

## Firm-Create Word of Mouth Communication: A Field-Based Quasi-Experiment Executive Summary

The primary objective of this study was to gain a deeper understanding of how a firm should go about creating Word of Mouth communication (WOM) among its customers in order to increase sales. Unlike existing research in this area, we are focusing here on *incremental* WOM over and above what may have existed independent of the program. The main analysis in the study is a comparison between “loyal” customers and “non-loyal” customers. The former represent members of the firm’s loyalty program while the latter represent independent agents associated with the buzz agency. In addition, we also divide the loyals into two groups, “heavy loyals” and “light loyals” where the distinction is based on the number of times they visited the firm prior to the program.

There were five main results of our analysis, shown below. Note that the first three relate to the *impact* of WOM while the final two relate to the *amount* of WOM. Finally, it is important to note that the paper itself removes certain data in order to make inference regarding specific sales levels impossible.

**1. It is possible to create WOM that drives sales.** While intuitively obvious, this has never been shown in a rigorous manner to be true. Nearly all people believe that WOM in some way has an impact on sales. However, the traditional view of WOM is that it must come from satisfied customers in order to work. Thus, according to this view, the best thing the firm can do in order to create WOM would be to increase the number of satisfied customers. What this study shows is that the firm can also enact promotional programs that will increase the amount of WOM independent of satisfaction. More important, this “firm-created WOM” also has a statistically-significant impact on sales.

**2. WOM is most powerful when it occurs between acquaintances.** While not the first time this has been demonstrated, this nonetheless remains a fascinating finding. The intuition behind this lies in the fact that people tend to “live in” fairly well-defined social networks. Those close to us – friends and relatives – tend (a) to be fairly similar to us and (b) to have similar friends to us. To the latter point, for example, my best friend’s friends tend to also be my friends. An immediate consequence of this is that our friends and relatives tend to have similar information to us. In Figure 1 below, for example, imagine that each letter represents a person and that the dark lines are close relationships (“strong ties”) and the dashed lines more-distant relationships (“weak ties”). If A gets a piece of information from each C and D, then it is more likely that the information from D is “new.” Why is this? Because C probably has also told B who may have already passed it on to A. The critical idea here is that new information comes from acquaintances. This is exactly what we found in this study. The implication of this is that, to the extent the firm wants to generate meaningful WOM, it needs to focus its efforts on encouraging people to talk to their acquaintances more than to their friends.

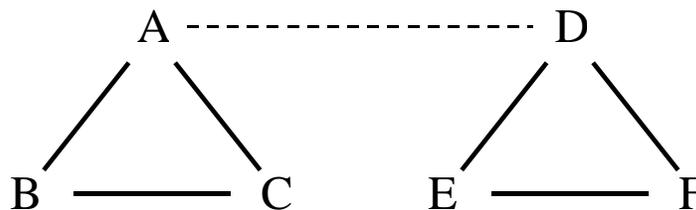


Figure 1: Social Networks and Weak Ties

**3. The most powerful incremental WOM may come from those *less-loyal to the firm*.** This is probably the most surprising result of the study before one thinks through the social network aspect of the problem. The idea behind this is that those most loyal to the firm – those that visited the firm very often before the program began – had probably already told everybody – both strong and weak ties – in their social network about the firm and its products. Moreover, it is likely that those in the same social network as these loyal customers are themselves also loyal (or at least existing) customers. Thus, the increase in the WOM created by the program has little effect on these networks. On the other hand, however, the networks informed by the less-loyal customers are far less likely to have heard about the firm. Thus, the incremental WOM from them is powerful. An important implication of this is that programs with the objective to increase WOM should not be focused on the core of loyal users. In some sense, they have already (or will already) do that work for the firm. On the contrary, it is the less loyal customers that can and should be affected to a larger extent.

Since this is such an important result in the study, we tested it two ways. First, we compared the impact of the WOM from the members of the loyalty program to that from the independent agents. This, of course, takes “loyalty” to an extreme. Then, we also obtained equivalent results by looking only at members of the loyalty program and comparing the 25% most loyal to the other 75%.

**4. “Opinion Leaders” create the most WOM if and only if they are loyal.** For many years, there has been a belief that Opinion Leaders (OLs) are the keys to WOM. By virtue of their perceived expertise within their social networks, they are an important source of advice and recommendations. However, from the firm’s perspective, it is less clear that OLs are the dominant recommenders of *us*. As shown in Figure 2 below, one would always expect that those with high expertise will create more WOM in general. Moreover, those that are very loyal to the firm would be expected to be recommending the firm. However, as noted in result 3 above, it is not the loyal customers we are concerned with, it is the less loyals. These customers have a self-image heavily centered on their expertise in this category. Thus, we would not expect them to talk a great deal about a product/brand with which they may be less enthralled and/or familiar.

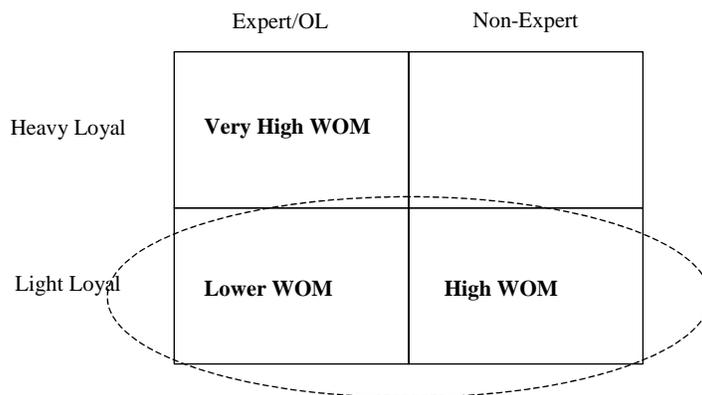


Figure 2: Opinion Leadership and Loyalty

As a practical matter, this suggests that the “traditional” method for finding the “key communicator” – that person who will create the lion’s share of WOM for the firm – does not apply to *firm-created WOM*. Since we’re looking for less-loyal customers, OLs should not be our target. This, then, begs the question, who *should* be our target?

**5. An effective indicator for less loyals’ WOM behavior may be their *network density*.** Since Opinion Leadership seems to interact with loyalty in a manner detrimental to our goal, we looked for a metric that wouldn’t have such a quality. Thus, we created a scale which we call “network density” that essentially measures only the customer’s social proclivity. For example, how many friends do they have? This metric, we find, does effectively identify those less-loyal customers who are most likely to create incremental WOM for the firm.