

# KellerCenter Research Report



» March 2018, Volume 11, Issue 1

## The Power of Surveys to Increase Repeat Business

*Sterling A. Bone, PhD, Katherine N. Lemon, PhD, Clay M. Voorhees, PhD, Katie A. Liljenquist, PhD, Paul W. Fombelle, PhD, Kristen B. DeTienne, PhD, and R. Bruce Money, PhD*

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*Miranda Fair, MBA Candidate*

## INSIDER: Listing Boss

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# Keller Center Research Report

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# The Power of Surveys to Increase Repeat Business

Sterling A. Bone, PhD, Katherine N. Lemon, PhD, Clay M. Voorhees, PhD, Katie A. Liljenquist, PhD, Paul W. Fombelle, PhD, Kristen B. DeTienne, PhD, and R. Bruce Money, PhD

Do you take the time to request feedback from your clients and customers? If not, you could be missing out on an opportunity to boost repeat business. Research has shown that merely soliciting a review from customer increases repeat business. This is known as the *mere solicitation effect*. While such effects were known, what had not been investigated was how the specific wording of the request for feedback can influence a customer's repeat purchase behavior. In multiple field studies, we find that repeat purchases are boosted (above and beyond the mere solicitation effect) when companies ask for open-ended, positive feedback at the beginning of a customer survey.

## Customer Feedback

Firms have long recognized the value derived from customer feedback. With the information customer surveys provide, businesses are able to alter their internal operations to provide a superior product or service that truly meets the customer's needs. However, the effect of surveys goes beyond the internal improvement of the company. Research and analysis has led companies to understand that soliciting customers for feedback is an ideal opportunity to engage customers and promote loyalty.



A national study of 813 individual companies found that 86% of companies attempt to gather some form of feedback from their customers (MarketTools 2010). The majority of firms seek negative feedback (rather than compliments) so that they can identify areas in need of improvement. After completing countless surveys seeking negative feedback, the typical customer has been conditioned to think exclusively about criticisms of the

company when providing feedback (Ofir and Simonson 2001).

A simple way to pose a positive, open-ended question is to ask something like, "What went well during our last interaction?" In contrast, traditional closed-ended surveys typically ask questions such as, "How well did we treat you as a customer?" with a scale from very poor to excellent. Asking an open-ended "what went well," rather than "how well did we do?" promotes deeper

thinking and allows the customer the opportunity to expound on what they liked most about their experience.

When customers take time to complete a survey asking for negative feedback, they are reinforcing negative memories about their encounter with the company. Consequently, we wanted to know if companies could instead reinforce positive memories by soliciting positive feedback from customers, and whether this could ultimately enhance future sales.

## **Psychological Measurement Effects**

Memory of an event is highly malleable; in fact “the process of remembering itself can rescript and reconsolidate our memories” (Sara 2000). The questions that initiate the process of remembering can alter our perceptions of the past (Loftus and Palmer 1974). By asking customers to specifically recall positive aspects of their past experiences, a new and more positive memory can be developed.

Asking an open-ended positive question invites customers to reflect on the best aspects of their experience. Once customers have retrieved positive memories, translating that memory into spoken word or written text creates an effect known as “memory persistence” (Yarbrough et al. 2013). With a newly reinforced positive memory, one would expect the customer to have a higher rate of repurchase from that company. This theory was tested in two field studies designed to observe actual repurchase behavior of customers.

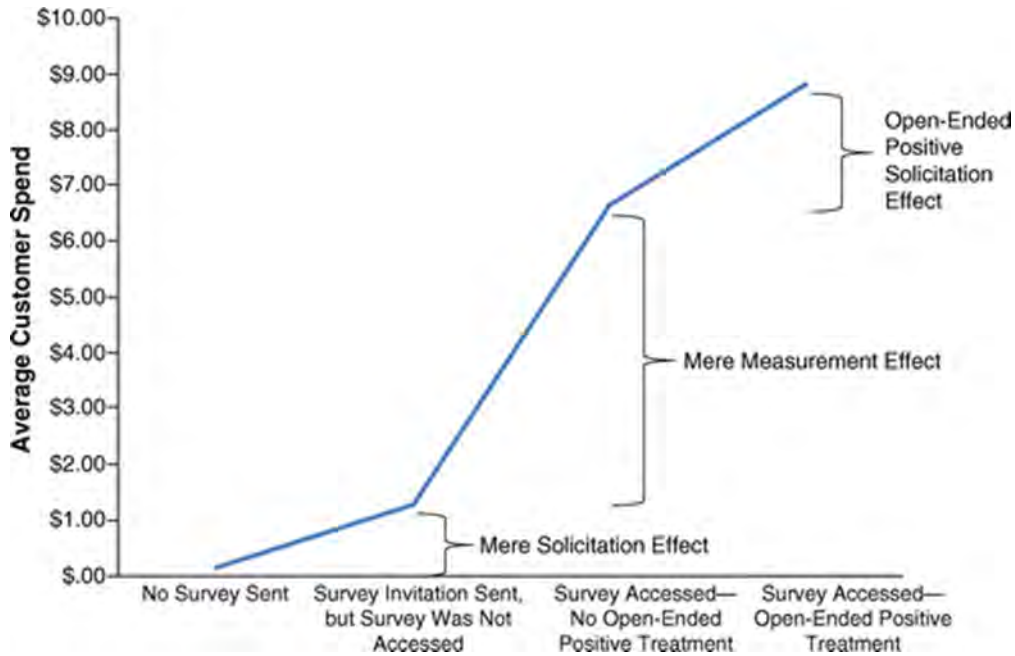
### **Study 1: The Effect of an Open-Ended Positive Solicitation**

In a telephone survey following a retail purchase, we asked a group of retail customers for positive feedback in an open-ended format (“Tell us what went well with your visit?”), followed by traditional closed-ended questions (“Now would you rate the quality of your service?”). We requested feedback from another group of customers using only the closed-ended prompts. Upon analysis of the customer’s total purchases in dollars over the next year, the customers who were first asked open-ended, positive questions on the survey spent 8.25% more than their counterparts. When compared with customers who were asked to complete the survey but opted not to complete it, the customers who received open-ended and positive questions spent 130% more.

### **Study 2: Assessing the Increased Effect of Beginning the Survey with Positive Solicitation over General Solicitation**

In our second study, we used an online survey (on behalf of a new business) to assess the effects of written versus oral customer feedback in converting trial to actual purchase. In the online format, the survey measured the expected increases in purchase behavior resulting from mere solicitation, measurement, and the open-ended positive effect.

Mere solicitation of survey feedback (simply sending out a survey even if not completed by the customer) resulted in a statistically significant increase of purchases. An even larger boost in repurchase occurred if the customer actually completed the survey, supporting the mere measurement effect. By opening the survey with an open-ended positive question, repurchase further increased above the mere measurement effect. In total, customer spending increased by 33% from the traditional closed-ended survey to the survey that led with an open-ended positive solicitation.



### Real Estate Implications

While real estate agents do not typically deal with small purchases, they do rely heavily on repeat clients, referrals, and their overall reputation for excellence. Traditional surveys are excellent at providing insight for you to improve your service for future clients. Surveys that solicit positive feedback can also enhance a client’s perception of you, so take the time to ask for positive feedback via a formal survey or a casual conversation at closing.

By creating a simple questionnaire that you distribute after completing your service, great benefits can be realized. Simply mailing or emailing a survey to your client can groom the client’s perceptions of you via the *mere solicitation effect*. Once the client completes the survey, the mere measurement effect solidifies lingering memories in the client’s mind and increases his/her likelihood of repeating business with you. To realize the greatest benefit, simply begin your survey by requesting positive feedback in an open-ended format, starting with questions like, “What went well in our interactions?” or “What did you enjoy most about your home search process or working with me?”

One important caveat: find an opportunity to listen to your customers to find out if there is anything you need to improve about your service. If you are not currently surveying prior clients, you are not alone. However, you are missing out on the opportunity to enhance perceptions of your services that can boost repeat clients and referrals.

## Recommended Reading

Bone, Sterling A., Katherine N. Lemon, Clay M. Voorhees, Katie A. Liljenquist, Paul W. Fombelle, Kristen B. DeTienne, and R. Bruce Money (2017), “Mere Measurement ‘Plus’: How Solicitation of Open-Ended Positive Feedback Influences Customer Purchase Behavior,” *Journal of Marketing Research*, 54(February), 156-170.

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Dr. Lemon (PhD – University of California, Berkeley) is currently the Executive Director of the Marketing Science Institute. Her research focuses on customer management, customer equity, customer experience, and the dynamics of customer-firm relationships. She has authored three books including *Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy*. Kay is the past Editor of *Journal of Service Research*. She is a recipient of the Christopher Lovelock Career Contributions to the Services Discipline Award, the Sheth Foundation/*Journal of Marketing* Award, and she is an American Marketing Association Fellow.

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Dr. Voorhees' (PhD – Florida State University) research focuses on the explanation and management of the dynamics of social exchange and social influence. Within this theoretical umbrella, he focuses on projects related to customer experience management and loyalty, often in service contexts. His research has been published in the *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Science*, *Strategic Management Journal*, *Journal of Retailing*, and *Journal of Service Research*, among others. In 2016, Clay received the "Best Services Marketing Article" award from the American Marketing Association, and in 2015, he received the Emerging Service Scholar award from the American Marketing Association's Services Marketing Special Interest Group. In addition, his research has received the 2011, 2012, and 2015 Industry Relevance Awards from Cornell's Center for Hospitality Research and has been featured in media outlets such as *Wall Street Journal*, *TIME Magazine*, *BusinessWeek*, *USA Today*, *U.S. News & World Report*, and numerous other domestic and international periodicals. In addition to research, Clay teaches a range of courses at the masters and doctoral levels focused on innovating and launching new goods and services, insights and analytics, and marketing management.

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Dr. Fombelle's (PhD – Arizona State University) current research interests examine customer feedback management, customer loyalty and relationship marketing, service innovation, and service experience management. His research has appeared in the *Journal of Marketing Research*, the *Journal of the Academy of Marketing Science*, *Journal of Service Research*, *Journal of Interactive Marketing*, and *Journal of Business Research*. He currently serves on the editorial review board of the *Journal of Business Research*. Paul's global research partners span a variety of sectors including technology, financial, health, food/fine dining, retail, and entertainment services. Prior to earning his Ph.D., Paul worked in branding for Ogilvy and Mather in New York, where he helped managed such brands as American Express and Post Cereal.

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Dr. DeTienne's (PhD – University of Southern California) research examines the interdependent behavior among organizational employees, leaders, and external constituencies, such as customers. Her work extends the current understanding of the impact of behavior on organizational outcomes such as profitability. In 2010, she received the "Outstanding Paper Award" for her article in *Competitiveness Review*. Her monitoring legislation article was selected for Best of the American Bar Association. Her research was awarded outstanding article of the year by the Association for Business Communication, and she won the Best of Conference Honors at the Organizational Behavior Teaching Conference. DeTienne has also published over 70 peer-reviewed journal articles, book chapters, and conference proceedings.

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# How Language Shapes Word of Mouth's Impact

*Grant Packard, PhD and Jonah Berger, PhD*

One way the internet is shaping consumer purchase decisions is by introducing transparency. Today, consumers can express their opinions about a product, a property, or almost anything. A few lines written by an anonymous user in a completely different geographic location and time zone can impact success or failure in the marketplace.



We examined how variations in the language reviewers use to endorse products impacts persuasion.

## Word-of-Mouth Endorsements

We observed two general ways people endorsed products linguistically: (1) implicit endorsements and (2) explicit endorsements. Implicit endorsements entail the sharing of one's own personal positive opinion, while explicit endorsements declare that the product is appropriate for other potential customers. For example, an implicit endorsement might say, "I like this house," while an explicit endorsement could say, "I recommend this house." While both of the statements are positive, the first shows the speaker's declaration of his/her own tastes while the second shows the speaker's declaration that something is appropriate for an audience.

In our research, we set out to determine whether—

- 1) there are meaningful linguistic variations in how consumers endorse products to one another;
- 2) a person's knowledge about the product category they are talking about (e.g., books, real estate, wine) moderates the endorsement language that an individual uses, and;
- 3) these language variations affect the persuasive impact of word of mouth.

We report the results of a field data analysis of over 1,000 online reviews and four experiments to answer these questions.

## Research Observations

First, the authors analyzed over 1,000 real consumer reviews and the review writers' purchase histories to identify common endorsement styles, and to test whether the extent of a person's

experience with a product category (e.g. purchase volume or frequency) impacted style preferences. Results reveal explicit endorsements (e.g., “I recommend...”, “I suggest...”) and implicit endorsements (e.g., “I like...”, “I enjoyed...”) as the two dominant styles. Consumers who had bought fewer products through the website were almost four times more likely to explicitly endorse products than those who had a greater purchase history with the firm. This suggests that product category experience may be linked to endorsement style.

Next, two experiments formally tested the relationship between product category knowledge and explicit endorsement and examined the mechanism behind this effect. Results confirmed that category novices are significantly more likely to “recommend” products than experts and that lower awareness of variation in others’ tastes (preference heterogeneity) for category novices drives this result. In short, less knowledgeable consumers tend to imagine that if they like something, say a particular property, everyone else will too. They therefore “recommend” it to others more frequently. In contrast, consumers who are more knowledgeable about real estate might appreciate that some people may like large backyards, while others may prefer a small patio. As a result, rather than recommend things to others, knowledgeable consumers tend to just describe their own preferences when endorsing something (e.g., “I enjoyed...”).

A set of additional experiments studied endorsement style’s impact, testing how explicit endorsements affect persuasion, and the mechanisms underlying this effect. Explicit recommendations (e.g., “I suggest...”) generated perceptions that the information source was more expert, and further, that they liked the product more than the implicit style (e.g., “I liked...”). These perceptions then led to increased purchase intentions for the reader.

Finally, a unique “yoked” study design demonstrated that, overall, the relationship between consumer knowledge and endorsement styles can lead users of online product information to make worse decisions. Specifically, more novices chose an objectively inferior (vs. superior) product and then chose to explicitly recommend it in an online review. Participants in another study “yoked” to this one saw the actual distribution of “recommends” and “likes” for the products in the word-of-mouth condition. This led them to be even more likely to choose the worse product versus those asked to make the same decision without word-of-mouth information.

## **Summary of the Results**

With increasing word-of-mouth information available online, the influence cast by this mode of communication has also increased. Our research shows that the language used by people to endorse a product or a service has an important influence on how other consumers react to that endorsement.

Compared to more implicit endorsements (e.g., “I liked it” or “I enjoyed it”), explicit endorsements (e.g., “I recommend it”) are more persuasive and increase purchase intent. This



occurs because explicit endorsers are perceived to like the product more and have more expertise. Looking at the endorsement language consumers actually use, however, shows that while consumer knowledge does affect endorsement style, its effect actually works in the opposite direction. Because novices are less aware that others have heterogeneous product preferences, they are more likely to use explicit endorsements. Consequently,

the endorsement styles novices and experts tend to use may lead to greater persuasion by novices. These findings highlight the important role that language, and endorsement styles in particular, play in shaping the effects of word of mouth. This relationship was observed in both product and service contexts.

### **Implications for the Real Estate Industry**

Like many other industries, the real estate industry is impacted by reviews written on digital platforms. A client can easily write a review about a property and/or a real estate agent and create very powerful connectivity. Some direct implications of our research for the real estate industry are:

1. The language used by a customer about a property will influence other potential home buyers. For example, a potential customer is more likely to be influenced by a customer who writes “I recommend this property” or “I recommend this agent” than someone who writes “I like this property.” Hence, explicit endorsements will appeal more than implicit endorsements, especially when it comes to important investments such as a home.
2. A more knowledgeable consumer, who does thorough research before purchasing a property, is more likely to write an implicit endorsement. While such reviews might not be perceived to be as helpful for the agent and the company, they give an indication that the consumer has knowledge and expertise in the home-buying process. When speaking with such consumers, a real estate agent should mention the advantages of the property which will help the property stand out in the crowd. For example, when dealing with more knowledgeable consumers, the agent should not just speak about the advantages of a property but also give a comparative study of this property and other properties in other communities.

3. Implicit endorsements are very common, but they are less compelling to other potential home buyers. Hence, it is in the best interest of the agent/real estate company to focus on obtaining explicit endorsements. One way to gain explicit endorsements is by giving a better client experience based on the buyer's background and lifestyle. With a lot of data freely available on the web and social media, understanding the end customer is less of a challenge than it used to be.

## Recommended Reading

Packard, Grant and Jonah Berger (2017), "How Language Shapes Word of Mouth's Impact," *Journal of Marketing Research*, 54(4), 572-88.

## About the Authors

### Grant Packard, PhD

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Grant Packard's (PhD – University of Michigan) research explores self-concepts, motivation, language, perception, and interpersonal influence in interactions among consumers and with firm agents. His research has been published in top-tier journals and presented at leading conferences. Before entering academia, Grant was a marketing executive for Chapters/Indigo and Excite Canada and worked with advertising agencies DMB&B New York and BBDO Toronto. In 2002, Grant was profiled as one of Canada's top 30 marketers under the age of 30 by *Marketing Magazine*.

### Jonah Berger, PhD

#### Associate Professor of Marketing, University of Pennsylvania

Jonah Berger (PhD – Stanford University) has spent over 15 years studying how social influence works and how it drives products and ideas to catch on. He's published dozens of articles in top-tier academic journals, consulted for a variety of Fortune 500 companies, and popular outlets like the *New York Times* and *Harvard Business Review* often cover his work. Professor Berger is the author of the *New York Times* and *Wall Street Journal* bestseller *Contagious: Why Things Catch On* and a new book on the hidden forces that shape behaviour, *Invisible Influence*.

## Doing Well vs. Doing Good

*Amna Kirmani, PhD, Rebecca W. Hamilton, PhD, and Debora V. Thompson, PhD*

The ideal real estate agent has high competence as well as high integrity. But not all real estate agents are perceived that way. Some agents are award winners as top producers, while others are willing or able to sell only a few houses. Some agents have a reputation for being completely honest, while others do not. How do consumers trade off competence and morality when choosing a real estate agent?

Extensive research in psychology shows that when we evaluate other people or groups, we care more about morality than we do about competence (Leach, Ellemers and Barreto 2007; Wojciszke 1994; Wojciszke, Bazinska and Jaworski 1998). Given a choice between interacting with someone who is a highly competent but less moral or someone who is highly moral but less competent, most people prefer the person who has good intentions but is less successful. This makes sense when evaluating someone as a potential friend, romantic partner, or even a co-worker.



However, things may be different when consumers choose service providers, such as real estate agents. Real estate agents help consumers accomplish purchase-related goals, such as buying or selling a house. Given the importance of getting the job done, it is unclear whether and when morality will dominate competence. In our research, we predicted that when the immorality of the service provider (e.g., a real

estate agent) does not directly harm consumers (such as when a real estate agent cheats on his or her expense account), consumers would be more likely to *choose* a competent but less moral agent even though they *liked* the moral agent better. In a series of studies, we found strong evidence for this prediction. In other words, consumers may prefer a more competent, less honest agent as long as the lower honesty doesn't directly harm them.

However, we also found a way to attenuate the effect: consumers were more likely to choose the moral service provider when they felt empathy with the provider, such as when he or she was described as an underdog, passionate and determined but with limited resources. This suggests that less competent, highly moral real estate agents can have a competitive advantage when they generate empathy among consumers.

We tested our predictions using several different methods. First, we collected online reviews of five different types of services providers (doctors, hair stylists, house cleaners, mechanics, and masseuses) from Yelp.com. We coded these reviews for mentions of competence (traits related to effective provision of service, such as knowledge, skill, and intelligence) and morality (traits such as sincerity, fairness, being principled, honesty, and trustworthiness), as well as other traits such as warmth (i.e., sociability, playfulness, happiness, and being funny). Competence (mentioned in 88% of the reviews) and morality (mentioned in 18%) traits were described frequently, clearly suggesting that consumers consider them important. Moreover, mentions of competence and morality were better predictors of the review usefulness ratings provided by other consumers than traits such as warmth, suggesting that competence and morality play a particularly important role when evaluating service providers.

In our next study, modeled after the trivia TV show *Who Wants to Be a Millionaire?*, participants earned \$.50 for each trivia question they answered correctly, and they chose a lifeline to help them if they encountered a question they could not answer. Participants were offered two lifelines: a competent lifeline—an advice giver described as having an 86% success rate but who had engaged in immoral behavior—and a moral lifeline—a morally upstanding advice giver with a lower success rate (55%). As predicted, most participants (64%) chose the competent lifeline when no other information was provided. However, when the moral lifeline was described as being an underdog who “comes from a poor family” and has “a true passion for learning,” participants were significantly more likely to choose the moral lifeline (73%) than the competent lifeline. Notably, describing the competent lifeline as an underdog did *not* make participants more likely to choose him. Underdog positioning seems to be particularly effective for moral service providers, perhaps because participants are motivated to evaluate the moral lifeline more positively.

In our next three studies, we showed that, indeed, feeling empathy is what makes consumers more likely to choose the moral but less competent service provider, and describing the service provider as an underdog elicits empathy. We compared tradeoffs between competence and morality (as in the lifeline study) with tradeoffs between competence and warmth, and we found that although underdog positioning helps moral service providers overcome deficits in perceived competence, it does not help either competent providers lacking in morality or warm providers lacking in competence.

A key insight of our research is that underdog positioning is *not* equally effective for all service providers: it can provide an effective buffer against shortcomings in competence but it does not guard against lapses in morality. Thus, our findings suggest that underdog positioning will be particularly effective for brands that are positioned as moral (i.e., honest, socially conscious, organic, or green). Indeed, when we look at the marketplace, many underdog brands seem to play up their health, social consciousness, or environmental

consciousness, such as Nantucket Nectars, Ben & Jerry's, TOMS Shoes, Burt's Bees, Lifeway, and Chipotle.

In summary, our research shows that although consumers choosing service providers tend to favor competence even at the cost of morality, moral service providers can increase market share by highlighting their underdog status. These findings are particularly useful for small companies and not-for-profit organizations. When compared to large or for-profit businesses, these organizations tend to be perceived by consumers as more moral but less competent. A successful positioning strategy for them may be to highlight morality-related attributes, such as integrity, honesty, or ethical behavior, coupled with emphasizing their status as underdogs.

### **Recommended Reading**

Kirmani, Amna, Rebecca W. Hamilton and Debora V. Thompson (2017), Doing Well vs. Doing Good: The Differential Effect of Underdog Positioning on Moral and Competent Service Providers, *Journal of Marketing*, 80(January), 103-117.

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Dr. Amna Kirmani (PhD – Stanford University) is Editor-in-Chief of the *Journal of Consumer Psychology*. Her research interests include persuasion knowledge, behavioral signaling, morality, and branding. Her work has been published in several journals, including the *Journal of Consumer Research*, *Journal of Marketing Research*, *Journal of Marketing*, and *Journal of Consumer Psychology*. Her papers have won the Paul Green Award in the *Journal of Marketing Research*, the Maynard Award in the *Journal of Marketing*, the Best Paper Awards in the *Journal of Advertising* and the *International Journal of Advertising*, and Article of the Year at AMA TechSIG. She has served as the Director of Doctoral Programs at the Smith School of Business at the University of Maryland. Kirmani has also served as President of the Association for Consumer Research and is on the Policy Board of the *Journal of the Association for Consumer Research*.

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Institute as a Young Scholar in 2007. She is currently Co-Editor of the *Journal of Marketing Research*, Associate Editor for the *Journal of the Academy of Marketing Science*, and serves on the Editorial Review Boards of the *International Journal of Research in Marketing*, *Journal of Interactive Marketing*, and *Journal of Marketing*. She also serves on the Academic Council for the American Marketing Association. Professor Hamilton enjoys teaching consumer behavior classes to undergraduate, MBA, and executive MBA students.

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# Playing the Value Game of Sales

*Charles Fifield, MBA*

The strength of the buying proposition for any customer is a function of its value to that customer. In other words, it is determined by the perceived benefits that the customer will realize once the product or service is purchased (and installed) minus the price. Therefore, the creation of net or surplus value has many benefit-driven components that impact the buyer's ultimate value assessment. Since a benefit for the buyer is created whenever the seller successfully matches a buyer's need, or more importantly, a buyer's want, to a seller's capability, the salesperson must be willing to adapt to changing circumstances as the buyer or the situation presents them.

This process can be thought of as a game, the Value Game. This game is not just your normal game encounter, but rather a real-life experience in which sellers and their supporting teammates, the sponsoring company and the products/services being offered, engage with prospective buyers. The process consists of a series of progressive steps or interactive exchanges, with the salesperson-player's goal being a hard fought and



unusual win-win game outcome. A win-win outcome should not be thought of as a tie, but rather a growth-minded victory for both players. Through this game, both the buyer and seller will achieve incremental value-added through the game's interaction, relative to what both players had at the beginning or if they had never played the game at all. In other words, the outcome has produced a synergistic effect.

The incremental value assessment gained by a buyer is not just another step in a sequence of sales steps designed toward a close, but rather an ongoing cumulative process that begins with the first buyer-seller encounter, the first impression, and continues throughout the relationship. On the other hand, if the salesperson fails to achieve a win-win outcome at the beginning of a relationship, then the longer-term value game often will never materialize. Therefore, it is imperative that the salesperson be consistently ready to produce a positive value outcome from start to finish, whenever that may occur. To do so, the salesperson needs to have the right mindset and a consistent strategy. Taking a value game approach not only produces results, but it makes the normal buyer-seller interaction more interesting.

## The Right Mindset and the Salesperson's Dilemma

During any buyer-seller interaction, the seller has to come prepared to guide the buyer to a win-win outcome with a buyer-focused attitude. The salesperson must transition from natural win-lose mentality to win-win mentality, or from a competitive mindset to a cooperative/collaborative mindset, a.k.a. the salesperson's dilemma.

This mindset transition is very similar to Stephen Covey's *The 7 Habits of Highly Effective People*, in which Covey emphasizes a person's effectiveness is largely dependent on their ability to transition from independent thinking to interdependent thinking. To do so requires progressing through the seven habits:

1. Be proactive
2. Begin with the end in mind
3. Put first things first
4. Think win-win
5. Seek first to understand, then to be understood
6. Synergize
7. Sharpen the saw

For the delivery of ongoing value to others through an interactive selling process, these seven habits, from top to bottom, represent a recipe for value-building success.

## What's the Recommended Consistent Strategy?

First, there are two key buyer decision factors that must be developed: facts/financials and feelings. Targeting the emotional motivation of the buyer is the majority of the challenge to achieving the goal in mind, i.e., a win-win success story. J. P. Morgan once said, "A man always has two reasons for doing anything: A good reason and the real reason." What the salesperson needs to find is the real reason, and *that component will usually lie in the emotions or feelings of the buyer.*

Second, the recommended method to uncover the real reason is a five-step sequential selling process:

1. Gain the buyer's attention and establish a theme.
2. Through active listening tools, assess the buyer's interests and wants.
3. Find the real reason behind a purchase decision based on a problem and pain awareness discussion with the buyer.
4. Through a presentation, show and convince the buyer that a change decision will overcome the sighted challenges or shortcomings and deliver a value-adding opportunity.
5. Close the purchase decision.

## Playing the Value Game

The game has four basic phases or quarters of interaction commencing with the first quarter (The Preliminaries) in which the salesperson must navigate through considerable relationship-oriented challenges. These include the first impression, basic likeability, rapport building with emphasis on the salesperson gaining perceived competency, credibility, commonality and some modicum of buyer comfort and trust. The beginning of the game is often filled with fairly challenging buyer-seller resistance, or “skirmishes.” Almost all buyer-players have the initial advantage and hate the feeling of being sold, and few enter the game seeking to change from the status quo, even if it’s not working that well or meeting performance expectations. In order to progress further in the Value Game with the buyer, the salesperson needs to establish the game’s time limit, the buyer-seller purpose for interacting (why am I here and what’s in it for the buyer) and, at a minimum, accomplish some neutral ground, including obtaining the buyer’s permission to enter phase two. That permission is earned by ending the first quarter with at least a nominal net positive value gain score for the buyer.

The second quarter (Developing Interest and a Desire to Change) of the Value Game is about developing three critical value contributors:

1. The seller determines some key influences on the buyer’s decision-making process through a buying center confirmation and budget/risk discussion.
2. The seller develops a clear understanding via active listening techniques of what desired state the buyer is seeking and why.
3. The seller achieves desire on the part of the buyer to consider a change from the “as is,” which is failing to achieve the desired state (i.e. feeling pain), to an improved value alternative, assuming the seller, including allies, can deliver the necessary improvement.



After this quarter, the buyer must feel some desire to change as a result of perceived potential value, or the second half is usually a waste of time for all players. To avoid this, the seller must be observant of buyer non-verbal communication, and trial closing should be consistently employed.

The Value Game’s third quarter (The Presentation/Demonstration and Conviction to Change) is about the seller and buyer co-developing ideas for mutual gain and then showing and confirming how those ideas will work for the buyer. A critical value-enhancing condition achieved during this period of play is the seller correctly matching specific features or capabilities with what the

buyer previously indicated was wanted and why. Statements beginning with, “What this will do for you” and “What’s in it for you” should be practiced by the seller. The buyer needs clear guidance to achieving added value versus the seller assuming that the buyer will understand what the proposal will accomplish.

The fourth quarter (The Value Discussion and Gaining Commitment) contains two important contributing elements to the seller’s ability to successfully play the Value Game. When entering this fourth quarter, the seller must first transition to more positive-minded thinking in order to effectively lead the buyer through a value discussion summarizing what a purchase decision would financially, personally, and emotionally accomplish for the buyer. The final purchase decision is often emotionally driven; therefore, the salesperson needs to be willing to not only effectively summarize the estimated value-to-be-gained in financial terms, but also engage the buyer’s emotions consistent with the proposal’s acceptance. This value discussion is often a benefit summary type close being offered as a critical game point trial close. Second, it is imperative to gain a decision to either purchase the offering (an order close) or, at a minimum, secure a decision to continue the quest to achieve a win-win outcome (a process close). To have played over three quarters of buyer-seller interaction and then fail to obtain a close is a lose-lose proposition. Furthermore, assuming the value discussion is very positive, the ideal win-win close (i.e. the buyer closing the seller) can sometimes be achieved.

### **Don’t Let Objections Take You Out of the Game**

During any Value Game encounter, certain objections should be expected to arise. Although worded very differently, these objections generally follow five patterns: no trust, no need, no hurry, no help, and price/no money. For maximum value fulfillment, objections and the salesperson’s ability to proficiently manage them can be a significant value-building ingredient. For example, it may be productive to invite objections early during a buyer-seller engagement. As a general rule, earlier objections enable the seller to quickly demonstrate value-building capabilities, including, but not limited to:

1. Communication skills
2. Leadership skills
3. Listening skills
4. Competency
5. Trustworthiness
6. Empathy
7. Caring
8. A willingness to understand the buyer

As Covey highlights in his seven habits, seek first to understand, then to be understood. This is the essence of good objection management. Objections represent fertile opportunities for sellers to clearly demonstrate these capabilities or value builders. Theodore Roosevelt is one of several

people credited with coining the phrase, “People don’t care how much you know until they know how much you care.”

As the buyer-seller engagement progresses, objections tend to be more positive buying signals than significant causes of concern or red flags. For example, a buyer asking about terms, conditions, or even price are generally all positive inquiries. Even if a buyer poses what proves to be a deal-killing concern, it is best to learn earlier versus later so that the seller’s time and resources are not wasted on a “china egg,” a selling situation that will never hatch no matter how much time or effort is expended.

## Summary

Every business is a process that transforms inputs into outputs. In so doing, the business must be adding incremental value for buyers, or it will go out of business. The sales process is no different because it should be organized to transform prospects into satisfied customers. Offered experience must consistently add value, or the targeted buyers will seek solutions elsewhere.

Rather than focusing efforts on winning or losing, sellers should focus on the necessary habits of value-building success—the right mindset and consistently working a strategy that is value driven and properly aligned to the buyer’s reasons to buy. In other words, it’s not about winning or losing; it’s how well you played the Value Game.

## Reference

Covey, Stephen R. (2004), *The 7 Habits of Highly Successful People*, New York, NY: Free Press.

## About the Author

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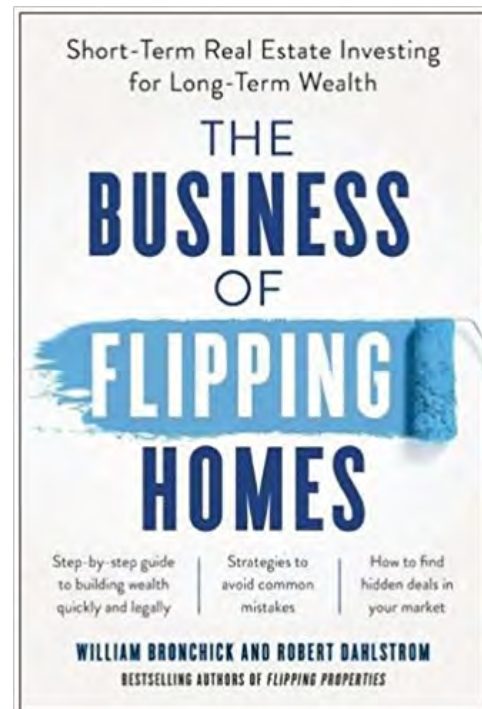
Chuck Fifield is a Senior Lecturer for Baylor University’s Hankamer School of Business, Marketing Department and serves as the faculty coach to several Baylor Sales teams. He joined the faculty at Baylor University in 2001, teaching in the Graduate Business School (Operations Management), the Management Department (Negotiations and Conflict Resolution), and the Economics Department (Principles of Macroeconomics). Chuck has taught or guest lectured at other Texas-based universities in the fields of sales, international business, money and banking and finance/investments. Professor Fifield has conducted sales research and training for several organizations, including most recently State Farm Insurance. Prior to joining Baylor, Chuck was a financial consultant for nearly thirty years to businesses located throughout the U.S. He owned and operated several financial service businesses in the fields of securities, real estate, oil and gas and insurance.

# INSIDER: The Business of Flipping Homes

*Miranda Fair, MBA Candidate*

Flipping homes has become a popular style of investing, especially considering the number of current television shows that highlight flipping. Many people are left with the impression that they, too, can immerse themselves in a world of sparkling granite, colorful tiles, and rich hardwoods, all while making a handsome profit. But fixing and flipping a home should not be romanticized, as successful flippers have knowledge that extends beyond farmhouse bathrooms or modern living spaces.

Successful investors who flip homes have a knowledge of local laws. They know the difference between a general warranty deed and special warranty deed, along with which is more beneficial depending on their role as buyer or seller. Successful “flipper investors” can make basic plumbing or electrical fixes themselves, and they can quickly estimate costs of repairs. Perhaps most importantly, good investors are supported by a great team that can help fill any gaps in their knowledge or experience. Flipping a home involves more than fun interior design decisions, but with the right knowledge, you, too, can become a successful investor in flipping homes.



In their book *The Business of Flipping Homes*, William Bronchick and Robert Dahlstrom provide a thorough and comprehensive guide to flipping homes, from the first step to the last. They share their years of expertise, providing readers with the tools they need to succeed. A thorough understanding of the process of flipping homes can greatly increase profits for investors and even for brokers. After reading this book, you will be equipped not only with the knowledge that you need to be a successful investor in the home-flipping market, but with practical tools, like templates for advertisements, contracts, business cards, and joint-venture agreements. So, what makes a successful investor? Let’s take a closer look at some of the most important, and perhaps most overlooked, strategies to maximize your efforts as a short-term real estate investor.

## **THINK POINT #1: Build a Foundation**

As an investor, it is not enough to know how to choose a stunning backsplash—you must know how to find distressed properties, how to navigate contracts, and how to calculate remodeling costs. But how can one person know how to successfully accomplish so many different tasks?

Build a team. In the same way that a strong foundation makes a strong home, a strong team makes a successful investor in the home-flipping market. Your team is your foundation, so prepare it carefully.

You will increase your chances of success, and thereby profits, if you put together a solid team that you can call on to complete a job quickly and with excellence. Bronchick and Dahlstrom recommend that you have a broker, an attorney, a title or escrow company, an accountant, contractor, a lender, and a partner on your team.

Agents and brokers can help you navigate the world of real estate and find properties that meet your investment needs. Brokers can be your most valuable resource, helping you to find distressed properties in great areas. They can broaden your search by having access to MLS (multiple listing service), strategically looking for listings with keywords signaling a distressed property. After you have flipped your house, brokers can also help you sell the property at a great price. So, find a good broker, and add them to your team.

Next, find an attorney. While you can write up contracts yourself, enlisting the help of an attorney will ensure you are well protected from a legal standpoint. Look for attorneys who specialize in real estate, since they will need to understand the nuances associated with buying and selling properties.

Make sure you have a go-to title or escrow company that will look out for your investment needs. It is also important to find a company that has the expertise to handle more complicated transactions, like double closings or seller financing. Don't just have a company at hand—make sure you develop a relationship with a specific point of contact within the company.

Add an accountant to your team, not just so that you know your records are proper and orderly, but so you can pursue an appropriate tax strategy. For example, the authors urge investors to consider acting as a corporation when they flip homes. This protects the individual investor by limiting liability. Operating as a corporation also prevents the individual from having to pay self-employment tax and decreases the chance you will be audited.

You should also have a contractor or a network of handymen that you know will do quality work on your remodel. Look for contractors who have experience with more complex projects in case you take on more difficult projects in the future. Also, be careful to hire contractors who have obtained proper licensing and insurance.

Make sure you have a lender ready to fund deals as you need them. Build a relationship with a bank or mortgage company not only so that you can obtain financing, but so you provide buyers with a source of funding, as well.



Finally, having a partner can be beneficial for many reasons. A partner who is more experienced will be able to act as a mentor, guiding you through your first several months as an investor. Partners can also be valuable when trying to fund a project—perhaps they have good credit or are able to self-fund. Find a partner who will bring something different to the project than you do. If you have funds, make sure your partner has experience.

How can an investor’s team benefit brokers and agents? Developing relationships with investors is a strategy that can ensure you have a steady stream of reliable, repeat business. If you have a more comprehensive understanding of the flipping process, you will be better equipped to help investors, develop relationships with them, and secure a steady stream of leads. So, get on the team.

Find a trustworthy, hardworking, and experienced investor and then establish a solid relationship. Begin by helping investors find properties to purchase. Remember that investors must both buy and sell a property, so if you establish a good relationship with investors while helping them purchase homes, they will likely ask you to help sell the home, as well. This means a steady stream of reliable business for you, as many investors flip a significant number of homes per year. Partnering with real estate investors can also have unique benefits for rookie agents. If you are a rookie agent, spending time with any serious investor will help you to quickly gain knowledge and experience that will help you when working with your conventional clients.

## THINK POINT #2: Find the Exit



After you build your foundation, a solid team that will support you, you need to find an exit strategy. An exit strategy is your plan to release the property after you have flipped it, especially with consideration to contingency situations. If all goes well, you will flip the property to a buyer who makes a good offer, and you will walk away with a nice profit.

But what if this isn’t the case? What if halfway into the remodel you discover a structural problem that will drastically increase your repair costs? What if you complete the remodel but no one makes an offer?

Several considerations must be made when putting together an exit strategy. First, think about how everything will play out if all goes as you expect. Then, prepare solutions for any other possible situations you might encounter. If you encounter a significant structural issue that will

increase costs, do you have a partner who can provide funding? If the property does not sell quickly, have you considered renting the property? Or are you able to hold the property until it sells? Before you purchase anything, consider your exit strategy. Make sure you have strategies in place to deal with anything unexpected so you can maximize your profits and minimize losses.

### **THINK POINT #3: Create Emotional Value**

Now that you have your foundation, your exit strategy, and you have purchased a property, you are ready to begin the interior work. On television shows about flipping, clients often walk away with their “dream home.” It may be tempting to update the entire house until it is beautiful and perfect. However, keep in mind that investments are not your dream home—they are someone else’s. Avoid the urge to update the entire house. In fact, Bronchick and Dahlstrom advise that you only invest in projects that will add two times as much to the value of the home as they do to the cost.

If you remodeled the entire house, the resulting value would probably not reflect the extra time and money that you put into it. Remember that this is an investment, so you want to choose projects that will maximize your profit. Focus on increasing value while minimizing costs. Focus on updating those items that will significantly improve the value of the home, specifically striving to increase emotional value instead of appraisal value. A kitchen is one of the most important parts of a home, mostly for emotional reasons. So, if you invest in updating the kitchen don’t feel the need to also replace the windows. They simply don’t carry as much emotional value as a kitchen does, but they can carry a significant cost. Clean and modernize the bathroom, but don’t worry about the garage. Make choices that will increase the emotional value of the home, but restrain from fixing everything.

Obviously, investing in safety is also crucial, and you should not take short cuts. So be sure to choose the projects that will make the house safe, in addition to those that add emotional appeal.

### **THINK POINT #4: Stick to It**

Flipping houses might seem glamorous to some. To others, it might seem like a quick way to make good profits. However, according to Bronchick and Dahlstrom, the number of investors who stick with flipping homes after a few months is small. In fact, new investors are often enthusiastic when they attend a real-estate seminar, but after three months only 10 percent of those who started are still in the game. Achieving success often takes much longer than just a few months. The authors note that becoming a well-known investor takes at least five years.

Investors should be encouraged in this, though. If you put forth effort and persevere, employing the strategies and tools provided by Bronchick and Dahlstrom, there is a strong chance that you will be successful. Remember to build a successful team. Foster relationships with brokers, attorneys, contractors, lenders, title companies, and accountants. Assemble a group of reliable

people who will produce quality work. Prepare your exit strategy. Make sure you can adapt to any scenario you might encounter. Focus on adding emotional value, and remember that this isn't your dream house, it is your buyer's. If you follow the guidelines set forth by the authors, you will have the tools you need to persevere and be successful.

### **Recommended Reading**

Bronchick, William and Robert Dahlstrom (2017), *The Business of Flipping Homes*, Dallas, TX: BenBella Books, Inc.

### **About the Author**

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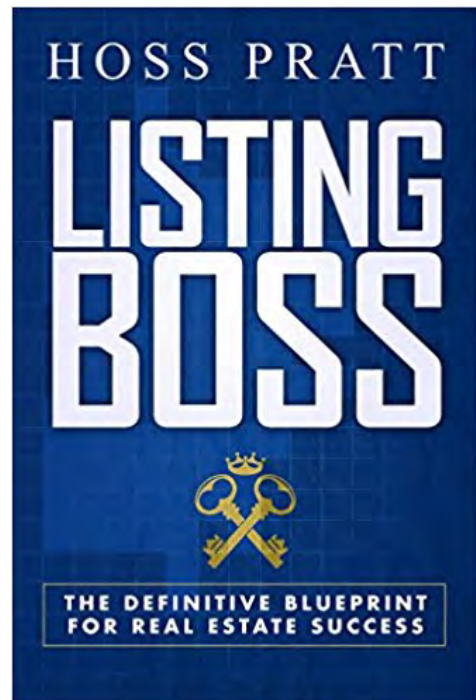
Miranda spent ten years dancing professionally both with The Walt Disney Company and in New York City. During her dance career, she graduated Summa Cum Laude from Liberty University with Bachelors Degrees in Finance and Psychology. She also worked as an event producer for Flash Mob America and led the social media campaign for the election of the Lieutenant Governor in North Carolina. Miranda is currently pursuing an MBA with a concentration in Economics at Baylor University and plans to pursue a career in economic development.

## INSIDER: Listing Boss

Kevin Pettit, MBA Candidate

The last decade has seen many changes in the real estate industry. Now, more than ever, differentiating one's self from the competition is crucial to the success or failure of the business. In his new book, *Listing Boss*, Hoss Pratt discusses the changing environment and shares insight that will empower you to exceed your sales goals by transforming the way you approach your business.

Real estate agents are everywhere. When looking to sell a property, there is never a shortage of agents trying to list homes. So, it is absolutely crucial to convey to potential clients what makes you different from the next agent vying for their business and how you can add value that the next agent cannot. Although there are many paths you can take to transform your business into a money-making machine, Pratt emphasizes that all of this is for nothing if you lose track of your mission. He encourages returning to your roots, identifying your mission, and determining your goals.



### THINK POINT #1: Redefine Your Mission, Refocus Your Mind

Imagine for a minute you were a treasure hunter. You spent years looking for a legendary ship wreck only to realize you never had a map to begin with. How could you ever expect to find something if you did not even have a map to guide you? It's simple: if you don't know where you are going, you will never get there. The world is filled with hard-working people who never achieve the level of success they want because they don't know what they are working toward. It is important to step back and reflect on your *why*. What are your goals? What is your vision for yourself and the value you want to deliver to the client? Once identified, a good set of goals can serve as a road map to guide you and keep you on the path towards success.

When creating a list of goals, it is important to focus beyond your real estate goals. When we think of creating goals for future success, we automatically think career first; but, in reality, your career is only one part of who you are. If you neglect the other aspects of a healthy life in order to pour more into your career, you will suffer. Seek to be well rounded and more effective in each area and the quality of your work will improve. According to Hoss Pratt, the nine elements of a happy and healthy life are business, physical health, spiritual, educational, relationships, personal, financial, lifestyle, and mental attitude. He stresses the idea of seeking to build a life—

and not just building wealth—through equally investing in each category. In the end, you can make all the money in the world, but when you die, you cannot take it with you.

How you think is everything. It affects every area of your life and can determine your level of motivation toward your career and therefore the everyday tasks required of you. In real estate, for every 100 agents, only five will increase their sales and the rest will stay the same or leave the industry. You can have great goals, but if you are not emotionally invested in them with a positive mindset, you will never succeed.

According to Carol Dweck, a researcher for Stanford University, there are two overarching mindsets held by people regardless of their career path or field: the fixed mindset or the growth mindset. The fixed mindset is the belief, subconscious or conscious, that one's potential is determined at birth and is unchanging. Those with a fixed mindset avoid failure at all costs, stick to what they know, and never challenge themselves. In turn, they live in a self-imposed prison where they ensure they will never experience any sort of growth. The other mindset is the growth mindset, which embodies how successful people think. The growth mindset is the belief that your intelligence, character, and personality can be constantly developed and that there is no ceiling for the level of success you can achieve. People who adopt this way of thinking understand that it is up to them to further themselves, and it is possible to achieve any level of success through hard work and continual growth.

Five ways to develop a growth mindset are:

- 1) Acknowledge and embrace weaknesses
- 2) Don't seek approval—focus on what YOU want
- 3) Leverage failures and challenges as opportunities for personal growth
- 4) Have an attitude of determination and perseverance
- 5) Believe that success is talent plus hard work

## **THINK POINT #2: You Can't Serve Everyone**

You cannot be everything to everyone. Too often, agents blanket the market trying to capture all potential customers instead of picking a segment and thriving. It may seem counter-intuitive, but the way to be most successful, especially in the real estate business, is to narrow your target market and focus your resources on a specific customer type. By doing this, you will be able to excel at the activities required to compete most efficiently and set yourself apart from other agents in this space based on things you do well. The first step in moving toward effective market segmentation is identifying the pockets of business that exist where you compete. It's as simple as choosing niches that feed to your strengths.

To identify niches in your market, look outside your sphere of influence. Your sphere of influence includes current and past buyers and sellers as well as anyone else you know on a

personal level through work or your personal life. True niches are found outside of this. Some of the best niches in real estate could be For Sale By Owners, Expireds, and Short Sales, for example. The challenge in these areas is that they don't know who you are. By proactively positioning yourself to best serve one of these markets can allow you to establish yourself as a market expert.

### **THINK POINT #3: Maximize Your Effectiveness, Realize Your Potential**

If anything is certain in life, it is this: regardless of your wealth, race, gender, or age, you only have 24 hours in a day. In this regard, everyone has a level playing field. What separates the successful from the unsuccessful is how you choose to utilize your time. Some people are controlled by their schedule while others learn how best to leverage their time to their advantage. Your success is 100% dependent on how you use your time.



No one has enough time to do everything they want to do. Even if you budget out your time and use it wisely, you may still be wasting time by allocating it to the wrong things. You must determine which activities are adding value to your business and which are black holes. These activities are referred to as *high-leverage activities*. To make the best use of your time, that is, to make sure the time you spend has the maximum effect on your bottom line, it is necessary to identify these valuable activities and focus your time and energy on them. To identify these activities, think of your time in terms of money. Which activities help you increase your wealth?

After you have identified which activities add the most value to you and your business, you must learn to respect and own your time. Respecting your time is a concept many people struggle with because it involves saying no. Once you have determined your schedule and where you will spend your time, it is important to respect yourself and your schedule by saying no to extra unplanned activities that add no value or even take away from pre-planned activities.

Owning your time is a concept that deals more with the value of your time than anything else. What is your time worth to you? If you want to be worth millions of dollars, then engaging in activities that are below your paygrade is only undermining your goals. While this may sound pretentious to some, it's important to know what is worth your time and what isn't. The idea is to delegate activities that you could pay someone else to do for less than your time is worth. For example, say your current annual salary is \$100k. The hourly equivalent of this is about \$50 an

hour. Based on this information, anything you could pay someone less than \$50 an hour to do is a waste of your time and should be delegated instead of done yourself.

#### **THINK POINT #4: Road Map for Success**

Along with these broad keys to success that Hoss Pratt provides in this book, he also lays out several specific strategies for how to more effectively convert leads by creating a more effective marketing plan. It is increasingly common to see *guarantee statements* from realtors that are vague. In his book, Pratt argues that an easy way to set yourself apart is to develop unique, measurable guarantees that the customer feels can add value to your offering. To be an effective and well-rounded marketing plan, it needs to address several different areas, the first of which is the performance guarantee.

The *performance guarantee* is a simple but crucial piece of the plan. In plain terms, this guarantees your performance. An example of this could be, *I will sell your home in 45 days, or I'll do it for free*. The specific guarantee is up to you, but having a concrete outline of what clients can expect is powerful for potential clients and can help you leave your competition in the dust.

The next piece of your marketing plan should be an *easy exit listing clause*. This exit listing clause allows customers to fire you if they are displeased with their experience or you fail to meet the requirements of the contract. People don't like being locked into a contract, and this takes all the risk away from their decision to hire you.

The next part of your plan should be a *specific marketing plan* unique to you. Clients want the agent who is going to be most aggressive when selling their home, and having a plan gives clients confidence that you are going to do what you say and that you have a roadmap.

The *smart seller program* allows the client to sell the property themselves while its listed with you, and if they sell it on their own, they aren't obligated to pay any commission. The smart seller program addresses a client's common concern of wanting to try and sell the home for sale by owner. Most of the time, when they hire you, they tend to market the property less than before.

The number one complaint about real estate agents is lack of communication. Sellers are oftentimes left in the dark when it comes to the process and progress of selling their homes. The *communication guarantee* eases this concern by ensuring regular communication between the agent and the sellers and gives them the power to terminate the contract if the agent doesn't follow through.

The last element of an effective marketing plan should be a *certified pre-owned program*. It is a well-known fact that used cars that are certified by a dealership sell at a much higher rate than

used cars at an unaffiliated, uninsured lot. If you apply this consumer behavior to real estate, you can boost sales significantly by having the appraisal, inspection, and all inspection fixes completed by the time of listing. A certified pre-owned program takes away much of the risk of buying a home, can increase the listing price, and can decrease time on the market significantly.

These are only a few of the potential aspects of a well thought out marketing plan. They provide a great starting place which can be expanded upon and customized to fit individual target populations.

## **Conclusion**

In 1519, Hernando Cortes and a tiny force of only six hundred men landed in Mexico tasked with capturing a legendary treasure, one that had eluded capture for almost 1000 years. Once ashore, he ordered his men to burn the ships in which they crossed the Atlantic, sending the message that failure was not an option. They would have to defeat the Aztecs or die trying. There was no plan B. With 100% commitment, the vastly outnumbered band of Spaniards destroyed the mighty Aztec empire.

Sometimes in life, you must burn the boats and remove your safety net to accomplish your goals. You cannot achieve great success by playing it safe. What are the boats in your life that keep you from achieving your goals?

## **Recommended Reading**

Pratt, Hoss (2017), *Listing Boss*, Clovercraft Publishing.

## **About the Author**

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Kevin Pettit is a graduate student from La Center, Washington. He earned a Bachelor of Business Administration in Supply Chain Management from Baylor University's Hankamer School of Business. Kevin is currently seeking an MBA with a concentration in healthcare administration and plans to pursue a career in hospital operations.





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## **Keller Center Research Report**

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