important to note here that, although inspirational appeals were a uniformly effective strategy, appealing to a specific client’s emotions will look different based on customers’ orientations and unique personalities. Human emotion stems from an individual’s in-the-
moment reactions to how they see their desires and goals being fulfilled or thwarted. In a real estate context, a socially-oriented client may be emotionally charged by a desire to work with an agent they believe cares about them as a person. Task-oriented clients, on the other hand, might experience emotions predominantly based upon whether they see opportunities to advance their personal task at hand.

Recommendations. The only other influence strategy that obtained high effects in all cases was recommendations, and it showed the greatest impact with clients who have high social orientations. This influence strategy likely corresponds to a core characteristic that clients are looking for in real estate agents: trusted expertise.11

Information exchange. Interestingly, use of information, which appears to be a strong strategy in the overall sample, only showed a positive effect with high-task clients and clients with a low self-orientation. It actually had a negative impact with low task-oriented clients. A potential insight here is the possibility that agents can weaken their influence by relying too much on information exchange with prospects who may not desire a lot of it.

Negative effect of promises. Use of promises, such as offering incentives of any type, demonstrated a consistent negative impact on overall influence in all situations. One possibility for this relatively surprising result is that agents by and large only offered incentives in cases where losing the client seemed likely without it. However, analyses showed that the promise approach was utilized with similar frequency across agents reporting wins versus losses. Further analysis confirmed a negative impact of promises on, not just influence, but also on overall lead conversion rates. That is, agents making greater use of promises in their interactions also held lower overall lead conversion rates (74% versus 77%) than agents who used promises less frequently. This difference was only a few percentage points; however, it was statistically significant across the large sample, meaning this result is unlikely to have occurred by chance.

Insignificance of warnings and rapport building. With two exceptions that showed negative effects for warnings with high self-oriented clients and rapport building for low social-oriented clients, these approaches showed insignificant effects. Similar to other “non-significant” findings, these results do not necessarily mean that these strategies are of no use. Rather, they did not demonstrate enough of a difference amongst other strategies being captured in this study. We could also speculate that some minimal level of rapport is necessary in all selling situations or that rapport might even indirectly enhance other strategies like inspirational appeals and recommendations. Indeed, there is evidence that
people tend to be influenced by those they like,\textsuperscript{12} which suggests that rapport supports other strategies. The main point here is that neither rapport building nor warnings demonstrated enough of an effect (outside the two exceptions mentioned above) to provide evidence that agents should emphasize or avoid these approaches in their interactions.

\textit{Customer orientation and customer value.} One significant result, which was tested in addition to the effects shown in the charts above, was the consistent, strong impact of an agent’s “customer orientation” on their ability to positively influence clients. The average effect size was similar to the effects of recommendations across all the models. Higher levels of customer orientation also corresponded to higher lead conversion rates (76\%) versus conversion rates for agents with lower levels of customer orientation (72\%). Customer orientation captures an agent’s ongoing emphasis on assessing what creates value for their clients and placing client satisfaction as a high priority.

\textit{Influence strategies and performance.} Other factors surely come into play when trying to convert leads into clients. However, the influence strategies measured in this study demonstrated statistically significant effects on agent influence with clients, lead conversion rates (.20 on a scale from 0 to 1), as well as personal performance (.14 on a scale from 0 to 1 and measured by GCI). So, the evidence in this study supports the idea that appropriate use of these influence strategies and customer orientation can enhance an agent’s lead conversion rate and thus overall sales performance.

\textbf{About the study and its caveats}

\textit{The survey and analysis.} This study surveyed 1,146 real estate agents and asked them to reflect upon a recent client interaction related to a potential listing. Questions demonstrated strong validity. Analyses were conducted using structural equation modeling. The models demonstrated close fit with the data and the effects obtained statistically significant parameters. This study is limited by the use of self-reported measures using agents to report on their perceived levels of influence with clients. Future studies should attempt to gather data from agents and clients as well as capture objective measures. Further information on the data and analysis is available upon request.

\textit{Caveats to remember.} The results contained in this study should be tentatively considered within the context of your own business, your personal selling experience, the types of clients you deal with, and local market conditions. As with any study, there are likely
specific characteristics of your selling interactions that are not captured here, which may affect the value of applying these insights for a given agent.

We hope you find the insights presented here to be helpful in continuously improving your selling skills and performance. If you have any questions or comments regarding this research, we would enjoy hearing them. Please feel free to use the feedback option at the top of the webpage where you found this article.

References:

7 Ibid.
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Stress: It is Your Business!

by Chris Pullig, Ph.D.

Are you stressed? Are the people you work with stressed? Undoubtedly, we all feel somewhat stressed these days. However, stress is not universally bad. In some cases it pushes us to achieve, but there are sources of stress that are counterproductive. One source of stress that isn’t positive is stress that arises from the conflict between work and family roles. A question that arises and has not before been clearly answered is how this type of stress impacts your business. More specifically, when customers interact with your company’s service providers and they encounter stress, does this have a negative effect on your business? In a series of studies, some published in a recent Journal of Marketing article and others still not yet published, my colleagues and I addressed this basic question.

We All Suffer from Stress

Stress is a part of our everyday lives. We feel stress with our investments, our businesses, the demands of our work, and balancing this with our responsibilities at home. In recent years, with an increase in the number of dual-career couples, family roles have changed. This has given rise to even higher levels of stress related to balancing work and family responsibilities. This conflict between work roles and family roles is even more pronounced in industries such as residential real estate sales where much of the work involves evening and weekend hours, hours when family-time is most demanded. We need to work at times when our children are busy with important activities. We need to simply be at home when our spouses have time off from their own busy schedules.

Not surprisingly, studies show that work-family conflict is a significant source of stress in many Americans’ lives. For many of us, this conflict creates excessive levels of stress which can be harmful to our health, both physically and mentally. Conceptually, it is thought that stress operates as a type of resource drain. Stress makes it difficult to concentrate on our work or our family limiting our capacity to perform either task to the best of our abilities. Stress drains our emotional and physical energy, and as a result, the enthusiasm we display as we do our job, attend our child’s concert or soccer game, or simply take care of important family issues. The impact of stress may have serious implications in both our personal and professional lives.

But, Does this Conflict Really Impact Your Business?

Our Research. Our research is the first to look at the impact of stress in a customer-relationship setting. In a series of studies, my colleagues and I examined the impact of stress due to work-family conflict on individual job performance, customer satisfaction, and customer’s intention to
patronize the service provider in the future. We conducted our studies across multiple industries with a focus on examining these effects for personnel in a sales or customer-interfacing role.

We first measured each individual’s level of work and family role conflict and their felt stress. We then separately asked supervisors to rate each individual’s job performance on three dimensions – 1) how the individual performed their prescribed roles in their interaction with the customer, 2) with others in the organization, and 3) how they performed in terms of extra efforts to provide customer service. Since stress from work-family conflict is conceptualized as a “resource drain” we expected that it should have a negative impact on performance of these work-related roles, especially the extra effort put into satisfying customers. Customer-level data was then used to determine the extent to which individual stress impacted not only job performance but also customer-level outcomes – satisfaction with the service provided and intention to patronize the company again in the future.

Using these measures we estimated a nested hierarchical linear model (HLM). This statistical method allows us to estimate regression paths for variables that exist at differing levels (i.e., individual personnel, supervisor, and customer level). Given that we are using measures from three independent sources enhances our ability to show causal relationships between our variables. The conceptual model we estimated is shown in Figure 1.

**Our Results.** As expected, individuals who reported higher levels of work-family conflict felt higher levels of stress. In turn, individuals with higher levels of stress were rated as lower in their job performance with the greatest impact on extra efforts to provide customer service. More importantly, customers served by higher stressed and lower performing personnel reported lower levels of satisfaction and intent to use the service again. In an interesting and somewhat unexpected effect, individual stress had a significant direct effect on customer impressions. It seems that customers can sense stress when interacting with service providers and that this has a significant direct impact on customer satisfaction and future intentions.

**What Does this Mean for Your Business?**

Our results have several implications. First, it is important to know that stress is not only harmful to the individuals who work at your agency, including yourself, but stress
also has negative effects that can hurt your customer service personnel’s performance and, in turn, customer satisfaction. In knowing these effects are likely to exist, you are in a position to do something about this type of stress. Second, if you sense that work-family conflict is a significant source of stress for your organization, then you have options to address this stress. The following is a four-step process to use in addressing stress and, in particular, work-family conflict stress:

**Step One: Educate Everyone on How Stress Can Impact Your Business**

Educate everyone in your organization, employees and supervisors, about the detrimental effects of stress and especially the effects of work-family conflict in generating stress. In knowing and understanding more about the importance of this issue, you and all your personnel can begin to address ways to minimize its impact on your business.

**Step Two: Assess How Stress Occurs Within Your Organization**

Ask your personnel and take time yourself to reflect on how work-family and other types of stress occur for your organization. Identify sources of stress for your personnel, especially those who interact with your customers the most. In knowing how work-family conflict and stress arises, then you can begin to address specific sources of stress. It is important that you identify sources of stress within your organization so that you can address specifically these issues.

**Step Three: Create a Stress-Sensitive Culture**

In creating a culture where everyone knows that stress is something that is taken seriously and its impact understood, you have a better chance of finding ways to alleviate the negative effects. A culture that appreciates work-family conflict will be one in which conflict can be effectively reduced and coped with more readily. Empathy and a supportive climate will allow you to institute programs and methods that will encourage active and meaningful participation in work-life programs and other steps you might take as an organization to address stress.

**Step Four: Develop a Program to Address Sources of Stress and Coping with Stress**

A good program will address stress in two ways. First, the program will attempt to reduce the sources of stress. This can be accomplished in a variety of ways and should be examined within the context of what creates stress for the organization (Step Two above). One method addressing the source of stress created by work-family conflict is to create a work-life program for your organization. The second manner of addressing stress is to assist personnel with methods to deal with stress.

- Work-life programs are commonly used options in addressing work-family conflict by lowering the barrier between work and family roles. The specifics of these programs...
should be designed to address your personnel’s needs. Each organization will have unique needs. Be creative. Some work-life programs, in addition to serving to reduce work-family conflict, operate as perks generating additional HR advantages. Common examples from industry include on-site daycare, flextime, and telecommuting. But, more creative solutions might include concierge services (i.e., dry cleaning pickup and delivery) to deal with life’s minor details that take so much time during critical times of the day. The idea is to create solutions that address your people’s needs that also are cost effective for your organization.

- Work-family conflict and related stress will occur, so it is important to teach personnel how to reduce and cope with stress. Stress reduction techniques can be taught and encouraged. Nearly one-half of large companies in the United States provide some type of stress management training. Stress management programs teach personnel about the nature and sources of stress, the effects of stress on health, and encourage personal skills to reduce stress. For example, time management or relaxation exercises can be taught. Also, one of the best methods known to reduce stress is regular exercise. Exercise can be integrated into a culture at work. Exercise also can be encouraged through on-site facilities or in financial support for off-site facilities. Exercise can be a part of the social interaction within an organization.

In general, stress is a given in our lives. It is not always bad. Certain sources of stress can have negative effects on our personal and professional lives. The conflict we feel between family and work roles is one such area. This type of negative stress can have significant effects on your organization’s ability to provide the kind of customer service you seek to deliver. While it may not be possible to eliminate stress, it is something we can address through a reduction in its sources and by facilitating individual coping and reduction strategies.

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What Do Consumers Expect From Real Estate Agents?


How do home buyers or sellers decide on an individual agent? We conducted a focus group among recent home buyers and sellers asking just that question. Would being with one of the five best known national brands matter? What source of information dominates the decision? How does the brand’s website factor into the decision?

In reviewing the videotape of the focus group and evaluating the recurrence and concurrence of responses, we found that their answers reinforce three basic factors that influence the selection of an agent. Our research subjects didn’t realize it, but their responses mysteriously formulated into two memorable related acronyms. We’ll spell it out for you.

Social Influence

Word-of-Mouth. We asked, “How do you go about making a decision on an individual agent for buying or selling a home?” Among the group’s first responses were that they listened to word-of-mouth (WOM) from friends who are realtors and from friends who had a good experience with a specific realtor. This indicates that individuals seek out others who have some level of experience in buying or selling real estate and with whom they already have a relationship. Unless you are the friend they have asked, this points to the critical nature of referrals. Your past clients are talking with people today who are asking them about their experience in buying or selling—because everyone knows if a friend has just moved residences.

Interestingly, the focus group noted that word-of-mouth spreads regarding the ease of use of the realtor’s website. Since people know that company websites exist, the issue is more about whether or not it meets their needs. A recent study\(^1\) found that the “virtual servicescape” of the realtor’s


WOM: What are you doing to build your list of referrals from past clients?
Web WOM: Are agents trained in the design and content of the company website? If not, word gets around.

Availability & Aggregation:
- Have you clearly targeted neighborhoods so that the aggregate signage makes an impression?

Reputation: How do consumers feel about your:
- Comfort
- Honesty
- Experience
- Establishment
- Knowledge
website is a surrogate indicator of quality and can reduce uncertainty when considering whether or not to engage an agent. It gives buyers or sellers a clue about the “potential quality” they might find if they contact the agency.

Of particular importance is whether or not agents are well trained regarding the content on the website and its capabilities. Other studies confirm that customers satisfied with the website will as a consequence be more loyal and spread positive messages to others. So, it benefits the agent to inform and educate consumers about the company’s website.

Market Influence

When asked why she picked a particular realtor, one respondent said, “Because I see them the most in the neighborhoods I like the most.” This sentiment prevailed in the focus group, suggesting that the availability and the aggregation of the realtor in the market determines agent choice.

Availability and Aggregation. The implication is that focusing on targeted neighborhoods will lead individuals shopping those neighborhoods to associate sold and available houses with that realtor. Consumers may be aware of the realtor’s name and have visited the website, but unless they see that the agency is active in the neighborhoods they find desirable, the agency won’t be getting a call. The agent must be perceived as easily available or convenient for the buyer or seller to do business. Studies also suggest that when new agencies are added in the market area, the additional signage and increased advertising allotment can lead to greater attractiveness or demand for the brand. So, it might seem bothersome when another agency from the same realty company opens close to yours, but it may help overall as customers begin to associate your realty brand with that area.

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Reputation

What do buyers and sellers evaluate when they visit the website? Reputation repeatedly surfaced in the focus group. What a consumer expects from an agent defines the kind of reputation desired. What do home buyers and sellers expect? We were able to categorize responses along these five dimensions, thus revealing the second acronym:

a. Comfort: Will I feel comfortable working with the agent over a long period of time?

b. Honesty: Will the agent respect my wishes? Will the agent give straightforward answers? Will the agent be honest about workload and priorities?

c. Establishment: Is the agent established? What is the longevity of the agency brand? Do I trust the agency?

d. Experience: Does the agent have the breadth and depth of experience to understand and adapt to my situation?

e. Knowledge: If I am buying, does the agent know schools, crime rates, taxes, and have other insider knowledge I need? If I am selling, does the agent know marketing, staging, presentation, and technology in a way to effectively justify the commission?

Effective realtors must go to WAR, but be ready to turn the other CHEEK, so to speak. Let’s examine each of these five dimensions of reputation in turn.

Comfort. Recent research suggests that the strongest effect on consumer perceptions of satisfaction and loyalty with an agent is the assurance or comfort level the consumer experiences in working with the agent.4 Our focus group discussed that when considering engaging an agent, they evaluate whether or not they will feel comfortable working with that individual over the course of the relationship. Obviously, your reputation as being someone easy to work with is based on information received from others (WOM). Interestingly, an agent with a good sense of humor is more likely to have a positive reputation as someone customers want to work with.5 One test of whether or not you have a good sense of humor is whether customers laugh after you arrive or after you leave.

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4 Durvasula, Srinivas, et.al. (2006), “Finding the sweet spot: A two industry study using the zone of tolerance to identify determinant service quality attributes,” Journal of Financial Services Marketing, 10 (February), 244-259.

Honesty. Honesty is the best policy, but with respect to full disclosure in realty contexts, it’s also the law. More central to the point made by our focus group, however, consumers examine the reputation of the agent’s honesty in terms of active listening and respect.

Customers expect the agent to be honest about the market and count on the agent to have knowledge about when the house will best sell. Evidence suggests that those who with high emotional intelligence are also emotionally honest — and these traits are more likely to experience superior performance.⁶

According to the focus group, agents with a reputation for being honest are known to ask questions, listen intently, and ultimately respect the client’s wishes — particularly regarding price ranges. Good listeners do not manipulate and manipulators are not good listeners. The focus group indicated that agents who respected them, listened to them. In contrast, those who felt manipulated by a realtor offered negative WOM to others, thereby damaging the agent’s reputation.

Establishment. Many in the focus group were concerned with whether or not the agent and agency were well-established. Essentially, this is an issue of trust — and customers use length of time in the business as a surrogate indicator. On an individual agent basis, being established means that the agent has been able to satisfy the needs of others long enough to remain in business. So, clearly, newcomers are at a disadvantage.

On an agency brand level, focus group members indicated that certain national brands (Century 21 and Prudential) signal longevity and stability. Others, such as Coldwell Banker and Keller-Williams, seemed “more local.” When polled, none of our group rated “national brand” as being very important in selecting an agent when buying. When selling, the importance of being a national brand was somewhat more important. But, again, none rated it as very important. Rather, as long as the brand is recognizable, they were more likely to rely on “whose signs you see the most” in the area.

Experience. Closely related to establishment, the focus group noted that the reputation of an agent is tied to the breadth and depth of experience of the agent. No real mystery here. Just like most employers seek employees who have some level of experience, buyers and sellers look for someone who is not going to be training on them.

Knowledge. The focus group discussed the need to find agents with a reputation for knowing the particulars of the local market for buyers and how to market for sellers. We need to differentiate between

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gaining factual vs. process knowledge. The buyer requires effort by the agent to gain factual knowledge regarding schools and other geo-demographic statistics. The seller requires the agent to learn process knowledge of how to market a property.

Knowledge has long been recognized as an important determinant of successful salespeople. But, why does knowledge lead to success? Research of 190 real estate agents across six large agencies found that agents who have a strong learning orientation are more customer focused and more satisfied with their work. ⁷ We can also conclude that they are more productive, as other research confirms that salespeople with a learning orientation — as opposed to a selling orientation or performance orientation — are more likely to succeed. ⁸ Interestingly, research also suggests that salespeople who are more fun-loving are more likely to have a learning orientation and effective adaptive selling skills. ⁹

What can we conclude? Buyers and sellers begin the process by paying attention to social sources offered by word-of-mouth referrals from friends and family. Jointly, market sources are observed in the form of the availability and aggregation of the agency’s brand in the buyer’s or seller’s desired neighborhoods. Gathering this information from social and market sources, buyers seek to assess the reputation of the agent. So, it is a WAR out there. But, ultimately, the bottom line rests on the agent’s CHEEK — comfort, honesty, establishment, experience, and knowledge — which then becomes the basis of the reputable information passed on through social and market communications.

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Cause-Related Marketing
By Chris Matcek, M.B.A./Masters of Engineering Candidate

How do your agency’s marketing campaigns influence not just your customers but your agents as well? In *Linking Cause-Related Marketing to Sales Force Responses and Performance in a Direct Selling Context* (Journal of the Academy of Marketing Science) Brian V. Larson, Karen E. Flaherty, Alex R. Zablah, Tom J. Brown, and Joshua L. Wiener examine a sales force of 574 people to see how a philanthropic cause-related marketing effort affects the sales people’s selling confidence, which in turn, leads to higher performance and increased sales. If the capability to reach both charitably-sensitive customers and increase your sales force’s effectiveness, why not fully seize the opportunity? Please note, the industry studied here was not real estate, though the core findings will still be relevant to your field. The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market.

1. “CSR [corporate social responsibility] activities have multiple audiences and … these audiences should be taken into account in designing such programs.”

**THINK:** Make sure your marketing and charitable dollars are spent on programs that help attract customers and increase your agent’s confidence and performance.

2. “For sales representatives, the presence of a cause promotion that is viewed positively by customers – a critically important audience for the sales force – should lead to higher levels of cognitive identification [overlap of reps personal beliefs with those of the organization’s].”

**THINK:** If a cause-related campaign impresses your customers and your sales reps know it, they are more likely to close the sale due to their higher levels of confidence.

3. “Because individuals desire to be seen in a positive light, they actively monitor how others perceive the organization to which they belong.”

**THINK:** It is just as important how your sales reps perceive how others value their organization, not just how customers view the company. This outlook is often overlooked.
4. “Confidence drives people to initiate action, pursue it, and sustain persistence; as a result, they are more likely than their less confident counterparts to be successful performers.”

**THINK:** Your campaigns should focus on increasing confidence, not just social awareness.

5. “The firm’s involvement in a well-received cause-related campaign serves to make the firm more attractive to prospective customers and gives the salesperson a competitive edge.”

**THINK:** Give your reps all the tools they can use to close a sale, especially if it is as straightforward as a cause-related campaign.

6. “The association between [how a sales rep believes the customer perceives a campaign] and selling confidence is stronger for employees who are low on identification with the company and weaker for employees who report high levels of identification with the company.”

**THINK:** The agents who do not fully believe in what your agency stands for show a higher level of benefit than the agents who do. This is an area of your agency that was previously believed to be hard to reach.

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The Effects of Friendship on Business Relationships

by Bryan Gregory, M.B.A. Candidate

How do you manage friendship in your business? If the answer is “I don’t”, then this study may change how you do business. The effects of friendship on business and how best to manage it are studied in detail by Kent Grayson in *Friendship Versus Business in Marketing Relationships* (Journal of Marketing, 2007). Grayson analyzed survey data from 685 direct-selling agents, and discovered some surprising results regarding role conflict and friendship in the work place. Please note, the industry studied here was not real estate, though the core findings will still be relevant to your field. The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market. Specific types of marketing media, measures of time, and percentages should be altered to fit your industry.

1. “Friendships…have a positive effect on business outcomes, but only for friendships with relatively low instrumentality.”

**THINK:** Are your friendships at work genuine? This study continues to support the theory that friendship has positive effects on the business environment, however it emphasizes that this effect only occurs in friendships which exist for the sake of friendship and not for the sake of making use of another. Therefore if you wish to make your business more successful, you should seek out honest and true friendships with your clients. It also needs to be clearly communicated to them that you value the friendship for reasons other than the commissions or referrals that they can bring.

2. “The conflict between friendship and instrumentality is more influential for relationships that began as friendships than for those that began as business relationships.”

**THINK:** Relationships which began as friendships first are “more sensitive to conflict.” In the real estate industry, where friends and family networks often generate business leads, this is particularly relevant. One should closely monitor and take extra care with those relationships which were friendships first in order to avoid potential conflict which could result in the loss of both a friend and a client.

3. “Incentivizing customers to refer their friends may attract new business but may also dampen future customer commitment and negatively affect customers’ relationships with members of their social network.”

**THINK:** Offering incentives to clients for referrals is common practice in the real estate industry; however this is the first time its potentially negative effects have been identified. While this practice may have short-term benefits for your business by increasing leads, it may create conflict over the long term. By offering incentives for referrals, you are introducing
instrumentality into that client’s relationships with the friends they refer to you, creating potential for conflict between them and a lack of commitment to you. Care should be taken when offering incentives for referral of friends, and creating non-monetary incentives may be a way to avoid these negative consequences.

4. “The role of friendship appears to be more complex than merely helping or hurting business. Depending on how it is managed, it may simultaneously facilitate and hinder exchange.”

**THINK:** Careful management is key to harnessing the power of friendship for your business. There are two effective friendship management tactics. The first is explicitly separating business and friendship by “fostering some, but not all, of the relational attributes that define friendship.” The second is “drawing attention away from the extrinsic benefits that exchange partners are getting” by “reframing instrumental activities as being primarily intrinsically motivated.” For example, “[Companies] frequently reframe selling as ‘sharing’ good products and ideas with friends.”

5. “Ultimately, whether friendship and business conflict in a relationship depends in great part on how the individual exchange partners decide to define the terms of exchange.”

**THINK:** The way in which you communicate is also key. Care must be taken to word certain aspects of the business relationships in such a way as to reduce the emphasis on instrumentality. For example, asking for leads from a friend or family member can be communicated as the desire to help and offer a solution to their problem. Removing the “what do I get out of it” from the communication process is crucial in avoiding conflict between friendship and business.

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Efficiency of Franchising

by Jacqueline Simpson, M.B.A. Candidate

Is franchising in the residential real estate brokerage market efficient? What are the impacts on firms by franchising? What are the benefits for firms when franchising? In The Efficiency of Franchising in the Residential Real Estate Brokerage Market (The Journal of Consumer Marketing 1998) Randy I. Anderson and Robert Fok examine the decision to franchise and how it impacts efficiency levels for these firms. Their research gives insight to the positives and negatives when franchising in the residential real estate brokerage market. Please note, although the industry studied here was real estate, the study included 276 total firms (92 affiliated with a franchise and the remaining 184 were unaffiliated) and not all markets were included in the study. The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market. Specific types of marketing media, measures of time, and percentages should be altered to fit your industry.

1. “Because the information needed to make enlightened decisions in this market is costly to acquire, and could easily exceed the expected benefits from an extensive search, the assurance provided by a franchise brand name may be particularly valuable to buyers and sellers, and thereby provide a rent to the franchise.”

THINK: A franchise provides customers with a brand name they will recognize in the local market.

2. “Many of the services provided by real estate franchise organizations would prove very costly if paid for directly by local firms.”

THINK: It costs less for the franchisees to pay a royalty fee to a franchisor than to pay for training, research, and referrals individually.

3. “These firms are substituting increased variable costs for higher fixed costs of providing these services internally. The reduction in operating leverage thereby achieved may be very desirable for risk averse owners in an industry where demand is highly volatile.”
THINK: By only paying a fixed fee to franchisors, fewer units will have to be sold in order to recoup the costs incurred by the franchisees. Due to the high uncertainty of the housing industry, franchisees may be better able to withstand slumps in the market than non-franchised competitors.

4. It is possible that franchising could reduce the efficiency and image of individual firms in the franchise.

THINK: A franchise can include poor performing firms and high performing firms. If a franchise has both, the poorer performing firms could have lower quality products, services, and standards than the higher-quality performing firms. Because the two firms are in the same franchise, the higher performing firms could be associated with the lower performing firm’s standard performance and hence damage their own image and reputation.

5. “Franchised firms are more allocatively efficient than non-franchised firms...”

THINK: Being efficient at resource allocation, for example referral networks and name recognition, gives franchise firms a competitive advantage in producing revenue transactions more efficiently. Less time, effort, and money is spent when obtaining properties to list or finding buyers to purchase homes.

6. “Non-franchised firms were shown to be more scale efficient than franchised firms.”

THINK: Non-franchised firms are larger than franchised firms and may already have name recognition and an established reputation in the local market. Large firms would gain little from joining a franchise.

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Probability of Sale

by Chris Matcek, M.B.A./Masters of Engineering Candidate

Is there a way to tell ahead of time how likely a listing is to sell? In *The Probability of Sale for Residential Real Estate* (Journal of Housing Research) Ken H. Johnson, Justin D. Benefield, and Jonathan A. Wiley examine a set of 2,249 sold and unsold properties from a medium sized East Coast MLS. Their findings show that the commonly known positive relationship between property price and selling time has some inconsistencies and may require other variables to better understand the probability of a home selling. The probability of a home selling is most affected by factors like marketing time, seller motivation, certain property attributes, and location. The researchers compiled these variables to determine which ones most affected the probability of sale. **The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market.**

1. “There is a third metric [other than property price and property marketing time] that has at least as much impact on sellers and real estate brokers. Specifically, the probability of successfully selling the property is of considerable importance to both parties.”

**THINK:** Costs begin to rack up on both sides of the transaction if a house is not sold. The seller has the costs involved with keeping a house on the market and possible financial strain, while the broker will go uncompensated for their time. The probability of a home selling is an important metric to monitor.

2. “If sellers attempt to maximize their selling price by exploiting the positive relationship between property price and marketing time, as suggested by the majority of the modern pricing and time-on-market literature, there is a real cost to be borne: a reduced probability of selling the property.”

**THINK:** The commonly known fact that as the price of the property increases the time on the market increases may be incorrect according to recent studies. If you try to find a maximized value for property price, it may not sell if the other factors, discussed below, are not properly considered.

3. “A higher degree of property overpricing (DOP), indicating a lower seller motivation, also reduces the probability of a successful marketing effort.”

**THINK:** If the seller makes it appear that they have low motivation to sell by pricing the property over its market value, even if they change the price later, this may reduce the probability of selling within the listing time.
4. “Turning to the specified proxies for quality, the results generally behave as expected, with SSHOWER, DOVEN, and NC all significantly increasing the likelihood of selling a property.”

**THINK:** The probability of selling a home greatly increases with features like a separate shower, double oven, and a newly constructed home. By knowing these qualities, the agent and the seller can agree on a degree of overpricing and time on the market that maximizes the likelihood of selling.

5. “The results for property size and age are less intuitive. The model results indicate that larger properties have a lower probability of sale, while older properties actually enjoy a higher probability of sale.”

**THINK:** While this may just be a pattern in this sampled market, or the current market conditions, pay attention to which homes are selling since the results may not necessarily be intuitive.

6. “Both parties need to be cognizant that overpricing and extending marketing time, perhaps by rejecting a viable offer, are costly strategies that can contribute to marketing failure.”

**THINK:** When the seller sets a price or receives an offer, careful thought needs to be placed in whether the probability of sale is greatly affected.

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Referral Reward Programs and Referral Likelihood

by Suzanne Blake, M.B.A. Candidate

How can referrals affect your business positively? Conversely, what is the significance of the damage they can inflict? Referral reward programs can play a considerable role in establishing the effectiveness or ineffectiveness of referrals. In *A Penny for Your Thoughts: Referral Reward Programs and Referral Likelihood*, L. Feick and G. Ryu conducted a study in which they did four experiments to determine the impact that reward programs have on referrals. Their findings show that reward programs do matter; furthermore, brand strength, personal ties, and the person receiving the reward all have an impact on the effectiveness of the reward. As word-of-mouth (WOM) advertising can be a particularly difficult method to implement and measure, this article provides some very useful information that may assist in establishing effective WOM advertising. **Please note, the industry studied here was not real estate, though the core findings will still be relevant to your field. The results of this research should not be applied blindly, but with serious thought as to how they might be relevant in your particular market. Specific types of marketing media, measures of time, and percentages should be altered to fit your industry.**

1. “Consumers consider the value of potential cost for themselves and for the other consumer in rewarded referral.”

**THINK:** Approach rewarded referrals from the perspective of the buyer rather than that of the seller. Think about what the rewards and benefits are for the home owner when s/he makes a recommendation. According to exchange theory, consumers will make a decision to provide a referral based on what’s in it for themselves. Looking at rewarded referrals from this point of view will assist real estate agents in determining how to reward referrals.

2. “With strong ties, people tend to have communal relationships in which they feel general concern about the other person’s welfare. They respond to the other’s needs but do not expect anything in return… With weak ties, reciprocity is important; people expect to get back what they put in.”

**THINK:** With this in mind, it makes sense that people would naturally refer close friends and family. However, to go out of their way to refer a more distant acquaintance, they may need some incentive or expect to get something out of the referral. If real estate agents can focus their rewards on those weaker relationships, they may have referrals that would not have occurred organically.

3. “Research shows that consumers respond to stronger and weaker brands differently.” “[The] stronger commitment gives consumers of a stronger brand more confidence in making recommendations, thus increasing (unrewarded) referral likelihood.”
THINK: When working with a strong realtor name brand, the agent should focus on the quality and prestige associated with that brand as it will help increase referrals. This methodology would also apply to a real estate agent who is well-established in the industry. By focusing on his/her proven track record, s/he will be able to generate more referrals. On the other hand, when working with lesser-known brands or when working as a new, lesser known real estate agent, rewards may be much more crucial to realizing positive referrals.

4. “Offering a reward increased referral likelihood by more than 20 percentage points for the weaker brand but by less than 10 percentage points for the stronger brand.”

THINK: This experiment shows the validity of the previous point that reward incentives are more important for weaker brands or lesser known realtors than for strong brand names. The efforts of rewards programs have a greater magnitude when used by weaker brands.

5. “The first referrals from a customer will probably be family or close friends for whom the recommendation is likely to have occurred anyway. It is probably subsequent referrals, presumably weaker ties, that need encouragement.”

THINK: This supports the second point that rewards should be focused on weaker tie relationships. According to the article, one way this can be realized is to offer rewards of higher value as referrals increase. Home buyers would be most likely to refer family members or very close friends first. A reward of greater value may be necessary to extend their recommendations to more distant friends.

6. “Making a referral without any extrinsic reward may create feelings of inequity for a customer; the referral is an unreciprocated favor done for the consumer and the company.”

THINK: Rewarded referrals may not just be an added benefit to business. In fact, it may be advisable to think of rewarded referrals as a necessary part of doing business. In order to establish beneficial long-term relationships, people need to feel that there is balance in the relationship. Rewarding referrals is one way to establish this balance in the proverbial “bank of favors.”

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